UOBKayHian

CHINA

7 February 2006

Initiate Coverage

Qin Jia Yuan Media Services

A Unique Play On China's TV Advertising Market

BUY | **Current Price : HK$2.20** | **Target (12-mth) : HK$2.80**

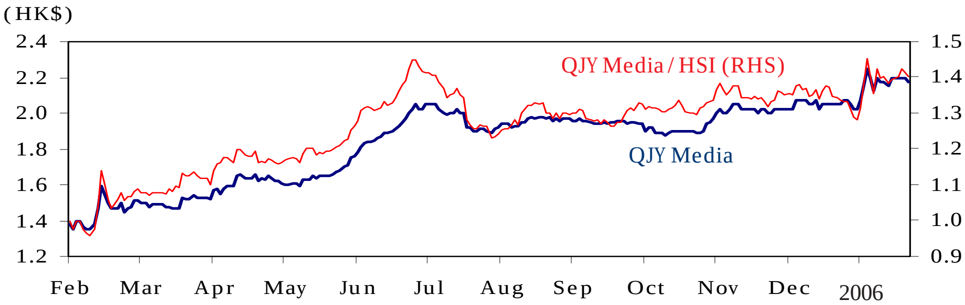
Qin Jia Yuan Media Services (QJY) is the only listed company in Hong Kong that focuses on providing one-stop services for TV drama production, distribution, advertising and public relations in China.

Unique business model that capitalises on robust TV advertising industry. The TV advertising industry in China is expected to maintain double-digit growth for the next few years, driven by robust economic growth and the Beijing Olympic Games in 2008. QJY broke into the TV station commercial airtime market with a unique business model of programme syndication – bartering TV drama broadcasting rights for TV stations' commercial airtime.

New advertising platform for synergies. QJY also set up an advertising JV and entered into long-term contracts with five major provincial stations to acquire one-third of their commercial airtime at one-third of programme cost. The new advertising platform will provide a steady source of revenue as it is not project-based and will also create business synergies by leveraging on QJY's close relationships with clients to provide more tailored products.

Strong earnings growth. QJY has 10 drama series in the pipeline, with 180 hours to be completed in FY06 and 228 hours in FY07. We forecast programme syndication revenue will maintain a 20% yoy growth for the next two years. Revenue from the new platform could reach HK$22m and HK$44m in FY06 and FY07 respectively, and net profit is estimated at HK$6m and HK$26m for FY06 and FY07 respectively.

Attractive valuation. Trading at 12.8x FY06 earnings (vs peers' average of 18.4x FY06 PE) with a 20% bottom line growth for the next two years, and given QJY's uniqueness in the media sector, the stock looks appealing. We are initiating coverage with a BUY rating and a target price of HK$2.80, based on 16x FY06 PE, translating into a PEG of 0.8 and FY06 EV/EBITDA of 13.7.



Sector	Media
Reuters	2366.HK
Bloomberg	2366 HK
Website	www.qjymedia.com
Exchange Rate	HK$7.80/US$1
52-Wk Range (HK$)	1.32/2.30
52-Wk Avg. Daily Vol. (m)	1.55
No. of Shares (m)	470
Market Cap (HK$m)	1,034
(US$m)	133
Major Shareholders (%)	
Mr Philip Wong & Ms Anita Leung	36.9
Aegis Media Group	20.4
Book NTA per Share (HK$)	0.9
ROE (%)	22.4
Net Cash per Share (HK$)	0.2
Alternative Instruments	
Nil	
Results Due	
Interim: Jun	Final: Dec
Market PE - HSI (x)	
2005	15.1
2006F	14.0

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Year to 30 Sep	Turnover (HK$m)	EBITDA (HK$m)	Net Profit (HK$m)	EPS (HK¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK¢)
2004	85.5	56.6	50.4	15.5	28.8%	14.2	17.3	3.6
2005	106.3	74.4	66.2	16.2	4.6%	13.6	13.1	3.4
2006F	154.9	94.3	81.0	17.2	6.5%	12.8	10.7	3.6
2007F	205. 8	127.6	107.9	22.9	33.2%	9.6	8.0	4.8
2008F	241.0	147.8	123.8	26.3	14.8%	8.4	6.7	5.6

Consensus net profit -- n.a.

Investment Highlights

UNIQUE BUSINESS MODEL THAT CAPITALISES ON ROBUST TV ADVERTISING INDUSTRY

QJY has more than 10 years of experience in the TV industry, using its business model of "programme syndication" to break TV stations' monopoly over commercial airtime. QJY is unique because it is neither a production house nor an advertising agency. It acts as a project manager by mainly sourcing funds from advertising agencies to invest in TV programmes. It then exchanges the first round of broadcasting rights with stations for commercial airtime (two minutes of commercials out of nine minutes of primetime commercials per episode) that is then sold to advertising agencies at lower rates.

We see it as a win-win strategy for both advertising agencies and TV stations for two reasons: a) advertising agencies will secure commercial airtime at lower rates (70% discounts via programme syndication compared with up to 30% discounts via direct purchases from TV stations), and b) programme syndication does not require TV stations to pay cash for programmes, which will help improve their financial positions. TV stations in China have extremely limited financing channels as they are not allowed to have any non-governmental equity participation.

NEW ADVERTISING PLATFORM FOR CREATING SYNERGIES

QJY forked out HK$38m to set up a 70:30 advertising JV with its business partner Tianjin QJY. The latter has been operating exclusively with QJY in the business of programme syndication. Tianjin QJY will provide the JV with an experienced team that has several advertising contracts. Through the new JV, the company entered into long-term contracts (1,000 hours for five years) with five major provincial stations (Guiyang, Hubei, Hebei, Jiangsu and Harbin) to acquire one-third of their commercial airtime at one-third of programme cost. With this arrangement, the company has effectively become the direct owner of the stations' primetime commercials (three mins per episode). Management forecasts the JV could earn HK$10m net profit in the first year and recoup the investment in three to four years' time. The JV plans to expand its network to 20 provincial stations in 2006, 50 in 2007 and 100 in 2008.

The new platform will provide a steady source of revenue as it is not project-based and will also create business synergies by leveraging on QJY's close ties with clients. In our view, management's good understanding of the industry, well-established network in the media sector and the company's successful programming record will attract TV stations to the new platform.

LONG-TERM COORPERATION WITH PARTNERS

In developing its business model, the company has always entered into long-term agreements with its partners. On the production front, QJY has a contract with Fujian QJY Production (under Fujian TV station) to procure investment for 6,000 hours of TV programmes (equivalent to 200 TV series), with no timeframe set. In return, Fujian QJY has the right to adapt Dr Anita Leung's novels for TV drama series for 10 years, ending Jun 2010. As of Sep 05, the company had procured investment for productions totalling 287 hours. QJY also has long-term contracts with other TV production houses such as Huishi (Hainan island) and Beijing Yili. We believe the long-term contracts are an indication of the partners' confidence in QJY's excellent track record of procuring TV drama series and good understanding of its audience. Meanwhile, the company has established solid relationships with advertising agencies such as Tianjin QJY, Beijing Advertising and Rich Books. Last but not least, Aegis Media, one of the world's top five media groups, is a strategic partner with a 20% stake in the company.

INTANGIBLE ASSETS OF 300 NOVELS FOR FUTURE ADAPTION

In our view, conceptual development and programme marketing play key roles in a TV series' value chain. QJY has been building a library of novels and drama scripts and has established two script preparation and production workshops in Hong Kong and Beijing. The company has over 10 professionals in its creative team, led by famous scriptwriters such as Raymond Ip, and can create 400 drama episodes p.a. Worth noting is the fact that QJY owns exclusive rights to adapt more than 300 novels by Dr Leung and Mr Ni Kuang (a famous Chinese science fiction novelist), which are not reflected on its balance sheet.

EXPERIENCED MANAGEMENT

Dr Philip Wong and Dr Anita Leung are especially familiar with the business environment in China and have been enjoying good relationships with the Chinese government over the last 30 years. In the dynamic media sector, management's extensive industry know-how and business relations will be extremely useful.

STRONG EARNINGS GROWTH

In the pipeline are 10 drama series, with 180 hours to be completed in FY06 and 228 hours in FY07, (vs an average of 64 hours p.a in FY01-FY04 and 120 hours in FY05). We believe revenue from programme syndication will remain strong for the next two years on the back of an increasing number of TV drama hours. Revenue growth is likely to hold steady at 20% over the next two years. For the new platform, business operations will start in 1Q06, and the key growth driver will be the number of TV stations that QJY has agreements with. Currently, the company has signed long-term contracts with five TV stations, and management expects to sign contracts with another five and 10 stations in Apr 06 and Jul 06 respectively. Revenue will likely reach HK$22m and HK$44m in FY06 and FY07 respectively, and net profit is estimated at HK$6m and HK$26m for FY06 and FY07 respectively.

We expect QJY to deliver a 22.2% net profit growth in FY06 and 33.2% and 14.8% net profit growth in FY07 and FY08 respectively, mainly driven by contributions from the new advertising platform, increase in the number of TV drama hours and further expansion of its TV station network.

Valuation

It is difficult to build a discounted cash flow (DCF) model for QJY for an extended period as its revenue streams could be highly volatile. In addition, QJY is still at the early stage of its high-growth period. Therefore, we use comparable multiple (PE) analysis in our valuation.

There are no direct comparables due to QJY's uniqueness in the media sector and the fact that very few China-focused media companies are listed. We conduct a relative valuation analysis with two groups of companies: TV media stocks with major operations in Hong Kong and China-focused media companies.

Among the Hong Kong TV media companies, all three provide TV advertising services. They also operate channels and most of their business is not derived from the China market. Therefore, Hong Kong TV media companies do not make good comparables.

Of the five China-focused stocks, Beijing Media concentrates on newspaper advertising agency services. Clear Media, Dahe Media, Media Partners and Tom Group are mainly engaged in the fast-growing outdoor media services in China. QJY should trade at a premium over Beijing Media as the print advertising market is dwindling in China, but should trade at a discount to the fast-growing outdoor media companies.

On a forward PE basis, the stock is trading at a 30% discount to its peers (18.4x FY06 PE). Given QJY's unique business model and well-established position in the TV advertising market, the 30% discount is unjustified. QJY should be trading near a 15% discount to its peers.

That said, as QJY is the only listed media company to benefit from the robust TV advertising market in China, the market is likely to pay a premium for its shares due to its uniqueness. This was what happened to Focus Media (FMCN.US), an advertising company with the unique business model of providing advertising platforms in elevators and office buildings. Its share price tripled after its listing in Jul 05 as the market recognised its uniqueness.

We ascribe a 15% discount to peers' average FY06 PE of 18.4x to account for the higher risks associated with QJY's long collection cycle, smaller revenue and high reliance on key personnel. As such, we derive a target price of HK$2.80, which translates into a 0.8x PEG and FY06 EV/EBITDA of 13.7. This implies a 27% upside from the current level.

Figure 1: Peer Comparison

	Price 23 Jan 06 (HK$)	PE 2005 (x)	PE 2006 (x)	Rev 2004 (m)	NP 2004 (m)	Net Margin 2004 (%)	EBITDA Margin 2004 (%)	P/B 2004 (x)	EV/ EBITDA 2004 (x)	Acc Rec Turnover 2004
Hong Kong TV-related Media Companies										
PHOENIX SATELLITE	1.09	34.1	27.3	1,113	150	13.52	16.94	5.62	n.a	17
TELEVISION BROADCASTS	42.05	17.0	16.4	3,817	719	18.85	34.95	5.02	11.28	4
I-CABLE	1.94	12.7	11.3	2,372	284	11.99	34.67	2.14	4.75	21
Avg		**21.3**	**18.3**					**4.3**	**8.0**	
China-focused Media Companies										
CLEAR MEDIA	6.75	32.5	25.5	538	95	17.67	44.74	2.45	12.89	3
BEIJING MEDIA	11.45	38.0	16.5	1,004	194	19.34	27.43	1.72	5.5	17
DAHE MEDIA	0.224	9.3	8.6	222	18	8.33	26.4	0.79	4.48	9
MEDIA PARTNERS	1.13	28.3	20.9	353	20	5.74	16.68	2.15	18.48	9
TOM GROUP	1.54	21.7	20.5	2,595	860	33.13	16.5	2.41	18.59	4
Avg		**26.0**	**18.4**					**1.9**	**12.0**	
FOCUS MEDIA	48.19	79	41.9	29	0	1.27	47.7	9.25	n.a	7
QJY*	**2.20**	**13.6**	**12.8**	**106**	**66**	**62.32**	**66.56**	**2.4**	**13.1**	**4**

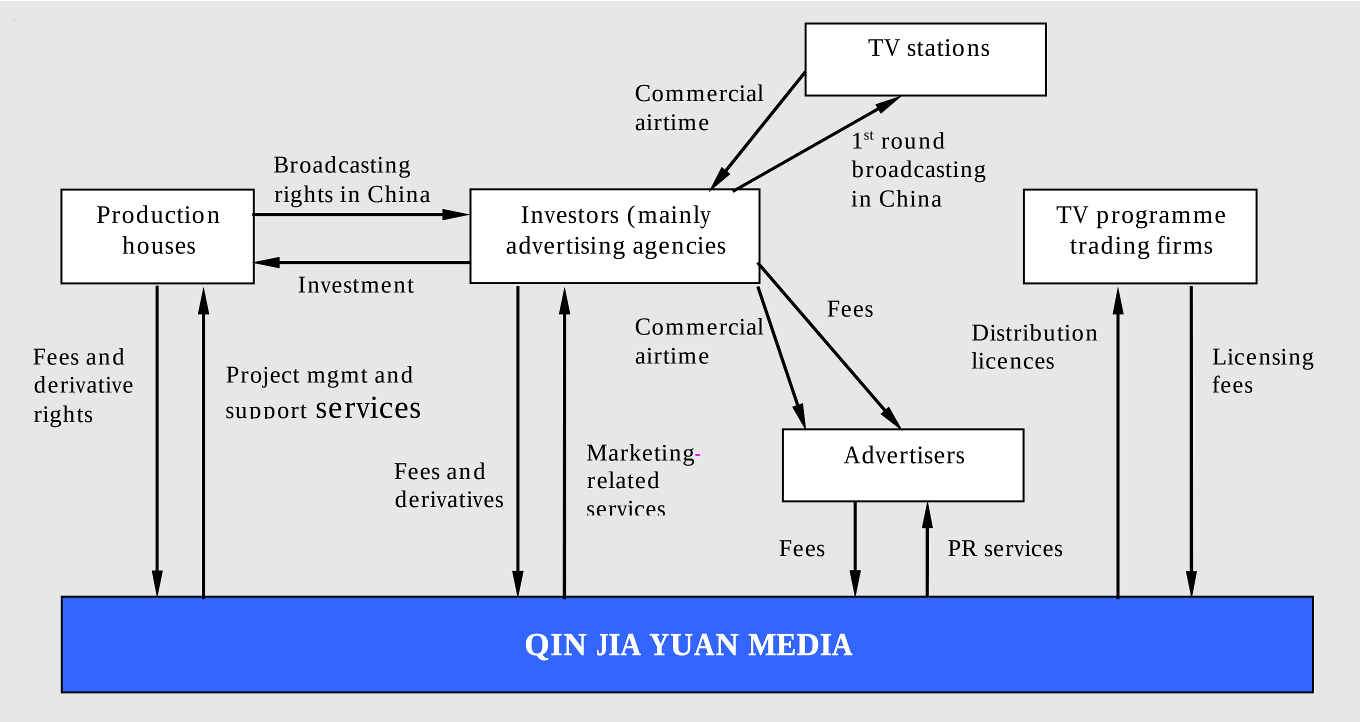
Fiscal year ended Sep for QJY.
Source: IBES, UOB Kay Hian, price as of 23 Jan 06.

Business Model

SYNDICATED PROGRAMMES

QJY has more than 10 years of experience. Its business model of "programme syndication" enables it to break TV stations' monopoly over commercial airtime. "Programme syndication" is the process of bartering TV drama broadcasting rights for TV stations' commercial airtime. Normally, production houses and advertising agencies work separately. Production houses produce TV drama series and sell them to TV stations. Advertising agencies buy commercial airtime from stations to place advertisements for their clients. QJY is unique because it is neither a production house nor an advertising agency. It acts as a project manager by mainly sourcing funds from advertising agencies to invest in TV programmes. It then exchanges the first round of broadcasting rights with TV stations for commercial airtime (two minutes of commercials out of nine minutes of primetime commercials per episode) that is then sold to advertising agencies at lower rates. Meanwhile, QJY will also conceptualise the themes for programmes, help advertising agencies find advertisers and provide support services to production houses. This includes casting and arranging location shoots.

Figure 2: Business Model of Programme Syndication



Source: QJY, UOB Kay Hian

In programme syndication, QJY will enter into relevant Assured Investment Agreements with production houses and investors (mainly advertising agencies). In practice, advertisers usually pay only 30% before the commencement of production and settle the remainder after a report on the broadcasting of the programme and the advertisement has been finished. According to management, the production of a quality TV drama for primetime broadcasting takes at least 1.5 years and an A-grade TV series needs three to four years. Therefore, the advances made for a project will be reimbursed after 1.5 years or even longer for quality or large-scale drama series.

In return, QJY will enjoy the following rights and revenue: a) commission fees from production houses (usually 15% of an assured investment), b) commission fees from advertising agencies (usually 15% of an assured investment), c) DVD/VCD distribution licensing rights in China (at an average of Rmb40,000 per episode for 50 years), d) overseas copyrights for both TV broadcasting and DVD/VCD distribution (first round at HK$50,000 per episode for five years), e) permanent broadcasting licensing rights in China subsequent to the first round of broadcasting (second round at HK$60,000 per episode for five years), f) revenue from selling two minutes of commercials per episode (usually at a 70% discount off rate card), g) programme production costs from production houses (usually 40% of an assured investment), and h) PR-related or sponsorship revenue.

Figure 3: Product and Service Categories

Preparation	Production	Distribution	Advertising and PR
Developing concepts	Market positioning	Marketing and VAS to advertisers	Promotional events to advertisers
Writing/editing script	Production process management	Promotional materials to TV stations	Airtime monitoring
Assembling crew	Post-production process management	Overseas distribution	PR, marketing and strategic planning
Arranging location shoots	Quality control	Preparation of marketing materials	Market research
Arranging props and costume		Advisory services to production houses and advertising agencies	Corporate image building

Source: QJY, UOB Kay Hian

Figure 4: Revenue Model for Programme Syndication

Revenue	Model	Note
Commission	15% of assured investment	From production houses
Programme production fee	35-45% of assured investment	From production houses
DVD/VCD distribution licensing rights in China	An average of Rmb40,000 per episode for 50 years	From production houses
Distribution rights outside China and Hong Kong	First round at HK$50,000 per episode for five years	From production houses
Commission	15% of assured investment	From investors
Broadcasting licensing rights subsequent to 1st round of broadcasting permanently	Second round at HK$60,000 per episode for five years	From investors
Revenue from selling two minutes of commercials	Usually 1-1.5 mins can recover assured investment	From investors
PR-related revenue	Depends on the number of projects	From advertisers

Source: QJY, UOB Kay Hian

Industry

A HIGHLY-REGULATED INDUSTRY

The media industry in China is highly regulated as it is politically sensitive. On the TV media front, deregulation has taken place in the last few years in TV programme production and advertising, such as liberalising distribution channels and allowing Sino-foreign TV programme co-production. However, TV stations are still wholly owned by the government and are not open to foreign investment. The State Administration of Radio, Film and Television (SARFT) is the regulator that oversees TV stations and is responsible for content censorship.

Deregulation in the media sector is expected to generate more opportunities, particularly in advertising and broadcasting. QJY will enjoy first-mover advantages with its sterling 10-year business track record, new advertising platform in the form of the new JV and its connections with 200 TV stations nationwide.

Figure 5: Regulatory Restrictions on Foreign Participation in TV-related Services

Production	Foreign stakes in Sino-foreign JV production houses are permitted to rise to 49% from 28 Nov 04. JVs are not allowed to produce news and political programmes.
Advertising	Foreign stakes in JV advertising agencies are permitted to rise to 70% from 2 Mar 04, and to 100% from 10 Dec 05.
Broadcast	Broadcasting of imported TV programmes must not exceed 15% of total airtime available. Imported TV drama series are not allowed to be broadcast during primetime slots unless approved by SARFT. Broadcasting of imported TV drama series must not exceed 25% of total drama airtime available.
Channel operation	TV stations are wholly owned by the government. Only a few foreign TV stations (eg. Phoenix and Sky) have been granted landing rights for trial operations in Guangdong.

Source: UOB Kay Hian

Figure 6: Regulatory Restrictions on TV Advertising Time Slots

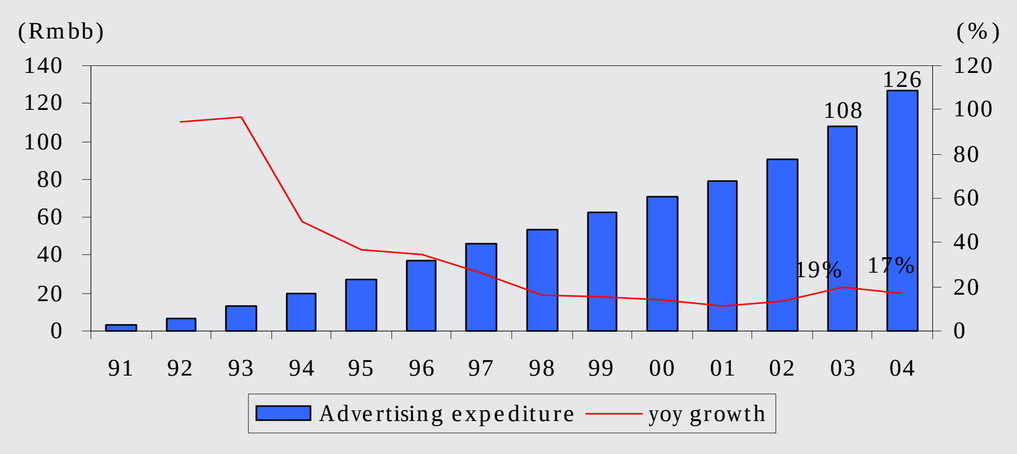
Advertising time must not exceed 20% of total available airtime.
Advertising time must not exceed 15% of total available airtime from 7pm to 9pm.

Source: UOB Kay Hian

FAST-GROWING TV ADVERTISING MARKET

The Chinese advertising industry has witnessed tremendous growth in the last decade, with advertising expenditure increasing from Rmb3.5b in 1991 to Rmb126b in 2004. This represents a CAGR of 32% from 1991 to 2004, based on statistics from the State Administration of Industry and Commerce (SAIC). In 2004, advertising expenditure accounted for 0.93% of GDP. With the robust growth of China's economy and the Beijing Olympic Games in 2008, we expect advertising expenditure to continue growing at a double-digit level over the next three years.

Figure 7: Advertising Industry in China

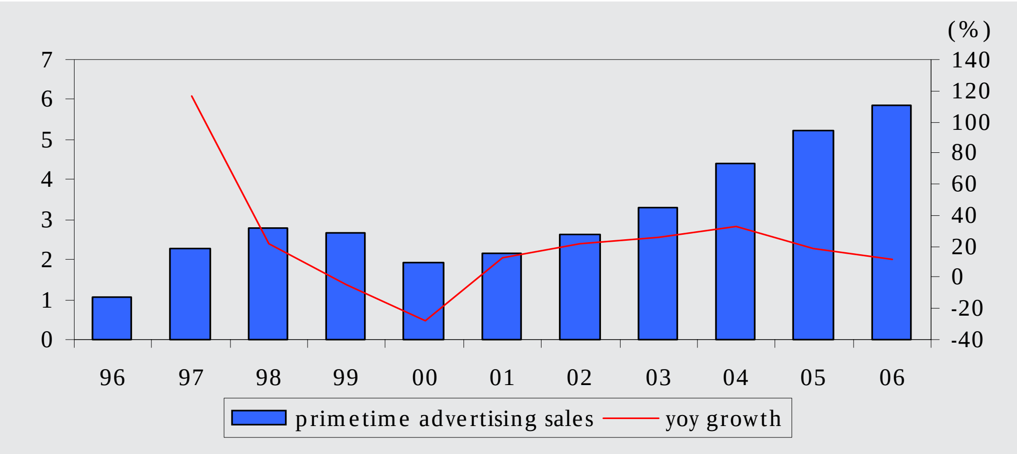


Source: SAIC, UOB Kay Hian

Within the advertising sector, TV continues to stand out as the most powerful and influential medium. Meanwhile, new media such as outdoor media and the Internet witnessed the fastest growth (over 20%) in 2004. Print media, including newspapers and magazines, saw a slowdown in advertising expenditure.

According to SARFT, total TV advertising revenue amounted to Rmb30.9b in 2004, up 21.7% yoy, and took the largest share of total advertisement spending (24%). Of the Rmb30.9b TV advertising turnover, China Central Television (CCTV) contributed Rmb8b, accounting for 26%.

Figure 8: CCTV's Sales of Primetime Advertising Space

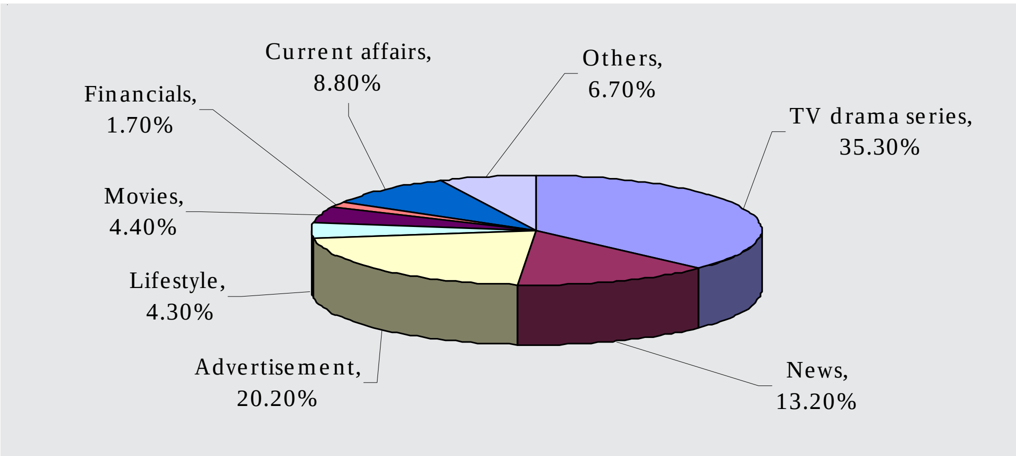


Source: CCTV, UOB Kay Hian

We believe the current core advertising model through the TV medium is unlikely to change significantly in the next few years as TV has the largest audience (TV penetration rate of over 95% in 2004). This is also evidenced by the rising rates on TV advertising rate cards. Average rates on the advertising rate cards of CCTV and provincial TV stations have increased 38% and 19% in 2004 respectively. We expect TV advertising turnover growth to remain at a double-digit level for the next three years.

Drama series are the most popular type of TV programmes in China, accounting for 35% of primetime broadcasting in 2003. In practice, advertising revenue generated from drama series accounted for over 50% of the total TV advertising revenue of any provincial or city TV channel. As a result, TV stations place great emphasis on procuring quality drama series to increase their viewership ratings, thus increasing advertising revenue. In fact, TV stations now base programme procurement budgets on potential viewership ratings. However, the overall TV drama production market is seeing overcapacity, with over 12,000 episodes in production but only around 5,000 episodes being broadcast during primetime. Suitable concepts or themes, high production quality and connections with TV stations are key to a successful drama series.

Figure 9: Popularity Ratings of TV Programmes

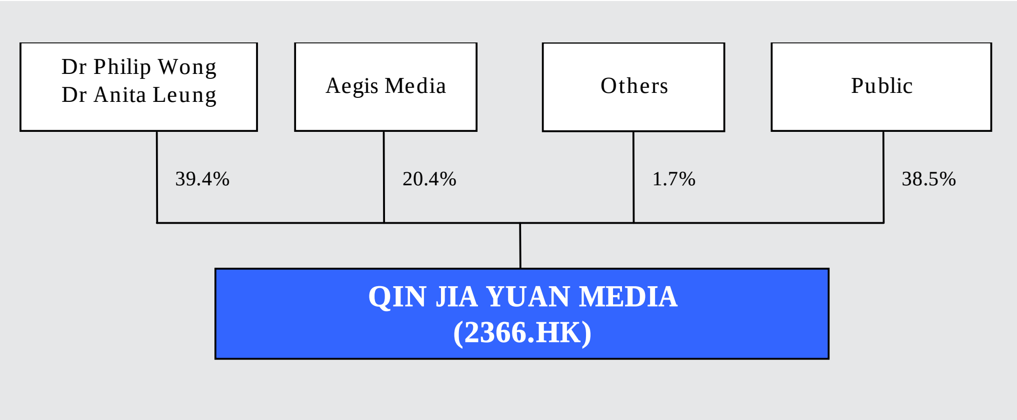


Source: UOB Kay Hian

Company Background

QJY is the only listed company in Hong Kong that provides one-stop services for TV drama production, distribution, advertising and public relations in China. The company was founded in 1995 by Mr Philip Wong and Dr Anita Leung and was listed in Jun 04 with an IPO price of HK$1.28. The company used the IPO proceeds to further expand its network of over 200 TV stations in China, procure more scripts and speed up production of TV drama series in the form of reimbursement receivables. QJY completed a share placement at HK$1.83 in Aug 05. With this fund-raising activity, the company built a new platform by setting up a JV advertising company to directly own and sell commercial airtime for primetime TV.

Figure 10: Shareholding Structure



Source: QJY

MANAGEMENT

Dr Philip Wong (Chairman) is responsible for overall strategic planning and, in particular, oversees the impact of regulatory developments. He is a member of the National People's Congress of China, a Hong Kong Legislative Council member and Chairman of Board of Directors of Winco Papers Products.

Dr Anita Leung (CEO) is responsible for corporate planning, business development strategy and the overall direction of the company. She also produces concepts and ideas for TV programmes. She has over 38 years' experience in TV programme production, public relations, marketing and advertising. Dr Leung is also a famous novelist in China and Hong Kong, with more than 100 novels and books published. Embroidered Banner, a TV programme adapted from her novel, is the first TV drama series produced by CCTV. She is a member of the Chinese Political Consultative Committee. Dr Leung is the wife of Dr Philip Wong.

Mr Tsiang Hoi Fong is the TV programme production / distribution controller who oversees coordination and negotiations with TV stations. Mr Tsiang graduated from Xiamen University and has over 20 years of experience in TV programme marketing and distribution.

Ms Angelina Yuen (CFO) is responsible for the finances and administrative functions of the Group. She spent over 10 years with one of the big four CPA firms and is experienced in auditing, taxation and IPOs.

Financials & Earnings Outlook

QJY is likely to deliver a 22.2% net profit growth in FY06 and 33.2% and 14.8% net profit growth in FY07 and FY08 respectively, mainly driven by contributions from new advertising platforms, an increase in the number of TV drama hours and further expansion of its TV station network.

Factors that influence the financial performance of the programme syndication business include TV programmes in the pipeline, assured investment, time needed to obtain broadcasting permits, the number of TV stations that air a programme, distribution licensing rights obtained and the number of PR-related projects granted. QJY has 10 drama series in the pipeline, with 180 hours to be completed in FY06 and 228 hours in FY07, and a total estimated assured investment of no less than HK$352m. Revenue from this segment will remain strong for the next two years on the back of increasing TV drama hours. Revenue growth is likely to hold steady at 20% in the next two years.

The new platform will commence operation in Jan 06, and the key growth driver is the number of agreements with TV stations that QJY can secure. The company has signed long-term contracts with five TV stations, and management expects to sign another five and 10 stations in Apr 06 and Jul 06 respectively. We expect revenue to reach HK$22m and HK$44m in FY06 and FY07 respectively, and net profit is estimated at HK$6m and HK$26m in FY06 and FY07 respectively.

Figure 11: Revenue Breakdown

	2001	2002	2003	2004	2005
Hours of drama series	**53**	**65**	**57**	**79**	**120**
Assured investment (HK$m)	**27.9**	**28.8**	**22.5**	**26.3**	**55**
Turnover (HK$'000)	**18,388**	**37,156**	**56,207**	**85,463**	**106,300**
yoy (%)		102	51	52	24
TV Programme-related income	**5,010**	**8,795**	**30,491**	**33,898**	**56,000**
% of turnover	27.2	23.7	54.2	39.7	52.7
yoy % chg		75.5	246.7	11.2	65.2
Marketing related income	**10,528**	**19,062**	**13,961**	**14,817**	**16,532**
% of turnover	57.3	51.3	24.8	17.3	15.6
yoy % chg		81.1	-26.8	6.1	11.6
PR-related income	**2,850**	**9,299**	**11,755**	**36,748**	**33,768**
% of turnover	15.5	25.0	20.9	43.0	31.8
yoy % chg		226.3	26.4	212.6	-8.1

Source: QJY, UOB Kay Hian

Administrative expenses are likely to rise as the company recruits more staff for its expanding business, while the new platform incurs expenses during the initial stage after its launch.

Gross margins should decline as the new advertising platform has lower margins of around 50% compared with over 80% margin for syndicated programmes.

CASH POSITION AND BALANCE SHEET

QJY had HK$96m net cash as at end-Sep 05, increasing from HK$82m in the same period last year. The increase was mainly due to a placement of HK$128m in August and September which offset the HK$97m increase in reimbursement receivables. As reimbursement receivables are advances paid on behalf of investors for programme production, we do not expect reimbursement receivables to fall in the next two years. This is because QJY has 10 projects in the pipeline with an assured investment of around HK$352m, with each project taking at least 1.5 years to be completed. However, we believe the company can maintain its net cash position.

Debtors' receivable days further increased from 155 days in FY04 to 159 days in FY05. This was mainly due to a one-time yoy increase in account receivables as the number of hours of TV programmes broadcast increased from 79 hours in FY04 to 120 hours in FY05. We expect debtors' receivable days to remain at the current level in FY06 but to decline going forward with more revenue contribution from new advertising platforms. The collection cycle of the new platform will be shortened to 3-4 months.

Risk Factors

REGULATORY RISKS

The Chinese government imposed various restrictions on foreign participation in TV programme production, distribution and advertising services. However, interpretation of those laws and regulations may change and new regulations may be introduced. As a foreign entity, QJY may face regulatory risks.

LONG COLLECTION CYCLE

Due to the nature of the syndicated programme business, QJY has a long collection cycle. It has to pay advances on behalf of investors for the initial funding of programme production, and advances will not be reimbursed until at least 1.5 years after the start of a project. Meanwhile, commission income would be received in full within six months to one year after the broadcasting schedule has been confirmed. The long collection cycle is a drag on the company's working capital. Marketing services income is paid to the company in full around two years from the confirmation of broadcasting schedules. The company selects its clients carefully and has never had any bad debt.

REVENUE MAY BE VOLATILE DUE TO PROJECT-BASED REVENUE RECOGNITION

The company's financial performance relies on the successful completion of programme production and distribution. Usually, it takes more than a year to move from commencement of production to obtaining a broadcasting permit. Therefore, earnings may be volatile.

RELIANCE ON KEY PERSONNEL

The company has adopted an asset-light management strategy. It has only 25 full-time employees as at end-Sep 05. Dr Leung seems to be the key driving force behind the company.

Figure 12: Profit & Loss

Year to 30 Sep (HK$'000)	2004	2005	2006F	2007F	2008F
Turnover	**85,463**	**106,300**	**154,885**	**205,798**	**240,966**
Cost of sales	(16,463)	(18,327)	(37,867)	(48,680)	(60,853)
Gross Profit	**69,000**	**87,973**	**117,018**	**157,118**	**180,113**
Other revenues	351	2,298	2,299	1,883	2,027
Operating Expenses	**(14,761)**	**(18,602)**	**(28,787)**	**(36,374)**	**(39,922)**
Admin expenses	(14,731)	(22,069)	(28,787)	(36,374)	(39,922)
Other operating income, net	(30)	3,467	0	0	0
Operating Profit	**54,590**	**71,669**	**90,529**	**122,626**	**142,218**
Finance costs	(2,623)	(3,192)	(4,229)	(4,229)	(4,229)
Profit of associates & jointly-controlled entities	0	0	0	0	0
One-off gains	0	0	0	0	0
Profit before tax	**51,967**	**68,477**	**86,301**	**118,397**	**137,989**
Tax	(1,606)	(2,230)	(3,452)	(4,736)	(5,520)
Profit after tax	**50,361**	**66,247**	**82,849**	**113,661**	**132,469**
Minority interests, net of tax	0	0	(1,890)	(5,797)	(8,637)
Net profit	**50,361**	**66,247**	**80,958**	**107,864**	**123,832**

Source: QJY, UOB Kay Hian

Figure 13: Balance Sheet

Year to 30 Sep (HK$'000)	2004	2005	2006F	2007F	2008F
Fixed assets	27,081	22,562	26,485	30,082	33,178
Licence rights	9,630	19,030	23,788	29,734	37,168
Goodwill	0	0	0	0	0
Investments	0	0	0	0	0
Reimbursements receivables	0	41,058	61,587	80,063	100,079
Other non-current assets	24,483	29,467	34,336	38,353	42,544
Total non-current assets	**61,194**	**112,117**	**146,196**	**178,232**	**212,969**
Inventories	0	16,200	17,820	19,602	21,562
Trade and bills receivable	17,902	51,401	63,328	83,670	82,513
Reimbursements receivables	58,141	114,195	179,055	232,772	290,965
Cash and cash equivalents	85,282	117,064	85,398	80,362	98,149
Other current assets	39,963	54,602	55,926	56,908	59,741
Total current assets	**201,288**	**353,462**	**401,528**	**473,314**	**552,931**
Total assets	**262,482**	**465,579**	**547,723**	**651,547**	**765,901**
LT bank loans	6,488	6,275	6,275	6,275	6,275
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	**6,488**	**6,275**	**6,275**	**6,275**	**6,275**
ST bank loans	24,752	55,028	55,028	55,028	55,028
Trade and bills payable	14,708	17,863	23,164	27,701	29,191
Other current liabilities	5,430	6,712	8,697	11,419	14,592
Total current liabilities	**44,890**	**79,603**	**86,889**	**94,148**	**98,811**
Minority interest	0	0	1,890	7,687	16,324
Shareholders' funds	**211,104**	**379,701**	**452,669**	**543,437**	**644,490**
Total liability and shareholders' funds	**262,482**	**465,579**	**547,723**	**651,547**	**765,901**

Source: QJY, UOB Kay Hian

Figure 14: Cash Flow

Year to 30 Sep (HK$'000)	2004	2005	2006F	2007F	2008F
PBT	51,967	68,477	86,301	118,397	137,989
Depreciation	2,316	5,051	6,077	6,903	7,613
Changes in working capital	(21,844)	(145,809)	(99,829)	(94,779)	(84,546)
Income tax paid	(1,491)	(948)	(1,467)	(2,013)	(2,346)
Other operating	2,641	2,528	0	0	0
Cash Flow from Operating Activities	**33,589**	**(70,701)**	**(8,918)**	**28,508**	**58,710**
CAPEX	(7,701)	(4,052)	(10,000)	(10,500)	(10,710)
Additions to licence rights	(9,630)	(9,400)	(4,758)	(5,947)	(7,434)
Other investments	(3,000)	(890)	0	0	0
Cash Flow from Investing Activities	**(20,331)**	**(14,342)**	**(14,758)**	**(16,447)**	**(18,144)**
Net proceeds from bank loans	(10,430)	30,063	0	0	0
Net proceeds from new issue	97,273	120,054	0	0	0
Dividend paid	0	(17,600)	(7,990)	(17,097)	(22,779)
Other	(25,453)	(15,692)	0	0	0
Cash Flow from Financing Activities	**61,390**	**116,825**	**(7,990)**	**(17,097)**	**(22,779)**
Increase/(decrease) in cash	74,648	31,782	(31,666)	(5,036)	17,787
Beginning cash	10,634	85,282	117,064	85,398	80,362
Ending cash	**85,282**	**117,064**	**85,398**	**80,362**	**98,149**

Source: QJY, UOB Kay Hian

Figure 15: Ratios

Year to 30 Sep (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	52.1	24.4	45.7	32.9	17.1
Gross profit	37.2	27.5	33.0	34.3	14.6
EBIT	32.9	27.9	27.2	36.9	16.1
EBITDA	32.9	31.6	26.7	35.4	15.8
Pre-tax profit	34.5	31.8	26.0	37.2	16.5
Net Profit	39.7	31.5	22.2	33.2	14.8
EPS	28.8	4.6	6.5	33.2	14.8
Profitability					
Gross margin	80.7	82.8	75.6	76.3	74.7
EBITDA margin	66.2	70.0	60.9	62.0	61.3
EBIT margin	63.5	65.3	57.0	58.7	58.2
Pre-tax margin	60.8	64.4	55.7	57.5	57.3
Net margin	58.9	62.3	52.3	52.4	51.4
ROA	25.9	18.2	16.0	18.0	17.5
ROE	36.7	22.4	19.5	21.7	20.8
Leverage					
Total debt/Total assets	11.9	13.2	11.2	9.4	8.0
Total debt/Equity	14.8	16.1	13.5	11.3	9.5
Net cash(debt)/Equity	38.8	25.3	14.2	10.9	12.0
Long-term debt/Equity	3.1	1.7	1.4	1.2	1.0
Interest Cover (x)	20.7	21.7	20.9	28.6	33.2

Source: QJY, UOB Kay Hian

Appendix: Project Pipeline

Name*	Number of Episodes	Status
Lang Tao Sha	20	Finished production, estimated distribution period: Mar 06
Da Dun Huang	40	Post-production period, estimated distribution period: Aug 06
Wang Yie Dao	32	Post-production period, estimated distribution period: Mar 06
Yu Qing Sao	20	Production commencement period: Sep 05, estimated distribution period: Oct 06
Lei Ting Tian Jiang	40	Estimated production commencement period: Mar 06, estimated distribution period: Dec 06
Sa Jin Jian	40	Estimated production commencement period: May 06, estimated distribution period: Mar 07
Tian Xia	40	Estimated production commencement period: Oct 06, estimated distribution period: Jun 07
Da Huo Pin	30	Estimated production commencement period: Aug 06, estimated distribution period: Jul 07
Hua Kui Jie	40	Estimated production commencement period: Dec 06, estimated distribution period: Oct 07
Xun Meng	30	Estimated production commencement period: Dec 06, estimated distribution period: Dec 07

** Names are in Chinese Pinyin.*
Source: QJY, UOB Kay Hian

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