



HC International, Inc.
慧聰國際資訊有限公司

search engine
information service



zhongsou.com

中国搜索

trade catalogue

www.hc360.com

advertising



www.hc360.com

Interim Report 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to GEM website <http://www.hkgem.com> in order to obtain up-to-date information on GEM-listed issuers.

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This report, for which the directors (the “Directors”) of HC International, Inc. (the “Company”, together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to announce the results of the Group for the six months ended 30th June 2004 to the shareholders of the Company.

First half of 2004 was a remarkable period for the Company. With the successful listing of the Group on GEM in December 2003, the strengthened financial position of the Company enabled the Group to speed up its business development and market expansion by introducing innovative business information products and services so as to further strengthen the Group's position as one of the leading cross-media business information providers in the People's Republic of China (the "PRC").

Financial Highlights

	Three months ended 31st March		Six months ended 30th June	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	82,501	62,419	200,067	142,633
Gross Profit	31,341	20,424	75,416	49,895
EBITDA	11,167	8,045	27,164	21,933
Profit attributable to shareholders	6,042	4,046	17,449	11,727

Key Financial Achievements in the First Half of 2004

- about 40% growth in turnover from approximately RMB143 million to approximately RMB200 million
- gross profit ratio improved by about 3 percentage points from approximately 35% to 38%
- about 24% growth in EBITDA from approximately RMB22 million to approximately RMB27 million
- about 49% growth in profit attributable to shareholders from approximately RMB11.7 million to approximately RMB17.4 million

Financial Review

During the six months ended 30th June 2004, the Group recorded a turnover of approximately RMB200 million (2003: RMB143 million), representing approximately 40% increase over that of the corresponding period last year. The increase was mainly attributable to the rapid expansion of the Group's market share in 2 business lines, namely (i) the industry portal, trade catalogues and yellow page directories services and (ii) the search engine and website construction services.

The gross profit margin increased by about 3 percentage points from approximately 35% to approximately 38% as compared with that of the corresponding period last year. The Group also achieved a strong growth of about 49% in net profit amounting to approximately RMB17.4 million for the six months ended 30th June 2004 (2003: RMB11.7 million).

Comparing segment financial performance of the Group against the corresponding period last year, the industry portal, trade catalogues and yellow page directories' revenue for the first half of 2004 increased by about 40% to RMB84 million (2003: RMB60 million) and achieved a segment result of approximately RMB43 million (2003: RMB30 million) representing a growth of approximately 46%. The gross profit margin of this business segment also increased from approximately 49% to approximately 52% for the first half of 2004. Stepping into year 2004, most of the business sectors which the Group covers, including teaching materials and equipment, water treatment equipment, heating and air-conditioning equipment, has started to reach their strong growing stage and shown a significant growth in revenue. In February, 2004, the Group rebranded its industry portal from "sinobnet.com" to "hc360.com" which further enhanced the interaction and integration of both online and offline provision of business information through the Group's industry portal "hc360.com" and publication of printed trade categories.

Revenue generated from the search engine and website construction segment for the first half of 2004 increased to approximately RMB22 million as compared with approximately RMB5 million in the corresponding period last year. Segment results of approximately RMB17 million and a gross margin of about 77% was achieved in this business segment for the first half of 2004. This remarkable result was mainly attributable to the better enhancement of the Group's proprietary search engine software technology and its continuous exploration of website construction market during the same period.

The Group also recorded a strong performance with the market research and analysis segment. Total revenue of approximately RMB13 million for this segment was achieved for the six months ended 30th June 2004, which almost doubled the approximately RMB7 million recorded for the corresponding period last year.

Business Review

To strengthen the Group's position as one of PRC's leading industry portals, efforts and resources have been devoted to widen and enrich the scope and range of business information provided through the Group's industry portal "hc360.com". The total number of industries covered by the Group's portal has now reached 64. Thousands of pieces of business information including product description, product pricing, corporate information, news, market opportunity, technical release and authority notices etc. are updated and posted on the Group's specialized industry website on a daily basis to provide customers with the most timely, accurate, comprehensive and professional business information online.

Furthermore, in order to better realize the synergies arising from the interaction between the Group's printed trade catalogues and its industry portal, the Group rebranded its industry portal from "sinobnet.com" to "hc360.com" in February, 2004.

In March 2004, the Group launched 2 new online application tools, namely, "Information Center – 資訊通" and "Transaction Center – 買賣通".

By downloading the software – "Information Center – 資訊通", users can customize their "personal business directories" by choosing and setting their unique business information needs. Specified news, product information, industry information and professional release can be searched and edited automatically by "Information Center – 資訊通" according to each user's personal settings and as such enables users to manage and focus on their own business needs more effectively.

"Transaction Center – 買賣通" is an online marketplace launched by "hc360.com" to provide users with comprehensive and timely e-business opportunities. Being an online registered member of "Transaction Center – 買賣通", users can post and update their business information online which enables their products and services information to reach a large potential customer base and capture new business opportunities.

To help customers establish their business presence online, the Group introduced a new website construction service in early 2004. Through this product, the Group provides a one-stop shop in providing professional services encompassing web research and development, design, construction, promotion and maintenance of websites, and network integration and application, to its customers.

In addition, the Group also rebranded its proprietary Chinese search engine from "Huicong Search – 慧聰搜索" to "China Search – 中國搜索" aimed at developing this innovative Chinese search engine innovated by a Chinese company into a top searching tool for all Chinese internet users.

Desktop search has become an important way of searching on the internet which helps users obtain their desired information through internet, intranet and local computers. The Group developed this concept by launching a brand-new desktop search software "Net Personal Information Gateway" ("Net PIG") in March 2004. With "Net PIG", users can perform internet searches without opening internet browsers and it allows users to own their personalized, convenient and practical search and news portal.

Going Forward

The Group has achieved significant growth in terms of both market share and profitability in the first half of 2004. The Group will continue to focus on the development of its four major lines of business during the second half of the financial year which include: (i) industry portals, trade catalogues and yellow page directories, (ii) search engine and website construction services, (iii) television and printed periodicals, and (iv) market research and analysis.

The Group will continue to explore new business opportunities and provide innovative business information products and services with the aim of promoting the interests of its shareholders.

On behalf of the board of Directors, I would like to take this opportunity to thank the management and every member of the Group for their ongoing dedication and hard work.

Guo Fansheng

Executive Director and Chief Executive Officer

Beijing, PRC, 9th August 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30th June 2004, the Group has a cash at bank balance of RMB95,746,000 and net current assets of RMB163,164,000. The Group maintained a strong working capital position during the six months period ended 30th June 2004.

Short-term loans amounted to RMB23,000,000 as at 30th June 2004, representing a decrease of about 8% from that at 31st December 2003. Gearing ratio of the Group decreased to 9.20% as at 30th June 2004 from 11.24% as at 31st December 2003, calculated with reference to its short-term loans of RMB23,000,000 (31st December 2003: RMB25,000,000) and shareholders' funds of RMB250,113,000 (31st December 2003: RMB222,373,000).

The Group's shareholders' funds increased by RMB27,740,000 from RMB222,373,000 as at 31st December 2003 to RMB250,113,000 as at 30th June 2004.

Significant Investment

The Group has no significant investment during the six months ended 30th June 2004.

Future Plans for Material Investments

The Group has no plan for material investment other than those set out in the Company's prospectus dated 8th December 2003.

Material Acquisitions and Disposals

The Group has no material acquisition or disposal during the six months ended 30th June 2004.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th June 2004, the Group has 3,020 employees.

Remuneration of employees was generally in line with the market trend and commensurate with the level of pay in the industry, with share options granted to employees based on individual performance. Other benefits to the Group's employees include medical insurance, retirement schemes, training programmes and educational subsidies.

Capital Structure

On 5th January 2004, First Shanghai Securities exercised an over-allotment option in respect of 15,000,000 additional new shares of the Company at HK\$1.09 per share. The over-allotment shares represented 3.75% of the then existing issued share capital of the Company. The total issued share capital comprised 415,000,000 shares upon the exercise of such over-allotment option.

Outstanding Tax Liabilities as at 30th June 2003

According to instructions which the Company have received from the relevant tax authority, it will give the Company further instructions in relation to the approximately RMB3,400,000 profits tax after the Group has submitted its tax return for the tax year 2004. Apart from the RMB3,400,000 profits tax mentioned above, the Group has cleared and settled all its tax provision as reflected in the Group's consolidated balance sheet as at 30th June 2003.

Contribution to the Retirement Benefit Fund, Medical Benefit Fund and Housing Benefit Fund

During the process of obtaining relevant information and reporting of the particulars of the Group's employees to relevant authority, the Group was informed by the relevant authority that for those employees who have left the Group, the Group is not liable to make any contributions to the above mentioned benefit funds on their behalf. For existing employees who have provided the Group with sufficient information for registration purpose, the Group has taken an active approach to report to the relevant authority for registration and re-submission of the corresponding contribution funds. The Group will settle the remaining outstanding balance of approximately RMB4,601,000 once the relevant authority has completed the registration and verification process.

Charge on Group Assets

As at 30th June 2004, a property and its associated land use rights carried at RMB47,404,000 were pledged to secure the Group's bank loan amounting to RMB23,000,000.

Exchange Risk

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

Contingent Liabilities

As at 30th June 2004, the Group has no contingent liabilities (31st December 2003: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group’s business objectives as set out in the Company’s prospectus dated 8th December 2003 against the actual business progress from 1st January 2004 to 30th June 2004.

Business Objective

Actual Business Progress

Broaden industry coverage

- Conduct feasibility studies to expand the Group’s trade catalogues to cover 2 new industry sectors, including apparatus and meters, and rubber.
- Based on the results of the feasibility studies, the Group will consider commencing the publication of these trade catalogues through the Group’s website.

Ongoing feasibility studies have been carried out by the Group and it continues to utilise its expertise in the field and the valuable market indicators derived from its data library to broaden its trade catalogues to other industry sectors and commence the publication of these trade catalogues through the Group’s industry portal.

Increase market share within an existing industry sector

- Based on the results of the feasibility studies, the Group will consider launching website construction services.
- Expand the Group’s market research and analysis service to other industry sectors including security equipment, teaching materials and equipment, heating and air-conditioning equipment and water treatment equipment.

A new department specialized in the provision of website construction services has been set up by the Group and the sales of such services have expanded gradually to cover over 10 business sectors during the period.

Market research have been conducted and relevant reports have been generated by the Group to cover more industry sectors such as security equipment, teaching materials and equipment, fire-safety equipment and coating.

Business Objective

Actual Business Progress

Utilise the Internet to support its operations

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|---|---|
| <ul style="list-style-type: none"> • Continue to enrich the business information provided on the Group's website. | <p>More business information such as technical articles, authority release, market/business opportunities, have been provided through the Group's website with industry coverage of over 60 business sectors.</p> |
| <ul style="list-style-type: none"> • Research and development of short message system ("SMS") services, one of the functions of which is to bulk send business information through SMS for customers via the Internet. | <p>Due to the change in the global market environment of SMS services, there was no achievement in respect of this business objective in the first half of year 2004 and the Group will continue to perform related market research with respect to the viability of this business.</p> |

Expand and strengthen the Group's data library

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|---|---|
| <ul style="list-style-type: none"> • Continue to upgrade the data management system of the data library. | <p>Continuous upgrades to increase hardware and software efficiencies of the data library have been carried out.</p> |
| <ul style="list-style-type: none"> • Continue to improve the data management system of the data library. | <p>Ongoing research and development being carried out by the Group to improve the data management system of the data library.</p> |
| <ul style="list-style-type: none"> • Continue to expand the information sources for the data library. | <p>The number of newspaper and magazines in the PRC covered by the data library has increased from 201 to 1,650 in the first half of year 2004.</p> |

Business Objective**Actual Business Progress****Expand search engine services**

- Research and development to upgrade the existing search engine software. Ongoing research and development have been carried out by the Group. New versions namely "search 4.0" and "search 4.5" have been launched in March 2004 and June 2004 respectively.
- Research and development for new search engine-related software products. The Group has introduced a brand-new desktop search software namely "Net Personal Information Gateway" ("Net-PIG") to the market during the period between 1st January 2004 to 30th June 2004.

Expand television advertising services

- Based on the results of the feasibility studies, the Group will consider entering into a management agreement with 1-2 new television station(s). The Group has entered into a joint-venture operation with a new television station – Lanzhou television station on 1st January 2004. The Group continues to conduct feasibility studies on the provision of management services to other new television stations.

USE OF PROCEEDS

The actual use of proceeds as compared to the proposed amount as set out in the "Use of Proceeds" section of the Company's prospectus dated 8th December 2003:

	For the six months ended 30th June 2004	
	Proposed	Actual
	<i>RMB million</i>	<i>RMB million</i>
Broaden industry coverage	1.0	0.6
• Conduct feasibility studies	1.0	0.6
Increase market share within an existing industry sector	1.5	1.5
• Set up, operate and promote website construction services	1.0	1.0
• Promote market research and analysis services to other industry sectors	0.5	0.5
Utilise the Internet to support its operations	1.0	1.0
• Research and development of new products	0.5	0.5
• Enrich the contents on the Group's websites	0.5	0.5
Expand and strengthen the Group's data library	2.0	1.3
• Upgrade the software/hardware of the data library	1.5	0.8
• Expand the information source for the data library	0.5	0.5
Expand search engine services	3.0	3.0
• Research and development to enhance the existing search engine or the develop new search engine related software products	2.0	2.0
• Finance the launching of search engine services	1.0	1.0
Expand television advertising service	7.0	5.8
• Provide working capital for managing the advertising time-slots for new television stations	7.0	5.8
Working capital	1.5	1.5
	17.0	14.7

The Company deposits unused funds in interest-bearing accounts with banks.

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	Audited
	Note	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	117,566	80,214	200,067	142,633
Cost of sales		(73,491)	(50,743)	(124,651)	(92,738)
Gross profit		44,075	29,471	75,416	49,895
Other revenues		178	968	357	1,877
Selling and distribution costs		(15,084)	(5,960)	(27,242)	(12,109)
Administrative expenses		(17,407)	(13,536)	(29,837)	(22,159)
Other operating income/(expenses), net		641	899	1,605	523
Operating profit	3	12,403	11,842	20,299	18,027
Finance costs	4	(193)	(620)	(627)	(1,177)
Share of profits of a jointly controlled entity		-	97	-	375
Profit before taxation		12,210	11,319	19,672	17,225
Taxation	5	(404)	(1,365)	(965)	(2,148)
Profit after taxation		11,806	9,954	18,707	15,077
Minority interests		(399)	(2,273)	(1,258)	(3,350)
Profit attributable to shareholders		11,407	7,681	17,449	11,727
Dividends	6	-	-	-	-
Earnings per share					
Basic	7	RMB0.028	RMB0.026	RMB0.042	RMB0.039
Diluted	7	RMB0.025	N/A	RMB0.039	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004

	Note	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Non-current assets			
Intangible assets	8	28,855	27,989
Fixed assets	8	87,519	76,201
Investments in a jointly controlled entity		1,947	2,193
Deferred tax assets		5,055	5,253
		<u>123,376</u>	<u>111,636</u>
Current assets			
Trade receivables	9	89,421	58,986
Deposits, prepayments and other receivables		51,780	37,248
Bank balances and cash		95,746	133,977
		<u>236,947</u>	<u>230,211</u>
Current liabilities			
Trade payables	10	7,859	4,892
Accrued expenses, deposits received and other payables		12,695	21,514
Accruals for statutory benefit funds	11	12,025	15,222
Amount due to a related company		–	699
Short-term loans	12	23,000	25,000
Other taxes payable	13	12,635	12,616
Income tax payable	13	5,569	6,329
		<u>73,783</u>	<u>86,272</u>
Net current assets		<u>163,164</u>	<u>143,939</u>
Total assets less current liabilities		<u>286,540</u>	<u>255,575</u>

	<i>Note</i>	Unaudited 2004 RMB'000	Audited 2003 RMB'000
Financed by:			
Share capital	14	44,389	42,784
Reserves		205,724	179,589
Shareholders' funds		250,113	222,373
Minority interests		33,638	30,578
Non-current liability			
Deferred tax liabilities		2,789	2,624
		286,540	255,575

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Share capital	Capital reserve	Merger reserve	(Accumulated losses)/ retained earnings	Shares Issuance costs	Share premium	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2003 (audited)	1,956	987	108,830	(18,960)	(7,377)	-	85,436
Profit for the period	-	-	-	11,727	-	-	11,727
Shares issue expenses	-	-	-	-	(4,475)	-	(4,475)
At 30th June 2003 (audited)	1,956	987	108,830	(7,233)	(11,852)	-	92,688
At 1st January 2004 (audited)	42,784	987	108,830	14,118	-	55,654	222,373
Issuance of shares	1,605	-	-	-	-	15,890	17,495
Profit for the period	-	-	-	17,449	-	-	17,449
Shares issue expenses	-	-	-	-	(7,204)	-	(7,204)
Offset of share issuance costs to share premium	-	-	-	-	7,204	(7,204)	-
At 30th June 2004 (unaudited)	44,389	987	108,830	31,567	-	64,340	250,113

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited 2004 RMB'000	Audited 2003 RMB'000
Net cash (outflow)/inflow from operating activities	(26,552)	13,433
Net cash outflow from investing activities	(19,970)	(19,318)
Net cash inflow from financing activities	8,291	3,315
Decrease in cash and cash equivalents	(38,231)	(2,570)
Cash and cash equivalents at 1st January	133,977	28,405
Cash and cash equivalents at 30th June	95,746	25,835
Analysis of balances of cash and cash equivalents		
Bank balances and cash	95,746	25,835

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. Segment information

(a) *Primary reporting format – business segments*

The Group is organised into the following business segments:

- (a) Provision of trade information and advertising platform
 - (i) Trade information provision – provision of trade information through trade catalogues and yellow page directories published by the Group.
 - (ii) Television – provision of advertisement air-time on television stations.
 - (iii) Print periodicals – wholesaling of advertisement space in newspapers and magazines.
 - (iv) Search engine services – provision of search engine services to customers which allows a customer to register its own business website on the search engine platform.
- (b) Provision of value-added business information services and products
 - (i) Market research and analysis – provision of business information and analysis services.
 - (ii) Exhibition, seminars and PR services – provision of arrangement, assistance and PR services for hosting of exhibitions and seminars.

There are no sales or other transactions between the business segments.

Unaudited
6 months ended 30th June 2004

	Trade information and advertising platform				Value-added business information services and products		Total RMB'000
	TCC RMB'000	Television RMB'000	Print periodicals RMB'000	Search engine services RMB'000	Market research and analysis RMB'000	Exhibition, seminars and PR services RMB'000	
Turnover	83,860	67,315	11,415	22,077	13,159	2,241	200,067
Segment results	43,224	6,422	966	16,915	7,112	777	75,416
Interest income							357
Unallocated costs							(55,474)
Operating profit							20,299
Finance costs							(627)
Taxation							(965)
Profit after taxation							18,707
Minority interests							(1,258)
Profit attributable to the shareholders							17,449

Audited
6 months ended 30th June 2003

	Trade information and advertising platform				Value-added business information services and products		Total RMB'000
	TCC RMB'000	Television RMB'000	Print periodicals RMB'000	Search engine services RMB'000	Market research and analysis RMB'000	Exhibition, seminars and PR services RMB'000	
Turnover	60,011	57,398	12,308	4,927	7,088	901	142,633
Segment results	29,627	11,414	1,140	3,929	3,117	668	49,895
Interest income							1,877
Unallocated costs							(33,745)
Operating profit							18,027
Finance costs							(1,177)
Share of profits of a jointly controlled entity							375
Taxation							(2,148)
Profit after taxation							15,077
Minority interests							(3,350)
Profit attributable to the shareholders							11,727

(b) *Secondary reporting format – geographical segments*

The principal market of the Group is primarily in the People's Republic of China (the "PRC"), excluding Hong Kong Special Administrative Region and the turnover and operating profit attributable to other markets are both less than 10% of the Group's total turnover and operating profit for the six months ended June 2003 and 2004, individually. Accordingly, no segmental information analysed by geographical segment is presented.

3. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Unaudited	Audited
	Six months ended	
	30th June	
	2004	2003
	RMB'000	RMB'000
Staff costs, including directors' emoluments	53,585	35,530
Depreciation of fixed assets	5,108	3,202
Gain on disposal of subsidiaries	(1,878)	(392)
Gain on disposal of fixed assets	(71)	(83)
Amortisation of software development costs	1,848	434
Amortisation of negative goodwill	(91)	(105)
Recognition of negative goodwill	(332)	-
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4. Finance costs

	Unaudited	Audited
	Six months ended	
	30th June	
	2004	2003
	RMB'000	RMB'000
Interest on short-term bank loans	627	936
Interest on other loans wholly repayable within five years	-	241
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	627	1,177
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5. Taxation

The amount of tax charged to the condensed consolidated profit and loss account represents:

	Unaudited	Audited
	Six months ended	
	30th June	
	2004	2003
	RMB'000	RMB'000
Hong Kong profits tax (i)	-	-
The PRC Enterprise income tax ("EIT") (ii)	602	1,533
Deferred taxation	363	615
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	965	2,148
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- (i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period (2003: Nil).
- (ii) The PRC enterprise income tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The subsidiaries of the Group established in the PRC are generally subject to income tax on their taxable income at a combined national and local tax rate of 33%. Certain subsidiaries enjoy tax preferential rights and subject to a tax rate of 0% to 15% during the period.

6. Dividends

No dividends have been paid or declared by the Company and the group companies.

7. Earnings per share

The calculation of basic earnings per share for the three months and six months ended 30th June 2004 is based on the respective unaudited Group's profit attributable to shareholders of RMB11,407,000 and RMB17,449,000 (2003: unaudited Group's profit attributable to shareholders of RMB7,681,000 and audited Group's profit attributable to shareholders of RMB11,727,000) and the weighted average of 415,000,000 and 414,667,000 (2003: 300,000,000 and 300,000,000) ordinary shares in issue during the period, on the assumption that the share capitalisation issue took place on 1st January 2003.

The calculation of diluted earnings per share for the three months and six months ended 30th June 2004 is based on the unaudited Group's profit attributable to the shareholders of RMB11,407,000 and RMB17,449,000 and the weighted average of 451,125,000 and 451,792,000 ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company, under the Pre-IPO Share Option Scheme had been exercised at the date of grant. Since the exercise price of the Share Options granted by the Company under Share Option Scheme is higher than the average market price of the Company, the effect of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.

8. Capital expenditure

	Software development costs	Data library	Negative goodwill	Total intangible assets	Fixed assets
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book amount as at 1st January 2004	7,260	20,887	(158)	27,989	76,201
Development costs recognised as an asset	2,587	-	-	2,587	-
Other additions	-	-	-	-	17,565
Disposals	-	-	36	36	(1,139)
Depreciation/amortisation charge	(748)	(1,100)	91	(1,757)	(5,108)
Closing net book amount as at 30th June 2004	9,099	19,787	(31)	28,855	87,519

9. Trade receivables

The majority of the Group's turnover is on credit terms ranging from 30 to 120 days. The aging analysis of the trade receivables as at 30th June 2004 and 31st December 2003 is as follows:

	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Current to 90 days	59,776	34,613
91 to 180 days	13,632	13,400
181 to 365 days	14,975	10,737
Over 1 year	4,400	2,931
	92,783	61,681
Provision for doubtful debts	(3,362)	(2,695)
	89,421	58,986

10. Trade payables

The aging analysis of the trade payables as at 30th June 2004 and 31st December 2003 is as follows:

	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Current to 90 days	6,751	3,887
91 to 180 days	254	551
181 to 365 days	458	339
Over 1 year	396	115
	<u>7,859</u>	<u>4,892</u>

11. Accruals for statutory benefit funds

	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Accrual for retirement benefit	6,536	9,503
Accrual for medical benefit	798	815
Accrual for housing benefit	4,691	4,904
	<u>12,025</u>	<u>15,222</u>

In accordance with the PRC regulations, the Group is required to make contributions to the retirement benefit fund, medical benefit fund and housing benefit fund, calculated at 20%, 10% and 8% of the basic salaries of the employees, respectively.

12. Short-term loans

	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Bank loans, secured	23,000	25,000
	<u>23,000</u>	<u>25,000</u>

The bank loan of RMB23,000,000 were secured by a property and the associated land use rights owned by the Group.

13. Income tax payable and other taxes payable

	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
Income tax payable:		
EIT	<u>5,569</u>	<u>6,329</u>
Other taxes payable:		
Business tax	8,990	8,200
Cultural and development tax	1,844	2,391
Other taxes	1,801	2,025
	<u>12,635</u>	<u>12,616</u>

14. Share capital

	Unaudited 30th June 2004		Audited 31st December 2003	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each	<u>1,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
		<i>RMB'000</i>		<i>RMB'000</i>
Equivalent to:		<u>107,000</u>		<u>107,000</u>

	Unaudited 30th June 2004		Audited 31st December 2003	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
Issued and fully paid				
At 1st January	400,000,000	42,784	18,427,323	1,956
Placing of shares	–	–	100,000,000	10,700
Issue of shares pursuant Capitalisation Issue	–	–	281,572,677	30,128
Issue of shares pursuant Over-allotment Issue	<u>15,000,000</u>	<u>1,605</u>	<u>–</u>	<u>–</u>
At 30th June 2004/ 31st December 2003	<u>415,000,000</u>	<u>44,389</u>	<u>400,000,000</u>	<u>42,784</u>

On 5th January 2004, First Shanghai Securities exercised an over-allotment option in respect of 15,000,000 additional new shares of the Company at HK\$1.09 per share. The over-allotment shares represented 3.75% of the then existing issued share capital of the Company. The total issued share capital comprised 415,000,000 shares upon the exercise of such over-allotment option.

Share option schemes

Details of options outstanding as at 30th June 2004 are as follows:

	Number of share options	
	Pre-IPO Share Option Plan	Share Option Scheme
Exercise price per share (HK\$)	0.44	2.40
Outstanding at 1st January 2004	46,984,080	–
Granted during the period	–	26,000,000
Outstanding at 30th June 2004	46,984,080	26,000,000

On 18th February 2004, options to subscribe for an aggregate of 26,000,000 shares of the Company were granted to the directors and employees under the share option scheme.

15. Commitments

The Group entered into 5 (31st December 2003: 3) long-term sole and exclusive management agreements with Zhengzhou Television Station, Jinan Television Station, Urumqi Television Station and Lanzhou Television Station for the exclusive management of advertising time slots. Pursuant to the agreements, the Group pays monthly charge for the time slots.

Pursuant to the agreements, the annual charges will be increased with increment rate ranging from 5% to 15% subject to the mutual agreement between the parties. The Group adopted the minimum increment rate for calculating the future aggregate minimum payments.

As at 30th June 2004, the Group had future aggregate minimum payments under these agreements of approximately RMB97,819,000 (31st December 2003: RMB103,885,000), RMB139,060,000 (31st December 2003: RMB111,756,000) and Nil (31st December 2003: Nil) within one year, in the second to fifth years inclusive and later than five years, respectively.

16. Related party transactions

The Group entered into the following significant related party transactions during the period based on terms mutually agreed by the parties:

		Unaudited	Audited
		Six months ended	
		30th June	
		2004	2003
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Interest income received from a minority shareholder of the Company		-	1,798
Interest expense paid to a shareholder		-	241
Service income received from a minority shareholder of the Company	<i>(a)</i>	106	106
Distribution costs paid to a minority shareholder of the Company	<i>(b)</i>	120	120
Licence income received from a minority shareholder of the Company	<i>(c)</i>	120	120
Publication costs paid to a minority shareholder of the Company	<i>(d)</i>	50	50
Service costs paid to a minority shareholder of the Company		-	250
Printing costs paid to a related company	<i>(e)</i>	11,851	7,224
Rental income received from a related company	<i>(f)</i>	323	-
		12,200	8,393

- (a) HC Construction Limited entered into a three-year Technology Services Agreement with the Group in 2002. Pursuant to the agreement, the Group received technical service income from HC Construction Limited based on the working hour devoted to the service and support.
- (b) HC Construction Limited entered into a three-year Online Information Distribution Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited received distribution income from the Group at a fixed fee. It disseminated the Group's business information and research reports on its web-site and on those as stipulated by the Group.
- (c) HC Construction Limited entered into a three-year Domain Names and Trademark Licence Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited was granted the right to use the domain names and trademark owned or attained by the Group during the agreement period for a fixed fee.
- (d) HC Construction Limited entered into a three-year Online Advertisement Publication Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited received publication income from the Group at a fixed fee. It published the Group's advertisements on its website and on those as stipulated by the Group.

- (e) Printing costs were charged by 北京慧美印刷有限公司, a vendor of printing services of the Group in which HC Construction Limited holds 65% equity interest.
- (f) Rental income of RMB323,000 were received from 北京慧美印刷有限公司, for the six months ended 30th June 2004 (2003: RMB Nil).

The directors of the Company are of the opinion that the related party transactions mentioned above are conducted in the ordinary course of business and are pursuant to the underlying agreements, if any and/or on normal commercial terms. In addition, the directors have confirmed that all of the above transactions will continue in future.

17. Contingent liabilities

At 30th June 2004, there were no material contingent liabilities to the Group (31st December 2003: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th June 2004, the interests and short positions of the Directors and the chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

(a) Directors' Long Positions in the Shares of the Company

Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Guo Fansheng	64,088,863	-	-	-	64,088,863	15.44%
Yang Fei	1,269,853	-	-	-	1,269,853	0.31%
Hugo Shong	1,269,853	-	-	-	1,269,853	0.31%

(b) Directors' Short Positions in the Shares of the Company

NIL.

(c) Directors' Long Positions in the rights to acquire Shares of the Company

Name of grantee	Date of grant	Exercise price per share <i>HK\$</i>	Number of share options				As at 30th June 2004
			As at 1st January 2004	Granted during the period	Exercised during the period	Cancelled during the period	
WU Yng	2nd December 2003	0.44	1,015,872	-	-	-	1,015,872
WU Yng	18th February 2004	2.40	-	1,500,000	-	-	1,500,000
LAI Sau Kam, Connie	2nd December 2003	0.44	1,523,808	-	-	-	1,523,808
LAI Sau Kam, Connie	18th February 2004	2.40	-	1,500,000	-	-	1,500,000

SHARE OPTION SCHEMES

Pursuant to written resolutions of the shareholders of the Company dated 30th November 2003, two share option schemes, a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), were adopted by the Company. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme were summarised in the paragraph headed "Share Options" under the section headed "Statutory and general information" in Appendix V of the Company's prospectus dated 8th December 2003.

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 30th June 2004, options to subscribe for an aggregate of 46,984,080 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th June 2004 (Note 1)
			As at 1st January 2004	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
WU Ying	2nd December 2003	0.44	1,015,872	-	-	-	1,015,872
LAI Sau Kam, Connie	2nd December 2003	0.44	1,523,808	-	-	-	1,523,808
<i>Senior management</i>							
LEE Wee Ong, Alex	2nd December 2003	0.44	2,666,664	-	-	-	2,666,664
CHEN Bo	2nd December 2003	0.44	1,269,840	-	-	-	1,269,840
CHEN Pei	2nd December 2003	0.44	3,174,600	-	-	-	3,174,600
GUO Jiang	2nd December 2003	0.44	1,015,872	-	-	-	1,015,872
WANG Xiaoyu	2nd December 2003	0.44	507,936	-	-	-	507,936
HUANG Haixin	2nd December 2003	0.44	380,952	-	-	-	380,952
YAO Lin	2nd December 2003	0.44	317,460	-	-	-	317,460
WU Xian	2nd December 2003	0.44	698,412	-	-	-	698,412
WANG Chong	2nd December 2003	0.44	6,298,407	-	-	-	6,298,407
WANG Yonghui	2nd December 2003	0.44	5,917,454	-	-	-	5,917,454
<i>Ex-employees</i>							
FAN Qimiao	2nd December 2003	0.44	7,111,104	-	-	-	7,111,104
GU Yuanhao	2nd December 2003	0.44	3,777,774	-	-	-	3,777,774
<i>Consultant</i>							
Earl Ching-Hwa YEN	2nd December 2003	0.44	1,206,348	-	-	-	1,206,348
<i>Other employees</i>							
In aggregate (Note 2)	2nd December 2003	0.44	10,101,577	-	-	-	10,101,577
Total			46,984,080	-	-	-	46,984,080

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM (the "Listing Date"), being 17th December 2003. Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).
2. There are 41 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 10,101,577 shares.

(b) Share Option Scheme

As at 30th June 2004, options to subscribe for an aggregate of 26,000,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th June 2004 (Note 1)
			As at 1st January 2004	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
WU Ying	18th February 2004	2.40	-	1,500,000	-	-	1,500,000
LAI Sau Kam, Connie	18th February 2004	2.40	-	1,500,000	-	-	1,500,000
<i>Senior management</i>							
LEE Wee Ong, Alex	18th February 2004	2.40	-	1,500,000	-	-	1,500,000
CHEN Bo	18th February 2004	2.40	-	200,000	-	-	200,000
CHEN Pei	18th February 2004	2.40	-	200,000	-	-	200,000
GUO Jiang	18th February 2004	2.40	-	1,000,000	-	-	1,000,000
WANG Xiaoyu	18th February 2004	2.40	-	700,000	-	-	700,000
HUANG Haixin	18th February 2004	2.40	-	700,000	-	-	700,000
WU Xian	18th February 2004	2.40	-	240,000	-	-	240,000
WANG Chong	18th February 2004	2.40	-	3,400,000	-	-	3,400,000
<i>Other employees</i>							
In aggregate (Note 2)	18th February 2004	2.40	-	15,060,000	-	-	15,060,000
Total			-	26,000,000	-	-	26,000,000

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the granting of options (the "Offer Date"), being 18th February 2004. Commencing from the first, second and third anniversaries of the Offer Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).
2. 327 employees have been granted options under the Share Option Scheme to acquire an aggregate of 15,060,000 shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30th June 2004, the interests and the short positions of substantial shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Number of ordinary shares	Percentage of shareholding
International Data Group, Inc. (<i>note 1</i>)	89,996,697	21.69%
IDG Technology Venture Investment, Inc. (<i>note 1</i>)	89,996,697	21.69%
Lynwood Assets Inc. (<i>note 2</i>)	53,333,846	12.85%
Zhang Xiaohua	53,333,846	12.85%
Wisite Ltd	47,540,465	11.46%
Callister Trading Limited (<i>note 3</i>)	40,000,384	9.60%
Li Jianguang	40,000,384	9.60%

Notes:

1. Efland Holdings Ltd. ("Efland") is wholly-owned by Mr. Yin Xiaobing on trust for IDG Technology Venture Investments, LP ("IDG LP"). IDG LP is a limited partnership established by IDG Technology Venture Investments, Inc. ("IDGVC") and IDG Technology Venture Investments, LLC ("IDG LLC"), and each has a capital commitment to IDG LP as to US\$100,000,000 and US\$500,000 respectively. IDGVC is beneficially owned by International Data Group, Inc..

By virtue of the SFO, both International Data Group, Inc. and IDGVC are deemed to be interested in the 16,664,743 shares of the Company owned by Efland.

2. Lynwood Assets Inc. is beneficially owned by Ms. Zhang Xiaohua.
3. Callister Trading Limited is beneficially owned by Mr. Li Jianguang.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any internal code of conduct regarding directors' securities transactions, it has made specific enquiry of all Directors and the Directors have confirmed that they have complied with all the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the six months ended 30th June 2004.

AUDIT COMMITTEE

The Company has established an audit committee on 24th July 2003 with written terms of reference based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises a non-executive director, Mr. Yang Fei and two independent non-executive directors, Mr. Zhang Ke and Mr. Xiang Bing.

DIRECTORS INTERESTS IN COMPETING BUSINESS

Each of the directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them has had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30th June 2004.

ADVANCES TO AN ENTITY

As at 30th June 2004, the Group has not made any advance, which is of a non-trading nature, to any entity.

FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

As at 30th June 2004, the Group had not provided any financial assistance to any of its affiliated companies.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

SPONSOR'S INTERESTS

Pursuant to the sponsorship agreement dated 8th December 2003 entered into between the Company and First Shanghai Capital Limited (the "Sponsor"), the Sponsor has received an annual fee for acting as the Company's retained sponsor up to 31st December 2005.

As at 30th June 2004, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd which is an associate of the Sponsor, held 2,500,000 shares of the Company.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) has had any interests in the securities of the Company, including options or rights to subscribe for such securities.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2004.

By order of the Board
HC International, Inc.
Guo Fansheng

Chief Executive Officer and Executive Director

The Board comprises:

Mr. Guo Fansheng (*Executive Director and Chief Executive Officer*)

Ms. Wu Ying (*Executive Director*)

Ms. Lai Sau Kam, Connie (*Executive Director*)

Mr. Hugo Shong (*Non-executive Director*)

Mr. Yang Fei (*Non-executive Director*)

Mr. Zhang Ke (*Independent non-executive Director*)

Mr. Xiang Bing (*Independent non-executive Director*)

Mr. Guo Wei (*Independent non-executive Director*)

Beijing, PRC, 9th August 2004