

**BEA securities**

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Main Board H-share Listing - Research

北青傳媒股份有限公司

Beijing Media Corporation Limited [Stock Code: 1000]

Global Coordinator and Bookrunner : HSBC
Joint Sponsors and Joint Lead Managers : HSBC
 CITIC Capital Markets Limited
 Oriental Patron Asia Limited

Sector : Media**Business** : The sale of advertising space, production of newspapers and trading of print-related materials

Total share offer: <u>47,740,000</u> H shares (25% of the enlarged share capital) Public Offer: 4,774,000 H shares (10%) Placing: 42,966,000 H shares (90%) Greenshoe: 7,161,000 H shares	<u>Business of BMCL</u> BMCL is a PRC media company principally engaged in the sale of advertising space, production of newspapers and trading of print-related materials, and it has recently expanded into event organising. Its principal advertising medium is the Beijing Youth Daily, the 2 nd -ranked newspaper in Beijing based on circulation in 2002. BMCL ranked 1 st in Beijing and among the top 3 in the PRC in the 1 st half of 2004 in terms of advertising revenue generated from a newspaper. Its controlling shareholder is Beijing Youth Daily Newspaper Agency ("BYD"), which is owned and operated by the Beijing Municipal Government. The Beijing Municipal Government has undertaken to give it preferential consideration in its plans to expand and engage in other regulated media industry sectors. BMCL does not own the editorial function of the BYD Papers, an area of business that is currently restricted from foreign ownership under PRC laws. BYD has, however, granted BMCL an option under the Advertising Business Agreement to acquire from it any or all of its editorial and publication rights in relation to BYD Papers once such rights are permitted under PRC laws.
Price: HK\$14.95 – HK\$18.95 per H share Market Cap.: HK\$714 million – HK\$905 million Forecast FY2004 P/E: 15.6x – 19.8x (pro forma) Adjusted NTA per share: HK\$5.17 – HK\$6.00 Staffing: 141	
HK Public Offer period: 13 th December 2004 - 16 th December 2004 Receiving bank: Bank of China (Hong Kong) Limited Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 22 nd December 2004	

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

Beijing Youth Daily Newspaper Agency	65.8%
Beijing Zhijin Science And Technology Investment Co., Ltd.	3.9%
China Telecommunication Broadcast Satellite Corp.	2.2%
Beijing Development Area Ltd.	1.6%
Sino Television Co., Ltd.	1.5%
	<u>75.0%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$677 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$16.95 each, which is the mid-point of the indicative price range)

	HK\$ million
Developing a weekend newspaper	100
Developing a number of weekly topic-focused magazines that focus on the management of personal financial affairs, lifestyle and cultural information	80
Investing in the television industry in Beijing	250
Acquisition of other media businesses	200
General working capital	47

Financial Highlights

Note: According to the prospectus, the financial information set out below does not reflect the reorganisation of the Company on 26th July 2004 and was prepared on the basis existing before the reorganisation.

	Period from 28 th May 2001 (date of incorporation) to 31 st December 2001 RMB million	Year ended 31 st December		6 months ended 30 th June 2004 RMB million
		2002 RMB million	2003 RMB million	
Revenue	403	915	1,070	514
Operating profit	37	212	238	102
Net profit	23	139	153	66
EPS – Basic	RMB0.15	RMB0.94	RMB1.04	RMB0.45

Breakdown of Revenue by Business Segments

	Period from 28 th May 2001 to 31 st December 2001		Year ended 31 st December				6 months ended 30 th June 2004	
	RMB million	%	2002 RMB million	%	2003 RMB million	%	RMB million	%
Advertising	335	83	653	71	787	74	370	72
Printing	0	0	24	3	5	0	7	1
Distribution	60	15	99	11	104	10	52	10
Trading of print-related materials	5	1	136	15	161	15	67	13
Others	3	1	3	0	13	1	18	4
Revenue	403	100	915	100	1,070	100	514	100

Strengths/Opportunities

- ✓ The PRC's advertising sector currently represents 0.92% GDP, a level which is one of the lowest globally. This compares with 2.42% in Hong Kong, 1.37% in the US and 0.88% in Japan. As a result, there is a significant scope for continual expansion for the PRC advertising market. Newspaper advertising turnover, in particular, experienced a growth of 29% in 2003.
- ✓ BMCLs' principal advertising medium, the Beijing Youth Daily, ranked 2nd in Beijing based on newspaper circulation level in 2002. The demographic readership profile of the Beijing Youth Daily consists of relatively high affluent individuals. Such readership profile is attractive to advertisers including real estate developers and automobile manufacturers, which together represented 20% of advertising spending in the PRC in 2003.
- ✓ The Beijing Municipal Government has granted BMCL a 5-year enterprise income tax break starting from 1st January 2004. Accordingly, BMCL's net profit in 2004 is expected to jump 27% to 194 million yuan from 153 million yuan a year earlier.
- ✓ The policy that approximately 40% of the Company's earnings will be distributed through dividends is attractive to shareholders.

**Weaknesses/Threats**

- × BMCL does not own the editorial functions of the Beijing Youth Daily. Its controlling shareholder, BYD, has transferred its advertising and logistics operations into BMCL, while keeping the editorial content and newspaper distribution business under its direct control. Such arrangement would hinder the Company's development over its core revenue-generating business.
- × The Company plans to spend 250 million yuan on the television industry in Beijing. However, of the 12 TV channels in Beijing, only a few are profitable and the operation of a cable channel would tie up a significant amount of BMCL's annual cash flow during the start-up period. The Company's future results would increasingly depend on the success of this new business venture.
- × Gross margin of the Company is expected to fall as its parent's share of BMCL's annual advertising revenue increased to 16.6% from 15% with effective from 1st October 2004.
- × The valuation of BMCL at 15.6x-19.8x FY2004E P/E is not cheap, compared with 22.7x FY2004E P/E for SCMP Group (*stock code*: 0583), 15.6x FY2004E P/E for Oriental Press (*stock code*: 0018) and 13.5x FY2004E P/E for Ming Pao Enterprise (*stock code*: 0685).

Recommendation: Trading Buy