China Oriental Culture Group

One-stop media solution provider

to summarize…

- Spent almost 4 years on business restructuring to complete repositioning
- Strong background to capture growth in media & entertainment opportunities
- Major contribution from digital TV business in Hunan in 2012
- Advertising outdoor billboards in core area such as Xindan and Wangfujing
- Entering into highway billboard, press and entertainment businesses
- Unique one-stop media solution business model at 0.7x P/B 1H FY12/11A

Spent 4 years on business restructuring to complete repositioning. China Oriental Culture (COC) was formerly ZZNode Holdings listed in Nov 2004 in Hong Kong. ZZNode engaged in development and provision of in-house developed telecommunications operational support system (OSS) to telecom network servicers in China. In 2008, Christian Emil Toggenburger completed acquisition of controlling stake of the listco through general offer (GO) at a discount to share price at that time. Afterwards, there were a series of placements and issues in relation to acquisitions of media and entertainment business. Table 1 shows shareholding structure of COC. Scenario 1 & 2 reflect shareholding of COC when acquisition consideration of TV business is set at HK$218m and HK$876m respectively.

Table 1. China Oriental Culture shareholders

	Scenario 1	Scenario 2
Ho Wai Kong	21.7%	12.0%
Directors	8.7%	4.8%
Vendors of Hunan TV project	18.0%	44.7%
Other CB holders	6.4%	3.6%
Others and public	45.2%	34.9%
Total	100%	100%

Source: SBI E2-Capital

Strong background to capture growth in media & entertainment beyond 2011. Table 2 shows the wide range of business segments of the company by end of 2011. Between 2008 and 2011, the company gradually acquired various media and entertainment business through acquiring assets as well as obtaining related contracts. Vendors of the transactions and partners of businesses include GEHUA (北京歌华文化集团), CRTV (中国广播电视国际经济技术合作总公司) and Hunan Mobile TV, which show strong background of and support for the company.

Table 2. Media and entertainment business of COC

Industry	Business focus	Business area	COC role
Media	Outdoor billboard	Beijing, Shanghai	Billboard owner
	Highway billboard	Hebei	Billboard owner
	Press	National	Content builder
	Digital TV	Hunan	Network operator
Entertainment	TV shows and agency	National	Invest + production

Source: SBI E2-Capital

Ticker	**2371 HK**
Rating	**Not Rated**
Price (HK$)	0.305
Target Price (HK$)	n.a
12m Price Range (HK$)	0.28-0.96
Market cap. (US$m)	75.8
Daily t/o (US$m)	0.7
Free float (%)	31.7

Financial summary

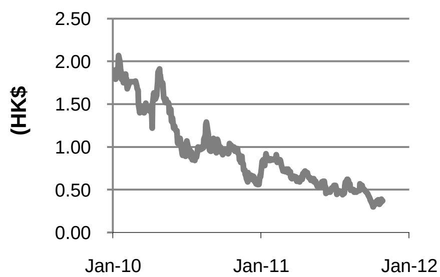
Year to Dec	**08A**	**09A**	**10A**
Turnover (HK$m)	24	13	15
Net Profit (HK$m)	(33)	(9)	(105)
EPS (HK$)	(0)	(0)	(0)
P/E (x)	-	-	-
P/B (x) pre-CB	-	-	-
EV/EBITDA (x)	-	-	-
Yield (%)	-	-	-
ROE (%)	0.0	(2.2)	(5.1)
ROCE (%)	0.0	(2.2)	(5.1)
N. Gear. (%)	Net Cash	Net Cash	5%

Source: SBI E2-Capital

	11F	**12F**	**13F**
Consensus EPS (HK$)	-	-	-
Previous earnings (HK$m)	-	-	-
Previous EPS (HK$)	-	-	-

Price performance

Year to Dec	**1m**	**3m**	**12m**
Relative to HSI (%)	(37.3)	(1.8)	(33)
Actual price changes (%)	(35.7)	2.9	(46.3)



Source: Bloomberg

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Details of transactions towards a media and entertainment company. COC received a GO and disposed original OSS business between late 2007 to early 2008. Almost immediately after the change, the listco issue shares and derivate securities to acquire media business and entertainment business between 2008 and 2011. While most of them were completed by the end of 2011, there are several transactions in the process, which are expected to contribute in 2012 and to fully reflect the potential gradually. The following is a brief description of the transactions involved. Overall speaking, the company acquired businesses with combined package of equity interests (either common shares or convertible securities) as well as small cash portion.

- **GO and Disposal of OSS business**
  - In Oct 2007, the vendor entered into an S&P agreement to sell entire 50.28% stake in the listco to a third party at HK$140.5m by cash (HK$0.7075 per share), which represented a 33.9% discount to preceding closing price. As such, the purchaser triggered GO and received additional 0.005% valid acceptance from shareholders. Immediately upon completion, the new controlling shareholder Christian Emil Toggenburger owned 49.04% stake in the listco on fully diluted basis taking options into account, which was 198.6m shares out of 405m total shares by then.
  - At the same time, the OSS business was sold as very substantial disposal (VSD) to the former controlling shareholder at HK$110m, which was 1.08x P/B based on net asset of HK$101.7m by the end of 2006. Upon completion of the transactions, OSS business was effectively privatized by the former controlling shareholder while its entire stake in the listco was sold.

- **Expansion of media business**
  - Shortly after GO in Feb 2008, the listco entered into framework agreement (VSA) with a substantial shareholder on proposed acquisition of 50% of a target asset in media industry on outdoor advertising LED displays. The consideration was preliminary set at HK$2,904m, which was in 2009 revised to HK$780m with HK$24m cash and HK$719m 5-year convertible notes with conversion price at HK$0.519 per share, which could be converted into 1,457m shares, representing 65.8% discount for 78.25% enlarged share capital at that time. This transaction was completed in Jan 2010.
  - In Aug 2010, the company obtained 10-year operating rights of billboards from CRTV (中国广播电视国际经济技术合作总公司), which are located in 15 existing and 5 under-construction highways in Hebei. It was a master agreement that the company has to pay a fixed annual fee per billboard and a non-refundable guarantee deposit of RMB3m. It is a form of contract acquisition instead of asset acquisition.
  - In Nov 2011, COC obtained exclusive operating right of the advertising media《新乘坐》. It is a weekly direct mail magazine distributed free of charge in the subway in Beijing, the sole direct mail magazine approved by 北京市地铁运营有限公司. Current circulation of the magazine is over 50,000 copies per issue. The fee structure with respect to the arrangement is yet to be disclosed.
  - In Nov 2011, COC entered into agreement to acquire 49% economic interest in Hunan Mobile TV as well as 95% interest of Beijing Jiahua at HK$218m, including HK$30m cash and 400m new shares at HK$0.47 per share (major acquisition). Profit guarantee of the target asset was RMB230m. Note that, however, the consideration is subject to up to HK$658m upward revision. The extra consideration is to be settled by additional 100m new shares at HK$0.47 and HK$611m CB convertible to 1,300m new shares at HK$0.47 per share.

- **Acquisition of entertainment / consultancy business**
  - In Feb 2010, through a discloseable transaction, the listco planned to issue 100m new shares at HK$1.00 plus HK$10m cash to acquire its entertainment / consultancy business Kery Media at ~0.2x FY12/09A P/B. Note that the corresponding share price was revised in March to HK$0.70 and profit guarantee of HK$24m for 3 years between 2011 and 2013 was provided. Kery Media has management agreements with each of the media enterprises in China for which Kery provides exclusive consultancy services and business operation services for a fixed period of 10 years with an option to renew.

Fund raising activities. In addition to equity issuance as part of the terms in acquisitions, COC utilized the capital market to raise capital for business re-positioning and fuel growth beyond 2011. Table 3 shows successful fund raising, including two new shares issuance, and one CB placement, since its listing in 2004.

Table 3. Fund raising activities; excluding issuance in connection with acquisitions

Completion date	Format of fund raising	Fund raised upon completion & conversion	Placing agent
Nov 2009	35m new shares at HK$1.40 per share	HK$49m	CASH
Dec 2009	20m new shares at HK$2.00 per share	HK$40m	CASH
Jun 2011	2-year 8%-yield CB with conversion at HK$0.49	RMB25m	--

Source: SBI E2-Capital, HKEx

Unique new media business resources to capture strong domestic market growth. As COC approaches to complete re-positioning as a media and entertainment platform near the end of 2011, the management expects to see solid growth starting from 2012-2013. The business model and current status of each of the business segment is discussed in the following.

Media business – targets growth in near-to-medium term

Ia) Outdoor billboard

Core arm in advertising segment, LED advertisement business. COC engages in LED display business since completion of RTO in 2010 for total consideration of HK$804m. COC owns advertising light boxes and LED billboard throughout major cities in China. The advertisement business acquires via a 5years operation cooperation agreement with Xinhua Media (directly under control by Xinhua News Agency 新華社), granted a right to operate mega advertising billboards nationally. COC will pay a fixed rental fee per annum to Xinhua Media for the use of the content from Xinhua Media. For the LED panels in Olympic Axis, COC pay a fixed rental fee to GUHAU while the contents broadcasted will be come from Xinhua Media. The key assets are 28 mega advertising light boxes in Beijing core regions, 26 LED panels at Olympic Axis and 4 mega billboards located at the front of Shanghai station. Of the 28 displays in Beijing, 50% is located at Xindan and 50% at Wangfujing.

Illustration 1. Billboards in Xindan and Wangfujing

Source: SBI E2-Capital

Outdoor billboards locate at central district in major cities in China. The billboards and LED panels are located at Xidan Street and Wangfujing Street (the busiest street in Beijing) and Olympic Axis. Wangfujing Street is one of the Chinese capital's most famous shopping streets. The daily flow of visitors is around one million. There are more than 200 shops on the 810 meter-Long Street from Nankou to the Goldfish Kou. Xindan is a major traditional commercial area in Beijing, where Xidan- West District is the most famous gathering place for young fashion. Numerous department stores are located here, namely Grand Pacific Mall, Xidan Saite Shopping Mall, Xidan Shopping Mall and Xidan Huawei Mall. While, Olympic Axis is currently the only Olympic venue open to public, the region has famous Olympic venue such as water cube (水立方) and Bird's Nest stadium (鸟巢). Furthermore, South Square of the Shanghai North Railway Station in Shanghai is located on Moling Road Zhabei district to the North of the city centre.

Superior location of advertising billboard is scarce resources to clients. The superior location has attracted some big name, multinational corporations such as BMW, Nike, Tissot, Olympus, Adidas, and Philips etc. While leasing period is fixed at 12 months, clients can pay upfront for the year at reasonable discount of listed price or semi-annually at full price. Advertisers were mainly clients of advertising agencies such as the 4As. In general, advertising agencies develop a whole set of advertising campaign for their clients and place ads strategically at key locations. That said, COC directly negotiate with advertising agents on terms of lease on behalf of the actual advertisers. According to the company management, they expected the gross profit margin to be roughly 50%. Table 4 summaries the key billboards and LED panels of COC.

Table 4. Key billboards and LED panels of COC

Location	Size	Daily traffic	Income (RMBm) a year
Xidan Huawei Centre A	687m^2	16640people/h, 7640cars/h	12
Xidan Huawei Centre B	346m^2	16640people/h, 7640cars/h	4.5
Xidan Shopping Store	450m^2	8620 people/h, 7640cars/h	4
Xidan Xinyidai Shopping Centre	339m^2	16640people/h, 207640cars/h	8.5
Fenghuang Ladies Department Store at Wang Fu Jing	225m^2	7680people/h, 8460 bicycles/h	6
Shengxifu Hat Store at Wang Fu Jing	105m^2	7680people/h, 8460 bicycles/h	2
Baicaoyao Store at Wang Fu Jing	113m^2	7680people/h, 8460 bicycles/h	1
Geweite Building at Wang Fu Jin	94m^2	7680people/h, 8460 bicycles/h	1
Hengfusheng Building at Wang Fu Jin	58m^2	7680people/h, 8460 bicycles/h	1
West Railway Station	168m^2	6400 people/h, 12000cars/h	1
Olympic Axis		14540people/h	4
South Square of the Shanghai North Railway		500,000 – 800,000people/day	22

Source: SBI E2-Capital

Ib) Highway billboard

Cooperation with CRTV (中国广播电视国际经济技术合作总公司). In Aug 2010, the company entered into master agreement with CRTV (中国广播电视国际经济技术合作总公司) on exclusive operating rights of advertising media at highways in Hebei Province, which include advertising billboards on towers, bridges, light boxes on tunnel walls and concierges, etc. Under the master agreement, COC is entitled to 10-year exclusive rights for as much as 3,900+ billboards in the existing 15 highways and another 5 under construction in medium term. Table 5 shows highways under the master agreement. Note that under the master agreement, COC needs to finalize details by entering into individual agreements. For instance, COC entered into individual transfer agreement in Oct 2010 for Jingshi Highway (京石高速公路) and Jingjintang Highway (京津塘高速公路). CRTV is the affiliate of CRTVAD, which is granted the “Permit for the Production and Operation of Television Programs” by the State Administration of Radio Film and Television (SARFT) and is currently the only advertising enterprise which is entitled to produce and distribute different types of television program in both the China and overseas.

Table 5. Existing highways in Hebei Province in agreement with COC

Name	Ultimate number of billboards beyond 2013
Under Master agreement	3,293
Shian Highway (石安高速公路)	
Baojin Highway (保津高速公路)	
Shihuang Highway (石黄高速公路)	
Qingyin Highway (青银高速公路)	
Jinghu Highway (京沪高速公路)	
Langzhuo Section (廊涿路段)	
Shitai Highway (石太高速公路)	
Baocang Highway (保沧高速公路)	
Jingqin Highway (京秦高速公路)	
Seaside Highway (沿海高速公路)	
Tangjin Highway (唐津高速公路)	
Xuanda Highway (宣大高速公路)	
Jingzhang Highway (京张高速公路)	
With additional individual transfer agreement	180 + 500 under construction
Jingshi Highway (京石高速公路)	
Jingjintang Highway (京津塘高速公路)	
Total	3,973

Source: SBI E2-Capital

Competitive fee structure to capture growing traffic in Hebei. Beijing and Tianjin Municipalities are two special regions geographically located within Hebei provinces. They are carved out of Hebei while Beijing borders Tianjin to the Southeast. Traffic within Hebei especially between Beijing and Tianjin is increasingly busy. COC obtains exclusive operating rights for the billboards at highways in the region. COC is to offer traditionally designed and customized creative for potential customers. Illustration 2 shows some of the design option for advertisers. In fact, as compared to city billboards, COC would offer highway billboards at competitive prices. The company may divide billboards into groups to market to customers at an rent of between RMB100,000 ~ RMB300,000 each for a year with gross margin as high as 50%+. As such, with potentially 680 billboards under individual transfer agreement, top-line could be as much as RMB40m+ a year.

Illustration 2. Traditional and creative design from advertisers potentially for Hebei

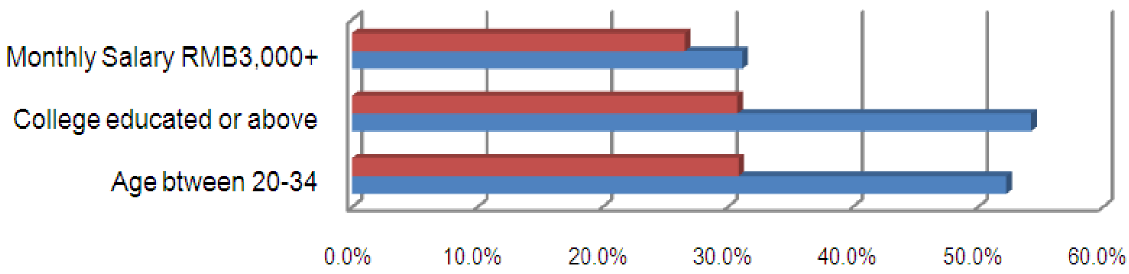
Source: SBI E2-Capital

Ic) Press

A free weekly magazine in Beijing subway. Fast Lane 新乘坐 is a new business line in media advertising in COC. Fast Lane is a free magazine distributed in Beijing subway. Company obtained the exclusive operating right via operation agreement with Beijing subway Beijing Mass Transit Railway (BMTR) to direct mail magazine in the subway in Beijing for three years. The free magazine business started from Nov 2011. The magazine offers comprehensive attraction about restaurant, fashion, finance, news, and entertainment. It targeted customer segment age between 20 and 34, who has excellent purchasing power. Currently it is a weekly issue on Friday with around 24 pages with 70,000 copies distributed at Cuomao station. According to the management, the group has already obtained the right to distribute Fast Lane in all nine lines in Beijing subway and hence it will increase the volume depending on the advertisement income.

What is catching our eye here is the uniqueness of the location. Beijing has population over 17.5m, public transportation plays a critical part in residents' live. Beijing subway offers a cheap and fast way to access tourist sites, shopping malls, and popular restaurant. The annual flow of passengers in Beijing subway was over 1.8b in 2011. In Sep 2011, the Beijing subway recorded highest single-day riders at 7.57m. The comprehensive of subway network will effectively widen potential readers based, and hence, it will be more attractive to advertisers. Magazine business needs strong reader base to attract advertisers and maintain bargaining power. By recommendations of agencies under their advertising plan, advertisers would pay higher fee to place commercials at selected media of better audience base. The success of business model is very much depending of customer base and the competition between peers. Obviously, Beijing subway has a massive base of readers, which is very attractive to advertisers to promote their products. There is currently no direct competition in free magazine in Beijing subway, and it is necessary to obtain permit from BMTR. Therefore, there is certain barrier to entry. COC utilizes its existing resource by using its advertising staffs to run the magazine.

Illustration 3. Beijing subway market statistic for age between 20-34



	Age btween 20-34	College educated or above	Monthly Salary RMB3,000+
Beijing Citizen	30.9%	30.8%	26.6%
MTR Passenger	52.3%	54.3%	31.2%

Source: SBI E2-Capital

The Fast Lane magazine targeted customer segment at age between 20 and 34. The table above indicated market research of Beijing subway riders' characteristic. The CMMS market research shows that subway riders' age between 20 and 34 year old represents 52.3% of total passengers; hence, they are the majority of potential customers. By age 21, people have completed their formal education, and many more will do during their twenties. Individual in this age group are starting on their first jobs leading to a career and consequently increase their spending. Money might be spent on alcoholic beverage, housing, dwelling, and fashion. These individuals might have excess spending power to shop and look for entertainment. A magazine, such as Fast Lane, can provide information to satisfy their need. i.e. latest information about fashion, review on restaurant etc. The market research also denoted MTR passengers have higher average salary than overall average citizens along with higher education level. Consequently, this is a huge business potential for advertisers to raise awareness of their products or services. Customers include:

- 真功夫
- 北京富力城房地产
- 百盛购物中心
- 华欧御泰
- 都会新天地
- 华宇时尚购物中心
- 长安商场
- 高英国际美食自肋餐厅
- 西单商场
- 北京美联臣医疗医院
- 乐天银泰百货
- 世茂集团
- 北京青年旅行社
- 洪洂傅件肉面
- 熊猫烟火集团
- 爱普奥特莱斯
- 天伦王朝酒店
- … and more

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Id) Digital TV

Building the largest terrestrial digital television network in Hunan through acquisition. In Nov 2011, COC entered into agreement to acquire 49% economic interest in Hunan Mobile TV as well as 95% interest of Beijing Jiahua. The former is the largest operator of the terrestrial digital television network at the provincial level. It is principally engaged in the operation of wireless mobile television network, transmission of multi-media information and management of television advertisement. The later is principally engaged in the development and promotion of arts and culture related activities in China. Current it provides assistance and advice to the various provincial television stations in the production and distribution of television dramas and television program.

Short-term growth driver in connection to installation fee and subscription fee. Digital terrestrial is the technological evolution of broadcast television and advance from analog television, which broadcasts land-based signals to a conventional television antenna instead of a satellite dish or cable television connection. Table X shows selected advantages and disadvantages of digital terrestrial television. The management indicated that Hunan Mobile TV has completed basic coverage, which refers to 50%+ satisfactory transmission to 50%+ population and 70%+ region within the province. COC plans to derive income from subscription fee as well as sale of set-top boxes embedded in installation fees especially in rural area without cable network access.

- **Installation and first subscription fees.** Subscription fees generally are collected through the municipal offices of the Radio, Films and Television Bureau of Hunan Province (湖南省广播电视局). Initial customers are required to pay the full amount of the installation fees up to RMB300 and the first annual subscription fees of RMB180 (RMB15 per month x 12 months) to local office of the Bureau. The Bureau would deduct their share of the fees and pass on the balance of the fees to COC. Television signals are transmitted through set-top boxes to the initial subscribers once installed is completed and confirmed by the Bureau.
- **Subscription fee after the first year.** Subscription fees after the first year are mostly in form of prepaid cards sales. These prepaid cards are sold by local office of the Bureau who, again, passes the balance to COC after deducting their share of the fees. The Bureau would notify COC control centre the integrated circuit numbers and prepaid card numbers of the particular customer. Upon receipt and verification, COC would then extend the television signal transmission service for the subscribers.
- **Set-top boxes supply.** The set-top boxes and the associated integrated circuits that enable subscribers to receive television signals are supplied by Hunan Mobile TV to the Local RFTB Agents based on forecasts prepared with reference to market conditions and business plans. On average cost of a set-top box supplied could be as low as RMB150 per unit with special support from local manufacturers.

Table 6. Selected advantages and disadvantages of digital terrestrial television

Description
Advantages
Digital signals tend to deliver higher overall quality due to elimination of visible interference and other effects such as ghosting
More channels can fit on the same spectrum under digital transmission with the use of multiplex transmitters
Interactive services can be provided
Disadvantages
Additional equipment such as a set-top box and upgraded antenna may be required
Digital signals suffers from cliff effect that leads to requirement of considerable signal level at precise position to get a viewable picture

Source: SBI E2-Capital

Unlocking revenue centre of advertisements and program landing after reaching critical mass of 1m. Currently, the management indicated that the first stage of investment was completed. It included construction of 15 primary base stations at hills to deliver strong signals to large area with the supplement of 16 secondary base stations. The company expects current coverage could effectively support 5m households up to 15m residents. According to the management, current subscription population may be around 0.3m household. If the company is to reach a critical mass of 1m household in 2012, a total turnover of the business could be up to RMB400m with 0.7m new users. After deducting fees and depreciation, the management expects the segment to contribute major share of profit from 2012 onwards. Besides, after reaching 1m subscription, COC expects to be in excellent position to negotiate advertising income as well as program landing fee, which should largely boost earnings in medium term. In the first year after the acquisition, there is a profit guarantee of RMB230m and a subscriber guarantee of 1m users granted by the vendors.

Table 7. Investment plan for terrestrial digital TV network

Stage	Details	Budget
Current status (completed)	15 primary base stations	RMB310m
	16 secondary base stations	
Expansion stage	Enhance mobile network	RMB100m
Total		RMB410m

Source: SBI E2-Capital

Entertainment business – strong growth driver in longer-term

COC engaged in entertainment business via an acquisition agreement with Kery Media. In 2010, Kery Media granted management agreement with three Chinese media enterprises entitle to receive management fee for a fixed period of 10 years with option to renew. In substance over form, COC possesses the control, risk and return in these media enterprises. Pursuant to the Foreign Investment Industrial Guidance Catalogue in 2007 《外商投資產業指導目錄》and Tentative Provisions on Investment within China by Foreign Investment Enterprises《關於外商投資企業境內投資的暫行規定》Foreigners are prohibited from investing in media business in China (i.e producing and distributing television programs, radio programs and movies). Therefore, COC will not directly involve in production of TV dramas and films, nor financing activities. We classify the entertainment arm into three subgroups:

IIa) TV shows and firm

TV shows and firm is a highly regulated with low concentration business. The top three television drama producers represent less than 10% of total market share. The success of the business is very much dependent on budget management, production time control and market popularity. Given a high competition in production houses versus monopoly in television broadcasting, the bargaining power of production houses is low. Production house received 10% of respective advertisement revenue, as compared to 56% in US, 60% in Japan and 35% in Korea. COC saw a growth potential in television investment and production, and hence, determine to build up reputation in the flied. Mr. Yan, who is a director of Kery Media and producer in Art Troupe of All-China Federation of Trade Unions, has been invited to join management board as an executive director to strengthen entertainment angle. Mr. Yan has worked in reveal sizeable movie and television production corporations. The table below outlines some of his famous drama productions:

Table 8. TV series produced by Mr. Yan

Television series	Broadcasted	Artists
The Prince of Han Dynasty (大漢天子)	Chinese channels	黃晓明，茹萍，李菲， 邬倩倩， 熊乃瑾
Concubines of Qing Emperor(大清後宮)	ATV, Chinese channels	黃维德， 胡静， 陈浩民
Morality Base Line(道德底线)	Chinese channels	羅剛、馬蘇、錢泳辰、孫晶晶

Source: Company presentation

Production and distribution of television drama series and firms is an emerging market with rapid growth. According to COC management, the turnover of television drama series production increased 3.2x over a year to RMB2,100m in 2009. Despite, the rapid growth in production houses business, the growth is still restricted by the high level of regulation. Production of television series is sensitive and highly regulated by SARFT. SARFT, stands for State Administration of Radio, Film and Television, is an executive branch directly control by the state council and Chinese government. The function is to administration and supervision of state-owned enterprises in related industries. Pursuant to the regulation on the administration of television broadcasting (廣播電視管理條例), production houses have to apply two permits:

Illustration 4. TV dramas posters

Source: SBI E2-Capital

There are currently only 130 holders of the A-type permit in China. Kery Media's two subsidiaries, Hainan Kery (海南柯瑞影業) and Dongyang Yamei Media (東陽亞美影視傳播), engaged in production, replication and distribution television dramas, films, radio and variety shows. Hainan Kery holds type A television drama series production permit while Dongyang Yamei Media holds production and operation of television program permit. In our view, with the experience director Mr. Yan and essential permit in place, COC will be able to capture the future upside in TV shows and firms business.

Table 9. Media production and operation Permits

Permit	Type	Description
Production and Operation of Television Program Permit		
Television Drama Series Production Permit	A	expires within two years, covers all contents to be produced
	B	expires within 180 days, covers the drama series as specified

Source: SBI E2-Capital

IIb) Agency Business for artists and entertainment function

Upstream diversified to become an integrated production houses. COC, acquired economic interest of an artist agency company namely Beijing Yamei Artists Centre Agency via the acquisition of Kery Media. Beijing Yamei Artists Centre Agency, engaged in provision of performance services and artiste management, film and television planning, corporate image designs, contracting of exhibitions and leasing of stage equipment. The value added in this business is to exposure opportunities for its artists to feature in TV drama series or firms and other shows. It also generates income by locating performance and advertising fee for films and TV drama series. Beijing Yamei Artists Centre Agency obtained the Performance Permit 《營業性演出許可證》 which permits company to engage in artiste management and performance business activities.

Risk factors. 1) The company has especially wide shareholder base and short history of 2 years since first VSA after GO; 2) COC holds several major assets through VIE structures with potential issue in connection to possible dispute in ownership; 3) COC may fail to execute their business plans or fail to renew permits granted; 4) High level of intangible asset poses risk of impairment which heats P&L in case of market headwind.

Current financial information. Table 10 and Table 11 shows the summarized balance sheet items and summarized profit and loss items respectively. By the end of 1H FY12/11A, the company has RMB726m equity at low gearing level of below 10% net debt-to-equity. While COC was loss-making in previous years due to re-positioning in progress, the management expects to turn around and earn satisfying results in 2012 and beyond.

Table 10. Balance sheet summary at period end

RMB m	FY12/08A	FY12/09A	FY12/10A	1H FY12/11A
Non-current assets				
Property, plant and equipment	1	4	10	11
Intangible asset	0	0	646	639
Other non-current assets	46	30	18	71
Current assets				
Trade and other receivables	8	8	23	49
Bank balances and cash	4	85	42	26
Other current assets	37	56	46	28
Non-current liabilities				
Convertible loan notes	0	0	73	89
Current liabilities				
Trade and bills payables	11	12	20	6
Other current liabilities	0	2	6	3
Equity				
Total equity	85	170	686	726

Source: COC

Table 11. Profit and loss summary

RMB m	FY12/08A	FY12/09A	FY12/10A	1H FY12/11A
Revenue	24	13	15	29
Cost of goods sold	(19)	(13)	(48)	(33)
Gross profit	5	0	(33)	(4)
Operating expenses	(17)	(38)	(40)	(23)
Other expenses	(22)	28	(32)	(9)
Profit before tax	(34)	(9)	(106)	(37)
Income tax expenses	1	(2)	0	0
Total net profit	(33)	(9)	(105)	(33)

Source

Valuation. The counter is currently trading at 0.7x P/B base on total equity by end of Jun 2011. While COC was loss-making in the previous years, P/E measurement is not applicable for now. The management expects maiden profit in 2012 and we suggest looking at COC for its latest development in next 6-12 months.