

## Fact Sheet

### Market Data

**OTCBB:** CHCG.OB

**Recent Price:** 2.44 (10/20/06)

**Business:** retail chain operator specializing in selling 3C products

**52 Week Trading Range:** \$0.10 - \$10.00

**Common Shares Outstanding:** 48.9 million

**Market Capitalization:** 119.3 million

**Fiscal Year-End:** December 31

**Revenue Guidance for 2006:** \$135 million

**Net Income Guidance for 2006:** \$9.8 million

### Historical Background

China 3C Group is the parent company of two well known and established electronic product distributors currently doing business in Eastern China, Yiwu Yong Xin Telecommunication Company Limited (YYXC) and Hangzhou Wang Da Electronics (HWDA) and their holding company, Zhejiang Yong Xin Digital Technology Company (ZYXD). The two subsidiaries are authorized sales agents for communication, IT, and digital products, or 3C products, in China.

YYXC is focused on the selling of fax machines, as well as cord phone products in China. To date, the distribution of fax machines and cord phone products has accounted for the largest percentage of the combined subsidiaries revenues.

HWDA is focused on the selling of cell phones, cell phone products, IT products (including notebook and lap top computers) and digital products (including digital cameras, digital camcorders, MP3 players, PDAs, flash disks and removable hard disks) in China. China 3C expects cell phone and other digital products to become the biggest part of their business.

### Excellent Reputation

- Outstanding Dealer of Panasonic, Samsung and Brother
- Major partner of Philips, CJT and Feng Da
- 15.7% market share in Eastern China
- Major suppliers for top consumer electronics chains in China, such as Guo Mei Appliance and Su Ning Appliance
- Rapid growth in new business. HWDA experienced a 1,000% increase during the past 2 years and currently has a \$12 million revenue in cell phone products.

### Current Operation Model



#### (1) Brands

- Samsung, Brother, Philips, Panasonic, Feng Da, CJT, DaXian and KeJian

#### (2) Largest Suppliers

- Guangdong Feng Da High Technology Company Limited, who is the biggest fax machine manufacturer in China and the sole ODM for Philips fax machine
- Hangzhou Sen Rui Da Trading Company Limited, who is the

#### (3) Largest Customers

- Samsung, Brother, Philips, Panasonic, Feng Da, CJT, DaXian and KeJian
- Shanghai Guo Mei Electrical Appliance Company Limited (the largest consumer electronics chain in China)
- Shanghai Jin Jiang Mai De Long Shopping Mall Company Limited
- Tai Zhou Shi Road Qiao Bo Xiong Electrical Appliance Company Limited
- Ningbo Hao You Duo Department Store Company

- general agent of Panasonic fax machine in China
- Shanghai Rong Duo Trading Company Limited, the authorized distributor of Panasonic fax machine
- Shanghai Zhong Fang Electronics Company Limited
- Ningbo Zhong Xun Electronics Company Limited
- Shenzhen SED Coalition Electronics Co., Ltd., who is the general agent of Philips and LG cell phone in China
- Shenzhen Zeus Telecommunication Holding Company Limited, whose focus is on the development and production of 2.5G and 3G cell phones, with the capability of producing 3 million units annually
- Tian Chen Digital Technology Company Limited, the general agent of VK cell phone in Zhejiang Province
- Hangzhou Wei Hua Communications Equipment Company Limited, a large OEM producer.

- Limited, (the largest supermarket chain in China)
- An Qing Mei Sheng Communication (An Qing Heng Da Technology Company Limited).
- Jiaxing Jia Xin Communication Equipment Company Limited (20% market share in Jiaxing City)
- Ningbo Ai Hu Communication Equipment Company Limited (20% market share in Ningbo City)
- Cixi Guiang Da Communication Equipment Company Limited (40-50% market share in Cixi City, 20% market share in Ningbo City)
- Wenzhou Zong Tai Communication Equipment Company, Limited (25% market share in Wenzhou City)
- Taizhou Yi Tong Communication Equipment Company Limited (28% market share in Taizhou City).



### Dominant Presence in Eastern China

Currently, the Company's primary focus is on Eastern China where they have established a strong presence in Shanghai as well as Jiangsu and Zhejiang provinces. These areas account for 10.69% of China's population and produce 24.91% of the country's GDP.\*

**Shanghai** is the financial and trade center of China. The City had a GDP per capita of \$5,620 in 2003, ranked no. 13 among all 659 Chinese cities. Since the handover of Hong Kong to the PRC in 1997, Shanghai has increased its role in finance and banking and as such is a major destination for corporate headquarters. For the last 14 years, the City has experienced 14% growth. In 2005, Shanghai's nominal GDP posted an 11.1% growth to \$114 billion.\*\*



**Jiangsu province** is one of the wealthiest in China and ranks as the second highest in total GDP. In 2003, Jiangsu's nominal GDP was \$150.4 billion, for an annual growth rate of 13.5%. In 2003, total exports for the province were \$113.8 billion.\*



**The Zhejiang province** had an annual increase in GDP of 13% between 1978 and 2002 going from 12th to 4th in GDP in all of China. During this same time period the volume of exports increased from \$5.4 million to \$29.4 billion, an average of 30.3% growth. Zhejiang province nominal GDP in 2005 was \$167 billion.\*

\* China Statistical Year Book 2005  
\*\*Xinhua

### Historical Achievements

The Company reported full year 2005 revenues of \$32.6 million, up 32% over revenues of \$24.7 million for full year 2004. Income from operations for 2005 was \$2.6 million, compared to income from operations of \$2.3 million for the same period in 2004. Net income for the full year was \$1.5 million, compared to \$2.1 million for full year 2004.

### Revenue



### Second Quarter 2006 Financial Results

Net revenues for the 3 months ended June 30, 2006 totaled \$28,618,196, compared to revenues of \$9.12 million for second quarter 2005, an increase of 213.7%. It is a 112.7% increase compared to \$13,450,749 for the 3 months ended March 31, 2006.

The increase was due to increased sales volume from new products and existing products during the 3 months ended June 30, 2006.

Net income for the 3 months ended June 30, 2006 was \$2,262,695, compared to a net income of \$693,000 for the same quarter last year, an increase of 226.5%. It is a 147.6% increase compared to \$913,548 for the 3 months ended March 31, 2006. The increase in percentage was due to slight increase in gross profit margin and decrease in cost.

Cost of sales for the 3 months ended June 30, 2006 totaled \$24,347,343 or approximately 85.08% of net sales compared to \$11,520,281 or approximately 85.65% for the 3 months ended March 31, 2006. The cost of sales as a percentage remains stable during the 3 months ended June 30, 2006.

Gross profit margin for the 3 months ended June 30, 2006 was 14.92% compared to 14.35% for the 3 months ended March 31, 2006. The gross profit margin remains stable during the 3 months ended June 30, 2006.

General and administrative expense for the three months ended June 30, 2006 totaled \$903,938 or approximately 3.16% of net sales, compared to \$505,052 or approximately 3.75% for the 3 months ended March 31, 2006. The decrease of 0.59% was due to the benefit from scale of operations in that the increment in net sales is higher than the increment in overall general and administrative expenses.

### Operation Model in the Future



#### Distribution model→Retail model

1. Decrease distribution; increase gross margin
2. Control end market demand; improve the sensitivity to the market
3. Increase procurement size; improve the ability to negotiate with suppliers
4. Strengthen brandization; increase customer loyalty

#### Relationship with current retail distributors

1. Two mile principle
2. Difference principle
3. Principle of acquisition step by step

#### Products in the future

In the second half of 2006, China 3C will introduce new products in its market place, including cartridges for printers, cord phones, computers, MP3 players and audio and video digital products. The Company expects these product introductions to contribute \$700 million or 70% to its revenues in 2010.

#### Marketing methods

1. Retail 60%
2. Distribution 20%
3. Web Based Sales 20%

### Targets

Currently, China 3C distributes products to 276 national chain stores and expects to grow this number to 550 national accounts in 2006. They also look to gain market share in Eastern China, particularly in cell phones and digital products over the next several years.

Beginning in 2008, they will look to expand operations into all of China. Management is confident that the success that it has demonstrated in Eastern China and the relationships it has formed with leading national retailers and international and domestic suppliers will provide the leverage needed to succeed nationally.

The Company expects the expansion will set up 4,000 retail stores and bring a revenue of \$1 billion in 2010.

The Company also expects to form a partnership with a Chinese telecommunications company in the future to open chain stores throughout China, which China 3C will manage.

In addition, to internal growth, China 3C expects acquisitions to play a part in the company's future growth. They will seek complimentary acquisitions which can assist them in further expanding their presence in the 3C marketplace in China.



### **Highly Effective Administration and Strong Management Team**

China 3C recognizes the importance of investing in and maintaining a strong sales force in order to gain market share. Currently, their two subsidiaries have a total of 132 salespeople selling to both companies and retail stores.

In order to retain key sales personnel and attract talented individuals China 3C offers offer a significantly higher competitive base salary, commission compensation and bonus compensation package.

In order to formulate effective sales and marketing strategies for the Company, China 3C partners with several universities and research institutions in China and around the world. This includes Zhejiang University, the third most recognized university in China. The Company effectively uses these resources most updated innovations and studies in order to examine the 3C products market in China.

Mr. Zhenggang Wang is the chief executive officer and chairman of the board of China 3C. He is also the founder, chairman and chief executive officer of ZYXD. He established YYXC in 1997 and HWDA in 1999. Mr. Wang received his EMBA from Zhejiang University

Mr. Xiang Ma was appointed president of the Company in March 2007. He had been president of China 3C's largest subsidiary Yiwu Yong Xin Telecommunication Company since 1999. Prior he was manager of Zhejiang Transfar Company, a publicly-held company in China. He has a BS degree from Zhejiang University in business management.

Jian Liu, the Company's chief financial officer has also been ZYXD's chief financial officer since 2002. Prior to that time, he was chief financial officer of a Chinese steel production company, Beijing Liao Hua Group. Mr. Jian Liu is a member of the Institute of Certified Accountants of China and holds a Masters degree in Investment Analysis from Xiamen University.

### **CONTACT INFORMATION**

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