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Industry Review

China's economy continued to record strong growth in the first half of the year, with GDP having increased by 9.5% year-on-year. Despite measures taken to cool down the economy, consumer spending continued to increase in tandem with increases in per capita income. Owing to the stiff competitions among various consumer products, companies continued to use advertising to differentiate and promote their brands. This created a positive environment for the advertising industry in China, especially for consumer products. Outdoor advertising continued to outpace the average growth rate of the overall advertising industry in the first half of 2005, as more advertisers realised the cost-effectiveness of outdoor advertising.

In the first half of 2005, Clear Media's top three turnover contributors came from the telecommunications, beverages and food sectors respectively. Turnover contributions from the telecommunications sector continued to increase as key players increased their outdoor advertising budget. The contribution from the food and IT sectors showed the most significant increases during the period largely due to engagements with new customers.

Operations Review

Core Bus Shelter Advertising Business Continued to Show Strong Growth

Our core bus shelter advertising business spanning 30 key cities in China continued to show strong performance. Over the last six months, our nationwide network has generated HK\$303.2 million in turnover (1H2004: HK\$241.3 million), representing a 26% increase from the same period last year, and accounted for 99% of the Group's total turnover (1H2004: 99%). The average selling price of our bus shelter advertising space increased by 10%, and the average occupancy rate was 62% (1H2004: 67%).

The top three cities, Guangzhou, Shanghai, and Beijing, in which we have a leading position in outdoor advertising, continued to be the driving force for our overall impressive performance in the first half of 2005. Sales from these key cities increased by 30% in the first six months, and accounted for 53% of our total bus shelter advertising business, as compared with 51% in the corresponding period last year. In Guangzhou, sales increased by 17%, average selling price increased by 10% and the occupancy rate stayed flat at 71%. In Shanghai, sales rose by 21%, average selling price surged by 14% and the occupancy rate dropped slightly to 73%. The decline in the average occupancy rate was largely due to the addition of new panels in Shanghai in the first half of the year. The integration work of the newly acquired advertising panels in Beijing has been smooth in the first half of 2005. If we include contribution from the newly acquired panels in the first half of 2005, total sales grew by 54%, average selling price and occupancy rate however dropped by 21% and to 59% respectively. As planned, it will take some time for the newly acquired panels to reach the occupancy level of the existing network. If we exclude the contribution from these newly acquired panels, sales in Beijing increased by 10%, average selling price in fact increased by 14%, and occupancy rate stayed at 79%.

Performance in the mid-tier cities also showed a good rebound in the first half of 2005, largely as a result of our strengthened sales efforts through new sales centres and enhanced sales strategies. Sales increased by 22%, the average selling price increased by 19%, while occupancy rate dropped slightly to 60% (1H2004: 62%). Sales from mid-tier cities accounted for 47% of the Group's total sales in the first half of the year (1H2004: 49%).

While we concentrated our efforts in the first half of the year to ensure the smooth integration of the advertising panels acquired late last year, we further added 338 new panels through organic buildup and acquisitions during the first six months of 2005, largely in Shanghai and other key cities. During the period under review, on a time weighted basis, the number of 12-sheet equivalent panels increased by 25% as compared with the same period last year from 18,188 to 22,699.

Other Businesses

The non-core new formats of advertising, which include airport advertising, is an expansion of the Group into other outdoor media opportunities and will remain a small proportion of our operations. It contributed a total of HK\$3.7 million during the period under review (2004: HK\$2.5 million), which continued to account for 1% of the Group's sales in the first half (1H2004: 1%).

Our advertising business in Terminal One of the Beijing Capital International Airport started its operations late last year. We have outsourced our point-of-sales and unipoles operations to third parties since the end of 2003.

Financial Review

Turnover

The Group's turnover increased by 26% from HK\$306.8 million from HK\$243.7 million during the period under review, largely due to the strong performance of our core bus shelter advertising business in the first half of 2005. Our entire turnover was derived from China.

EBITDA

Our total earnings before interest, tax, depreciation and amortization (EBITDA) increased substantially by 28% to HK\$123.4 million in 2005, from HK\$96.3 million (restated) in the same period of 2004. Clear Media's EBITDA margin maintained at 40% as compared with the corresponding period of last year. EBITDA for our core bus shelter advertising business continued to perform well, showing an increase of 24% to HK\$135.3 million as compared to the same period of last year (1H2004: HK\$108.8 million).

EBIT

Our total earnings before interest and tax (EBIT) improved by 37% from HK\$40.3 million to HK\$55.2 million for the period under review. EBIT for the core bus shelter advertising increased by 25% to HK\$70.2 million as compared to the same period of last year (1H2004 (restated): HK\$56 million).

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Net Profit

Our net profit increased by 23% to HK\$35.4 million for the six months ended 30 June 2005 as compared to HK\$28.9 million (restated) of the corresponding period of last year. The net profit margin maintained at 12% (1H2004: 12%) due to the increased interest expense of HK\$8.4 million accrued during the period under review for the convertible bonds issued in the second half of last year.

Expenses

Direct operating costs, which includes electricity, rental, maintenance costs and sales and cultural levy increased from HK\$97.8 million last year to HK\$125.1 million in the first half of 2005, in terms of percentage of sales, it increased marginally to 41% (1H2004: 40%). Rental increased slightly to 22% (1H2004: 20%), electricity costs remained flat at 5% (1H2004: 5%), and maintenance costs reduced slightly to 5% (1H2004: 6%).

Sales, general and administrative expenses increased to HK\$61.5 million in the first half of the year as compared to HK\$50.3 million (restated for the adoption of HKFRS2 “Share-based Payment”) of the corresponding period of last year. This was largely due to the increased number of our sales personnel and related costs.

The expansion of our bus shelter network, including the acquisitions in Beijing late last year and our acquisitions in other cities this year have resulted in a higher charge for the amortization of concession rights which increased by 23% to HK\$ 65.2 million (1H2004: HK\$52.9 million).

Liquidity and Financial Resources

The Group financed its operations and investment activities with internally generated cash flow, balanced with proceeds from our IPO and bank loans, as well as the issue of the convertible bonds.

Cashflow

Net cash inflow generated from our operations in the interim period reached HK\$107.8 million, as compared with HK\$85.4 million in the same period of last year.

Cash from investment activities amounted to an outflow of approximately HK\$93.6 million (1H2004: outflow of HK\$111 million). A total of HK\$92.4 million was spent on building and acquiring bus shelter advertising panels.

Improvements in the cash generated from operations during the first six months of 2005, resulted in a positive free cash flow operations of HK\$16.5 million (1H2004: negative free cash flow of HK\$19.7 million). Clear Media considers free cash flow (defined as EBITDA (before share compensation cost) less cash outflow on capital expenditure, less income tax and net interest expense) to be an important measure of a company’s ability to provide value to shareholders. By presenting free cash flow, the Group intends to provide investors with a better understanding of its ability to pay debts, make acquisitions and to grow organically.

Concession Rights

All of the Group's bus shelter concessions are granted by entities authorized by local governmental agencies in China which have control over the construction and management of bus shelters. Under these concessions, the Group assumes responsibility for the construction and on-going maintenance of the bus shelters and pays annual fixed rental fees to the entities authorized by local governmental agencies. In exchange, the Group has the exclusive rights to sell advertising space at these bus shelters during the term of the concessions.

The Group's bus shelter concession contracts have initial terms of between five to twenty years. As at 30 June 2005, the weighted average remaining term of the concession rights currently held by the Group was approximately 9 years. In terms of renewal rights, approximately 67% of the concession rights held by the Group, based on the number of bus shelters, grant the Group the right of first refusal to renew the concession contracts provided that the terms offered by the Group are no less favourable than the competing tenders. Some of the concession contracts also allow the Group to extend our contracts before expiration. During the period, we have successfully extended approximately 5% of our bus shelter concessions, based on the number of bus shelters.

Accounts Receivable

The Group's accounts receivable balance due from third parties was HK\$216 million for the period under review, as compared to HK\$187 million as at 30 June 2004 and HK\$195.2 million as at 31 December 2004. In absolute quantum, accounts receivable have increased by roughly 16% over 30 June 2004. The increase is a result of higher sales generated during the period.

Average accounts receivable outstanding days were 145 days, on a time-weighted basis, as at 30 June 2005, as compared to 136 days as at 30 June 2004 and 133 days as at 31 December 2004. The increase in days outstanding was due mainly to the timing of repayment by certain major customers at the end of the period.

Prepayments, Deposits and Other Receivables

Total Prepayments, Deposits and Other Receivables as at 30 June 2005 were HK\$203 million as compared to HK\$105.4 million at 31 December 2004. The increase in prepayments, deposits and other receivables was due mainly to deposit of HK\$100 million paid to the High Court in respect of the Advertasia litigation. This sum will remain at the High Court until the result of the appeal to the Court. Please see the section on Contingent Liabilities for more information on the Advertasia litigation.

Other Payables and Accruals

Total payables and accruals for the interim period of 2005 were HK\$146.1 million as compared to HK\$202.1 million as at 31 December 2004. The decrease was due mainly to the settlement of capital expenditure payable. It would be inappropriate to give turnover days against sales as the payable is more closely related to capital expenditure incurred in bus shelters.

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Borrowings and Gearing

As at 30 June 2005, the Group had no outstanding bank loans (31 December 2004: HK\$37.2 million) as we repaid all bank loans during the period.

The debt to equity ratio of the Group, defined as a percentage of net interest bearing borrowings over shareholders' funds, was at 21% as at 30 June 2005 (31 December 2004: 23%). As of 30 June 2005, the Group's total cash and bank balances amounted to HK\$306.7 million (31 December 2004: HK\$337.2 million).

Capital Expenditure

To strengthen the Group's leading position in the outdoor media sector in China, the Group actively acquired concession rights to build bus shelters so as to expand its network. For the six months ended 30 June 2005, HK\$41.4 million was incurred on acquisition of bus shelter concession rights and HK\$2.1 million on fixed assets.

Share Capital and Equity

During the period under review, Clear Media's issued and fully paid share capital remained unchanged. Equity attributable to equity holders of the parent as at 30 June 2005 increased by 3% to HK\$1,433.1 million from HK\$1,384.8 million as at 31 December 2004. The Group's other reserves and retained earnings amounted to HK\$1,017.6 million and HK\$365.3 million respectively as at 30 June 2005 compared to HK\$1,004.7 million (restated) and HK\$329.9 million (restated) respectively as at 31 December 2004.

Material Acquisitions and Disposals

During the period under review, there were no material acquisitions or disposals of any subsidiary, associate or joint venture of the Group.

Exposure to Foreign Exchange Risk

Our only investment in China is the Group's operating vehicle, the WHA joint venture, which conducts business only within the PRC. Most of our turnover, capital investment and expenses are denominated in Renminbi ("RMB"), except for interest payable, repayment of foreign currency loans obtained to finance our operating vehicle's operations and any potential future dividend to be declared by our operating vehicle to shareholders. To date, we have not experienced any difficulties in obtaining governmental approvals for foreign exchange purposes when required. No financial instruments for hedging purposes were issued in the six months ended 30 June 2005.

Regarding the recent RMB appreciation, as we mentioned above, our turnover and costs are largely denominated in RMB, which will largely offset each other. However, as our net profit is denominated in Hong Kong Dollars, there will be some translation gain as a result of the RMB appreciation.

Employment, Training and Development

As at 30 June 2005, the Group had a total of 393 employees, an increase of 25% over the same period in 2004. The increase was largely in the sales and marketing staff in the second half of 2004 as part of our business plan to strengthen our sales capabilities to cultivate new clients and enhance existing client support. Total staff costs were approximately 10% of turnover which was the same as the first half of 2004. Employees are remunerated based on their performance, experience and the prevailing industry practices with compensation policies and packages reviewed on a regular basis. Bonuses are linked to both the performance of the Group and to individual performance as recognition of value creation. Share options are also granted to senior management in an effort to align individual interests with the Group's.

Charge of Group Assets

There was no charge on the Group's assets during the six months under review.

Capital Commitments

As at the balance sheet date for this interim period, the Group had capital commitments contracted but not provided for in relation to the construction of bus shelters amounted to HK\$57.3 million, as compared to HK\$35.2 million as of 31 December 2004.

Contingent Liabilities

On 10 August 1999, Advertasia Street Furniture Limited ("Advertasia"), an independent third party, commenced an action against China Outdoor Media Investment (Hong Kong) Company Limited ("China Outdoor Media (HK)") (an indirect wholly-owned subsidiary of Clear Media) in the High Court of Hong Kong pursuant to an agreement dated 21 April 1999 entered into by them for the sale of the entire issued share capital of four Hong Kong private companies by Advertasia to China Outdoor Media (HK) for the sum of HK\$68 million (the "Agreement"). Advertasia alleged that China Outdoor Media (HK) had wrongfully, and in breach of the Agreement, refused to purchase the shares held by Advertasia in the four private companies and/or failed to tender a payment of HK\$50 million in relation to the Agreement. China Outdoor Media (HK) contended the claim on a number of grounds, including, that a required condition precedent of the Agreement was not met (in that the joint venture contracts attached to the Agreement were not valid) and that a number of misrepresentations were made in respect of the four private companies. China Outdoor Media (HK) also counterclaimed for damages for all reasonably incurred costs and expenses in respect of the misrepresentation.

On 8 October 2004, the High Court, acting as a court of first instance, made an order in favour of Advertasia. Clear Media had made an appeal against the judgement of the High Court.

In January 2005, China Outdoor Media (HK) paid to the High Court the sum of HK\$100 million in respect of the aforementioned Advertasia claim, and this amount of money will remain at the High Court until the result of the appeal to the Court of Appeal. The Group is still entitled to the deposit and will receive interest at market deposit rates during the

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period, Moreover, under a Deed of Indemnity between Clear Media, Outdoor Media China Inc., Han Zi Jing, Clear Channel Outdoor, Inc. and China Outdoor Media (HK). Clear Media and China Outdoor Media (HK) will be fully indemnified against all damages, penalties, liabilities, legal fees, enforcement costs and expenses incurred by them in respect of this claim.

Outlook

Looking ahead, we expect the advertising market in China to grow at a healthy double-digit rate. In view of our strong order books, we expect that our core bus shelter advertising business will continue to perform well in the latter half of the year.

We will continue to integrate the new advertising panels acquired last year in Beijing, and focus on enhancing their returns. While we have a clear leading position in key cities in China, we will continue to improve our presence in these cities as well as the mid-tier cities to provide a nationwide network to better serve our multinational and domestic clients to generate better returns.

We will also start formulating multi-year Olympics sales packages for advertisers to capture the advertising opportunities arising from the 2008 Olympics Games.