

**Under review**

15 November 2005

**Disappointing 3Q results**

- **Loss recorded from continuing operations:** Heavily dragged by the TV and search engine businesses, HC reported a loss of RMB20.5mn for 3Q05. Adding up the previous two quarters, total loss for 9m05 amounted to RMB25.5mn. Stripping out the two businesses pending for sale completion, we were surprised by a loss of about RMB7mn recorded by the continuing operations. We believe the sharp increase in staff and admin costs without generating proportional revenue was the reason to blame.
- **TV business contributed negative GP margin:** According to HC, GP margin expect for TV business remained stable during the period under reviewed. For the TV business, the substantial increase in cost resulted in a -11% GP margin for 9m05 while revenue was 5% lowered than FY04.
- **“Mai-Mai-Tong” (买卖通) paid subs reached 30k:** On the bright side, with the introduced of additional services, the population of paying MMT users leaped to over 30k by the end of 9m05 as compared to our previous estimate of 20k as at the end of 1H05.
- **Planning to launch an English portal:** HC has completed the development of its first English website – “Made in China.com” which opens up HC’s huge database of domestic suppliers to worldwide buyers. We believe HC will be in a good position to take on rivals such as GlobalSources and Alibaba.com given its in-depth coverage of PRC suppliers.
- **Earnings under review:** Due to the further delay in the completion for the disposal of its TV business, HC will continue to suffer from the heavy set back incurred by this division. Furthermore, we have to gather more information on what causes the loss from its continuing operations.

**KEY DATA**

|                    |                                       |
|--------------------|---------------------------------------|
| Sector             | Business information                  |
| Share price        | HK\$1.50                              |
| Stock code         | 8292                                  |
| Shares O/S         | 465.93mn                              |
| Mkt. Cap           | HK\$698.90mn                          |
| 52wks High-Low     | HK\$1.00-2.00                         |
| NAV per share      | RMB0.757                              |
| Major Shareholders | IDG (15.74%)<br>Guo Fansheng (13.75%) |

**Price Performance**


Source: Bloomberg

**Earnings Summary**

|                          | FY 03 A      | FY 04 A      | 9 m 05 A      |
|--------------------------|--------------|--------------|---------------|
| <b>Turnover (RMB'mn)</b> | <b>322.5</b> | <b>462.6</b> | <b>356.7</b>  |
| Growth (%)               |              | 43           |               |
| <b>Earnings (RMB'mn)</b> | <b>33.1</b>  | <b>47.8</b>  | <b>(25.5)</b> |
| Growth (%)               | 118          | 44           |               |
| <b>EPS (RMB fen)</b>     | <b>10.9</b>  | <b>11.3</b>  | <b>(5.5)</b>  |
| PER (x)                  | 14.3         | 13.8         |               |
| <b>DPS (RMB fen)</b>     | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>    |
| Yield (%)                | 0.0          | 0.0          | 0.0           |

Source: company information, FSSL

## Results comments

| RMB'000  | 9m04             | vs. | 9m05             | Comments  |
|--|------------------|-----|------------------|---|
| Turnover                                       | 322,223          |     | 356,770          | 11% yoy for 9m05 but down 5.5% yoy for 3Q   |
| Cost of sales                                  | <u>(199,785)</u> |     | <u>(234,009)</u> |   |
| <b>Gross profit</b>                            | <b>122,438</b>   |     | <b>122,761</b>   | Dragged by TV business, GP margin for 9m05 down to 34.4% from 38% during 9m04   |
| Other revenue                                  | 564              |     | 438              |   |
| Selling & distribution costs                   | (44,099)         |     | (79,234)         | Total expenses up 65%, largely due to increase in the number of staff and the number of branch offices                  |
| Administrative expenses                        | (48,543)         |     | (73,951)         |   |
| Amortization of deferred compensation expenses | (9,453)          |     | (3,898)          |   |
| Other operating expenses                       | <u>6,375</u>     |     | <u>(1,996)</u>   |   |
| <b>Operating profit</b>                        | <b>27,282</b>    |     | <b>(35,880)</b>  |   |
| Finance costs                                  | <u>(1,048)</u>   |     | <u>(1,082)</u>   |   |
| Profit before tax                              | 26,234           |     | (36,962)         |   |
| Taxation                                       | <u>(1,442)</u>   |     | <u>455</u>       |   |
| Profit/(loss) - continuing opts                | 22,907           |     | 703              |   |
| Profit/(loss) - discount'd opts                | <u>1,885</u>     |     | <u>(37,210)</u>  |   |
| Profit/(loss) for the period                   | 24,792           |     | (36,507)         |   |
| Minority interest                              | <u>(4,176)</u>   |     | <u>10,975</u>    |   |
| <b>Attributable profit</b>                     | <b>20,616</b>    |     | <b>(25,532)</b>  | TV accounted for 72% of the loss and search engine took up the balance; continuing operations only managed to breakeven |
| EPS (fen)                                      | 4.97             |     | (5.49)           |   |
| Gross margin                                   | 38.0%            |     | 34.4%            |   |
| Operating margin                               | 8.5%             |     | -10.1%           |   |
| Net margin                                     | 6.4%             |     | -7.2%            |   |

Source: company information, FSSL

## QoQ income statements

| RMB'000                      | 3Q03        | 4Q03        | 1Q04        | 2Q04        | 3Q04        | 4Q04        | 1Q05         | 2Q05         | 3Q05          |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|---------------|
| Turnover                     | 86.7        | 93.2        | 82.5        | 117.6       | 122.2       | 140.3       | 110.9        | 130.5        | 115.4         |
| Cost of sales                | (55.1)      | (57.1)      | (51.2)      | (73.5)      | (75.1)      | (77.0)      | (70.7)       | (81.2)       | (82.1)        |
| <b>Gross profit</b>          | <b>31.6</b> | <b>36.1</b> | <b>31.3</b> | <b>44.1</b> | <b>47.0</b> | <b>63.3</b> | <b>40.1</b>  | <b>49.3</b>  | <b>33.3</b>   |
| Other revenue                | 0.1         | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         | 0.1          | 0.2          | 0.1           |
| Selling & distribution costs | (8.5)       | (9.0)       | (12.2)      | (15.1)      | (16.9)      | (20.4)      | (24.1)       | (24.6)       | (30.6)        |
| Administrative expenses      | (10.2)      | (11.7)      | (12.4)      | (17.4)      | (18.7)      | (20.4)      | (24.3)       | (23.6)       | (26.0)        |
| Other operating expenses     | (1.2)       | 1.3         | 1.0         | 0.6         | 4.8         | (0.9)       | 2.0          | (2.2)        | (3.1)         |
| <b>Operating profit</b>      | <b>11.7</b> | <b>16.8</b> | <b>7.9</b>  | <b>12.4</b> | <b>16.4</b> | <b>21.8</b> | <b>(6.1)</b> | <b>(1.0)</b> | <b>(26.2)</b> |
| Finance costs                | (0.5)       | (0.7)       | (0.4)       | (0.2)       | (0.4)       | (0.3)       | (0.4)        | (0.3)        | (0.4)         |
| Jointly controlled entity    | 0.0         | 0.0         | -           | -           | -           | (0.3)       | -            | -            | -             |
| Profit before tax            | 11.3        | 16.1        | 7.5         | 12.2        | 16.0        | 21.2        | (6.5)        | (1.3)        | (26.6)        |
| Taxation                     | (0.4)       | (0.6)       | (0.6)       | (0.4)       | (0.5)       | (0.7)       | (0.1)        | 0.5          | 0.0           |
| Profit after tax             | 10.9        | 15.5        | 6.9         | 11.8        | 15.5        | 20.6        | (6.6)        | (0.8)        | (26.5)        |
| Minority interest            | (1.9)       | (3.1)       | (0.9)       | (0.4)       | (2.9)       | (2.9)       | 3.7          | (1.2)        | 6.0           |
| <b>Net profit</b>            | <b>9.0</b>  | <b>12.4</b> | <b>6.0</b>  | <b>11.4</b> | <b>12.6</b> | <b>17.7</b> | <b>(2.9)</b> | <b>(2.0)</b> | <b>(20.5)</b> |

Source: company information, FSSL

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

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As of 30 September 2005, First Shanghai Investments Limited, China Alpha Fund (a mutual fund managed by an associate of FSSL) and China Assets (Holdings) Limited, all associates of FSSL, held position in the Company.

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