# NOTES TO FINANCIAL STATEMENTS

*31 December 2006*

## 1. CORPORATE INFORMATION

Clear Media Limited is an exempted company incorporated in Bermuda on 30 March 2001 under the Companies Act 1981 of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

In the opinion of the directors, the parent and the ultimate holding company of the Company is Clear Channel Communications, Inc., which is incorporated in the United States of America.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 27 Amendment | Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005 |
| HKAS 39 & HKFRS 4 Amendment | Financial Guarantee Contracts |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |

The principal changes in accounting policies are as follows:

### (a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

### (b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the HKAS 27 Amendment has had no material impact on these financial statements.

### (c) HKAS 39 Financial Instruments: Recognition and Measurement

*(i) Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

*(ii) Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

### (d) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies* |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Related parties

A party is considered to be related to the Group if:

(a) the party directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required other than financial assets, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited for the income statement in the period in which it arises.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Furniture and equipment | 5 years |
| Motor vehicles | 5 years |
| Point-of-sale | 10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Point-of-sale represents advertising light boxes installed in shopping malls and other public areas. Expenditure incurred after point-of-sale has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of point-of-sale, the expenditure is capitalised as an additional cost of such point-of-sale.

Construction in progress is stated at cost less any impairment losses, which includes the cost of construction and other direct costs attributable to the construction of bus shelters, unipoles and point-of-sale. No provision for depreciation is made for construction in progress until such time as the assets are completed and available for use. Construction in progress is transferred to concession rights or property, plant and equipment when it is capable of producing income on a commercial basis.

### Concession rights

Concession rights are stated at cost less accumulated amortisation and any impairment losses. Concession rights represent the cost of acquiring operating rights for the placement of advertisements in bus shelters, unipoles and bus bodies in the People's Republic of China ("PRC") and include any directly attributable costs of bringing bus shelters, unipoles and bus bodies to their present condition and location for their intended use.

Expenditure incurred after bus shelters, unipoles and bus bodies have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of bus shelters, unipoles and bus bodies, the expenditure is capitalised as an additional cost of the concession rights.

Concession rights are amortised on a straight-line and individual basis over the period of the rights, which range from 5 to 15 years. The average operating period is 10 years.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentive's received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; a discounted cash flow analysis; and option pricing models.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the convertible bonds are first recognised.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised the income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the rendering of services from outdoor advertising spaces, including point-of-sale, on a time proportion basis over the terms of the agreements; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred income

Cumulative billings in excess of revenue attributable to the current year are recorded as deferred income.

### Employee benefits

*Share-based payment transactions*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

*Pension schemes and other retirement benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries, and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

According to the relevant PRC regulations, Hainan White Horse Advertising Media Investment Company Limited, commencing from 1 July 2001, is required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for its eligible employees. The contributions to be borne by the Group are calculated at certain percentage of the annual average salary announced by the Social Labour Insurance Administration Bureau.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing spending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary is not the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of the entity is translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, the income statement is translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiary is translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 4. SIGNIFICANT ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Estimated impairment of property, plant and equipment and concession rights*
The Group tests annually whether property, plant and equipment and concession rights have suffered any impairment in accordance with the accounting policy stated in Note 3. The recoverable amounts of property, plant and equipment and concession rights have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. No impairment was provided during the year.

## 5. SEGMENT INFORMATION

Segment information is required by HKAS 14 "Segment Reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

Outdoor media sales is the only major business segment of the Group, and comprises the display of advertisements on bus shelters, unipoles, bus bodies and point-of-sale. Accordingly, no further business segment information is provided.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. As the Group's major operations and markets are located in the PRC, no further geographical segment information is provided.

## 6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the contract value for the displaying of advertisements on bus shelters, unipoles, bus bodies and point-of-sale, net of commission and discounts, in the PRC.

An analysis of revenue, other income and gains is as follows:

| | 2006 | 2005 |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| **Revenue** | | |
| Rendering of services | 775,980 | 675,372 |
| **Other income** | | |
| Interest income | 13,618 | 5,727 |
| **Gains** | | |
| Fair value gains, net: | | |
| Equity investments at fair value through profit or loss | – | 3,271 |
| | 13,618 | 8,998 |

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | 2006 | 2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Cost of services provided | 133,647 | 118,262 |
| Operating lease rentals on bus shelters, unipoles and point-of-sale | 171,068 | 138,992 |
| Amortisation of concession rights and depreciation of point-of-sale | 145,463 | 130,258 |
| Cost of sales | 450,178 | 387,512 |
| Impairment of accounts receivable | 12,137 | 10,346 |
| Bad debts written off | – | 7,165 |
| Auditors' remuneration | 1,249 | 950 |
| Depreciation of owned assets, excluding point-of-sale | 6,542 | 6,232 |
| Loss/(gain) on disposal of items of property, plant and equipment | 5 | (117) |
| Loss on disposal of concession rights | 2,410 | – |
| Operating lease rentals on buildings | 13,148 | 10,773 |
| Employee benefits expense (including directors' remuneration (note 8)) | | |
| Wages and salaries | 76,309 | 56,986 |
| Equity-settled share option expenses | 4,050 | 7,300 |
| Pension scheme contributions | 149 | 173 |
| Less: Forfeited contributions | – | – |
| Net pension scheme contributions | 149 | 173 |
| | 80,508 | 64,459 |
| Fair value gains, net: | | |
| Equity investments at fair value through profit or loss | – | (3,271) |
| Foreign exchange losses, net | 71 | 24 |
| Interest income | (13,618) | (5,727) |

## 8. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Fees: | 1,154 | 957 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 9,640 | 9,722 |
| Performance related bonuses | 168 | 121 |
| Employee share option benefits | 1,719 | 3,317 |
| Pension scheme contributions | 62 | 63 |
| | 11,589 | 13,223 |
| | 12,743 | 14,180 |

### (a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

| | **2006** | **2005** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Ms. Leonie Ki Man Fung | 126 | 120 |
| Mr. Wang Shou Zhi | 126 | 120 |
| Mr. Desmond Murray | 249 | 237 |
| | 501 | 477 |

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

## 8. DIRECTORS' REMUNERATION (continued)

### (b) Executive directors and non-executive directors

| | Fees | Salaries, allowances and benefits in kind | Performance related bonuses | Employee share option benefits | Pension scheme contributions | Total emoluments |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2006** | | | | | | |
| Executive directors: | | | | | | |
| Mr. Han Zi Jing | – | 2,949 | – | 966 | 12 | 3,927 |
| Mr. Teo Hong Kiong | – | 2,443 | – | 123 | 12 | 2,578 |
| Mr. Zou Nan Feng | – | 1,268 | 84 | 122 | 10 | 1,484 |
| Non-executive directors: | | | | | | |
| Mr. Steven Yung | – | 1,000 | – | 257 | – | 1,257 |
| Mr. Peter Cosgrove | 252 | 500 | – | 129 | – | 881 |
| Mr. Mark Mays | 32 | – | – | – | – | 32 |
| Mr. Paul Meyer | 126 | – | – | – | – | 126 |
| Mr. Roger Parry | 11 | – | – | – | – | 11 |
| Mr. Jonathan Bevan | 95 | – | – | – | – | 95 |
| Mr. Han Zi Dian | – | 83 | – | – | – | 83 |
| Ms. Chin Oi Ling Lenna | 11 | – | – | – | – | 11 |
| Mr. Zhang Huai Jun | – | 1,397 | 84 | 122 | 28 | 1,631 |
| Mr. Mark Thewlis | 126 | – | – | – | – | 126 |
| | 653 | 9,640 | 168 | 1,719 | 62 | 12,242 |
| **2005** | | | | | | |
| Executive directors: | | | | | | |
| Mr. Steven Yung | – | 1,800 | – | 616 | 12 | 2,428 |
| Mr. Han Zi Jing | – | 2,878 | – | 1,510 | 12 | 4,400 |
| Mr. Teo Hong Kiong | – | 2,336 | – | 295 | 12 | 2,643 |
| Mr. Zou Nan Feng | – | 943 | 50 | 293 | 10 | 1,296 |
| Non-executive directors: | | | | | | |
| Mr. Peter Cosgrove | 120 | 700 | – | 310 | – | 1,130 |
| Mr. Mark Mays | – | – | – | – | – | – |
| Mr. Roger Parry | 95 | – | – | – | – | 95 |
| Mr. Tim Maunder | 25 | – | – | – | – | 25 |
| Mr. Jonathan Bevan | 120 | – | – | – | – | 120 |
| Mr. Zhang Huai Jun | – | 1,014 | 71 | 293 | 17 | 1,395 |
| Mr. Han Zi Dian | – | 51 | – | – | – | 51 |
| Ms. Chin Oi Ling Lenna | 120 | – | – | – | – | 120 |
| | 480 | 9,722 | 121 | 3,317 | 63 | 13,703 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

## 8. DIRECTORS' REMUNERATION (continued)

### (b) Executive directors and non-executive directors (continued)

During the year, performance related bonuses paid to or receivable by the directors amounted to HK$168,000 (2005: HK$121,000). No directors waived or agreed to waive any remuneration during the year (2005: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

During the year, no share options were granted to the directors (2005: Nil).

## 9. FIVE HIGHEST PAID INDIVIDUALS

During the year, all of the five highest paid individuals were directors (2005: five) and the details of whose remuneration are set out in note 8 above.

During the year, the performance related bonuses paid to or receivable by the five highest paid individuals of the Group amounted to HK$168,000 (2005: HK$121,000). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: Nil).

During the year, no share options were granted to the five directors (2005: Nil).

## 10. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Interest on bank loans wholly repayable within five years | 196 | 924 |
| Other finance cost: | | |
| Provision for convertible bonds redemption premium | 17,543 | 16,800 |
| | 17,739 | 17,724 |

## 11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the PRC in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Group: | | |
| Current – Hong Kong profits tax | 69 | 1,064 |
| Current – PRC corporate income tax | 16,959 | 16,355 |
| Deferred (note 24) | 2,987 | 6,500 |
| Total tax charge for the year | 20,015 | 23,919 |

## 11. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | HK$'000 | HK$'000 |
| Profit before tax | 149,247 | 137,896 |
| Calculated at a tax rate of 15.0% (2005: 15.0%) | 22,387 | 20,684 |
| Higher income tax rate for Hong Kong at 17.5% (2005: 17.5%) | 255 | (155) |
| Income not subject to tax | (8,873) | (5,230) |
| Expenses not deductible for tax | 4,883 | 4,470 |
| Tax losses utilised from previous periods | (2,100) | (380) |
| Tax loss not recognised | 3,463 | 4,530 |
| Tax charge at the Group's effective rate of 13.4% (2005: 17.3%) | 20,015 | 23,919 |

According to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, the Hainan White Horse Advertising Media Investment Company Limited (the "WHA Joint Venture"), a subsidiary of the Company established in the Hainan Special Economic Zone of the PRC, is subject to corporate income tax at a rate of 15%, and is exempt from PRC corporate income tax for the first profitable year of its operations, and thereafter, is eligible for a 50% relief from PRC corporate income tax for the following two years. As the current year was the seventh statutory profitable year of the WHA Joint Venture, corporation income tax for the current year has been calculated at the rate of 15% on its assessable profits arising in the PRC.

## 12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent of the Company for the year ended 31 December 2006 includes a profit of HK$14,935,000 (2005: a loss of HK$873,000) which has been dealt with in the financial statements of the Company (note 27(b)).

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds if applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted earnings per share are based on:

| | 2006 | 2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | 120,043 | 105,155 |
| Provision for convertible bonds redemption premium (note 10) | 17,543* | 16,800* |
| Profit attributable to ordinary equity holders of the parent before interest on convertible bonds | 137,586 | 121,955 |

| | Number of shares | |
|---|---|---|
| | 2006 | 2005 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 512,419,155 | 501,608,500 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | 12,962,955 | 11,495,521 |
| Convertible bonds | 32,550,861* | 32,550,861* |
| | 557,932,971 | 545,654,882 |

* Since the diluted earnings per share amount increased when taking the convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and are ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount of the year is based on the profit for the year of HK$120,043,000 (2005: HK$105,155,000) and the weighted average number of ordinary shares in issue during the year of 525,382,110 (2005: 513,104,021).

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Leasehold improvements | Furniture and equipment | Motor vehicles | Point-of-sale | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2006** | | | | | | |
| At 31 December 2005 and at 1 January 2006: | | | | | | |
| Cost | 11,337 | 18,899 | 16,815 | 32,059 | 35,805 | 114,915 |
| Accumulated depreciation | (9,464) | (12,709) | (10,255) | (12,137) | – | (44,565) |
| Net carrying amount | 1,873 | 6,190 | 6,560 | 19,922 | 35,805 | 70,350 |
| At 1 January 2006, net of accumulated depreciation | 1,873 | 6,190 | 6,560 | 19,922 | 35,805 | 70,350 |
| Additions | 86 | 2,028 | 5,789 | – | 107,908 | 115,811 |
| Disposals | – | (5) | – | – | – | (5) |
| Depreciation provided during the year | (585) | (2,967) | (2,990) | (3,253) | – | (9,795) |
| Transfers | – | – | – | – | (46,751) | (46,751) |
| Exchange realignment | 53 | 182 | 292 | 634 | 1,269 | 2,430 |
| At 31 December 2006, net of accumulated depreciation | 1,427 | 5,428 | 9,651 | 17,303 | 98,231 | 132,040 |
| At 31 December 2006: | | | | | | |
| Cost | 11,801 | 18,331 | 22,958 | 33,195 | 98,231 | 184,516 |
| Accumulated depreciation | (10,374) | (12,903) | (13,307) | (15,892) | – | (52,476) |
| Net carrying amount | 1,427 | 5,428 | 9,651 | 17,303 | 98,231 | 132,040 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

**Group**

| | Leasehold improvements | Furniture and equipment | Motor vehicles | Point-of-sale | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **31 December 2005** | | | | | | |
| At 1 January 2005: | | | | | | |
| Cost | 9,917 | 20,647 | 15,133 | 31,354 | 55,971 | 133,022 |
| Accumulated depreciation | (8,843) | (12,905) | (7,536) | (8,736) | – | (38,020) |
| Net carrying amount | 1,074 | 7,742 | 7,597 | 22,618 | 55,971 | 95,002 |
| At 1 January 2005, net of accumulated depreciation | 1,074 | 7,742 | 7,597 | 22,618 | 55,971 | 95,002 |
| Additions | 1,198 | 1,151 | 1,792 | – | 49,797 | 53,938 |
| Disposals | – | – | (41) | – | – | (41) |
| Depreciation provided during the year | (433) | (2,848) | (2,951) | (3,170) | – | (9,402) |
| Transfers | – | – | – | – | (71,222) | (71,222) |
| Exchange realignment | 34 | 145 | 163 | 474 | 1,259 | 2,075 |
| At 31 December 2005, net of accumulated depreciation | 1,873 | 6,190 | 6,560 | 19,922 | 35,805 | 70,350 |
| At 31 December 2005: | | | | | | |
| Cost | 11,337 | 18,899 | 16,815 | 32,059 | 35,805 | 114,915 |
| Accumulated depreciation | (9,464) | (12,709) | (10,255) | (12,137) | – | (44,565) |
| Net carrying amount | 1,873 | 6,190 | 6,560 | 19,922 | 35,805 | 70,350 |

## 15. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2006 | 2005 |
| | HK$'000 | HK$'000 |
| Unlisted shares, at cost | 487,273 | 487,273 |
| Due from subsidiaries | 816,454 | 690,112 |
| | 1,303,727 | 1,177,385 |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for loans to subsidiaries which amounted to HK$644,000,000 (2005: HK$569,000,000) and bear interest at a rate of 5% per annum. The carrying amounts of these accounts due from subsidiaries approximate to their fair values.

## 15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued and fully paid-up share/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| China Outdoor Media Investment Inc. | British Virgin Islands | Ordinary HK$34,465 | 100 | – | Investment holding |
| China Outdoor Media Investment (Hong Kong) Company Limited ("China Outdoor Media (HK)") | Hong Kong | Ordinary HK$1,000 | – | 100 | Investment holding |
| WHA Joint Venture | PRC | US$60,000,000/ US$60,000,000 | – | 80 (Note) | Operation of outdoor advertising business |

Note:

The WHA Joint Venture was established in the PRC on 24 March 1998 as a Sino-foreign equity joint venture in the PRC with a tenure of 30 years. Under the terms of the original joint venture agreement, China Outdoor Media (HK), Ming Wai Holdings Limited ("Ming Wai"), a wholly-owned subsidiary of Clear Channel Outdoor, Inc. ("CCO"), which is a shareholder of the Company, and Hainan White Horse Advertising Co., Ltd. ("Hainan White Horse") were the joint venture partners of the WHA Joint Venture. China Outdoor Media (HK), Ming Wai and Hainan White Horse were entitled to 90%, 5% and 5%, respectively, of the profits of the WHA Joint Venture.

Pursuant to the Group reorganisation which took place before the listing of the Company on the Stock Exchange, Ming Wai transferred its 5% interest in the WHA Joint Venture to China Outdoor Media (HK). Accordingly, the minority interest of the WHA Joint Venture represented the capital contributed by Hainan White Horse and its 5% share of the profits and losses of the WHA Joint Venture.

China Outdoor Media (HK) and Hainan White Horse entered into a revised joint venture agreement on 6 April 2001. According to the revised joint venture agreement, the WHA Joint Venture changed its legal structure from a Sino-foreign equity joint venture to a Sino-foreign co-operative joint venture. The registered capital of the WHA Joint Venture increased from HK$100,000,000 to US$60,000,000 with Hainan White Horse and China Outdoor Media (HK) sharing 20% and 80% interests in the WHA Joint Venture, respectively. The revised joint venture agreement was approved by the State Foreign Economic and Trade Commission of Hainan Province on 27 June 2001. According to the agreement entered into by China Outdoor Media (HK) and Hainan White Horse on 3 September 2001, their shares in the profits and losses of the WHA Joint Venture for the period from 1 January 2001 to 30 June 2001 were 95% and 5%, respectively. For the fiscal years 2001 to 2005 (both years inclusive), China Outdoor Media (HK) would be entitled to 90% of the after-tax profits of the WHA Joint Venture. For the fiscal year 2006 and onwards, China Outdoor Media (HK) would only be entitled to 80% of the after-tax profits of the WHA Joint Venture.

On 9 January 2006, the Company and Hainan White Horse signed an agreement to amend the relevant clause in the joint venture agreement, extending the term of the Company's entitlement of 90% of the after-tax profits of the WHA Joint Venture at a consideration of HK$500,000. The Company will be entitled to 90% of the after-tax profits of the WHA Joint Venture for the fiscal years 2006 and 2007, and for the fiscal year 2008 and onwards, the Company will be entitled to 80% of the after-tax profits of the WHA Joint Venture.

## 16. CONCESSION RIGHTS

| | Group |
|---|---|
| | HK$'000 |
| **31 December 2006** | |
| Cost at 1 January 2006, net of accumulated amortisation | 1,132,820 |
| Additions | 300,901 |
| Transfer from construction in progress | 46,751 |
| Disposals | (2,410) |
| Amortisation during the year | (142,210) |
| Exchange realignment | 36,541 |
| At 31 December 2006 | 1,372,393 |
| At 31 December 2006: | |
| Cost | 2,109,308 |
| Accumulated amortisation | (736,915) |
| Net carrying amount | 1,372,393 |
| **31 December 2005** | |
| At 1 January 2005: | |
| Cost | 1,527,659 |
| Accumulated amortisation | (440,620) |
| Net carrying amount | 1,087,039 |
| Cost at 1 January 2005, net of accumulated amortisation | 1,087,039 |
| Additions | 79,208 |
| Transfer from construction in progress | 71,222 |
| Amortisation during the year | (127,088) |
| Exchange realignment | 22,439 |
| At 31 December 2005 | 1,132,820 |
| At 31 December 2005 and at 1 January 2006: | |
| Cost | 1,710,479 |
| Accumulated amortisation | (577,659) |
| Net carrying amount | 1,132,820 |

## 16. CONCESSION RIGHTS (continued)

Note:

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

The Group's bus shelter concession contracts have initial terms of five to fifteen years. As at 31 December 2006, the weighted average remaining term of the concession rights currently held by the Group was approximately nine years. In terms of renewal rights, approximately 68% 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 those offered by the competing tenders. Some of the concession contracts also allow the Group to extend contracts before expiration. During the year, the Group has successfully extended approximately 39% of bus shelter concessions, based on the number of bus shelters.

## 17. LONG-TERM DEPOSIT

A long-term deposit amounting to HK$30,000,000 (2005: Nil) has been placed with an independent third party in connection with the acquisition of the rights to place advertisements on certain outdoor advertising media. This long-term deposit carries interest at the interest rate of 7% per annum. The deposit is to be refunded to the Group on 29 June 2009. The carrying amount of the long-term deposit approximates to its fair value.

## 18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Current to 90 days | 149,167 | 112,923 |
| 91 days to 180 days | 78,636 | 67,905 |
| Over 180 days | 70,785 | 65,192 |
| | 298,588 | 246,020 |
| Less: Provision for impairment of trade receivables | (16,421) | (10,346) |
| Total trade receivables, net | 282,167 | 235,674 |

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The balance included approximately HK$100,400,000 (2005: HK$100,000,000) paid to the Hong Kong High Court in respect of Advertasia claim which was further explained in note 30. The deposit, together with interest was subsequently refunded in January 2007 upon the winning of the final appeal.

## 20. DUE FROM A RELATED PARTY

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Guangdong White Horse Advertising Company Limited ("GWH") (note 31(b)) | 49,708 | 26,574 |

The balance with the related party is unsecured, interest-free and is repayable on demand.

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$131,211,000 (2005: HK$142,684,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

As at 31 December 2006, the Group had pledged deposits of RMB10,000,000 (equivalent to approximately HK$9,953,000) (2005: Nil) to secure a short term bank loan of RMB20,000,000 (equivalent to approximately HK$19,906,000). All of the Group's bank borrowings are repayable within one year.

As at 31 December 2006, the Group had pledged deposits of RMB19,673,000 (equivalent to approximately HK$19,581,000) (2005: RMB31,000,000) (equivalent to approximately HK$29,799,000) to banks as a security for bills payable of RMB25,809,000 (approximately HK$25,688,000) (2005: RMB26,627,000 (equivalent to approximately HK$25,595,000)).

## 22. INTEREST-BEARING BANK BORROWING

As at 31 December 2006, the Group's short term bank loan of RMB20,000,000 (equivalent to approximately HK$19,906,000) which was secured by time deposits of RMB10,000,000 (equivalent to approximately HK$9,953,000), was repayable within one year and subject to an effective interest rate of 5.58% per annum.

As at 31 December 2005, the Group had no outstanding bank loans as all bank loans had been repaid during the year.

## 23. CONVERTIBLE BONDS

| | | Group and Company | |
|---|---|---|---|
| | | 2006 | 2005 |
| | Notes | HK$'000 | HK$'000 |
| Nominal value of convertible bonds due 2009 | (i) | 312,000 | 312,000 |
| *Less:* direct transaction costs | (ii) | (11,793) | (11,793) |
| | | 300,207 | 300,207 |
| Equity component | (iii) | (10,763) | (10,763) |
| Liability component at the issuance date | (iii) | 289,444 | 289,444 |
| Interest expense | | 37,163 | 19,620 |
| Liability component at 31 December | | 326,607 | 309,064 |

(i) On 25 October 2004, the Company issued HK$312,000,000 zero coupon convertible bonds due 2009, which were listed on the Stock Exchange. Each bond will, at the option of the holder, be convertible on and after 26 November 2004 up to and including 28 September 2009 into fully paid ordinary shares with a par value of HK$0.10 each of the Company at an initial conversion price of HK$9.585 per share. Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at 121.899% of their principal amount on 27 October 2009. The net proceeds from the issue of the bonds will be used for general corporate and working capital purposes, including financing possible strategic acquisitions.

(ii) The transactions costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components.

(iii) The fair value of the liability component of the convertible notes was determined, upon issuance, using the prevailing market interest rate for a similar debt without a conversion option of 4.8% and is carried as a long term liability. The remainder of the proceeds was allocated to the conversion option that is recognised and included in shareholders' equity in other reserves (note 27).

As at 31 December 2006, none of the convertible bonds had been converted into ordinary shares of the Company.

## 24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

| | Group<br>Depreciation and amortisation allowance in excess of related depreciation and amortisation and other temporary differences<br>2006 | Depreciation and amortisation allowance in excess of related depreciation and amortisation and other temporary differences<br>2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| At 1 January | (5,590) | – |
| Deferred tax charged to income statement during the year (note 11) | (5,174) | (5,590) |
| At 31 December | (10,764) | (5,590) |

### Deferred tax assets

| | Group<br>Losses available for offset against future taxable profit and other temporary differences<br>2006 | Other temporary differences<br>2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| At 1 January | 2,761 | 3,671 |
| Deferred tax credited/(debited) to the income statement during the year (note 11) | 2,187 | (910) |
| At 31 December | 4,948 | 2,761 |
| Net deferred tax liabilities at 31 December | (5,816) | (2,829) |

The Group has tax losses arising in Hong Kong of HK$19,714,053 (2005: HK$17,407,306) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been fully recognised in respect of these losses as they have arisen mainly in the Company that has been loss-making for some time.

## 25. SHARE CAPITAL

| | 2006 | 2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Shares** | | |
| Authorised: | | |
| 1,000,000,000 ordinary shares of HK$0.10 each | 100,000 | 100,000 |
| Issued and fully paid: | | |
| 522,802,500 ordinary shares (2005: 501,608,500) of HK$0.10 each (2005: HK$0.10) | 52,280 | 50,161 |

During the year ended 31 December 2006, the subscription rights attaching to 21,194,000 share options were exercised at the subscription prices ranging between HK$3.51 to 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.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

| | Number of shares in issue | Issued share capital | Share premium account | Total |
|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2005 and 1 January 2006 | 501,608,500 | 50,161 | 644,427 | 694,588 |
| Share options exercised | 21,194,000 | 2,119 | 114,141 | 116,260 |
| Share issue expenses | – | – | (30) | (30) |
| At 31 December 2006 | 522,802,500 | 52,280 | 758,538 | 810,818 |

## 26. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group's operations. Under the Scheme, the directors may, at their discretion, invite any employees, directors or consultants of any company in the Group to acquire options. The Scheme became effective on 28 November 2001 and, unless otherwise cancelled or amended, will remain in force for seven years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option scheme of the Company pursuant to which options may from time to time be granted to directors, consultants, and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding, for this purpose, shares issued on the exercise of options under the Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under this Scheme when aggregated with securities to be issued under any other share option scheme of the Group, may be increased by the board of directors provided that the number of shares to be issued upon the exercise of all outstanding options does not exceed 30% of the relevant class of securities in issue from time to time.

No option may be granted to any person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12 month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company from time to time.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period and not more than seven years after the date of grant. The option period will be determined by the board of directors and communicated to each grantee. The board of directors may provide restrictions on the period during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised except for the share options granted on 28 May 2003 and 19 November 2003. For the share options granted on 28 May 2003 and 19 November 2003, the options will not become vested at the end of the third year after the grant date unless the Company has achieved an average annual earnings per share growth of 5% each year for the first three full financial years after the grant date. However, the board of directors retains discretion to accelerate the vesting of fixed term options in the event that certain performance targets are met.

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the Scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant.

## 26. SHARE OPTION SCHEMES (continued)

In addition, on 28 November 2001, the Company adopted a Pre-IPO share option scheme conditionally as described in the Company's prospectus dated 10 December 2001. The principal terms of the Pre-IPO share option scheme are substantially the same as the terms of the Scheme except that:

(a) Employees, directors and consultants of the Group who have contributed substantially to the growth of the Group and to the initial public offering or full-time employees and directors of the Group are eligible to participate in the Pre-IPO share option scheme;

(b) The subscription price for the shares under the Pre-IPO share option scheme shall be equal to the offer price; and

(c) The Pre-IPO share option scheme would remain in force for a period commencing on the date on which the Pre-IPO share option scheme was conditionally adopted by the shareholders of the Company and ending on the day immediately prior to 19 December 2001, after which period no further option will be granted but in all other respects the provisions of the Pre-IPO share options scheme shall remain in full force and effect.

The movements in the number of share options to subscribe for shares in the Company during the year were shown in next page.

At the balance sheet date, the Company had 20,148,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 20,148,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of approximately HK$103,494,000.

## 26. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Scheme during the year:

| Name or category of participant | Type of share option scheme | Number of share options: At the beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At the end of the year | Date of grant of share options* | Exercise period | Exercise price** | Price of the Company's shares***: At grant date of options | Immediately before the exercise date | At exercise date of options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | HK$ per share | HK$ per share | HK$ per share | HK$ per share |
| **Director** | | | | | | | | | | | | | |
| Steven Yung | Pre-IPO share option scheme | 2,500,000 | – | (2,500,000) | – | – | – | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | 9.6 | 9 |
| | The Scheme | 1,250,000 | – | – | – | – | 1,250,000 | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | – | – |
| | The Scheme | 1,400,000 | – | – | – | – | 1,400,000 | 28/05/2003 | 28/5/2006 to 27/05/2010 | 3.51 | 3.5 | – | – |
| | | 5,150,000 | – | (2,500,000) | – | – | 2,650,000 | | | | | | |
| Peter Cosgrove | Pre-IPO share option scheme | 1,250,000 | – | – | – | – | 1,250,000 | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | – | – |
| | The Scheme | 625,000 | – | – | – | – | 625,000 | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | – | – |
| | The Scheme | 704,000 | – | (704,000) | – | – | – | 28/05/2003 | 28/5/2006 to 27/05/2010 | 3.51 | 3.5 | 8.7 | 8.5 |
| | | 2,579,000 | – | (704,000) | – | – | 1,875,000 | | | | | | |

## 26. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Scheme during the year: (continued)

| Name or category of participant | Type of share option scheme | Number of share options: At the beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At the end of the year | Date of grant of share options* | Exercise period | Exercise price** | Price of the Company's shares***: At grant date of options | Immediately before the exercise date | At exercise date of options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | HK$ per share | HK$ per share | HK$ per share | HK$ per share |
| **Director** (continued) | | | | | | | | | | | | | |
| Han Zi Jing | Pre-IPO share option scheme | 3,334,000 | – | – | – | – | 3,334,000 | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | – | – |
| | The Scheme | 1,666,000 | – | – | – | – | 1,666,000 | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | – | – |
| | The Scheme | 1,900,000 | – | – | – | – | 1,900,000 | 28/05/2003 | 28/05/2006 to 27/05/2010 | 3.51 | 3.5 | – | – |
| | The Scheme | 1,000,000 | – | – | – | – | 1,000,000 | 19/11/2003 | 20/11/2006 to 19/11/2010 | 5.35 | 5.35 | – | – |
| | | 7,900,000 | – | – | – | – | 7,900,000 | | | | | | |
| Teo Hong Kiong | Pre-IPO share option scheme | 1,200,000 | – | – | – | – | 1,200,000 | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | – | – |
| | The Scheme | 600,000 | – | (600,000) | – | – | – | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | 9.5 | 9.4 |
| | The Scheme | 670,000 | – | (670,000) | – | – | – | 28/05/2003 | 28/05/2006 to 27/05/2010 | 3.51 | 3.5 | 9 | 8.9 |
| | | 2,470,000 | – | (1,270,000) | – | – | 1,200,000 | | | | | | |

## 26. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Scheme during the year: (continued)

| Name or category of participant | Type of share option scheme | Number of share options: At the beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At the end of the year | Date of grant of share options* | Exercise period | Exercise price** | Price of the Company's shares***: At grant date of options | Immediately before the exercise date | At exercise date of options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | HK$ per share | HK$ per share | HK$ per share | HK$ per share |
| **Director** (continued) | | | | | | | | | | | | | |
| Zou Nan Feng | Pre-IPO share option scheme | 800,000 | – | – | – | – | 800,000 | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | – | – |
| | The Scheme | 400,000 | – | – | – | – | 400,000 | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | – | – |
| | The Scheme | 666,000 | – | – | – | – | 666,000 | 28/05/2003 | 28/05/2006 to 27/05/2010 | 3.51 | 3.5 | – | – |
| | | 1,866,000 | – | – | – | – | 1,866,000 | | | | | | |
| Zhang Huai Jun | Pre-IPO share option scheme | 350,000 | – | – | – | – | 350,000 | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | – | – |
| | The Scheme | 175,000 | – | – | – | – | 175,000 | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | – | – |
| | The Scheme | 666,000 | – | – | – | – | 666,000 | 28/05/2003 | 28/05/2006 to 27/05/2010 | 3.51 | 3.5 | – | – |
| | | 1,191,000 | – | – | – | – | 1,191,000 | | | | | | |

## 26. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Scheme during the year: (continued)

| Name or category of participant | Type of share option scheme | Number of share options: At the beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At the end of the year | Date of grant of share options* | Exercise period | Exercise price** | Price of the Company's shares***: At grant date of options | Immediately before the exercise date | At exercise date of options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | HK$ per share | HK$ per share | HK$ per share | HK$ per share |
| **Others** | | | | | | | | | | | | | |
| Members of senior management and other employees of the Group | Pre-IPO share option scheme | 8,600,000 | – | (7,550,000) | – | (250,000) | 800,000 | 28/11/2001 | 29/11/2004 to 28/11/2008 | 5.89 | – | 10.0 | 10.2 |
| | The Scheme | 4,300,000 | – | (3,775,000) | – | (125,000) | 400,000 | 29/06/2002 | 30/6/2005 to 29/06/2009 | 5.51 | 5.3 | 10.0 | 10.2 |
| | The Scheme | 5,661,000 | – | (5,295,000) | – | – | 366,000 | 28/05/2003 | 28/05/2006 to 27/05/2010 | 3.51 | 3.5 | 10.0 | 9.9 |
| | The Scheme | 2,000,000 | – | (100,000) | – | – | 1,900,000 | 19/11/2003 | 20/11/2006 to 19/11/2010 | 5.35 | 5.35 | 10.0 | 9.8 |
| | | 20,561,000 | – | (16,720,000) | – | (375,000) | 3,466,000 | | | | | | |

## 26. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Scheme during the year: (continued)

| Name or category of participant | Type of share option scheme | Number of share options: At the beginning of the year | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At the end of the year | Date of grant of share options* | Exercise period | Exercise price** | Price of the Company's shares***: At grant date of options | Immediately before the exercise date | At exercise date of options |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | HK$ per share | HK$ per share | HK$ per share | HK$ per share |
| In aggregate | Pre-IPO share option scheme | 18,034,000 | – | (10,050,000) | – | (250,000) | 7,734,000 | | | | | | |
| | The Scheme | 9,016,000 | – | (4,375,000) | – | (125,000) | 4,516,000 | | | | | | |
| | The Scheme | 11,667,000 | – | (6,669,000) | – | – | 4,998,000 | | | | | | |
| | The Scheme | 3,000,000 | – | (100,000) | – | – | 2,900,000 | | | | | | |
| | | 41,717,000 | – | (21,194,000) | – | (375,000) | 20,148,000 | | | | | | |

Notes to the reconciliation of share options outstanding during the year

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period except:

(i) For the share options granted under the Pre-IPO share option scheme, 33.3% of the options granted will vest at the end of the first full financial year (the "Period") after the grant date if the Company achieves a compounded 20% growth in its earnings before interest, tax, depreciation, and amortisation (the "EBITDA") during the Period. The remaining 66.7% of the options granted vested at the end of the second full financial year after the grant date if the Company achieves a compounded annual growth rate of 20% in its EBITDA during the first two full financial years after the grant date.

(ii) For the share options granted on 28 May 2003 and 19 November 2003, the options will not become vested at the end of the third year after the grant date unless the Company has achieved an average annual earnings per share growth of 5% each year for the first three full financial years after the grant date.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the date on which the options were exercised over all of the exercises of options within the disclosure line.

During the year, no share options were granted by the Company.

## 27. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 75 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the Group Reorganisation on 28 November 2001, over the nominal value of the shares in the Company issued in exchange therefore.

### (b) Company

| | Share option reserve | Share premium account | Contributed surplus | Equity component of convertible bonds | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2005 (as restated) | 10,550 | 644,427 | 449,773 | 10,763 | (2,952) | 1,112,561 |
| Equity-settled share option arrangements | 7,300 | – | – | – | – | 7,300 |
| Loss for the year | – | – | – | – | (873) | (873) |
| At 31 December 2005 | 17,850 | 644,427 | 449,773 | 10,763 | (3,825) | 1,118,988 |
| Issue of shares | (9,005) | 114,141 | – | – | – | 105,136 |
| Share issue expenses | – | (30) | – | – | – | (30) |
| Equity-settled share option arrangement | 4,050 | – | – | – | – | 4,050 |
| Profit for the year | – | – | – | – | 14,935 | 14,935 |
| At 31 December 2006 | 12,895 | 758,538 | 449,773 | 10,763 | 11,110 | 1,243,079 |

The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the shares of the Company's shares issued in exchange therefore.

Under the Bermuda Companies Act 1981, the Company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Property, plant and equipment

During the current year, the Group paid HK$7,903,000 (2005: HK$4,141,000) to acquire property, plant and equipment excluding point-of-sale and construction in progress.

### (b) Concession rights

During the current year, the Group paid HK$323,440,000 to acquire concession rights and to settle the outstanding liability for the acquisition of concession rights brought forward from the prior year of HK$59,811,000.

During the prior year, the Group paid HK$129,005,000 to acquire concession rights and to settle the outstanding liability for the acquisition of concession rights brought forward from the year before of HK$49,733,000.

### (c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amounts:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Cash on hand and balances with banks | 257,360 | 302,567 |

## 29. COMMITMENTS

### (a) Capital commitments

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Contracted, but not provided for: | | |
| The construction of shelters for which concession rights are held | 11,564 | 44,576 |

## 29. COMMITMENTS (continued)

### (b) Commitments under operating leases

The Group leases certain of its office buildings and concession rights under operating lease arrangements. Leases for office buildings are negotiated for terms ranging from 1 to 9 years, and those for concession rights are negotiated for terms ranging from 5 to 15 years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Within one year | 187,048 | 148,116 |
| In the second to fifth years, inclusive | 645,722 | 550,733 |
| After five years | 576,165 | 631,017 |
| | 1,408,935 | 1,329,866 |

(c) The Group has entered into a media rental contract under which the Group has committed to pay to a media owner a minimum guaranteed payment calculated based on the arrangements as stipulated in the respective contract. As at 31 December 2006, the amount of the total minimum guaranteed payment under the above contract is analysed as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | **HK$'000** | **HK$'000** |
| Within one year | – | – |
| In the second to fifth years, inclusive | 210,707 | – |
| | 210,707 | – |

In addition to the minimum guaranteed payment, the contract also contains a profit sharing arrangement whereby operating profit exceeding certain threshold as stipulated in the contract will be shared between the two parties at pre-agreed ratio.

## 30. 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 for specific performance of the Agreement in favour of Advertasia pursuant to which China Outdoor Media (HK) was required to complete the purchase of the aforementioned four private companies at 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 judgement and on the sum of HK$18 million from 30 June 2000 to the date of judgement; 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 judgement . China Outdoor Media (HK) was also ordered to pay the costs of the action.

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 (note 19) by way of security for judgement and costs pending appeal against the above judgement. 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.

## 31. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year, which fall under the definition of "continuing connected transactions" under Chapter 14A of the Listing Rules.

| | Notes | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|---|
| Agency commission paid to GWH, a company in which a director of the Company has an ability to exercise direct or indirect influence over the management | (i) | 17,391 | 5,864 |
| Sales to GWH | (ii) | 98,548 | 33,228 |
| Bus shelter maintenance and display fees payable to companies in which a director of the Company has an ability to exercise management influence | (iii) | 3,635 | 7,819 |
| Creative services fees payable to GWH | (iv) | 2,931 | 2,854 |

Notes:

(i) The agency commission paid to GWH was based on the standard percentage of gross rental revenue for outdoor advertising spaces payable to other major third party agencies used by the Group. On 11 May 2004, the WHA Joint Venture entered into a framework agreement for a fixed term of three years, which formalised the terms and conditions in the advertising commission agreement between the two parties. GWH is a related party of the Company because one of the directors of the Company, Mr. Han Zi Dian, is able to exercise influence over the management and day-to-day operations as director and general manager of GWH.

(ii) The sales to GWH were made according to published prices and conditions similar to those offered to the major customers of the Group.

(iii) The WHA Joint Venture has entered into various agreements for the maintenance of bus shelters and the display of posters in the PRC with the White Horse Companies. White Horse Companies are considered to be related parties of the company due to the fact that one of the directors of the Company, Mr. Han Zi Dian, can exercise significant influence over the management of such White Horse Companies.

In order to comply with the continuing connected transactions provisions of the Listing Rules, the Maintenance Services Agreements were terminated on 11 May 2004. On the same day, the WHA Joint Venture entered into new Maintenance Services Agreements with the said companies on substantially the same terms as the old agreements for a fixed term of three years. These transactions were entered into on terms no less favourable then those available to or from independent third parties.

(iv) The WHA Joint Venture entered into a creative services agreement on 19 April 2006 with GWH, whereby GWH agreed to provide poster design service, the design of sales, marketing materials and company profiles and other related creative services to the Group. These transactions were entered into on terms no less favourable than those available to or from independent third parties.

## 31. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

The Group entered into the following transaction with related parties (which constitutes a "Connected transaction" as defined in Chapter 14A of the Listing Rules) during the year:

On 9 January 2006, China Outdoor Media (HK) and Hainan White Horse signed an agreement to amend the Joint Venture Agreement, extending the term of entitlement of China Outdoor Media (HK)'s entitlement of 90% of the after-tax profits of the WHA Joint Venture for a further two years to the end of the fiscal year 2007. From the fiscal year 2008 and onwards, China Outdoor Media (HK) will be entitled to 80% of the after-tax profits of the WHA Joint Venture. The other terms of the Joint Venture Agreement remain unchanged. In consideration of the above, China Outdoor Media (HK) agreed to make a one-off payment of HK$500,000 to Hainan White Horse. This amount is determined with reference to the amount payable upon the exercise of the option currently held by China Outdoor Media (HK) to purchase the remaining 20% shareholding in the WHA Joint Venture when the relevant PRC laws permit China Outdoor Media (HK) to have more than 80% of shareholding in the WHA Joint Venture. This payment constitutes a connected transaction under the Listing Rules because Hainan White Horse is a connected person of the Company by virtue of it being a substantial shareholder of the WHA Joint Venture, a subsidiary of the Company.

**(b) Outstanding balance with a related party**

As disclosed in the consolidated balance sheet, the Group had outstanding receivables from GWH of HK$49,708,000 (2005: HK$26,574,000), as at the balance sheet date. The balance is unsecured, interest-fee and is repayable on demand.

(c) Compensation of key management personnel of the Group:

| | **2006** | **2005** |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| Short term employee benefits | 9,808 | 9,843 |
| Employee share option benefits | 1,719 | 3,317 |
| Pension scheme contributions | 62 | 63 |
| Total compensation paid to key management personnel | 11,589 | 13,223 |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, convertible bonds, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade receivables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign exchange risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and convertible bonds.

### Foreign exchange risk

The Group's only investment in China remains its operating vehicle, WHA Joint Venture, which solely conducts business within the PRC. Leaving aside interest payables, 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 revenue, capital investment and expenses are 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.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 February 2007.