

**BUY**

22 March 2005

## Internet effect kicks in

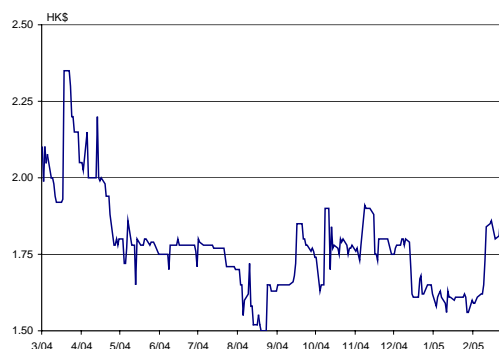
- **43% increase in net profit:** Net profit for FY04 stood at 47.3mn, 4% ahead of our forecast. Turnover also went up by 43% to RMB462.6mn, about 3% above expectation. EPS was RMB0.112 and no final dividend was declared.
- **Higher GP margin resulted from a shift in sales mix:** During the year, sales from search engine and related services was about RMB82.4mn. It accounted for 17.8% of the total turnover, up from only 4.7% in FY03. We believe it is largely attributable to the launch of "Mai-Mai-Tong" ("MMT") (買賣通) and the strong sales in keywords. As a result, GP margin improved substantially by 3.7 percentage points to 40.2%.
- **Extended service scope:** During the year, HC extended its coverage to 23 yellow-page directories and a total of 64 industry portals. Also, more than 10 branch offices and subsidiaries were established to enlarge its sales network and geographical coverage. This resulted in a 200% increase in total costs.
- **Two key earning drivers:** Going forward, we believe Internet related services and the traditional trade catalogue business will continue to propel the Group with strong profit growth. Adding the new ventures with renowned partners such as Tencent and Reed Business Information, HC is in a very strong position in leading the trade information industry in the PRC.
- **New target price of HK\$2.32:** Given the strong growth in Internet related business, we have revised up our profit forecast for FY05 and FY06 by 10% and 5%, respectively. We continue to value HC at 15x FY05 PER underpinned by its market leading position in PRC's trade catalogues market as well as the enormous potential provided by MMT. As such, target price is upgraded by 4% to HK\$2.32 or 27% upside potential. **BUY**

HK\$=RMB1.06

## KEY DATA

<i>Sector</i>	<i>Business information</i>
<i>Share price</i>	HK\$1.82
<i>Stock code</i>	8292
<i>Shares O/S</i>	455mn
<i>Mkt. Cap</i>	HK\$828.10mn
<i>52wks High-Low</i>	HK\$1.40-2.50
<i>NAV per share</i>	RMB0.536
<i>Major Shareholders</i>	IDG (19.79%) Guo Fansheng (14.09%)

## Price Performance



Source: Bloomberg

## Earnings Summary

	FY03A	FY04A	FY05F	FY06F	FY07F
<b>Earnings (RMB'mn)</b>	<b>33.1</b>	<b>47.3</b>	<b>74.7</b>	<b>108.4</b>	<b>155.7</b>
Growth (%)	107	43	58	45	44
<b>EPS (RMB fen)</b>	<b>8.0</b>	<b>11.2</b>	<b>16.4</b>	<b>23.8</b>	<b>34.2</b>
PER (x)	24.2	17.2	11.7	8.1	5.6
<b>DPS (RMB fen)</b>	-	-	-	-	-
Yield (%)					

Source: company information, FSSL

## Results comments

RMB'000	FY03	vs.	FY04	Comments
Turnover	322,511		462,563	43% top-line growth; largely attributable to the strong growth in Internet related services and the traditional TCC business
Cost of sales	<u>(204,915)</u>		<u>(276,823)</u>	
<b>Gross profit</b>	<b>117,596</b>		<b>185,740</b>	GP margin improved by 3.7 percentage points to 40.2%
Other revenue	2,095		739	
Selling & distribution costs	(29,623)		(64,471)	Total staff costs up by 71% yoy
Administrative expenses	(44,110)		(68,958)	More branch offices
Other operating expenses	<u>595</u>		<u>5,514</u>	Included a RMB5mn provision for doubtful debts
<b>Operating profit</b>	<b>46,553</b>		<b>58,564</b>	
Finance costs	(2,400)		(1,371)	
Jointly controlled entity	<u>447</u>		<u>(265)</u>	
Profit before tax	44,600		56,928	
Taxation	<u>(3,159)</u>		<u>(2,569)</u>	4.5% effective tax rate
Profit after tax	41,441		54,359	
Minority interest	<u>(8,363)</u>		<u>(7,067)</u>	
<b>Net profit</b>	<b><u>33,078</u></b>		<b><u>47,292</u></b>	
Gross margin	36.5%		40.2%	
Operating margin	14.4%		12.7%	
Net margin	10.3%		10.2%	

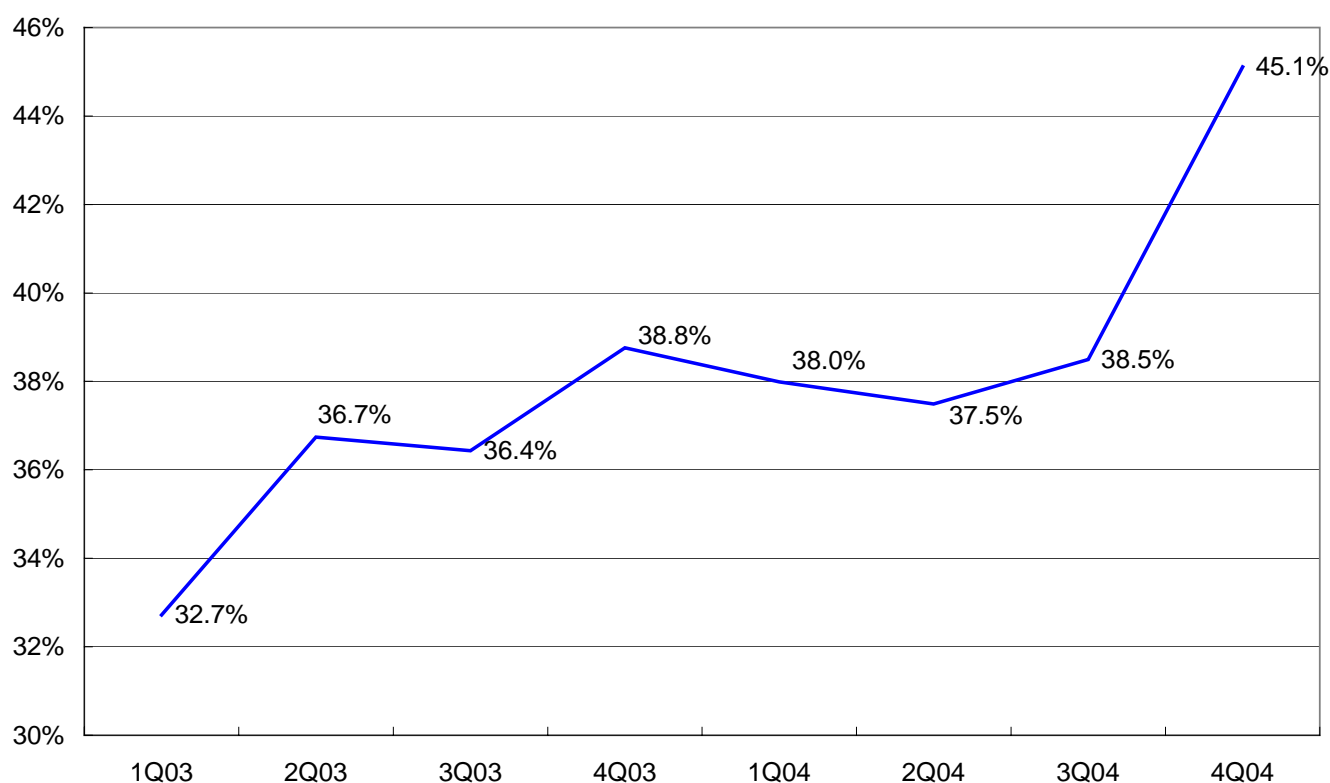
Source: company information, FSSL

## Quarter-by-quarter P&L comparison

RMB'000	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
Turnover	62,419	80,214	86,714	93,164	82,501	117,566	122,156	140,340
Cost of sales	(41,995)	(50,743)	(55,123)	(57,054)	(51,160)	(73,491)	(75,134)	(77,038)
<b>Gross profit</b>	<b>20,424</b>	<b>29,471</b>	<b>31,591</b>	<b>36,110</b>	<b>31,341</b>	<b>44,075</b>	<b>47,022</b>	<b>63,302</b>
Other revenue	909	968	112	106	179	178	207	175
Selling & distribution costs	(6,149)	(5,960)	(8,548)	(8,966)	(12,158)	(15,084)	(16,857)	(20,372)
Administrative expenses	(8,623)	(13,536)	(10,246)	(11,705)	(12,430)	(17,407)	(18,706)	(20,415)
Other operating expenses	(376)	899	(1,181)	1,253	964	641	4,770	(861)
<b>Operating profit</b>	<b>6,185</b>	<b>11,842</b>	<b>11,728</b>	<b>16,798</b>	<b>7,896</b>	<b>12,403</b>	<b>16,436</b>	<b>21,829</b>
Finance costs	(557)	(620)	(496)	(727)	(434)	(193)	(421)	(323)
Jointly controlled entity	278	97	4	-	-	-	-	(265)
Profit before tax	5,906	11,319	11,236	16,071	7,462	12,210	16,015	21,241
Taxation	(783)	(1,365)	(370)	(641)	(561)	(404)	(477)	(1,127)
Profit after tax	5,123	9,954	10,866	15,430	6,901	11,806	15,538	20,114
Minority interest	(1,077)	(2,273)	(1,906)	(3,107)	(859)	(399)	(2,918)	(2,891)
<b>Net profit</b>	<b>4,046</b>	<b>7,681</b>	<b>8,960</b>	<b>12,323</b>	<b>6,042</b>	<b>11,407</b>	<b>12,620</b>	<b>17,223</b>
Gross margin	32.7%	36.7%	36.4%	38.8%	38.0%	37.5%	38.5%	45.1%
Operating margin	9.9%	14.8%	13.5%	18.0%	9.6%	10.5%	13.5%	15.6%
Net margin	6.5%	9.6%	10.3%	13.2%	7.3%	9.7%	10.3%	12.3%

Source: company information, FSSL

## Quarterly GP margin trend



Source: company information, FSSL

## Earnings Summary

RMB'000	FY03A	FY04A	FY05F	FY06F	FY07F
Turnover	322,511	462,563	614,144	786,166	973,554
Cost of sales	<u>(204,915)</u>	<u>(276,823)</u>	<u>(350,554)</u>	<u>(444,837)</u>	<u>(538,144)</u>
Gross profit	117,596	185,740	263,590	341,329	435,410
Other revenue	2,095	739	1,402	2,231	3,218
Selling & distribution costs	(29,623)	(64,471)	(89,051)	(117,925)	(146,033)
Administrative expenses	(44,110)	(68,958)	(86,198)	(99,127)	(113,996)
Other opt inc/(exp)	<u>595</u>	<u>5,514</u>	<u>551</u>	<u>607</u>	<u>667</u>
Operating profit	46,553	58,564	90,295	127,115	179,266
Finance costs	(2,400)	(1,371)	(1,320)	(1,470)	(1,470)
Jointly controlled entity	<u>447</u>	<u>(265)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit before tax	44,600	56,928	88,975	125,645	177,796
Taxation	<u>(3,159)</u>	<u>(2,569)</u>	<u>(5,949)</u>	<u>(7,782)</u>	<u>(10,390)</u>
Profit after tax	41,441	54,359	83,027	117,863	167,406
Minority interest	<u>(8,363)</u>	<u>(7,067)</u>	<u>(8,303)</u>	<u>(9,429)</u>	<u>(11,718)</u>
<b>Net profit</b>	<b><u>33,078</u></b>	<b><u>47,292</u></b>	<b><u>74,724</u></b>	<b><u>108,434</u></b>	<b><u>155,687</u></b>
Gross margin	36.5%	40.2%	42.9%	43.4%	44.7%
Opt margin	14.4%	12.7%	14.7%	16.2%	18.4%
Net margin	10.3%	10.2%	12.2%	13.8%	16.0%

Source: company information, FSSL

**Disclosure:** Within the past 12 months, FSSL has received compensation for investment banking services from the Company.

First Shanghai Capital Limited, an associate of FSSL is currently acting as the continuing sponsor of the Company for the purpose of Chapter 6 of the GEM Listing Rules.

As of 31 December 2004, China Alpha Fund (a mutual fund managed by an associate of FSSL) and China Assets (Holdings) Limited, both are associates of FSSL held position in the Company.

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