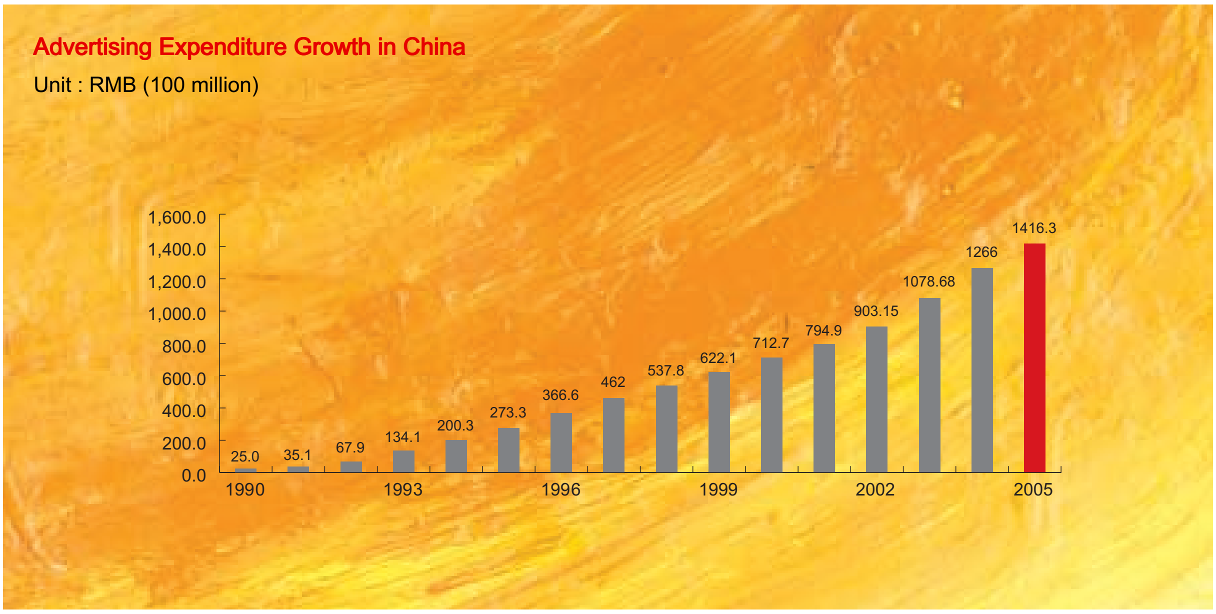
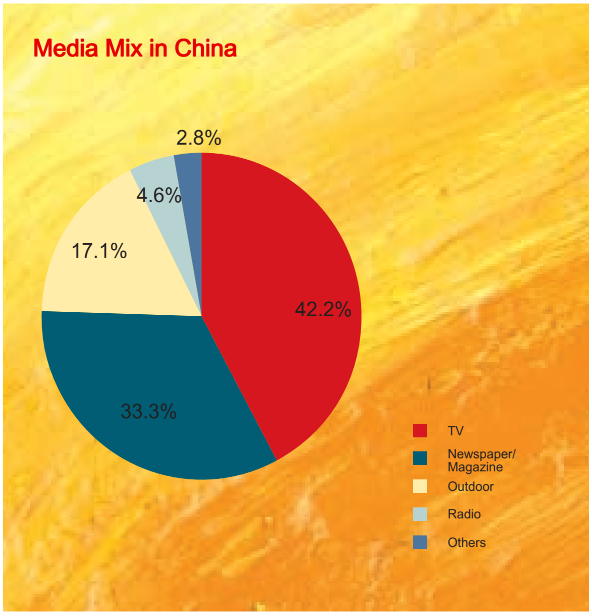
MANAGEMENT DISCUSSION AND ANALYSIS



(SAIC: 2005)

INDUSTRY OVERVIEW

The advertising market in China as a whole continued to grow in 2006 at a rate largely in tandem with the country's economic growth. Key events, like the 2006 FIFA World Cup in the second quarter of the year helped boost advertising spending, but also created a number of short-term fluctuations in the consumption patterns of consumers. In addition, there were fluctuation to advertisers' media mix strategies during the first half of 2006, with some spill-over impact into the third quarter of the year. Advertising spending patterns gradually returned to the normal pattern in the fourth quarter of the year.



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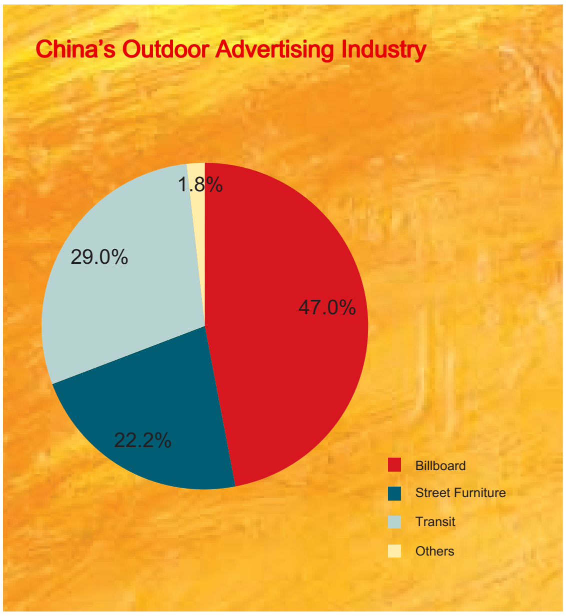

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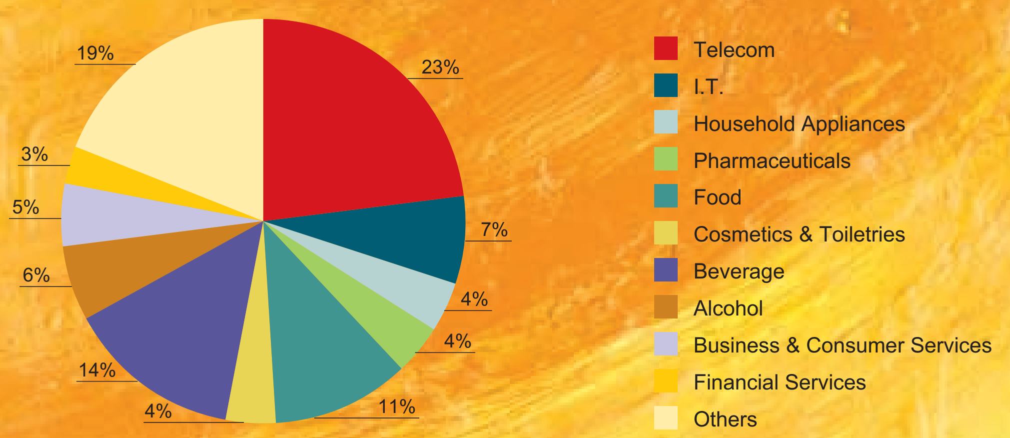
Broken down by medium, television remains the dominant advertising mode in China, followed by print and outdoor media. While television remains the medium of choice for many advertisers, there has been some diversion of advertising expenditure from traditional media into other media such as outdoor advertising, as advertisers become more aware of the cost-effectiveness of outdoor advertising.

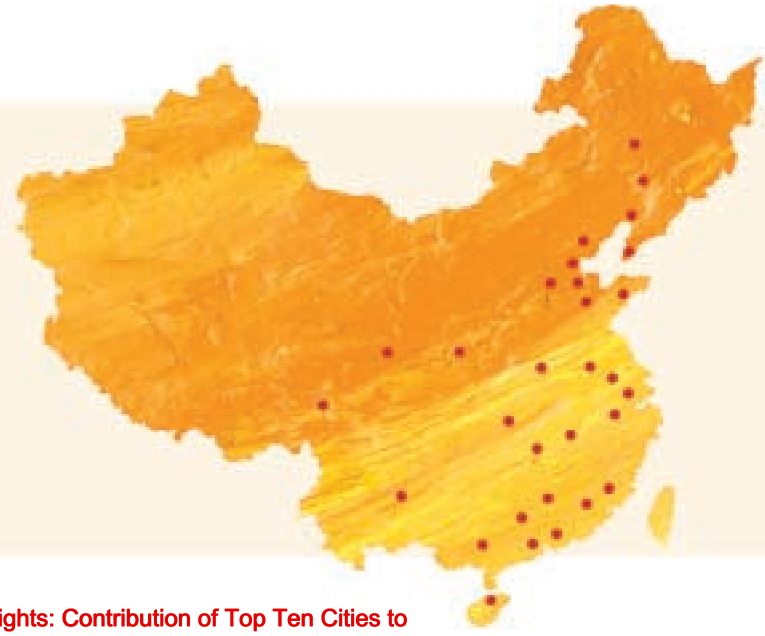
OPERATIONS REVIEW

As at 31 December 2006, Clear Media operated the most extensive standardized bus shelter advertising network in China, with a total of over 28,000 12-sheet-equivalent panels spanning 30 major cities across China. The top three contributors to Clear Media's turnover remained the telecommunications, beverages and food industries, respectively. The Group's core bus shelter advertising business generated a total sales of HK$751 million, representing a 13% increase over HK$664 million recorded during the previous financial year. Sales generated in 2006 were below management's expectation due to the slower than expected integration of acquisition in Beijing. In addition, even though the average selling price has increased by 17%, this was partially offset by a 10% decrease in average occupancy rate to 55% (2005: 65%) as our customers needed time to adapt to the new pricing. Disruption caused by the conversion of the Shanghai advertising panels to the scrolling panels affected the performance of this city especially in the first half of the year.

We continued to expand our bus shelter network and added 3,000 new panels through organic development and acquisitions in 2006, which included 634 panels acquired in Beijing in June last year. During the year, on a time-weighted basis, the number of 12-sheet-equivalent panels increased from 22,807 to 25,344, or by 11%, as compared to the prior year. Apart from organic expansion, we have also implemented a project to enhance the returns on our assets, by converting all advertising panels in Shanghai to scrolling panels, allowing us to charge rates higher than those for static panels.

Clear Media's Client Mix 2006 (by industry)





City	% of Turnover
Beijing	19
Guangzhou	17
Shanghai	14
Chengdu	6
Hangzhou	5
Nanjing	5
Shenzhen	5
Xi'an	3
Wuhan	2
Jinan	2

City Highlights: Contribution of Top Ten Cities to Bus Shelter Advertising Revenue (2006)

Key Cities:

Bus shelter advertising panels in the key cities of Beijing, Shanghai and Guangzhou accounted for 45% of the Group's total number of bus shelter advertising panels during 2006.

Aggregate sales revenue in these three key cities was HK$405 million (2005: HK$333 million) and accounted for 54% of our total sales in 2006. This represented an increase of 22% over the corresponding sales figure of HK$333 million recorded during 2005.

Beijing

In 2006, we focused on the integration of bus shelters acquired in late 2004 to tap into opportunities arising from the 2008 Beijing Olympics Games. Sales of bus shelter advertising panels in Beijing grew by 26% to reach HK$161 million in 2006 (2005: HK$128 million). The progress in the integration has been slower than expected due to a number of factors including the softening advertising market environment in Beijing and the slower-than-expected Olympics-related promotion activities in the city.

We continued to expand our network in Beijing through the acquisition of 634 panels in June last year and we have also extended a majority of our contracts in Beijing to 2018, to ensure our sustained medium-term growth.

Shanghai

In 2006, the Group's sales revenue in Shanghai during the last 12 months rose to HK$114 million, representing an increase of 28% over HK$89 million recorded in 2005. We converted all advertising panels in Shanghai to scrolling panels in the first half of the year, which affected sales activities during the construction period. However, sales picked up in the second half after the completion of the construction, which resulted in the increase in the sales revenue. The increase was driven by a 34% jump in the average selling price, and a 22% increase in the average number of bus shelter advertising panels, despite the drop in the average occupancy rate to 53% (2005: 70%).

We have further increased our presence in Shanghai by organically building 388 new advertising panels in 2006 and we have also extended a majority of the concession contracts in Shanghai to 2016, to ensure our sustained medium-term growth as well as better support our advertisers' marketing campaigns, in anticipation of the 2010 Shanghai World EXPO.

Guangzhou

The sales revenue increased to HK$130 million in 2006, representing a 12% growth over HK$116 million recorded last year. This was largely the result of a 5% increase in the average selling price and a 5% increase in the number of advertising panels, notwithstanding that the average occupancy rate dipped marginally to 67% (2005: 68%).

Mid-Tier Cities

Performance in the mid-tier cities showed modest growth in 2006. Sales increased by 4% and the average selling price showed a strong increase of 11%. The average occupancy rate however dropped to 53% (2005: 64%) as the higher selling prices had caused some short-term switching by certain customers. In order to better service our existing clients as well as cultivate new clients, we will further strengthen our presence in the mid-tier cities by setting up more district sales centres in cities like Hangzhou, Kunming and other cities.

Sales from mid-tier cities accounted for 46% of the Group's total sales in the year. Over the course of the year, we have further expanded our network by building and acquiring more than 1,000 advertising panels across all 27 mid-tier cities, bringing our total number of mid-tier city bus shelter advertising panels to over 15,000 by the end of 2006.

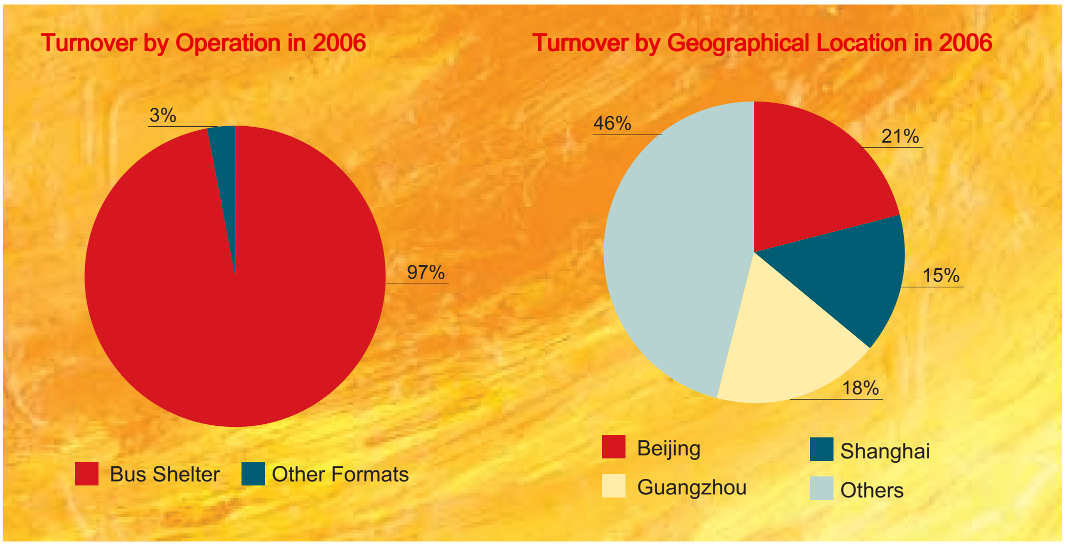
Other Advertising Formats

During 2006, the Group's other advertising formats, including airport advertising, point-of-sale, unipoles and other advertising formats, generated a total of HK$25 million in sales revenue as compared to HK$11 million recorded in 2005.

FINANCIAL REVIEW

Turnover

The Group's turnover of HK$776 million during 2006 demonstrated solid growth of 15% when measured against the previous financial year (2005: HK$675 million). The increase is mainly the result of the rise in revenue from its core bus shelter advertising business. The Group's turnover for 2006 was wholly generated by its operations in China.



EBITDA

During 2006, the Group's earnings before interest, tax, depreciation and amortization ("EBITDA") rose to HK$305 million. This figure represents a 7% increase over the corresponding EBITDA figure of HK$286 million for 2005. The Group's EBITDA margin during the year under review decreased to 39% compared to 42% recorded in 2005.

Expenses

During the year under review, the Group's direct operating costs, which included electricity, rental, maintenance, and sales and cultural levies, rose to HK$305 million. This figure represents a 18% increase over the direct operating costs figure of HK$257 million recorded in 2005.

Rentals remained the largest of the Group's direct operating costs, rising from 21% of sales in 2005 to 22% of sales in 2006. This increase is largely due to the increased number of advertising panels after the acquisition of bus shelters in Beijing in 2004 and 2006. Additional direct costs included: maintenance which accounted for 5% of total sales in 2006 (2005: 5%); electricity which accounted for 5% of sales in 2006 (2005: 5%); and sales and cultural levies which accounted for 7% of sales in 2006 (2005: 8%).

Amortization of concession rights and depreciation of fixed assets accounted for 20% of total sales in 2006 (2005: 20%).

The Group continued to strengthen its sales capability in order to support its network expansion and provide better services for its expanding client base. Our major activities in this respect included the setting up of new district sales centres and increased headcounts in the new and existing sales hubs.

In 2006, the Group hired an additional 11 sales and marketing staff. This brought the total size of the Group's sales and marketing team to 329 in 2006 (2005: 318). Accounting for 21% of sales (2005: 20%), the Group's selling, general and administrative expenses for 2006 increased by 23% over last year.

EBIT

In the year under review, the Group's EBIT grew to HK$153 million, a 2% increase over the HK$150 million EBIT figure in 2005. The improvement was largely due to the increase in the Group's EBITDA as discussed above. In 2006, the EBIT margin was 20% (2005: 22%).

Finance Costs

Finance costs amounted to HK$18 million for the year 2006 (2005: HK$18 million). The amounts were mainly related to the provision of a HK$18 million redemption premium for the zero coupon convertible bonds the Group issued during the second half of 2004.

Taxation

During 2006, taxes levied on the Group amounted to approximately HK$20 million (2005: HK$24 million). The lower tax expenses in year 2006 were mainly due to the decreased provision for deferred tax.

Net Profit

The Group's net profit in 2006 rose to HK$120 million, a 14% increase over the net profit figure of HK$105 million for 2005. The Group's net profit margin for the year remained stable at 16% (2005: 16%).

Liquidity and Financial Resources

The Group continued to enjoy a strong financial position at the end of 2006, with cash and cash equivalents amounting to HK$257 million as at 31 December 2006, a decrease from HK$303 million in 2005.

The Group financed its operations and investment activities with internally-generated cash flow, balanced with proceeds from the prior issue of convertible bonds.

Cash Flow

Net cash generated from operating activities decreased slightly from HK$217 million in 2005 to HK$211 million in 2006. The decrease was mainly due to the effect of working capital changes.

The Group's net cash outflow from investing activities during the year under review amounted to approximately HK$383 million. This figure represents an increase of 114% when compared to the HK$179 million net cash outflow figure for 2005. The increase was mainly attributable to the continued growth of the Group's bus shelter network as well as the expansion on the bus body advertising business.

The Group's total net cash inflow from financing activities during 2006 amounted to HK$127 million as compared to the net cash outflow of HK$73 million in 2005. The increase was mainly due to the proceeds from the issue of ordinary shares as a result of the exercise of the employee share options.

Accounts Receivable

The Group's accounts receivable balance due from third parties grew from HK$236 million as at 31 December 2005 to HK$282 million as at 31 December 2006. None of the accounts receivable was due from connected persons, as defined in the Rules Governing The Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group's average accounts receivable outstanding days improved slightly to 133 days on a time-weighted basis as compared to 135 days in 2005. However, there were also some delays in payment from certain major customers and this has resulted in an increase in the balances owing for more than 180 days as compared with last year. As at 31 December 2006, the provision for doubtful debts increased by HK$6 million to HK$16 million to cover balances for which the Group has initiated legal proceedings and to cover other contingencies. Clear Media will continuously monitor the level of trade receivables and apply measures to reduce the trade receivables level.

Due from a related party

In 2006, the amounts due from the Guangdong White Horse Advertising Company Limited ("GWH") increased from HK$27 million as at 31 December 2005 to HK$50 million as at 31 December 2006, as new sales generated through GWH as a percentage of the Group's business increased from 5% in 2005 to 13% in 2006. This is mainly due to the increase of orders placed through GWH during the year.

Prepayments, Deposits and Other Receivables

As at 31 December 2006, the Group's total prepayments, deposits and other receivables stood at HK$280 million. This figure represents a 6% increase over the equivalent HK$265 million figure recorded at the end of the previous financial year. The increase in prepayments, deposits and other receivables was mainly due to the prepayment of a minimum guaranteed payment to a media owner.

Other Payables and Accruals

The Group's total other payables and accruals as at 31 December 2006 were HK$206 million. This figure represents a 18% increase over the corresponding figure of HK$175 million as at 31 December 2005. The increase was due mainly to the increase in capital expenditure related payables and bus shelter rental payables. It would be inappropriate to give the turnover days against sales figure as the payable is more closely related to capital expenditure incurred for the acquisition of bus shelter concession rights.

Free Cash Flow

In 2006, the Group had a negative free cash flow of HK$106 million. The Group experienced positive free cash flow of HK$75 million in 2005. 'Free cash flow' is defined as EBITDA (before equity-settled share option expenses) less cash outflow on capital expenditure, less income tax and net interest expense. The decrease of free cash flow was mainly due to the higher capital expenditure in 2006 as compared to 2005.

Assets and Liabilities

As at 31 December 2006, the Group's total assets amounted to HK$2,434 million, a 18% increase of the HK$2,062 million recorded as at 31 December 2005. The Group's total liabilities for the year under review amounted to HK$580 million. This figure represents a 14% increase over the HK$509 million total liabilities figure for the previous financial year. The Group's net assets at the end of 2006 stood at HK$1,853 million, a 19% increase over the corresponding figure of HK$1,553 million as at 31 December 2005.

As at 31 December 2006, the Group had pledged deposits of RMB30 million (approximately HK$30 million) to banks as securities for short term bank loans of RMB20 million (approximately HK$20 million) and bills payable of RMB26 million (approximately HK$26 million). The debt to equity ratio of the Group, defined as a percentage of net interest bearing borrowings over shareholders' funds, was at 18% as at 31 December 2006 (31 December 2005: 20%). As at 31 December 2006, the Group's total cash and bank balances amounted to HK$257 million (31 December 2005: HK$303 million).

Share Capital and Shareholders' Funds

During the year ended 31 December 2006, the subscription rights attaching to 21,194,000 share options were exercised at the subscription price ranging between HK$3.51 – HK$5.89 per share, resulting in the issue of 21,194,000 shares of HK$0.1 each for a total consideration, before expenses, of HK$107,255,000. The related weighted average share price at the time of exercise was HK$9.8 per share. The related transaction costs amounted to HK$30,000. As a result, Clear Media's issued and fully paid share capital increased to 522,802,500 shares (2005: 501,608,500 shares). Total equity as at 31 December 2006 rose to HK$1,853 million, a 19% increase over the HK$1,553 million for 2005. The Group's reserves during 2006 totaled HK$1,769 million, a 20% increase over the corresponding figure of HK$1,479 million for 2005. The Group undertook no share repurchases during 2006.

Exposure to Foreign Exchange Risk

The Group's only investment in China remains its operating vehicle, Hainan White Horse Advertising Media Investment Company Limited (the "WHA Joint Venture"), which solely conducts business within the PRC. Leaving aside interest payable, repayment of foreign currency loans obtained to finance WHA Joint Venture's operations and any potential future dividend WHA Joint Venture may declare to its shareholders, the bulk of its turnover, capital investment and expenses is denominated in Renminbi. At the time of printing this report, the Group had not experienced any difficulties in obtaining government approval for its necessary foreign-exchange purchases. During the year under review, the Group did not issue any financial instruments for hedging purposes.

Capital Expenditure

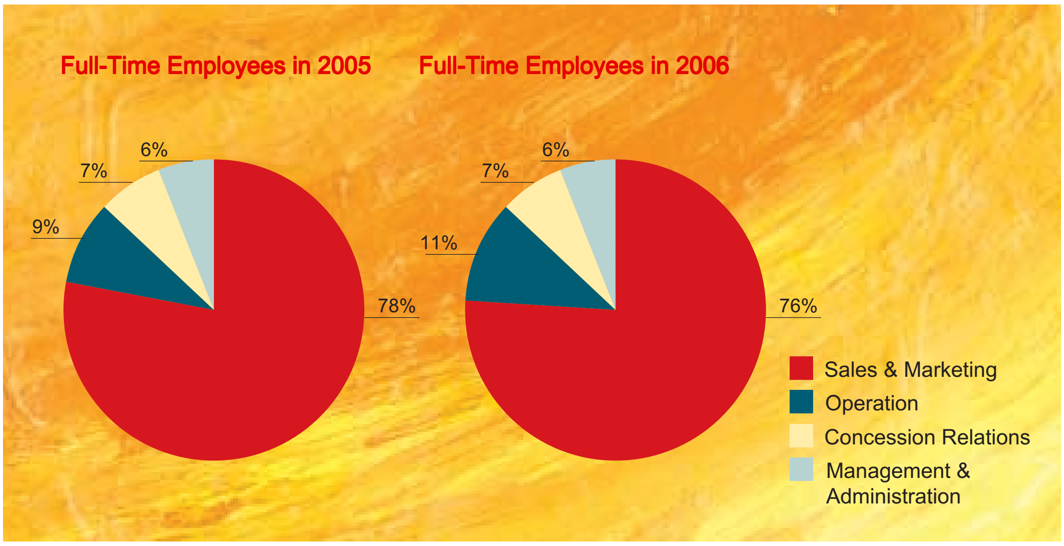
The Group remains firmly committed to strengthening its position as a major player in China's outdoor media sector. To this end, in 2006, the Group actively expanded its network by acquiring concession rights to build bus shelters. For the year ended 31 December 2006, the Group had spent HK$409 million on the acquisition of additional bus shelter concession rights. This figure represents a 2.2 times increase over the equivalent HK$129 million spent on the acquisition of bus shelter concession rights in 2005. An additional HK$8 million had spent in relation to the acquisition of other fixed assets (2005: HK$4 million).

Material Acquisitions and Disposals

During the year under review, the Group undertook no material acquisitions or disposals in respect of any of its subsidiaries, associates or joint ventures.

Employment, Training and Development

As at 31 December 2006, the Group had a total of 433 employees, an increase of 6% over the 408-strong workforce the Group employed as at 31 December 2005. Total staff costs for 2006 amounted to 10% of the Group's turnover (2005: 10%). The main contributor to this increase was the Group's Sales and Marketing Division, which grew from 318 staff in 2005 to 329 staff during the year under review. Such an increase is fully consistent with the Group's stated objective of improving sales support of its expanding outdoor media network in China. Training courses and conferences aimed at improving team members' knowledge and skills were organized throughout the year. Employees of Clear Media are remunerated based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis. Distributing bonuses linked to the performance of both individual employees and the Group as a whole is a primary way in which the Group recognizes value creation among its team members.



Human capital has always been our key asset for sustainable growth. To ensure that we can recruit and retain high caliber staff to strengthen our competitiveness, especially in the sales and marketing functions, we have substantially increased remuneration in 2006 and will continue to expand our sales force in 2007 to keep pace with our network's growth and to continue providing high quality services and support to our clients.

Remuneration Policies and Benefits

The Group conducts regular reviews of its compensation policies and packages. Individual employees' salary and benefits packages are reviewed annually on the basis of individual performance, experience and prevailing industry trends. In recognizing value creation, the Group also pays bonuses that are linked to performance levels of both the individuals concerned and the Group as whole. Such bonuses usually account for a substantial part of the total take-home pay of the Group's sales team. The Group has also participated in the employee retirement scheme operated by the relevant local government bureaus in the PRC, as well as Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, and makes contributions for its eligible full-time employees. Additional incentives in the form of share options are often granted to senior management staff in order to ensure that their individual interests are aligned with those of the Group as a whole.

Charges of Group Assets

There was no outstanding charge on the Group's assets as of 31 December 2006 other than time deposits of RMB30 million (approximately HK$30 million) pledged as securities for short term bank loans of RMB20 million (approximately HK$20 million) and bills payable of RMB26 million (approximately HK$26 million).

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)"), a wholly owned subsidiary of the Company, in the High Court of Hong Kong with regard 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) argued 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.

On 28 November 2001, (i) Outdoor Media China, Inc. ("OMC"), a company incorporated under the laws of Western Samoa with limited liability and a substantial shareholder with a 3% interest in the Company, (ii) Han Zi Jing, one of the directors of the Company, (iii) Clear Channel Outdoor, Inc. ("CCO"), one of the substantial shareholders of the Company, (iv) China Outdoor Media (HK) and (v) the Company, entered into a Deed of Indemnity (as amended, the "Deed of Indemnity"). Under the terms of the Deed of Indemnity, OMC and CCO have covenanted and undertaken to indemnify the Company and its group companies against all claims (including this claim), whether or not successful, compromised or otherwise settled, and any actions, damages, penalties, liabilities, legal fees, enforcement costs and expenses incurred by the Company and its group companies in respect of the claims.

On 8 October 2004, the Hong Kong High Court, acting as a court of first instance, made an order of specific performance of the Agreement in favour of Advertasia pursuant to which China Outdoor Media (HK) will be required to complete the purchase of the aforementioned four private companies for a consideration of HK$68 million. In addition, China Outdoor Media (HK) was ordered to pay to Advertasia (i) HK$1,216,404 in equitable damages, (ii) interest at the rate of 1% over the prime rate on the sum of HK$50 million from 5 May 1999 to the date of judgment and on the sum of HK$18 million from 30 June 2000 to the date of judgment; and (iii) interest on the respective sums of HK$144,122, HK$706,967 and HK$365,284 at the rate of 1% over the prime rate from dates to be agreed between Advertasia and China Outdoor Media (HK) to the date of judgment. China Outdoor Media (HK) was also ordered to pay the costs of the action. China Outdoor Media (HK) made an unsuccessful appeal against this judgment in the Court of Appeal and has subsequently filed an appeal to the Court of Final Appeal in Hong Kong. As China Outdoor Media (HK) has the benefit of the indemnity provisions under the Deed of Indemnity against the claim by Advertasia, the Company believes that the said judgment will not have a material impact on its business.

In January 2005, China Outdoor Media (HK) paid to the Hong Kong High Court the sum of HK$100 million in respect of the aforementioned Advertasia claim by way of security for judgment and costs pending appeal against the above judgment. Interest at market deposit rates accrued on the above sum until released by the court.

The appeal came before the Court of Appeal of Hong Kong in September 2005 and was dismissed. China Outdoor Media (HK) appealed to the Court of Final Appeal. On 15 December 2006, the Court of Final Appeal ruled in favour of China Outdoor Media (HK) and the appeal was allowed with costs. The deposit, together with interest, was subsequently released to China Outdoor Media (HK) in January 2007.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the directors are aware, no litigation or arbitration of material importance is pending or threatened against the Company.

Outlook

Looking ahead, China's economic growth is likely to remain strong in 2007 and consumption spending will continue to improve as a result of the country's strong economic growth momentum. We believe the advertising market will grow at a pace largely in line with the country's economic growth. As the 2008 Beijing Olympic Games draw closer, this event may also help provide a favorable environment for brands to increase their advertising expenditure levels in China this year.

The Board will continue to implement its growth strategy defined in its medium term plan to capitalize on key opportunities. The Group will continue its focus on bus shelter advertising and further expand our network through both organic growth and acquisitions. In 2007, the Group's growth strategies will focus on the following areas:

Core Bus Shelters Advertising

The Group will continue to expand its nationwide network by increasing the number of advertising panels each year in both key cities and mid-tier cities to provide a nationwide network to support our customers' marketing and brand-building activities. We will also set up new district centers in mid tier cities to help support the expansion of our network, improve customer support and new client cultivation. Meanwhile, the newly converted scrolling panels in Shanghai, which demand a higher selling price compared to static bus shelters, have so far received good response from our clients. The Group intends to convert some advertising panels to scrolling panels in cities with relatively high panel occupancy in the future. We believe our efforts in expanding our network in the past few years as well as the panel conversion should start to generate better return to the Group in 2007. The Group has launched a two-year Olympics advertising package at the end of last year with an objective to optimise the market opportunities brought forth by the 2008 Beijing Olympic Games. The customer feedback has been good and we expect that as the Olympic Games draw closer, demand for advertising will improve and the benefit to the Group will likely be felt in 2007.

Other Advertising Formats

It is the medium-term objective of the Group to diversify into other outdoor medium to further improve our network advertising impacts to consumers. The Group has already teamed up with Shenzhen Public Transport Advertising Company in early 2007 by signing a five-year agreement under which we will be able to venture into the bus body advertising in Shenzhen. We believe there is synergy between our core bus shelter and bus body advertising business, and the bundled advertising service should have a bigger advertising impact that can better support advertisers' activities.

The Group will also explore the opportunity of introducing new technology to upgrade our bus shelters, including LED panels, to further enhance advertising impact.

Based on the sales orders on hand so far for 2007, we believe that our business will continue to enjoy healthy growth in the coming year. The Board will continue to closely monitor and control costs and expenses in order to further enhance the Group's operational efficiency.