

HOLD

22 March 2005

108% up in net profit

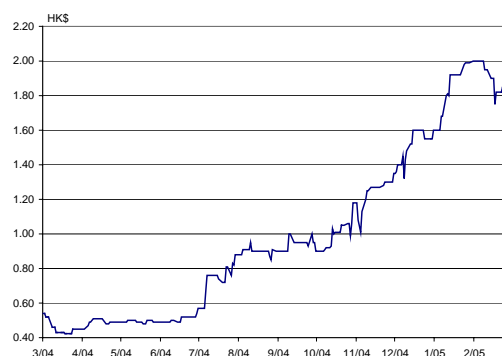
- **Results in-line with expectation:** Superdata reported 108% profit growth to RMB32.4mn based on a 49% increase in turnover. EPS grew 85% to RMB8.09fen and a final dividend of RMB5fen (HK\$0.047) was declared. GP margin was maintained at 95.7%.
- **Successfully launching 3 new product lines:** During the year, the Group introduced SD1000, SD5000 and E3 products series, each targeting a different segment of the SME ERP software market.
- **More brand promotion was added:** During 2H04, Superdata engaged in a series of promotion programs organized by CCTV in order to enhance its corporate image as well as for brand building. Hence, marketing expenses up 34% to RMB6.4mn during the year.
- **Will further expand the distribution network:** We believe that a larger sales network is the most effective way to increase sales in the packaged software business. Currently, Superdata has over 1,400 retails channels covering major cities in the PRC. The Group will continue to enhance its distribution network.
- **Getting a bit expensive:** Despite its strong profit growth in recent years as well as the generous payout ratio, we feel that further upside in share price at close to 20x FY05 PER may be limited. Thus, we are downgrading the counter to HOLD from the previous BUY rating. However, we are still positive regarding the Group's earnings outlook. **HOLD**

HK\$=RMB1.06

KEY DATA

Sector	Software
Share price	HK\$1.94
Stock code	8263
Shares O/S	403.02mn
Mkt. Cap	HK\$781.87mn
52wks High-Low	HK\$0.404-2.00
NAV per share	RMB0.173
Major Shareholders	IDG (21.35%) Management (14.99%) CDH (13.1%)

Price Performance



Source: Bloomberg

Earnings Summary

YE: 31st Dec	FY03A	FY04A	FY05F	FY06F	FY07F
Net profit (RMB'mn)	15.6	32.4	44.0	54.5	65.8
Growth (%)	36	108	36	24	21
EPS (RMB fen)	4.4	8.1	10.9	13.5	16.3
P/E (x)	47.1	25.4	18.8	15.2	12.6
DPS (RMB fen)	0.75	7.0	9.0	10.0	12.0
Yield (%)	N/A	3.4	4.4	4.9	5.8

Source: company information, FSSL

Results comments

RMB'000	FY03	vs.	FY04	Comments
Turnover	39,502		58,731	up 49%, about 8% lower than our forecast
Cost of sales	(1,647)		(2,532)	
Gross profit	37,855		56,199	GP margin maintained at 95.7%
Other revenue	406		1,173	mainly interest income
VAT refunded	5,017		7,725	
Staff costs	(12,533)		(14,904)	larger R&D and sales team, 404 employees as at the end of FY04
Depreciation	(1,168)		(1,326)	
Royalty charges	(974)		(1,544)	paying 3% to Intuit on products named under "Quickbooks"
Advertising & marketing expenses	(4,799)		(6,418)	Incurred additional marketing expenses such as advertising on CCTV
Other operating expenses	(8,206)		(8,312)	
Operating profit/(loss)	15,598		32,593	
Finance costs	0		0	
Profit/(Loss) before tax	15,598		32,593	
Taxation	0		(157)	
Net profit/(loss)	15,598		32,436	108% growth in net profit, beating our estimate by 3%
EPS (RMB fen)	4.37		8.09	85% yoy growth in EPS
DPS (RMB fen)	0.75		7.00	86.5% payout ratio
Gross profit margin	95.8%		95.7%	
Operating profit margin	39.5%		55.5%	
Net profit margin	39.5%		55.2%	

Source: company information, FSSL

Quarter-by-quarter movement

RMB'000	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
Turnover	7,311	10,776	9,333	12,082	10,041	18,268	15,243	15,179
Cost of sales	(412)	(571)	(420)	(244)	(417)	(589)	(848)	(678)
Gross profit	6,899	10,205	8,913	11,838	9,624	17,679	14,395	14,501
Other revenue	45	93	90	178	185	240	272	476
VAT refunded	911	1,429	1,203	1,474	1,329	2,358	2,076	1,962
Staff costs	(2,719)	(3,009)	(3,068)	(3,737)	(3,343)	(3,948)	(3,559)	(4,054)
Depreciation	(356)	(245)	(271)	(296)	(305)	(300)	(290)	(431)
Royalty charges	0	(231)	(348)	(395)	(246)	(518)	(405)	(375)
Advertising & marketing expenses	(1,004)	(1,396)	(873)	(1,526)	(1,447)	(1,041)	(1,763)	(2,167)
Other operating expenses	(1,505)	(1,566)	(2,194)	(2,941)	(2,196)	(2,208)	(2,421)	(1,487)
Operating profit/(loss)	2,271	5,280	3,452	4,595	3,601	12,262	8,305	8,425
Finance costs	0	0	0	0	0	0	0	0
Profit/(Loss) before tax	2,271	5,280	3,452	4,595	3,601	12,262	8,305	8,425
Taxation	0	0	0	0	0	0	0	(157)
Net profit/(loss)	2,271	5,280	3,452	4,595	3,601	12,262	8,305	8,268
GP margin	94.4%	94.7%	95.5%	98.0%	95.8%	96.8%	94.4%	95.5%
Operating margin	31.1%	49.0%	37.0%	38.0%	35.9%	67.1%	54.5%	55.5%
Net margin	31.1%	49.0%	37.0%	38.0%	35.9%	67.1%	54.5%	54.5%

Source: Company information, FSSL

Earnings summary

For the year ended 31st December					
RMB'000	FY03A	FY04A	FY05F	FY06F	FY07F
Turnover	39,502	58,731	79,287	103,073	123,687
Cost of sales	<u>(1,647)</u>	<u>(2,532)</u>	<u>(3,964)</u>	<u>(5,154)</u>	<u>(6,184)</u>
Gross profit	37,855	56,199	75,323	97,919	117,503
Other revenue	406	1,173	927	1,083	1,346
VAT refund	5,017	7,725	10,307	13,399	16,079
Staff costs	(12,533)	(14,904)	(18,332)	(21,998)	(26,398)
Depreciation	(1,168)	(1,326)	(1,500)	(2,000)	(2,000)
Royalties	(974)	(1,544)	(1,982)	(2,577)	(3,092)
Advertising & marketing expenses	(4,799)	(6,418)	(10,307)	(15,461)	(18,553)
Other expenses	<u>(8,206)</u>	<u>(8,312)</u>	<u>(9,559)</u>	<u>(11,471)</u>	<u>(13,765)</u>
Operating profit/(loss)	15,598	32,593	44,876	58,895	71,120
Finance costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Profit/(Loss) before tax	15,598	32,593	44,876	58,895	71,120
Taxation	<u>0</u>	<u>(157)</u>	<u>(898)</u>	<u>(4,417)</u>	<u>(5,334)</u>
Net profit/(loss)	<u>15,598</u>	<u>32,436</u>	<u>43,979</u>	<u>54,478</u>	<u>65,786</u>

Source: company information, FSSL

Earnings revision

We have made some fine tunings to our earnings model on Superdata. Profit forecast for FY05 and FY06 are revised up by 4% and 6%, respectively.

For FY05, we trimmed the sales forecast to RMB79.3mn or a 35% yoy growth. However, we have also lowered the total SG&A expenses given that the Group has successfully controlling the increase in other expenses.

For FY06, we are maintaining the 30% yoy top-line growth. Total SG&A expenses are also lowered given the smaller base brought forward from FY05. We assume a 7.5% tax rate for FY06.

Disclosure: First Shanghai Capital Limited, an affiliate of First Shanghai Securities Limited is currently acting as the continuing sponsor of Superdata Software Holdings Limited for the purpose of Chapter 6 of the GEM Listing Rules.

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