

TARGET WARNED: DID YOU LISTEN ?

When Panda-Recruit Ltd (Code: 8073, The Growth Enterprise Market [The GEM] of The Stock Exchange of Hongkong Ltd) announced, last week, that it had lost the exclusive franchise to distribute its bilingual recruitment publication, 'Recruit', in stations, operated by the Mass Transit Railway Corporation (MTRC), it should have become painfully obvious to everybody that the situation for this publicly listed company had reached a point of absolute desperation.

Because 83 percent of the Company's Turnover is derived from advertising revenue, generated in *Recruit*.

If Panda-Recruit cannot replace the MTRC stations with similar, high-traffic, distribution points, that, logically, means that fewer people will be reading the freebie publication; and, it follows, that Panda-Recruit would be hard-pressed to charge its present advertising rates, which are based on circulation figures.

The MTRC franchise will expire on July 2, 2002, thus ending a decade of cooperation between the MTRC and Panda-Recruit.

It is clear that the loss of this franchise will have a material bearing on this GEM Company – which has been having a difficult time of it, in any event.

But readers and subscribers of TARGET would have known all about the above scenario since, on July 19, 2000, in the financial analysis of the Prospectus of Panda-Recruit, this analyst pointed out, most prominently, the above-mentioned matters.

In [TARGET Intelligence Report, Volume II, Number 135](#), this medium wrote, inter alia:

'One of the most intriguing questions, on reading the prospectus of one of the latest entrants to the rolls of The GEM ... is trying to understand the reason that the Mass Transit Railway Corporation (MTRC), an entity of the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), would enter into an exclusive, 10-year contract with a wholly owned subsidiary of Panda-Recruit Ltd.

'Not that there is anything untoward in respect of this MTRC-Panda-Recruit, 10-year exclusive contract, which gave Panda-Recruit the exclusive right to distribute its publication, 'Recruit', at all MTRC stations until the year 2002, but one must wonder:

- 1. Under what circumstances was the contract awarded?*
- 2. Did the MTRC go to tender, inviting other potential competitors to make bids on the same or similar concept to 'Recruit' in order to guarantee that the MTRC was squeezing out the best possible contract for the people of the HKSAR?*
- 3. What was the MTRC's authority to grant such an exclusive contract?*

'There are many other questions that could be raised with regard to this contract because it is the 'nut' of the success of 'Recruit' – if one may call 'Recruit' a success.

'Perhaps, one of the most important and intriguing questions, to be considered, today, is whether or not the MTRC will go to tender in July 2002 – when the Panda-

Recruit Contract expires.

'And will such a move spike the proverbial guns of Mr Chow Yung (Mr Robert Chow Yung is the President and Chief Executive Officer of the Company)?

'The MTRC obtains an annual licence fee from Panda-Recruit equal to 30 percent of the Net Profit of Hongkong Transit Publishing Company Ltd, a wholly owned subsidiary of Panda-Recruit.

'The Prospectus of Panda-Recruit, at Page 101, states that, during the 15-month period, ended December 31, 1998, Panda-Recruit paid over to the MTRC about \$HK5 million in respect of the annual licence fee.

'For the Financial Year, ended December 31, 1999, the amount of money, paid over to the MTRC in respect of the annual licence fee, amounted to about \$HK1.85 million.

'So the MTRC is, not exactly, making a lot of money from Panda-Recruit, leaving, one would imagine, the door wide open for Management of the MTRC to consider any and all newcomers to try to compete with Panda-Recruit at MTRC stations.

'The concept of 'Recruit' is, without question, meritorious, to be sure, and Mr Robert Chow Yung, President and Chief Executive Officer of Panda-Recruit, is to be congratulated for his nous and perspicacity in starting the concept of creating a medium, specifically aimed at job-seekers.

'Through one avenue or another, he was able to talk the MTRC into giving Panda-Recruit the exclusive franchise to place his newspaper in conspicuous areas of train stations so that job seekers could peruse the 'Recruit' pages while taking the train to and from work.

'However, it has not been, altogether, a roaring success: It appears to be making a loss, at this time.

'In fact, it has been making a loss for the past 17 months, according to the Prospectus ...

'In short, competition is fierce so that the only real advantage that Panda-Recruit has, at this time, is the MTRC exclusive franchise...

'Conclusion: *About 177 people are relying on Panda-Recruit for their livelihood.*

One has to have sympathy for them because it appears that this Company could well be doomed, even if the MTRC renews its franchise for another decade in 2002.

Panda-Recruit is in a business where competition will eat chunks out of it, as a piranha attacks small prey, devouring them as they stand, and showing no mercy ... '.

In the penultimate paragraph of the official announcement of Panda-Recruit of last Wednesday, it is stated:

*'The Company is currently assessing the financial impact on the expiry of the exclusive distribution right of Recruit at the Mass Transit Railway stations. **Investors are warned to exercise caution in dealing in the shares of this Company.'***

Déjàvu!

Finally, Panda-Recruit has earned nothing but losses since it went public, having lost not less than \$HK107 million up to and including September 30, 2001, according to TOLFIN (TARGET's Computerised Online Financial Service).

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