

Main Board Listing - Research

萬華媒體集團有限公司

One Media Group Limited [Stock Code: 0426]

Joint Sponsors, Joint Bookrunners and Joint Lead Managers : ICEA Capital Limited
CIMB-GK Securities (HK) Limited
Senior Co-Lead Manager : Daiwa Securities SMBC Hong Kong Limited

Sector : Media

Business : Publication, marketing and distribution of Chinese-language lifestyle magazines

<p>Total share offer: <u>100,000,000</u> shares (25% of the enlarged share capital)</p> <p>Public Offer: 10,000,000 shares (10%)</p> <p>Placing: 90,000,000 shares (90%)</p> <p>Greenshoe: 15,000,000 shares (15%)</p>	<p><u>Business of One Media Group ("The Group")</u></p>
<p>Price: HK\$1.00 – HK\$1.25 per share</p> <p>Market Cap.: HK\$400 million – HK\$500 million</p> <p>Pro Forma FY2005E P/E: 17.9x – 22.3x</p> <p>Adjusted NTA per share: HK\$0.26 – HK\$0.33</p> <p>Staffing: 253</p>	<p>The Group focuses on the Chinese-language lifestyle magazine market in Hong Kong and the PRC. It is principally engaged in the publication, marketing and distribution, through third-party distributors, of lifestyle magazines and the sale of advertising space in those magazines.</p>
<p>HK Public Offer period: 30th September 2005 – 5th October 2005</p> <p>Receiving bank: HSBC</p> <p>Share registrar: Tricor Investor Services Limited</p> <p>Listing date: 18th October 2005</p>	<p>In Hong Kong, the Group publishes and sells advertising space in 3 magazines – <i>Ming Pao Weekly</i>, <i>Hi-TECH Weekly</i> and <i>City Children's Weekly</i>. In PRC, the Group holds the exclusive licensing and advertising rights for the Chinese-language edition of magazines that incorporate the contents from 4 internationally-renowned magazines – <i>Popular Science</i>, <i>Digital Camera</i>, <i>T3</i> and <i>Top Gear</i>.</p> <p>The Group is headquartered in Hong Kong with offices in the PRC. Its main source of income derives from the sale of advertising space in its magazine portfolio and, to a lesser extent, the sponsorship of marketing events and the sale of its publishing magazines from subscription, news-stands and other retail outlets.</p>

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Winmax Resources (BVI), 60% owned by Hong-Kong listed Ming Pao Enterprise Corporation Limited (stock code: 0685) and 40% owned by Redgate Media Inc*	73.875%
Venture Logic Investment Limited (BVI), wholly owned by Mr. Lam Pak Cheong, Chief Financial Officer, and his associates	0.750%
Alpha Media Consultants Limited (BVI)	0.375%
	<u>75.000%</u>

* Mr. Peter Bush BRACK, Chief Executive Officer, and his associates (17.28%), Mr. Robert William Hong-San YUNG, Chief Strategic Officer (9.95%), Ms. ZHU Ying (9.95%), Mr. LAU Yat Fan, Chief Executive Officer of the Group's subsidiary Media2U (BVI) (4.22%) and other independent third parties (58.6%).

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$85.0 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.00 each, being the lowest end of the indicative price range)

	HK\$ million
Funding future potential acquisitions and strategic alliances in the magazine business in the PRC	40.0
Sales and marketing activities of new magazines of the Group	20.0
Circulation-related activities of new magazines of the Group	10.0
Repaying a short-term bank loan	10.0
General working capital	5.0

Financial Highlights

	Year ended 31 st March		
	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000
Turnover	154,529	151,564	177,115
Gross profit	73,323	72,171	88,725
Operating profit	23,704	26,514	28,492
Net profit	19,665	21,223	22,386

Strengths/Opportunities

- ✓ The Group is one of the few media groups in Hong Kong with a diverse Chinese-language lifestyle magazine portfolio. As its publishing magazines are relatively apolitical in nature and focus on lifestyle contents, the Group can achieve cross-selling and cross-border advertising opportunities through its magazines in Hong Kong and the PRC. For example, *Hi-TECH Weekly* in Hong Kong and *T3* in the PRC are both magazines which focus on the technology sector with similar readers' demographics. An advertiser in one magazine might also want to advertise in the other.
- ✓ The Group operates under a licensing model and plans to leverage on it to expand its magazine portfolio. It is currently in talks with its PRC partners to launch the *MPW New Chinese Edition* in the second half of FY2006. Moreover, it has secured the exclusive license of the Chinese-language edition of another internationally-renowned magazine, *Rolling Space*, which is also scheduled for launch in the 2H FY2006.

Weaknesses/Threats

- × The Group already faces potential competition from various local magazine publishers in Hong Kong. Furthermore, an increase in the variety and availability of other forms of advertising media, such as Internet and outdoor media, might further increase competition for the Group's business.
- × The Group has a limited operating history in the PRC to be used as the basis for evaluating its business. The Group acquired the Media2U Group in April 2004, and until January 2004, the Media2U Group only represented one internationally-renowned magazine. Thus, the Group's business in the PRC entails the risks and difficulties frequently encountered by companies like those of the Group in new and rapidly evolving markets, such as the PRC.
- × Valuation of the counter at 17.9x to 22.3x FY2005E P/E is not particularly attractive, compared with a forward P/E of 20.3x for Next Media (stock code: 0282) and 17.5x for SEEC Media (stock code: 0205).

Recommendation: Caveat Emptor