



HC International, Inc.
慧聰國際資訊有限公司

Annual 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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of HC International, Inc. (the “Company”) 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.



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

GUO Fansheng
WU Ying
LAI Sau Kam, Connie

NON-EXECUTIVE DIRECTORS

SHONG Hugo
YANG Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHANG Ke
XIANG Bing
GUO Wei

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

LAI Sau Kam, Connie, ACCA

AUDIT COMMITTEE

ZHANG Ke
XIANG Bing
YANG Fei

COMPLIANCE OFFICER

GUO Fansheng

AUTHORISED REPRESENTATIVES

WU Ying
LAI Sau Kam, Connie

AGENT FOR THE ACCEPTANCE OF SERVICE OF PROCESS

LAI Sau Kam, Connie

STOCK CODE

8292

COMPANY'S WEBSITE

www.hc360.com

SPONSOR

First Shanghai Capital Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

Herbert Smith
King & Wood

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

4th Floor, One Capital Place
P.O. Box 847, George Town
Grand Cayman, Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Tower B, Huaxing Building
42 North Street
Xizhimen Haidian District
Beijing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

12th Floor, Two Chinachem Plaza
68 Connaught Road Central
Hong Kong



CORPORATE PORTFOLIO

In 2004, HC International, Inc., achieved:

- *approximately 43% growth in turnover from RMB322.51 million to RMB462.56 million*
- *the direct on-line revenue increased by approximately 438% from RMB15.31 million to RMB82.37 million*
- *approximately 33% growth in EBITDA from RMB56.89 million to RMB75.44 million*
- *approximately 43% growth in profit attributable to shareholders from RMB33.08 million to RMB47.29 million*

The fast growing economy and liberalisation of domestic market in the PRC create tremendous business opportunities. With intensified competition in the business world, the demand for timely, accurate and reliable business information services and products increased rapidly during the year.

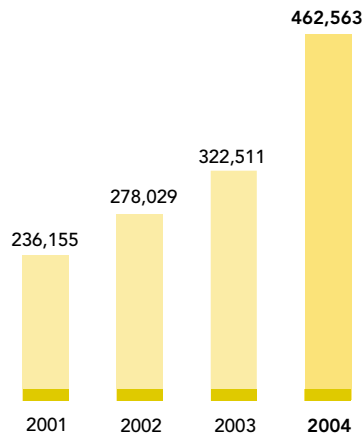
HC International, Inc., being one of the leading cross-media business information services providers in the PRC, is well-positioned to capture these opportunities. It provides a platform to facilitate the matching of buyers and sellers in commercial transactions and to assist business decision making by providing communication channels to disseminate and/or receive business information.



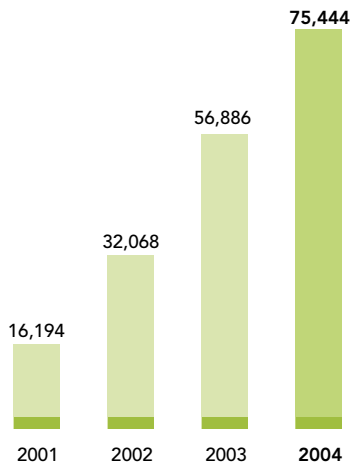
FINANCIAL HIGHLIGHTS

	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000
Results				
Turnover	462,563	322,511	278,029	236,155
Gross profit	185,740	117,596	93,431	85,325
EBITDA	75,444	56,886	32,068	16,194
Profit attributable to shareholders	47,292	33,078	15,985	3,462
Earnings per share				
– Basic	RMB0.112	RMB0.109	RMB0.053	RMB0.012
– Diluted	RMB0.103	RMB0.108	N/A	N/A
Financial Position				
Net current assets	227,108	143,939	11,458	16,224
Total assets	481,081	341,847	196,810	146,578
Total liabilities and minority interests	136,737	119,474	111,374	72,833
Shareholders' funds	344,344	222,373	85,436	73,745

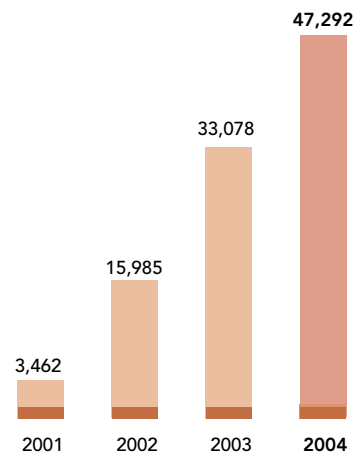
TURNOVER RMB'000



EBITDA RMB'000



PROFIT ATTRIBUTABLE TO SHAREHOLDERS RMB'000

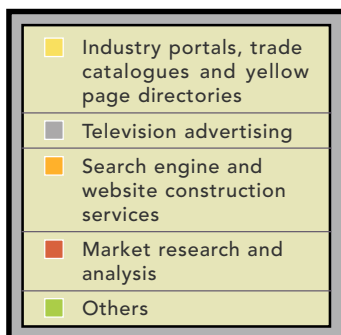
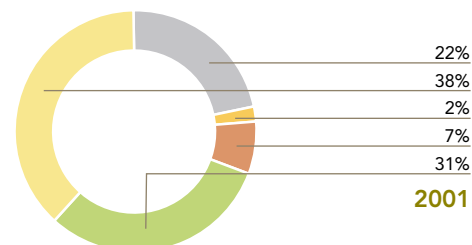
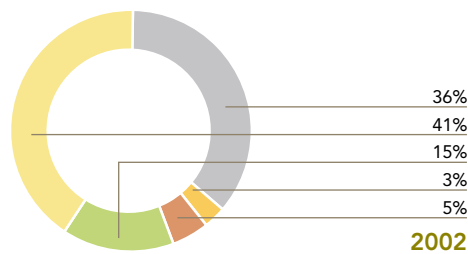
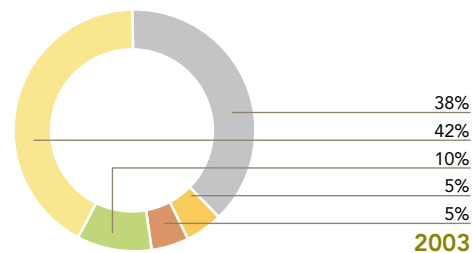
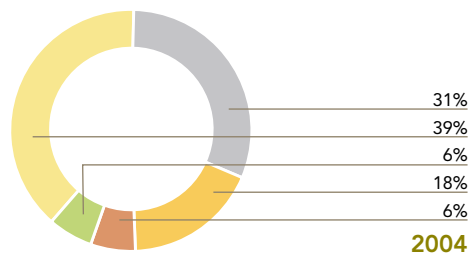




FINANCIAL HIGHLIGHTS

TURNOVER ANALYSIS

	Industry portals, trade catalogues and yellow page directories RMB'000	Search engine and website construction services RMB'000	Television advertising RMB'000	Market research and analysis RMB'000	Others RMB'000	Total RMB'000
2004	179,195	82,373	142,972	28,565	29,458	462,563
2003	135,442	15,305	123,177	16,565	32,022	322,511
2002	113,273	7,503	100,237	14,334	42,682	278,029
2001	88,166	5,473	52,869	16,553	73,094	236,155





BUSINESS HIGHLIGHTS



Rebranding the Group's industry portal to "hc360.com"



HC International, Inc. entered into a strategic co-operation agreement with one of the group companies of Tencent Holdings Limited in September, 2004 to explore and capture new business opportunities in the PRC's internet and telecommunications value-added services sector



BUSINESS HIGHLIGHTS



Launching an on-line marketplace, “Mai-Mai-Tong – 買賣通” which provides users with comprehensive and timely business information and opportunities



HC International, Inc. formed a joint venture with Lanzhou Television Station in January, 2004

HC International, Inc. entered into a strategic co-operation agreement with Reed Business Information UK Ltd. (“RBI”), a leading global publisher and information provider





BUSINESS HIGHLIGHTS



In 2004, the Group published 7 trade catalogues which cover an additional 4 industry sectors

HC International, Inc. established a strategic co-operation relationship with "263.com" in July, 2004

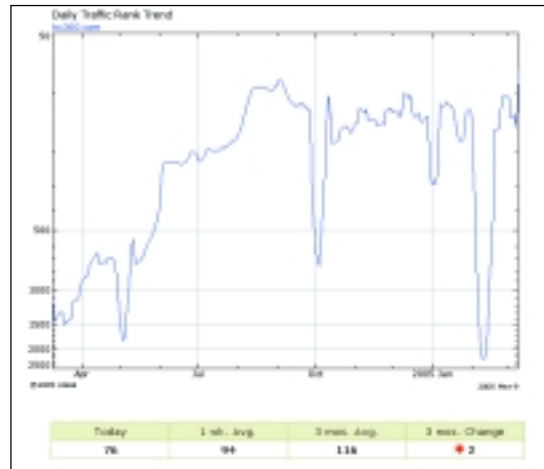


Rebranding the Group's public search website to "China Search - zhongsou.com"

(中國搜索)  zhongsou.com



BUSINESS HIGHLIGHTS



The Group's industry portal "hc360.com" was ranked one of the world's top 100 sites by Alexa, an independent web ranking services provider, by the end of 2004



The Group expanded its business geographical coverage to over 10 industrial cities in the PRC in 2004



CHAIRMAN'S STATEMENT

I am pleased to report to the shareholders of HC International, Inc. (the "Company") that the Company and its subsidiaries (the "Group") continued to build strong momentum in its markets, products and services, and financial performance in 2004. For the financial year ended 31st December, 2004, the Group generated a turnover of approximately RMB463 million and achieved a net profit attributable to shareholders of approximately RMB47 million, both representing a growth of approximately 43% over last year.

The demand for high-quality business information services and products increased significantly as a result of China's strong economic performance with GDP continue to grow and reached about 9.5% in 2004. In 2004, the Group remains focused on providing both local and multinational enterprises with accurate, timely and reliable business information through various communication channels which include the internet, printed, visual and audio media.

In 2004, efforts and resources have been devoted to strengthen the Group's position as one of the PRC's leading industry portals. The introduction of various innovative products and continuous efforts to enhance existing products further widen and improve the range and quality of the Group's services. For example, the new on-line marketplace "Mai-Mai-Tong – 買賣通" was launched in March, 2004 which provides users with comprehensive and timely business opportunities, further enhancements were made to the "the Group's "Sector Search – 行業搜索" to improve the coverage of business information, and a brand-new desktop search software "Net PIG – 網絡豬" was introduced in March, 2004.

During the same year, the Company has also entered into a strategic co-operation agreement with one of the group companies of Tencent Holdings Limited, a Hong Kong listed leading PRC internet and telecommunications value-added service provider, and established a co-operation relationship with "263.com", a leading provider of integrated communication services in the PRC. These expose the Group to new business opportunities and further consolidate the Group's leading position in China's on-line industry.

To further strengthen the Group's financial position for future expansion, 40,000,000 new ordinary shares were placed by the Company in November, 2004. The net proceeds of the placing which amounted to approximately RMB61 million will be mainly used to upgrade the Group's information technology infrastructure and to fund the research and development of new services and products.

In the forthcoming year, the Group is committed to explore the enormous market potential emerging from China's accession to the World Trade Organisation and the Beijing 2008 Olympic Games, and to provide innovative business information products and services with the aim of maximising the interests of its shareholders.

Hugo Shong

Non-executive Chairman

Beijing, PRC, 21st March, 2005



MANAGEMENT'S STATEMENT



Being the first full reporting year after the Company's listing on 17th December, 2003, the year 2004 was a significant, successful and remarkable year for HC International, Inc.

I am pleased to present to the shareholders of the Company my report on the operations of the Group for the year ended 31st December, 2004.

FINANCIAL REVIEW

For the fiscal year ended 31st December, 2004, the Group recorded a turnover of approximately RMB462,563,000 (2003: RMB322,511,000), representing an increase of approximately 43% when compared to the turnover in 2003.

Comparing the Group's segment financial performance against those achieved last year, the industry portal, trade catalogues and yellow page directories' revenue increased by about 32% to RMB179,195,000 (2003: RMB135,442,000). Revenue generated from the search engine and website construction segment improved fivefolds from RMB15,305,000 to RMB82,373,000 for the year ended 31st December, 2004. The Group also recorded a strong growth in revenue in respect of the market research and analysis segment. Total revenue of RMB28,565,000 was achieved in 2004, representing a growth of approximately 72% over last year (2003: RMB16,565,000).

Revenue from direct on-line business information provision which amounted to RMB82,373,000 contributed nearly 18% of the Group's total revenue and improved the Group's gross profit margin by about 4 percentage points from approximately 36% to approximately 40%.

Profit attributable to shareholders grew significantly from RMB33,078,000 in 2003 to RMB47,292,000 in 2004. Basic earnings per share increased to RMB0.112 in 2004 (2003: RMB0.109).

The board of Directors does not recommend the payment of a dividend for the year ended 31st December, 2004.



MANAGEMENT'S STATEMENT

BUSINESS REVIEW

In order to better realise 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. This new domain name represents the mission of the Group to provide potential buyers and sellers in the marketplace with all-embracing, timely and comprehensive business information, which will eventually cover 360 different industrial sectors.



In 2004, the number of industry sectors covered by "hc360.com" has reached 64, serving the needs of different commercial and industrial users. While efforts and resources have been devoted by the Group to widen and enrich the content, scope and range of business information provided by "hc360.com", the number of daily page views of "hc360.com" has grown significantly and was ranked one of the world's top 100 sites by Alexa, an independent web ranking services provider, by the end of 2004.

The Group's extensive experience in the search engine industry, its research capabilities and its off-line data library, which comprises business information sourced from over 1,900 national and regional newspaper and periodicals in the PRC, enable the Group to develop a set of unique "Taxonomy" techniques used in its industrial search engine services. Such techniques allow a better classification of individual business information cluster among different industry sectors and further enhance the accuracy of search results generated by the Group's search engine, the "Sector Search - 行業搜索".



In March, 2004, the Group launched a brand-new on-line marketplace namely "Mai-Mai-Tong" (買賣通). "Mai-Mai-Tong" (買賣通) is a new product tailored to meet the imminent demand for instant communication services between business corporations. It provides businessmen with comprehensive and timely market information and communication platform to enhance their own competitiveness and facilitate trading. Being an on-line registered member of "Mai-Mai-Tong" (買賣通), users can post and update their business information on-line which enables their products and services information to reach a

large potential customer base and capture new business opportunities. The total number of registered members of "Mai-Mai-Tong" (買賣通) has reached 1 million by end of 2004. A department of about 200 staff named "Buyer Center" (買家部) was setup during the year to collect, verify and enrich the business information released in the "procurement section" of "Mai-Mai-Tong" (買賣通).



MANAGEMENT'S STATEMENT

On-line communication channels are becoming more common and popular in today's business world. To help potential customers, in particular small and medium enterprises in the PRC, establish their business presence on-line, the Group introduced a new website construction service in early 2004. Through this service, the Group provides a one-stop shop to its customers in providing professional services encompassing web research and development, design, construction, promotion and maintenance of websites, and network integration and application.



The Group broadened its trade catalogue collection by adding four new industry sectors namely "Gifts and craftworks", "Leather and shoemaking", "Beauty and salon", and "Electricity and electrical" in 2004. Seven trade catalogues covering these four new sectors have been published during the year. To better serve the needs of customers, the Group also publishes annual yellow page directories for various industries. A total of 23 yellow page directories covering specific industries were published by the Group in the financial year ended 31st December, 2004.

To enlarge the sales network and the geographical coverage of the Group's business, over 10 branch offices and subsidiaries had been established in different industrial cities of South East China including Suzhou, Wenzhou, Zhongshan, Dongguan, Quanzhou, etc. in 2004.

During the year, the Group rebranded its proprietary Chinese search engine from "Huicong Search" (慧聰搜索) to "China Search – zhongsou.com" (中國搜索) aimed at developing this innovative Chinese search engine into a top searching tool for all Chinese internet users. The Group also launched a brand-new desktop search software namely "Net Personal Information Gateway" (Net PIG – 網絡豬) which allows users to perform internet searches without opening internet browsers and to own their personalized and practical search and news portals.





MANAGEMENT'S STATEMENT

GOING FORWARD

The Group has achieved significant growth in terms of both market share and profitability in 2004. The Group, being one of the leading cross-media business information services providers in the PRC, is well-positioned to capture market opportunities emerging from the current market situation in China, where the local business environment is flooded with massive but inaccurate and outdated asymmetric business information.

We anticipate continued growth in turnover and further improvement in financial results in the forthcoming year. Our diversified business portfolio provides the Group with extra flexibility to capture new business opportunities and growth potential in the fast growing on-line industry. The Group will continue to devote more resources to develop its industry portal and complimentary on-line products, namely "Sector Search – 行業搜索" and "Mai-Mai-Tong" (買賣通), to enhance shareholders' value by consolidating and improving existing operations and if opportunities arise, to form strategic alliances with business partners and to expand the Group's operations through mergers and acquisitions.

As one of the leading business-to-business internet portals in the PRC, we are committed in providing first class information services and products to our business and commercial customers. The Group will pay close attention to market trends, aiming at identifying, responding and fulfilling customer needs. We will also maintain our prudent financial approach and at the same time continue to push for revenue growth and greater operating efficiency.

On behalf of the board, I would like to thank the management team and staff members for their dedication and commitment over the past years, and our customers, strategic partners and shareholders for their trust and support.

Guo Fansheng

Chief Executive Officer and Executive Director

Beijing, PRC, 21st March, 2005



From left:

Ms. Lai Sau Kam, Connie
Financial Controller and Executive Director

Mr. Lee Wee Ong, Alex
Chief Financial Officer

Ms. Wu Ying
Chief Operating Officer and Executive Director



BIOGRAPHIC DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors



GUO Fansheng

Aged 49, is an executive director and the chief executive officer of the Company. Mr. Guo founded the Group in October 1992 and is responsible for the overall strategic development and policy of the Group. From 1990 to 1992, Mr. Guo worked as a manager in a State-owned business information company in Beijing. From 1987 to 1990, Mr. Guo served as a director of the Liaison Office and General Office of the Economic System Reform Institute under the State Commission for Economic Restructuring, and as the deputy director of the Western China Development Research Centre. Prior to working at the State Commission for Economic Restructuring, Mr. Guo served from 1982 to 1987 as a senior official in the government of the Inner Mongolia Autonomous Region. Mr. Guo obtained a bachelor degree in industrial economics from Renmin University of China in 1982.



WU Ying

Aged 37, is an executive director and the chief operating officer of the Company. Ms. Wu joined the Group in 1993 and became its vice president in 1997. She is responsible for the overall management of the daily operations of the Group. Ms. Wu graduated from Shaanxi Institute of Industry and Commerce with a bachelor degree in economic information management in 1988 and obtained a master of business administration degree from Guanghua School of Management of Peking University in 1999.



LAI Sau Kam, Connie

Aged 31, is an executive director, company secretary and qualified accountant of the Company. Ms. Lai joined the Group in October 2000 as financial controller and is responsible for the management of the finance and accounting activities of the Group. Prior to that, she spent over four years in PricewaterhouseCoopers. She is a qualified accountant with over eight years' experience in the fields of accounting, auditing and financial management. Ms. Lai graduated from the Chinese University of Hong Kong in 1996 with a bachelor degree in professional accountancy and is an associate member of the Association of Chartered Certified Accountants.



BIOGRAPHIC DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors



SHONG Hugo

Aged 48, is a non-executive director, senior vice president of International Data Group, Inc. ("IDG"), president of IDG Asia, Inc., and a director of IDG Technology Venture Investment, Inc. ("IDGVC"). Mr. Shong has headed IDG's operations in information technology publishing, market research, tradeshow and venture investment in the Asia Pacific region. He obtained his master degree in communications from Boston University majoring in journalism in 1987 and he graduated from Hunan University in 1982 majoring in English.



YANG Fei

Aged 46, is a non-executive director, a vice president of in IDGVC, and a director of Guangdong Pacific Technology Co., Ltd. Mr. Yang worked as the Head of Listing Department of the Guangdong Securities Regulatory Commission, before joining IDGVC in 1997. He graduated from Guangzhou Zhongshan University where he obtained his bachelor of science degree in natural geography in 1982 and his master degree in environmental geography in 1989. Mr. Yang is one of the main researchers in the State's key research project – China Regional Development Strategic Research and is experienced in regional economic development research. He has been working in the regulation of the securities business for many years and is familiar with the evolution and operation of the domestic securities market. He has extensive experience in capital operations, mergers and acquisitions, and financing through listings.

BIOGRAPHIC DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

**ZHANG Ke**

Aged 51, is an independent non-executive director. Mr. Zhang is a certified public accountant in the PRC and is currently the chairman and managing partner of ShineWing Certified Public Accountants. He graduated from Renmin University of China in 1982 with a bachelor degree in economics majoring in industry economics. He has over 20 years of experience in the fields of economics, accounting and finance. Mr. Zhang is currently a director of the Chinese Institute of Certified Public Accountants, a committee member of the Certified Public Accountants Examination Committee of the Ministry of Finance, a part-time professor of the department of accounting of Renmin University of China and a part-time professor of the management school of the China Science Academy.

**XIANG Bing**

Aged 42, is an independent non-executive director. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business and a professor of the Guanghua School of Management of Peking University. He graduated from the University of Alberta with a master of business administration degree and subsequently obtained a doctorate degree. Dr. Xiang previously taught in the Hong Kong University of Science and Technology.

**GUO Wei**

Aged 41, is an independent non-executive director. Mr. Guo has been the president and chief executive officer of Digital China Holdings Limited since 2001. Mr. Guo obtained a bachelor degree in engineering management from Northeastern University, PRC in 1985 and subsequently graduated from the China University of Science and Technology in 1988 with a master of science degree in management. He joined Legend Group in 1988 and has held different senior positions in Lenovo Group, including assistant president of Legend Group, deputy general manager of Legend Hong Kong and executive director of Legend Group.

BIOGRAPHIC DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR STAFF

LEE Wee Ong Alex

Aged 35, is the chief financial officer of the Company and he joined the Group in April 2000. Prior to joining the Group, Mr. Lee spent six years with Colonial First State Investments Group and Hambros Australia as a fund manager and was seconded to CMG CH China Funds Management. During that period, Mr. Lee managed a publicly listed closed-ended fund which invested in Greater China's equity market. Mr. Lee graduated with a bachelor degree in accounting from Northern University of Malaysia.

GUO Jiang

Aged 31, joined the Group in 1996 as manager and become a vice president of the Group in 2002 and is responsible for the Group's service regarding the operation of hc360.com. Prior to that, Mr. Guo spent two years at the Broadcasting Science Institute of the State Administration of Radio, File and Television as an assistant to director. Mr. Guo graduated from the Harbin University of Commerce in 1994 with a bachelor degree in computer science. He also attended the Business Administration Course for senior management of modern enterprise conducted by Guanghua Business School of Peking University in 2002.

YAO Lin

Aged 54, is a vice president of the Group. Mr. Yao joined the Group in October, 1998 as the chief research officer. He was instrumental in establishing and is responsible of the management of the Group's data library. Mr. Yao is also responsible for the operations of the market research and analysis services of the Group. Mr. Yao served as the deputy director of the Economics Department of the Nankai University in the PRC and was a visiting professor at Hitotubashi University of Japan. He obtained a bachelor degree in economics from Lanzhou University in 1987 and a master degree in economics from Nankai University in 1983.

CHEN Pei

Aged 42, is a vice president of the Company. Mr. Chen has served the Group since January, 2000 and is now in charge of the Group's software business. Mr. Chen previously worked at CHINET Information Technology Co. Ltd., a leading Internet access company in China, from 1997 to 1999 and was subsequently appointed as its president. Prior to that, Mr. Chen spent one year at the Orient Longma Information Centre as deputy general manager and chief engineer and one year at Huaruan Electronics Technology Co. Ltd. as general manager. From 1989 to 1995, Mr. Chen worked at the computing centre of the general staff of the People's Liberation Army. He graduated from Zhejiang University in 1982 with a bachelor degree in mathematics.

WU Xian

Aged 36, joined the Group in 1998 and become vice president of the Group in 2002 and is responsible for the Group's television advertising service. Mr. Wu has over eight years' experience in media advertising. He spent one year at Cleverlion Advertising (Beijing) Co., Ltd. and another year at FCB-Magecom Advertising Corporation as media manager. Mr. Wu graduated from the Dongbei University of Finance and Economics in 1992 with a bachelor degree in investment.



The 6th HC International Sports Day was held on 17th July, 2004



Staff Christmas party

The "HC Mascot"



Regular staff trainings



Staff team building training

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2004, the Group's cash and bank balances increased by RMB20,179,000 to RMB154,156,000 as compared to RMB133,977,000 as at the end of the previous financial year.

Short-term loans amounted to RMB23,000,000 as at 31st December, 2004, representing a decrease of about 8% from that at 31st December, 2003. Gearing ratio of the Group decreased significantly to about 6.7% as at 31st December, 2004 from about 11.24% as at 31st December, 2003, calculated with reference to the short-term loans of RMB23,000,000 (2003: RMB25,000,000) and shareholders' funds of RMB344,344,000 (2003: RMB222,373,000).

The Group's net current assets totalled RMB227,108,000 as at 31st December, 2004, against RMB143,939,000 as at the end of the previous financial year. Its current ratio improved significantly to approximately 3.46 as at 31st December, 2004 as compared to approximately 2.67 as at 31st December, 2003.

The Group's trade receivables turnover has increased from approximately 66.8 days in 2003 to approximately 77.3 days in 2004.

The Group's shareholders' funds increased by RMB121,971,000 to RMB344,344,000 as at 31st December, 2004 as compared to RMB222,373,000 as at the end of the previous financial year.

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31st December, 2004.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

In October 2004, the Group acquired 51% interests in 北京慧聰互動信息諮詢有限公司. The total consideration for the acquisitions amounted to RMB5,410,000 and a goodwill of RMB4,900,000, which was recognised in the balance sheet and is amortised using the straight-line method over its estimated useful life of 3 years.

STAFF

The continued success of the Group depends on the skills, motivation and commitment of its staff. As at 31st December, 2004, the Group's employees numbered 4,002. Of these, 1,963 were employed in our Sales and Marketing Division and 1,030 were employed in our Research, Data Analysis and Information Technology Divisions.

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.

We remain confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain the high standards of service for which we are known.



MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON GROUP ASSETS

As at 31st December, 2004, a property and the associated land use rights carried at RMB52,824,000 were pledged to secure the Group's bank loan in the amount of 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 31st December, 2004, the Group had no contingent liabilities (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 to the actual business progress for the year ended 31st December, 2004:

Business Objectives

Actual Business Progress

Broaden industry coverage

- | | |
|--|--|
| <ul style="list-style-type: none">• Conduct feasibility studies to expand the Group's trade catalogues to cover 2 new industry sectors, including apparatus and meters, and rubber. | <p>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 catalogue collection to cover 4 additional industry sectors namely "Gifts and craftworks", "Leather and shoemaking", "Beauty and salon" and "Electricity and electrical".</p> |
| <ul style="list-style-type: none">• Based on the results of the feasibility studies, the Group will consider commencing the publication of these trade catalogues through the Group's website. | <p>Trade catalogues were published on the Group's industry portal.</p> |
| <ul style="list-style-type: none">• Based on the results of the feasibility studies and the profitability of on-line publication in the first half of the year, the Group will consider issuing the physical version of its catalogues for 3-4 new industry sectors. | <p>Seven printed versions of the Group's trade catalogues were published in 2004 which covered 4 new industry sectors as described above.</p> |



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

Business Objectives

Actual Business Progress

Increase market share within an existing industry sector

- | | |
|---|--|
| <ul style="list-style-type: none"> Based on the results of the feasibility studies, the Group will consider launching and expanding website construction services. | <p>A new department specialised in the provision of website construction services was setup and the sales network of such services was expanded to cover over 20 business sectors during the year.</p> |
| <ul style="list-style-type: none"> 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. | <p>Market research were conducted and relevant reports have been issued by the Group to cover additional industry sectors such as security equipment, teaching materials and equipment, fire-safety equipment and coating. The Group also entered into a strategic co-operation agreement with RBI to issue an international and domestic fuel oil market analysis report.</p> |

Utilise the Internet to support its operations

- | | |
|---|---|
| <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 and market/business opportunities, have been provided through the Group's industry portal "hc360.com", which covered over 60 business sectors. Together with the launching of the new on-line market place "Mai-Mai-Tong 買賣通", timely business information and opportunities, latest industry knowledge and trends were provided on the Group's website.</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 significant achievement in respect of this business objective. However, realising the demand for instant communication between business corporations, the Group introduced a new on-line marketplace namely "Mai-Mai-Tong 買賣通" during the year.</p> |
| <ul style="list-style-type: none"> Launch short message system ("SMS") services. | <p></p> |



MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

Business Objectives

Actual Business Progress

Expand and strengthen the Group's data library

- Continue to upgrade the data management system of the data library. Continuous upgrades to improve hardware and software efficiencies of the data library have been carried out by the Group during the year. The process is expected to continue in 2005.
- Continue to improve the data management system of the data library. Ongoing research and developments have been carried out by the Group to improve the data management system of the data library.
- Continue to expand the information sources of the data library. The number of newspaper and magazines in the PRC covered by the data library has increased by 480 to 1,929 in 2004.

Expand search engine services

- Research and development to upgrade the existing search engine software and launch the upgraded search engine software. Ongoing research and development have been carried out by the Group to upgrade the search engine software. New versions of the software, "search 4.0" and "search 4.5", were launched in March 2004 and June 2004 respectively.
- Research, development and launching the new search engine-related software products. The Group has introduced a brand-new desktop search software namely "Net Personal Information Gateway" ("Net-PIG 網絡豬") to the market in 2004. An upgraded version namely "Net-PIG 3.0" is expected to be released in the first-quarter of 2005.
- Continue the research and development to upgrade the search engine software. Ongoing research and development being carried out by the Group in respect of both "sector search" (行業搜索) and "desktop search" (桌面搜索).

Expand television advertising service

- 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.
- Conduct site visits and feasibility studies on the provision of management services to new television stations. Ongoing site visits and feasibility studies have been carried out by the Group.



MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The actual use of proceeds for the year ended 31st December, 2004 as compared to the proposed amount set out in the "Use of Proceeds" section of the Company's prospectus dated 8th December, 2003 are summarised as follows:

	Proposed RMB million (approx.)	Actual RMB million (approx.)
Broaden industry coverage	5.0	4.8
• Conduct feasibility studies	1.0	0.8
• Extend the coverage into new industry sectors	4.0	4.0
Increase market share within an existing industry sector	2.5	2.5
• Set up, operate and promote website construction services	1.5	1.5
• Promote market research and analysis services to other industry sectors	1.0	1.0
Utilise the Internet to support its operations	3.0	3.0
• Research and development of new products	1.5	1.5
• Finance the launching of new products	0.5	0.5
• Enrich the contents on the Group's websites	1.0	1.0
Expand and strengthen the Group's data library	4.0	3.5
• Upgrade the software/hardware of the data library	3.0	2.5
• Expand the information source for the data library	1.0	1.0
Expand search engine services	6.0	6.0
• Research and development to enhance the existing search engine or to develop new search engine related software products.	4.0	4.0
• Finance the launching of search engine services	2.0	2.0
Expand television advertising service	8.0	7.8
• Conduct site visits and feasibility studies	1.0	0.8
• Provide working capital for managing the advertising time-slots for new television stations	7.0	7.0
Working Capital	3.0	3.0
	31.5	30.6



DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entity are set out in notes 31 and 17 to the accounts, respectively.

An analysis of the Group's performance for the year by business segments is set out in note 4 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 37. The directors do not recommend the payment of a dividend.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 26 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 25 to the accounts.

DISTRIBUTABLE RESERVES

The Company had reserves available for distribution calculated under the Company Law of Cayman Islands of approximately RMB123,378,000 as at 31st December, 2004 (2003: RMB54,955,000).

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. Hugo Shong* (<i>Non-executive Chairman</i>)	(appointed on 5th December, 2000)
Mr. Guo Fansheng (<i>Chief Executive Officer</i>)	(appointed on 21st March, 2000)
Ms. Wu Ying	(appointed on 30th September, 2002)
Ms. Lai Sau Kam, Connie	(appointed on 28th March, 2003)
Mr. Yang Fei*	(appointed on 5th December, 2000)
Mr. Zhang Ke#	(appointed on 28th March, 2003)
Mr. Xiang Bing#	(appointed on 8th March, 2002)
Mr. Guo Wei#	(appointed on 8th March, 2002)

* *non-executive directors*

independent non-executive directors

In accordance with Article 87 of the Company's Articles of Association, Ms. Wu Ying and Mr. Yang Fei will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT

DIRECTORS' PROFILE

The directors' profile is set out on pages 15 to 17.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, Mr. Guo Fansheng, Ms. Wu Ying and Ms. Lai Sau Kam, Connie, has entered into a director's service contract with the Company, whereby each of them has accepted the appointment as executive director of the Company for a term of three years from 30th November, 2003 which may be terminated by either party giving three months' prior written notice or otherwise in accordance with the terms of the service contract.

Each of the independent non-executive directors, Mr. Guo Wei, Mr. Xiang Bing and Mr. Zhang Ke, has entered into a director's service contract with the Company, whereby Mr. Guo Wei and Mr. Xiang Bing have accepted the appointment as independent non-executive director of the Company for a term of one year from 1st January, 2004 while Mr. Zhang Ke has accepted the appointment for a term of one year from 28th March, 2004, and the service contracts shall be renewed automatically at the end of the term. Either party may terminate the service contract at any time by giving one month's prior written notice or in accordance with the term of the service contract.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in note 22 and note 30 to the accounts, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December, 2004, the interests and the short positions of the Directors and chief executive in the shares of the Company and 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 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

(a) 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	14.09%
Yang Fei	1,269,853	-	-	-	1,269,853	0.28%
Hugo Shong	1,269,853	-	-	-	1,269,853	0.28%



DIRECTORS' REPORT

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (Continued)

(b) Short positions in the shares of the Company

None of the Directors had short positions in the shares of the Company.

(c) Long positions in the rights to acquire shares of the Company

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st December, 2004
			As at 1st January, 2004	Granted during the year	Exercised during the year	Cancelled during the year	
WU Ying	2nd December, 2003	0.44	1,015,872	-	-	-	1,015,872
WU Ying	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 the written shareholders' resolution of the Company dated 30th November, 2003, two share option schemes namely, Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") and 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 to the prospectus of the Company dated 8th December, 2003.

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 31st December, 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 31st December, 2004 (Note 1)
			As at 1st January, 2004	Granted during the year	Exercised during the year	Cancelled during the year	
<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



DIRECTORS' REPORT

OUTSTANDING SHARE OPTIONS (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st December, 2004 (Note 1)
			As at 1st January, 2004	Granted during the year	Exercised during the year	Cancelled during the year	
<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
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 Yuanchao	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	10,990,465	-	-	-	10,990,465
Total			46,984,080	-	-	-	46,984,080

Notes:

- 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 of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised).
- There are 43 employees who have been granted options under the Pre-IPO Share Option Scheme to acquire an aggregate of 10,990,465 shares.



DIRECTORS' REPORT

OUTSTANDING SHARE OPTIONS (Continued)

(b) Share Option Scheme

As at 31st December, 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 31st December, 2004 (Note 1)
			As at 1st January, 2004	Granted during the year	Exercised during the year	Cancelled during the year	
<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
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	-	16,460,000	-	-	16,460,000
Total			-	26,000,000	-	-	26,000,000

Notes:

- 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 of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised).
- 329 employees have been granted options under the Share Option Scheme to acquire an aggregate of 16,460,000 shares.

DIRECTORS' REPORT

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

As at 31st December, 2004, the interests and the short positions of substantial shareholders and other persons (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/ other person	Number of ordinary shares	Nature of Interests/ Holding capacity	Percentage of shareholding
IDG Technology Venture Investment, Inc. (note 1)	73,331,954	Beneficial owner	16.12%
International Data Group, Inc. (note 1)	73,331,954	Interest in controlled corporation	16.12%
Lynwood Assets Inc. (note 2)	53,333,846	Beneficial owner	11.72%
Zhang Xiaohua (note 2)	53,333,846	Interest in controlled corporation	11.72%
Wisite Ltd.	47,540,465	Beneficial owner	10.45%
Callister Trading Limited (note 3)	40,000,384	Beneficial owner	8.79%
Li Jianguang (note 3)	40,000,384	Interest in controlled corporation	8.79%

Notes:

1. IDG Technology Venture Investment, Inc ("IDGVC") is beneficially owned by International Data Group, Inc.
2. Lynwood Assets Inc. is beneficially owned by Zhang Xiaohua.
3. Callister Trading Limited is beneficially owned by Li Jianguang.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December, 2004, which also constitute (i) connected transactions or (ii) continuing connected transactions under the GEM Listing Rules (as amended from time to time), are disclosed in note 22 and note 30 to the accounts.

i. Connected Transactions Disclosed During the Year Ended 31st December, 2004

On 9 February, 2004, Beijing Huicong International Information Co., Ltd. ("Beijing Huicong International") entered into agreements with Hong Kong Huicong International Group Limited ("Hong Kong Huicong"), Global Cyberlinks Holdings Inc. ("Global Cyberlinks") and IDG Technology Venture Investment, LP ("IDG LP"), pursuant to which Beijing Huicong International agreed to transfer, and each of (i) Hong Kong Huicong; (ii) Global Cyberlinks; and (iii) IDG LP agreed to acquire the capital contributions of RMB576,000, RMB144,000 and RMB80,000 in the registered capital of Beijing Zhongsou Zaixian Software Co., Ltd. ("Zhongsou Zaixian") at the respective par values, representing 57.6%, 14.4% and 8% of its registered capital, respectively.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS (*Continued*)

i. Connected Transactions Disclosed During the Year Ended 31st December, 2004 (*Continued*)

Mr. Guo Fansheng owns 80% equity interest of Beijing Huicong Construction Company Limited ("Beijing Huicong Construction"), which in turn holds 18% equity interest in Beijing Huicong International. As such, Beijing Huicong International is deemed to be an associate under the GEM Listing Rules and the transfer of 57.6% interest in Zhongsou Zaixian (on the basis that the registered capital of Zhongsou Zaixian is RMB7.5 million) from Beijing Huicong International to Hong Kong Huicong constitutes a connected transaction under the GEM Listing Rules. However, as the amount involved in the transfer (on the basis that the registered capital of Zhongsou Zaixian is RMB7.5 million) was RMB4,320,000, which was less than the higher of HK\$10 million or 3% of the net tangible assets of the Company as at the date of transfer and the transfer was on normal commercial terms, it was exempted from the shareholders' approval requirements under Rule 20.24 of the GEM Listing Rules.

The Directors intend to streamline the Group's operations by effecting the above transfers and to utilise Zhongsou Zaixian as its flagship to carry out its internet related software business, particularly the search engine business. As a result of the above transfers, Beijing Wanguoqiao Network Culture Broadcasting Co., Ltd. ("Wanguoqiao") and IDG LP became the shareholders of Zhongsou Zaixian. The Directors consider that (i) Wanguoqiao is a company with sound technical background and will provide technical support to the development of Zhongsou Zaixian; and (ii) given its experience in the investments in IT related companies and the securities market, IDG LP can directly provide strategic advice which is beneficial to the development of Zhongsou Zaixian.

ii. Continuing Connected Transactions (the "Transactions")

1. Continuing Connected Transactions Disclosed During the year ended 31st December, 2004

On 30th September, 2004, Beijing Huicong International and its subsidiaries entered into an agreement (the "Search Engine Sales Agency Framework Agreement") with Zhongsou Zaixian for a term of two years effective from 9th February, 2004, under which Beijing Huicong International and its subsidiaries (from time to time) will act as agents of Zhongsou Zaixian for the sale of Zhongsou Zaixian's search engine services.

Beijing Huicong International is a Sino-foreign co-operative joint venture company established in the PRC, which is 82% indirectly owned by the Company. Zhongsou Zaixian is a Sino-foreign equity joint venture established in the PRC which is 57.6% indirectly owned by the Company.

Mr. Guo Fansheng owns 80% of the equity of Beijing Huicong Construction, which in turn holds 18% equity interest in Beijing Huicong International. Accordingly, Beijing Huicong International and its subsidiaries are deemed to be associates of a connected person under Rules 20.11(5) and 20.11(6) of the GEM Listing Rules and the transactions contemplated under the Search Engine Sales Agency Framework Agreement will constitute continuing connected transactions of the Company under Rule 20.14 of the GEM Listing Rules.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

ii. Continuing Connected Transactions (the "Transactions") *(Continued)*

1. *Continuing Connected Transactions Disclosed During the year ended 31st December, 2004 (Continued)*

Since each of the applicable percentage ratios for such transactions under the Search Engine Sales Agency Framework Agreement on an annual basis will be less than 2.5%, no independent shareholders' approval is required for such continuing connected transactions pursuant to Rule 20.34 of the GEM Listing Rules.

Pursuant to the Search Engine Sales Agency Framework Agreement, Beijing Huicong International and its subsidiaries (from time to time), being agents of Zhongsou Zaixian, will provide appropriate resources and follow a set of standard guidelines applicable to all Zhongsou Zaixian's agents for the promotion and sale of Zhongsou Zaixian's search engine services to its customers. From 9th February, 2004 to 8th August, 2004, the amount payable to Zhongsou Zaixian by Beijing Huicong International and its subsidiaries (from time to time) under the Search Engine Sales Agency Framework Agreement was 12.5% of the revenue received by Beijing Huicong International through the sale of Zhongsou Zaixian's search engine services. Thereafter, the amount payable under the Search Engine Sales Agency Framework Agreement shall be equivalent to 25% of the revenue received by Beijing Huicong International and its subsidiaries (from time to time) through the sale of Zhongsou Zaixian's search engine services until the expiry of the Search Engine Sales Agency Framework Agreement.

The annual amount payable to Zhongsou Zaixian by Beijing Huicong International and its subsidiaries has been capped at RMB4.5 million for the year ended 31st December, 2004. During the year ended 31st December, 2004, RMB4,486,000 was paid by Beijing Huicong International to Zhongsou Zaixian.

2. *Continuing Connected Transactions Disclosed at the Time of Listing of the Company*

As disclosed in the paragraph headed "Non-exempt continuing connected transactions" under the section headed "Business" in the prospectus dated 8th December, 2003 of the Company, the Group has entered into the following continuing connected transactions as defined under the GEM Listing Rules and on 8th December, 2003, waiver was granted by the Stock Exchange from strict compliance with the requirements of Rules 20.35 and 20.36 of the GEM Listing Rules.



DIRECTORS' REPORT

CONNECTED TRANSACTIONS (Continued)

ii. Continuing Connected Transactions (the "Transactions") (Continued)

On 1st September, 2002, Beijing Huimei Printing Co., Ltd. ("Huimei") and Beijing Huicong Advertising Co., Ltd. ("HC Advertising"), a subsidiary of the Company, entered into a printing agreement (the "Printing Agreement") for a term of three years, and on 18th November, 2003, the parties entered into a supplemental agreement which extended the term of the Printing Agreement to 31st December, 2005. Huimei is owned as to 65% by Beijing Huicong Construction, a company owned as to 80% by Mr. Guo Fansheng, the chief executive officer and an executive director of the Company, and as to 35% by Mr. Fan Yousheng, an independent third party.

Pursuant to the Printing Agreement, Huimei was appointed by HC Advertising to print various publications published by HC Advertising, including but not limited to Huicong Trade Catalogues 《慧聰商情廣告》 (the "Printing Services"). The fee payable by HC Advertising shall be the actual amount for the provision of the Printing Services by Huimei at market price no less favourable than as charged by independent third parties on a monthly basis.

Pursuant to the waiver granted by the Stock Exchange at the time of listing of the share of the Company, the annual amount payable to Huimei by HC Advertising has been capped at RMB22 million for the year ended 31st December, 2004. During the year ended 31st December, 2004, RMB21,958,000 was paid by HC Advertising to Huimei.

Pursuant to the waiver granted by the Stock Exchange at the time of the listing of shares of the Company and the relevant requirements under the GEM Listing Rules, the Transactions have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that the Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also confirmed that the Transactions (a) have received the approval of the Company's board of Directors; (b) have been entered into in accordance with the relevant agreements governing the transactions; and (c) have not exceeded the relevant caps referred to above.



DIRECTORS' REPORT

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the respective percentages of purchases attributable to the Group's five largest suppliers and the sales attributable to the Group's five largest customers combined was less than 30% of the total value of the Group's purchases and sales.

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

AUDIT COMMITTEE

Pursuant to GEM Listing Rule 5.28, the Company 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 Institute of Certified Public 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, namely Mr. Zhang Ke and Mr. Xiang Bing. Mr. Zhang Ke is the Chairman of the Audit Committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group, the annual results of the Group for the year ended 31st December, 2004 and met with external auditors and discussed the financial matters of the Group that arose during the course of audit for the year ended 31st December, 2004. The audit committee held 4 meetings during the period.

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 had any business or interest in any company 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 year ended 31st December, 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors remained independent.

ADVANCES TO AN ENTITY

As at 31st December, 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 31st December, 2004, the Group had not provided any financial assistance to 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.



DIRECTORS' REPORT

SUBSEQUENT EVENTS

Details of significant events which have taken place subsequent to the balance sheet date are set out in note 34 to the accounts.

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 received and shall receive an annual fee for acting as the Company's retained sponsor for the period from 8th December, 2003 to 31st December, 2005.

As at 31st December, 2004, China Alpha Fund, (a mutual fund managed by First Shanghai Fund Management Ltd.) and China Assets (Holdings) Limited both are associates of the Sponsor held 2,500,000 shares and 534,000 shares of the Company, respectively.

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) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

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 the Directors. The Directors 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 year ended 31st December, 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year, except that the non-executive Directors 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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2004.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the board of Directors

HC International, Inc.

Guo Fansheng

Chief Executive Officer and Executive Director

Beijing, PRC, 21st March, 2005



AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF HC INTERNATIONAL, INC.

(incorporated in Cayman Islands with limited liability)

We have audited the accounts on pages 37 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21st March, 2005



CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	2 and 4	462,563	322,511
Cost of sales	3	(276,823)	(204,915)
Gross profit		185,740	117,596
Other revenues	2	739	2,095
Selling and distribution costs		(64,471)	(29,623)
Administrative expenses		(68,958)	(44,110)
Other operating income, net		5,514	595
Operating profit	5	58,564	46,553
Finance costs	6	(1,371)	(2,400)
Share of (loss)/profit of a jointly controlled entity		(265)	447
Profit before taxation		56,928	44,600
Taxation	7	(2,569)	(3,159)
Profit after taxation		54,359	41,441
Minority interests		(7,067)	(8,363)
Profit attributable to shareholders	8 and 26	47,292	33,078
Dividends	9	–	–
Earnings per share			
Basic	10	RMB0.112	RMB0.109
Diluted	10	RMB0.103	RMB0.108



CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER, 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Intangible assets	14	41,023	27,989
Fixed assets	15	115,702	76,201
Investments in a jointly controlled entity	17	–	2,193
Deferred tax assets	27	4,924	5,253
		161,649	111,636
Current assets			
Interests in a jointly controlled entity	17	1,682	–
Trade receivables	18	97,965	58,986
Deposits, prepayments and other receivables	30(h)	58,571	37,248
Amounts due from related parties	22	7,058	–
Bank balances and cash	19	154,156	133,977
		319,432	230,211
Current liabilities			
Trade payables	20	5,231	4,892
Deferred revenue		27,500	16,540
Accrued expenses and other payables		8,787	4,974
Accruals for statutory benefit funds	21	7,794	15,222
Amount due to a related party	22	–	699
Short-term loans	23	23,000	25,000
Other taxes payable	24	15,206	12,616
Income tax payable	24	4,806	6,329
		92,324	86,272
Net current assets		227,108	143,939
Total assets less current liabilities		388,757	255,575
Financed by:			
Share capital	25	48,669	42,784
Reserves	26	295,675	179,589
Shareholders' funds		344,344	222,373
Minority interests		41,692	30,578
Non-current liabilities			
Deferred tax liabilities	27	2,721	2,624
		388,757	255,575

On behalf of the board

GUO Fansheng
Director

LAI Sau Kam, Connie
Director



BALANCE SHEET

AS AT 31ST DECEMBER, 2004

	Note	2004 RMB'000	2003 RMB'000
Interests in subsidiaries	16	170,078	82,831
<hr/>			
Current assets			
Other receivables		1,964	15,603
Bank balances and cash		5	5
<hr/>			
		1,969	15,608
<hr/>			
Current liabilities			
Other payables and accruals		–	700
<hr/>			
		–	700
<hr/>			
Net current assets		1,969	14,908
<hr/>			
Total assets less current liabilities		172,047	97,739
<hr/>			
Financed by:			
Share capital	25	48,669	42,784
Reserves	26	123,378	54,955
<hr/>			
		172,047	97,739
<hr/>			

On behalf of the board

GUO Fansheng
Director

LAI Sau Kam, Connie
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2004

	Note	2004 RMB'000	2003 RMB'000
Total equity at 1st January		222,373	85,436
Profit for the year	26	47,292	33,078
Issue of shares (including share premium)	25 and 26	87,259	116,630
Share issue costs during the year	26	(12,580)	(12,771)
Total equity at 31st December		344,344	222,373



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2004

	Note	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Net cash inflow generated from operations	28(a)	15,955	44,580
Interest received		739	2,095
Interest paid		(1,371)	(2,400)
PRC enterprise income tax paid		(3,394)	(1,193)
Net cash inflow from operating activities		11,929	43,082
Cash flows from investing activities			
Purchase of fixed assets		(51,890)	(11,356)
Acquisition of a subsidiary, net of cash acquired	28(d)	(4,410)	–
Proceed from disposal of fixed assets		814	114
Payment for software development costs		(12,474)	(4,132)
Advances to a minority shareholder		–	(8,634)
Decrease/(increase) in amount due from a jointly controlled entity		246	(246)
Disposal of subsidiaries	28(e)	(229)	(232)
Net cash outflow from investing activities		(67,943)	(24,486)
Net cash (outflow)/inflow before financing		(56,014)	18,596
Cash flows from financing activities			
Short-term loans raised	28(b)	23,000	7,000
Repayment of short-term loans		(25,000)	(8,280)
Capital contribution from minority shareholders		3,514	–
Issue of ordinary shares		87,259	101,027
Shares issue costs		(12,580)	(12,771)
Net cash inflow from financing		76,193	86,976
Increase in cash and cash equivalents		20,179	105,572
Cash and cash equivalents at 1st January		133,977	28,405
Cash and cash equivalents at 31st December		154,156	133,977
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		154,156	133,977



NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) **Basis of preparation**

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

(b) **Recently issued accounting standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(c) **Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(d) **Subsidiaries**

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

(f) Fixed assets

(i) Fixed assets

Fixed assets, comprising land use rights, properties, computer and telecommunications equipment, fixtures, fitting and office equipment, leasehold improvements and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(ii) Depreciation

Fixed assets depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land use rights	Over the period of the rights of 50 years
Properties	5%
Computer and telecommunications equipment	20%
Fixtures, fittings and office equipment	20%
Leasehold improvements	Over the lease terms from 2 to 5 years
Motor vehicles	10%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.



NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st January, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Goodwill on acquisitions raising on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 3 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets up to a maximum period of 3 years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved computer software are recognised as intangible assets in the balance sheet where technical feasibility and intention of completion has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of 3 to 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.



NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(iii) Data library

Costs incurred on acquiring the data library are recognised as an intangible asset where the technical feasibility has been demonstrated, and there is a liability to sell or to use the assets that will generate probable future economic benefits. Such acquisition cost is recognised as an asset and amortised on a straight-line basis over a period of 10 years to reflect the pattern in which the related economic benefits are recognised.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(i) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, provisions for staff welfare benefits and doubtful debts, capitalised development costs, and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) **Deferred taxation** (Continued)

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, and jointly controlled entity, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) **Translation of foreign currencies**

The Group maintains its accounting records in Renminbi as it considers Renminbi to be its functional currency. Transactions in foreign currencies are translated into Renminbi at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies other than Renminbi at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the date of exchange ruling at the balance sheet date while the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(n) **Borrowing costs**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefit costs*

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liabilities to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(p) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.



NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Contingent liabilities and contingent assets (Continued)

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Revenue recognition

Advertising income from industry portals, trade catalogues, yellow page directories and print periodicals is recognised on the date of publication.

Services income from the provision of advertising platforms on television is recognised when the advertisements are broadcast.

Subscription fee income from trade catalogues and search engine services is recognised over the period of contracts entered with the customers.

Revenue from search engine software licensing services is recognised over the period of contracts based on the stage of completion upon customer acceptance.

Revenue from the hosting of trade exhibitions and business seminars is recognised upon the conclusion of the exhibitions or seminars.

Revenue from the provision of public relation ("PR") services and website construction services is recognised upon rendering of services.

Revenue from market research conducted for customers is recognised upon the delivery of output to the customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent administrative staff costs and corporate expenses. Segment assets consist primarily of trade receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and accrued expenses. Capital expenditure comprises additions to intangible assets and fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.



NOTES TO THE ACCOUNTS

2. TURNOVER AND REVENUES

The Group is principally engaged in provision of trade information, advertising platforms and valued added business information services and products. Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover, invoiced amount net of discounts and business tax		
Industry portals, trade catalogues and yellow page directories		
– Advertising income	160,746	125,581
– Subscription fee income	18,449	9,861
Television advertising income	142,972	123,177
Print periodicals	25,880	27,648
Search engine and website construction services income	82,373	15,305
Market research and analysis services income	28,565	16,565
Exhibition, seminars and PR services income	3,578	4,374
	462,563	322,511
Other revenues		
Interest income from a minority shareholder	–	1,940
Bank interest income	739	155
	739	2,095
Total revenues	463,302	324,606

3. COST OF SALES

	2004 RMB'000	2003 RMB'000
Printing costs	48,453	42,622
Cost of advertising resources	154,118	125,334
Staff costs	74,252	36,959
	276,823	204,915



NOTES TO THE ACCOUNTS

4 SEGMENT INFORMATION

(a) **Primary reporting format – business segments**

The Group is organised into the following business segments:

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

Inter-segment sales are conducted principally at normal commercial price in 2004. There were no sales or other transactions between the business segments in 2003.



NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Year ended 31st December, 2004						Total RMB' 000
	Industry portals, trade catalogues and yellow page directories RMB' 000	Television advertising RMB' 000	Print periodicals RMB' 000	Search engine and website construction services RMB' 000	Market research and analysis RMB' 000	Exhibition, seminars and PR services RMB' 000	
Turnover	179,195	144,271	25,880	82,373	28,565	3,578	463,862
Less: Inter-segment sales	-	(1,299)	-	-	-	-	(1,299)
Total turnover	179,195	142,972	25,880	82,373	28,565	3,578	462,563
Segment results	89,608	17,712	1,702	62,125	14,384	209	185,740
Interest income							739
Unallocated costs							(127,915)
Operating profit							58,564
Finance costs							(1,371)
Share of loss of a jointly controlled entity							(265)
Taxation							(2,569)
Profit after taxation							54,359
Minority interests ("MI")							(7,067)
Profit attributable to the shareholders							47,292
Segment assets	23,518	45,638	6,538	27,438	9,654	2,886	115,672
Unallocated assets (a)							365,409
Total assets							481,081
Segment liabilities	21,913	3,012	1,026	6,490	-	290	32,731
Unallocated liabilities and MI (b)							104,006
Total liabilities and MI							136,737
Capital expenditure	-	-	-	12,474	-	-	12,474
Unallocated capital expenditure (c)							59,095
							71,569
Amortisation charges	-	-	-	(2,027)	-	-	(2,027)
Unallocated amortisation charges							(2,350)
							(4,377)
(Provision for)/ write back of doubtful debts	(169)	(2,091)	908	-	-	-	(1,352)
Unallocated provision for doubtful debts							(3,622)
							(4,974)

Notes:

- (a) Unallocated assets mainly represent intangible assets, fixed assets, deferred tax assets, deposits, prepayments and other receivables, amounts due from related parties and cash and bank balances, which are shared among the companies of the Group and which cannot be allocated to specific segments.
- (b) Unallocated liabilities and MI mainly represent accrued expenses and short-term loans, which are shared among the companies of the Group, and which cannot be allocated to specific segments.
- (c) Unallocated capital expenditure mainly represent the purchase of fixed assets which are shared among the companies of the Group, and which cannot be allocated to specific segments.



NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

	Year ended 31st December, 2003						Total RMB' 000
	Industry portals, trade catalogues and yellow page directories RMB' 000	Television advertising RMB' 000	Print periodicals RMB' 000	Search engine and website construction services RMB' 000	Market research and analysis RMB' 000	Exhibition, seminars and PR services RMB' 000	
Turnover	135,442	123,177	27,648	15,305	16,565	4,374	322,511
Segment results	67,563	27,126	1,354	12,273	7,425	1,855	117,596
Interest income							2,095
Unallocated costs							(73,138)
Operating profit							46,553
Finance costs							(2,400)
Share of profit of a jointly controlled entity							447
Taxation							(3,159)
Profit after taxation							41,441
Minority interests ("MI")							(8,363)
Profit attributable to the shareholders							33,078
Segment assets	10,374	36,317	6,588	7,553	1,371	4,046	66,249
Unallocated assets (a)							275,598
Total assets							341,847
Segment liabilities	14,298	3,996	1,672	-	-	1,000	20,966
Unallocated liabilities and MI (b)							98,508
Total liabilities and MI							119,474
Capital expenditure	-	-	-	26,118	-	-	26,118
Unallocated capital expenditure (c)							64,373
							90,491
Amortisation charges	-	-	-	(2,281)	-	-	(2,281)
Write back of doubtful debts provision	537	-	-	-	-	-	537
Unallocated provision for doubtful debts							(637)
							(100)

Notes:

- Unallocated assets mainly represent intangible assets, fixed assets, deferred tax assets, deposits, prepayments and other receivables and cash and bank balances, which are shared among the companies of the Group and which cannot be allocated to specific segments.
- Unallocated liabilities and MI mainly represent accrued expenses, amount due to a related company and short-term loans, which are shared among the companies of the Group, and which cannot be allocated to specific segments.
- Unallocated capital expenditure mainly represent the purchase of fixed assets which are shared among the companies of the Group, and which cannot be allocated to specific segments.



NOTES TO THE ACCOUNTS

4. SEGMENT INFORMATION (Continued)

(b) Secondary reporting format – geographical segments

The principal market of the Group is primarily in the People's Republic of China (the "PRC"), excluding the 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 year ended 31st December, 2004, individually. Accordingly, no segmental information analysed by geographical segment is presented.

5. OPERATING PROFIT

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

	2004 RMB'000	2003 RMB'000
Auditors' remuneration	1,060	737
Staff costs, including directors' emoluments (note 11)	127,860	74,953
Depreciation of fixed assets	12,768	7,814
Provision for bad and doubtful debts	4,974	100
(Gain)/loss on disposal of subsidiaries (note 28(e))	(1,248)	357
Loss on disposal of fixed assets	260	95
Operating lease payments in respect of land and buildings	18,502	10,982
Amortisation of software development costs	4,226	2,281
Amortisation of goodwill	151	(209)
Recognised negative goodwill (note 31(b))	(332)	(814)
Research and development costs (note (a))	15,123	7,449
Less: costs capitalised (note 14)	(12,474)	(4,132)
	2,649	3,317

Note:

- (a) Included in the research and development cost were staff costs, depreciation of fixed assets, operating lease payments in respect of land and buildings and other research and development costs which had also been included in respective expenses set out in the consolidated profit and loss account.

6. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on short-term bank loans	1,371	1,955
Interest on other loans wholly repayable within five years	–	445
	1,371	2,400



NOTES TO THE ACCOUNTS

7. TAXATION

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

	2004 RMB'000	2003 RMB'000
Hong Kong profits tax (a)	–	–
The PRC enterprise income tax ("EIT") (b)	2,143	1,894
Deferred taxation (note 27)	426	1,265
	2,569	3,159

(a) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the year (2003: Nil).

(b) The PRC enterprise income tax represents taxation charged on assessable profits for the year 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 year.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group companies as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	56,928	44,600
Calculated at a taxation rate of 33%	18,786	14,718
Effect of different taxation rates in other cities	(6,378)	(6,136)
Income not subject to taxation	(19,246)	(8,390)
Expenses not deductible for taxation purposes	1,095	1,347
Effect on unutilised tax losses	8,324	2,182
Others	(12)	(562)
Tax charges	2,569	3,159

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of RMB371,000 (2003: RMB699,000 loss).

9. DIVIDENDS

No dividend was paid or declared by the Company.



NOTES TO THE ACCOUNTS

10. EARNINGS PER SHARE

	2004 RMB'000	2003 RMB'000
Profit attributable to shareholders	47,292	33,078
	No. of shares '000	No. of shares '000
Weighted average number of shares in issue	421,521	304,098
Incremental shares from assumed exercise of share options granted	36,182	2,994
Diluted weighted average number of shares	457,703	307,092
Basic earnings per share	RMB0.112	RMB0.109
Diluted earnings per share	RMB0.103	RMB0.108

The calculation of basic earnings per share is based on the Group's profit attributable to the shareholders of approximately RMB47,292,000 (2003: RMB33,078,000) for the year ended 31st December, 2004 and the weighted average of approximately 421,521,000 (2003: 304,098,000) ordinary shares in issue during the year, on the assumption that the share capitalisation issue has taken place on 1st January, 2003.

The calculation of diluted earnings per share for the year ended 31st December, 2004 is based on the profit attributable to the shareholders of RMB47,292,000 (2003: RMB33,078,000) and the diluted weighted average of 457,703,000 (2003: 307,092,000) ordinary shares after adjusting 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. The effect of anti-dilutive potential ordinary shares arising from Share Option Scheme has not been taken into account in calculating diluted earnings per share. (Details of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 25(c) to the accounts).

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 RMB'000	2003 RMB'000
Wages and salaries	122,236	69,074
Retirement benefits costs (note 13)	7,394	5,519
Other benefits	7,197	3,530
	136,827	78,123
Less: capitalised staff costs	(8,967)	(3,170)
	127,860	74,953



NOTES TO THE ACCOUNTS

12. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

- (i) Details of the emoluments paid and payable to the Directors of the Company during the year are as follows:

	2004 RMB'000	2003 RMB'000
Fees	240	220
Basic salaries and allowances	1,900	2,396
Retirement plan contributions	93	92
	2,233	2,708

No Directors waived any emoluments during the year (2003: Nil).

The three (2003: three) executive directors of the Company received individual emoluments for the year ended 31st December, 2004 of approximately RMB600,000 (2003: RMB480,000), RMB500,000 (2003: RMB360,000), and RMB800,000 (2003: RMB740,000) respectively.

For the year ended 31st December 2003, an executive director resigned from the board, who received RMB816,000 in last year.

Directors' fees disclosed above include RMB240,000 (2003: RMB220,000) paid to three independent non-executive directors.

During the year, 3,000,000 (2003: 2,539,680) share options were granted to the directors of the Company under the Share Option Scheme approved by the shareholders pursuant to a written resolution dated 18th February, 2004. No director exercised the options during the year. Share options were also granted to senior management of the Company. Details of the Share Option Scheme are set out in Note 25(c) to the accounts.

- (ii) The five individuals whose emoluments were the highest in the Group for the year are as follows:

	Number of individuals	
	2004	2003
Executive directors	3	4
Non-directors	2	1
	5	5

The emoluments of the Executive directors are reflected in the analysis presented above.



NOTES TO THE ACCOUNTS

12. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Details of the emoluments of non-directors during the year are as follows:

	2004 RMB'000	2003 RMB'000
Basic salaries and allowances	1,300	369
Retirement plan contributions	90	–
	1,390	369

The emoluments of non-directors fell within the following band:

	Number of individuals	
	2004	2003
Nil to RMB1,065,000 (equivalent to HK\$1,000,000)	2	1

- (iii) During the year, no emoluments have been paid by the Group to the Directors or the five highest paid individuals mentioned above as an inducement to join or upon joining the Group, or as compensation for loss of office.

13. RETIREMENT BENEFIT COSTS

In accordance with the PRC regulations, the Group is required to make annual contribution to the state retirement plans calculated at 20% of the basic salaries of the employees, and employees are required to contribute 8% of their basic salaries to the plans. The Group has no obligations for further pension payments or any post-retirement benefits beyond these annual contributions. The retirement benefits are paid directly from the plan assets to the retired employees and are calculated by reference to their monthly basic salaries at the date of retirement and periods of service rendered.

Contributions to the state retirement plans by the Group were as follows:

	2004 RMB'000	2003 RMB'000
Contributions paid and payable to the state retirement plans	7,394	5,519

As at 31st December, 2004, the Group has outstanding contribution payable of approximately RMB6,304,000 (2003: RMB9,503,000) to the retirement plans participated by the Group, and there was no forfeited contributions available to offset future retirement benefit obligations of the Group.



NOTES TO THE ACCOUNTS

14. INTANGIBLE ASSETS

	Group				Total RMB'000
	Software Development costs (a) RMB'000	Data library RMB'000	Positive goodwill (b) RMB'000	Negative goodwill RMB'000	
Cost					
At 1st January, 2004	9,137	21,986	–	(628)	30,495
Additions	12,474	–	4,900	–	17,374
Disposal	–	–	–	260	260
At 31st December, 2004	21,611	21,986	4,900	(368)	48,129
Accumulated amortisation					
At 1st January, 2004	(1,877)	(1,099)	–	470	(2,506)
Charge for the year	(2,027)	(2,199)	(272)	121	(4,377)
Disposal	–	–	–	(223)	(223)
At 31st December, 2004	(3,904)	(3,298)	(272)	368	(7,106)
Net book value					
At 31st December, 2004	17,707	18,688	4,628	–	41,023
At 31st December, 2003	7,260	20,887	–	(158)	27,989

- (a) This represented development costs incurred by the Group for certain computer software held for licensing or provision of search engine services to its customers. The cost of each software is amortised over a period of 3 to 5 years on a straight-line basis when it is available for use.
- (b) This represents the excess of the purchase cost of an acquisition over the fair value of the Group's share of the net assets of newly acquired subsidiary at the date of acquisition. It is amortised using the straight-line method over its estimated useful life of 3 years (note 28(d)).



NOTES TO THE ACCOUNTS

15. FIXED ASSETS

	Group						Total RMB'000
	Land use rights RMB'000	Properties RMB'000	Computer and telecom- munications equipment RMB'000	Fixtures, fittings and office equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	
Cost:							
At 1st January, 2004	19,319	32,035	36,356	6,651	1,002	5,604	100,967
Additions	2,006	5,322	34,481	7,154	3,822	1,410	54,195
Disposals	-	(811)	(871)	(28)	-	(429)	(2,139)
Disposals of subsidiaries (note 28(e))	-	-	(651)	(515)	-	(418)	(1,584)
At 31st December, 2004	21,325	36,546	69,315	13,262	4,824	6,167	151,439
Accumulated depreciation:							
At 1st January, 2004	193	1,578	17,380	3,563	64	1,988	24,766
Charge for the year	417	1,591	8,071	1,619	411	659	12,768
Disposals	-	(270)	(505)	(12)	-	(278)	(1,065)
Disposals of subsidiaries (note 28(e))	-	-	(321)	(334)	-	(77)	(732)
At 31st December, 2004	610	2,899	24,625	4,836	475	2,292	35,737
Net book value:							
At 31st December, 2004	20,715	33,647	44,690	8,426	4,349	3,875	115,702
At 31st December, 2003	19,126	30,457	18,976	3,088	938	3,616	76,201

- (a) As at 31st December, 2004, a property and the associated land use rights carried at RMB52,824,000 (2003: RMB48,347,000) is pledged to secure the Group's bank loan.

The Group's interests in land use rights and properties at their net book values are analysed as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	54,362	49,583



NOTES TO THE ACCOUNTS

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 RMB'000	2003 RMB'000
Investments at cost:		
Unlisted shares	1,956	1,956
Amount due from a subsidiary	168,122	80,875
	170,078	82,831

Amount due from a subsidiary is unsecured, non-interest bearing and not repayable within twelve months of the balance sheet date. The particulars of subsidiaries are set out in Note 31 to the accounts.

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2004 RMB'000	2003 RMB'000
Share of net assets	1,682	1,947
Amount due from a jointly controlled entity	–	246
	1,682	2,193

At 31st December, 2004, the Group had equity interest in the following jointly controlled entity:

Name	Country of establishment	Principal activities and place of operations	Particulars of issued and fully paid up capital	Percentage of interest in ownership/ voting power profit sharing
北京新浪慧聰廣告有限公司	The PRC	Provision of web advertising and advertising services in the PRC	RMB3,000,000	50%

Pursuant to a resolution passed on 28th January, 2004, the Company will discontinue the joint interest with Sina.com in the jointly controlled entity, the deregistration process is still in progress at the balance sheet date.



NOTES TO THE ACCOUNTS

18. 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 31st December, 2004 is as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Current to 90 days	61,793	34,613
91 to 180 days	24,653	13,400
181 to 365 days	11,969	10,737
Over 1 year	3,908	2,931
	102,323	61,681
General provision for doubtful debts	(4,358)	(2,695)
	97,965	58,986

19. BANK BALANCES AND CASH – GROUP

As at 31st December, 2004, bank and cash balances of approximately RMB83,681,000 (2003: RMB37,037,000) of the Group were denominated in Renminbi and deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

20. TRADE PAYABLES

The aging analysis of the trade payables as at 31st December, 2004 is as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Current to 90 days	3,538	3,887
91 to 180 days	1,006	551
181 to 365 days	531	339
Over 1 year	156	115
	5,231	4,892



NOTES TO THE ACCOUNTS

21. ACCRUALS FOR STATUTORY BENEFIT FUNDS

	Group	
	2004 RMB'000	2003 RMB'000
Accrual for retirement benefit	6,304	9,503
Accrual for medical benefit	–	815
Accrual for housing benefit	1,490	4,904
	7,794	15,222

In accordance with the PRC regulations, the Group is required to make contributions to the retirement benefit fund (for details of the retirement benefit fund, please refer to Note 13), medical benefit fund and housing benefit fund, calculated at 20%, 10% and 8% of the basic salaries of the employees, respectively.

22. AMOUNTS DUE FROM/(TO) RELATED PARTIES – GROUP

		Group	
		2004 RMB'000	2003 RMB'000
Amounts due from/(to) related companies:			
北京慧聰建設信息諮詢有限公司	(a)	299	–
北京慧美印刷有限公司	(a)	2,125	(699)
		2,424	(699)
Officers of the Group	(b)	4,634	–
		7,058	(699)

(a) Amount due from/(to) related companies arisen from normal course of business, are unsecured, interest-free and with a credit period of approximately 30 days.



NOTES TO THE ACCOUNTS

22. AMOUNTS DUE FROM/TO RELATED PARTIES – GROUP (Continued)

(b) Included in amounts due from related parties are loans due from officers as follows:

Name	Maximum amount outstanding during the year RMB'000	Amount outstanding at 31st December, 2004 RMB'000	Amount outstanding at 31st December, 2003 RMB'000
Mr. Wong Chong (Vice President and Director of subsidiaries)	1,000	1,000	–
Mr. Wong Yong Hui (Vice President of a subsidiary)	1,000	1,000	–
Mr. Yao Lin (Vice President of the Group)	1,000	1,000	–
Mr. Wu Xian (Vice President of the Group)	450	450	–
Mr. Shen Qizhi (Director of subsidiaries)	202	202	–
Global Cyberlinks Holdings Inc. (a company controlled by Mr. Chen Pei and Mr. Chen Bo, Vice President and Senior Management of the Company, respectively)	800	800	–
Mr. Li Shuang Qin (Director of subsidiaries)	182	182	–
		4,634	–

Amounts due from officers and the company controlled by officers are unsecured, interest-bearing at prevailing interest rate and repayable within one year.

23. SHORT-TERM LOANS

	Group	
	2004 RMB'000	2003 RMB'000
Bank loans, secured (a)	23,000	25,000
	23,000	25,000

Note:

(a) The bank loans of RMB23,000,000 were secured by a property and the associated land use rights owned by the Group (note 15(a)).



NOTES TO THE ACCOUNTS

24. INCOME TAX PAYABLE AND OTHER TAXES PAYABLE

	Group	
	2004 RMB'000	2003 RMB'000
Income taxes payable:		
EIT	4,806	6,329
Other taxes payable:		
Business tax	10,327	8,200
Cultural and development tax	2,484	2,391
Other taxes	2,395	2,025
	15,206	12,616

25. SHARE CAPITAL

	As at 31st December, 2004		As at 31st December, 2003	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	1,000,000,000	100,000	1,000,000,000	100,000
		<i>RMB'000</i>		<i>RMB'000</i>
Equivalent to:		107,000		107,000
	Number of shares	RMB'000	Number of shares	RMB'000
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 to capitalisation issue	–	–	281,572,677	30,128
Issue of shares pursuant to over-allotment issue ((a))	15,000,000	1,605	–	–
Issue of new shares ((b))	40,000,000	4,280	–	–
At 31st December	455,000,000	48,669	400,000,000	42,784



NOTES TO THE ACCOUNTS

25. SHARE CAPITAL (Continued)

- (a) On 5th January, 2004, First Shanghai Securities Limited exercised an over-allotment option in respect of 15,000,000 additional new shares of the Company at HK\$1.09 (equivalent to RMB1.17) per share. The total issued share capital comprised 415,000,000 shares upon the exercise of such over-allotment option.

RMB15,889,500, being the excess of the issue price over par value of the shares issued upon the over-allotment option of HK\$1,500,000 (equivalent to RMB1,605,000), were credited to the share premium account of the Company.

- (b) Pursuant to a placing and subscription agreement dated 1st November, 2004, 40,000,000 ordinary shares of HK\$0.10 each of the Company were issued by way of placing at the price of HK\$1.63 (equivalent to RMB1.74) per share for cash.

RMB65,484,000, being the excess of the issue price over the par value of the shares issued upon the Placing of HK\$4,000,000 (equivalent to RMB4,280,000), were credited to the share premium account of the Company.

- (c) Share option schemes

Details of options outstanding as at 31st December, 2004 are as follows:

	Number of share options	
	Pre-IPO Share Option Scheme (i)	Share Option Scheme (ii)
Exercise price per share (HK\$)	0.44	2.40
Outstanding as at 1st January, 2004	46,984,080	–
Granted during the year	–	26,000,000
Outstanding as at 31st December, 2004	46,984,080	26,000,000

- (i) Pursuant to a written resolution of the shareholders of the Company dated 30th November, 2003, a Pre-IPO Share Option Scheme was adopted. Pursuant to the Pre-IPO Share Option Scheme, the board of directors is authorised to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board in accordance with the terms of the Pre-IPO Share Option Scheme. No additional share options were granted pursuant to the Pre-IPO Share Option Scheme during the year.

- (ii) Pursuant to a written resolution of the shareholders of the Company dated 30th November, 2003, a share option scheme (the "Share Option Scheme") was adopted by the Company. Pursuant to the Share Option Scheme, the board of directors is authorised to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board in accordance with the terms of the Scheme.

During the year ended 31st December, 2004, a total of 26,000,000 share options were granted to two executive directors and certain employees pursuant to the Share Option Scheme. The grantees can exercise these options at an exercise price of HK\$2.40 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 18th February, 2004.



NOTES TO THE ACCOUNTS

26. RESERVES

	Group					
	Capital reserve RMB'000	Merger reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Share Issuance costs RMB'000	Share premium RMB'000	Total RMB'000
At 1st January, 2003	987	108,830	(18,960)	(7,377)	-	83,480
Issuance of shares	-	-	-	-	75,802	75,802
Profit for the year	-	-	33,078	-	-	33,078
Share issue expenses	-	-	-	(12,771)	-	(12,771)
Offset of share issuance costs to share premium	-	-	-	20,148	(20,148)	-
At 31st December, 2003	987	108,830	14,118	-	55,654	179,589
At 1st January, 2004	987	108,830	14,118	-	55,654	179,589
Issuance of shares	-	-	-	-	81,374	81,374
Profit for the year	-	-	47,292	-	-	47,292
Share issue expenses	-	-	-	(12,580)	-	(12,580)
Offset of share issuance costs to share premium	-	-	-	12,580	(12,580)	-
At 31st December, 2004	987	108,830	61,410	-	124,448	295,675

	Company		
	Accumulated losses RMB'000	Share premium RMB'000	Total RMB'000
At 1st January, 2004	(699)	55,654	54,955
Loss for the year	(371)	-	(371)
Issuance of shares	-	81,374	81,374
Share issue expenses	-	(12,580)	(12,580)
At 31st December, 2004	(1,070)	124,448	123,378



NOTES TO THE ACCOUNTS

27. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 33%). Deferred income tax assets and liabilities are offset when there is a legally enforceable right of set off of current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2004 RMB'000	2003 RMB'000
Deferred tax assets (to be recovered after more than 12 months)	4,924	5,253
Deferred tax liabilities (to be settled after more than 12 months)	(2,721)	(2,624)
	2,203	2,629

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The movement on the deferred tax assets/(liabilities) account is as follows:

	Group	
	2004 RMB'000	2003 RMB'000
At 1st January	2,629	3,894
Deferred taxation transferred to profit and loss account (note 7)	(426)	(1,265)
At 31st December	2,203	2,629

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax assets	Provisions for doubtful debts		Tax losses		Total	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1st January	5,891	5,891	-	308	5,891	6,199
Transfer from/(to) profit and loss account	359	-	-	(308)	359	(308)
At 31st December	6,250	5,891	-	-	6,250	5,891



NOTES TO THE ACCOUNTS

27. DEFERRED TAXATION (Continued)

Deferred tax liabilities	Deferred development assets		Accrued staff welfare benefits		Total	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1st January	(292)	(209)	(2,970)	(2,096)	(3,262)	(2,305)
Transfer from profit and loss account	(64)	(83)	(721)	(874)	(785)	(957)
At 31st December	(356)	(292)	(3,691)	(2,970)	(4,047)	(3,262)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2004 RMB'000	2003 RMB'000
Profit before taxation	56,928	44,600
Depreciation of fixed assets	12,768	7,814
Amortisation of software development costs and goodwill	4,377	2,072
Interest income	(739)	(2,095)
Interest expenses	1,371	2,400
Loss on disposal of fixed assets	260	95
Compensation receipt from a legal claim (note (c)(i))	(800)	–
(Gain)/loss on disposal of subsidiaries (note (e))	(1,248)	357
Share of loss/(profit) of a jointly controlled entity	265	(447)
Operating profit before working capital changes	73,182	54,796
Decrease in amount due to a director	–	(139)
Increase in trade receivables, deposits, prepayments, and other receivables	(61,895)	(11,317)
Increase in trade payables, accrued expenses, deposits received, other payables, other taxes payable and amounts due (from) to related parties (note (c)(ii))	4,668	1,240
Net cash inflow generated from operations	15,955	44,580



NOTES TO THE ACCOUNTS

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital RMB'000	Share premium RMB'000	Shares Issue cost RMB'000	Minority interests RMB'000	Short-term loans RMB'000
At 1st January, 2003	1,956	-	(7,377)	22,140	26,280
Cash (outflow)/inflow from share issuance	40,828	75,802	(12,771)	-	-
Offset share issue costs against					
share premium	-	(20,148)	20,148	-	-
Draw down of loans	-	-	-	-	7,000
Repayment of loans	-	-	-	-	(8,280)
Share of net profit by minority shareholders	-	-	-	8,363	-
Capital contributions from minority shareholders	-	-	-	(129)	-
Disposal of subsidiaries (note (e))	-	-	-	204	-
At 31st December, 2003	42,784	55,654	-	30,578	25,000
Cash (outflow)/inflow from share issuance	5,885	81,374	(12,580)	-	-
Offset share issue costs against					
share premium	-	(12,580)	12,580	-	-
Draw down of loans	-	-	-	-	23,000
Repayment of loans	-	-	-	-	(25,000)
Share of net profit by minority shareholders	-	-	-	7,067	-
Capital contribution from minority shareholders	-	-	-	3,514	-
Acquisition of a subsidiary (note (d))	-	-	-	490	-
Disposal of subsidiaries (note (e))	-	-	-	43	-
At 31st December, 2004	48,669	124,448	-	41,692	23,000

(c) Major non-cash transactions

- (i) During the year, the Group received a property with value of RMB800,000 as a compensation of a legal claim. Details of the claims are set out in note 33 to the accounts.
- (ii) During the year, the Group was required to pay additional RMB2,005,000 land use fee on its existing land use rights. As at 31st December, 2004, the Group paid RMB500,000 and the remaining RMB1,505,000 will be paid in 2005 and was included in other payables in the balance sheet as at 31st December, 2004.



NOTES TO THE ACCOUNTS

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Acquisition of a subsidiary

	2004 RMB'000	2003 RMB'000
Net assets acquired		
Cash and bank balances	1,000	–
Minority shareholders' interests (note (b))	(490)	–
	510	–
Goodwill	4,900	–
Cash consideration	5,410	–
Satisfied by		
Cash	5,410	–

Analysis of net outflow in respect of the purchase of a subsidiary:

	2004 RMB'000	2003 RMB'000
Cash consideration	5,410	–
Bank balances acquired	(1,000)	–
Net cash outflow in respect of the acquisition of a subsidiary	4,410	–

(e) Disposal of subsidiaries

	2004 RMB'000	2003 RMB'000
Net (liabilities)/assets disposed		
Fixed assets	852	561
Trade and other receivables	1,593	1,132
Cash and bank balances	417	662
Trade and other payables	(3,656)	(2,038)
Income tax (payable)/receivable	(272)	266
Unamortised goodwill	(37)	–
Minority shareholders' interests (note (b))	43	204
	(1,060)	787
Gain/(loss) on disposal of subsidiaries (note (a))	1,248	(357)
Cash proceeds	188	430
Cash and cash equivalents disposed of	(417)	(662)
Net cash outflow on disposal of subsidiaries	(229)	(232)



NOTES TO THE ACCOUNTS

29. COMMITMENTS

(a) **Commitments under operating leases**

At 31st December, 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Within one year	8,857	8,344
In the second to fifth year inclusive	31,615	21,039
	40,472	29,383

(b) **Other commitments**

The Group entered into 5 (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.

	Group	
	2004 RMB'000	2003 RMB'000
Within one year	132,706	103,885
In the second to fifth year inclusive	245,325	111,756
Later than five years	66,745	-
	444,776	215,641



NOTES TO THE ACCOUNTS

30. RELATED PARTY TRANSACTIONS

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

	Note	2004 RMB'000	2003 RMB'000
Interest income received from a minority shareholder of the Company	(a)	–	1,940
Interest expense paid to a shareholder	(b)	–	445
Service income received from a minority shareholder of the Company	(c)	211	211
Distribution costs paid to a minority shareholder of the Company	(d)	240	240
Licence income received from a minority shareholder of the Company	(e)	240	240
Publication costs paid to a minority shareholder of the Company	(f)	100	100
Service costs paid to a minority shareholder of the Company	(g)	–	250
Printing costs paid to a related company	(h)	21,958	15,190
Rental income received from a related company	(i)	646	600

- (a) On 10th December, 2003, the minority shareholder had fully repaid the advances to the Group, and no more interest was required to be paid to the Group after 10th December, 2003.
- (b) On 30th November, 2003, the Group had fully repaid the loans advanced from the shareholder, and no more interest was required to be paid by the Group after 30th November, 2003.
- (c) 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 hours devoted to the service and support.
- (d) 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.
- (e) 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.



NOTES TO THE ACCOUNTS

30. RELATED PARTY TRANSACTIONS (Continued)

- (f) 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.
- (g) HC Construction Limited entered into a three-year Business Information Supply Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited received service income from the Group for the business information provided at a fixed fee.

The agreement was terminated upon the Group acquired a data library from the minority shareholder on 30th June, 2003.

- (h) On 1st September, 2002, Beijing Huimei Printing Co., Ltd. ("Huimei") and Beijing Huicong Advertising Co., Ltd. ("HC Advertising"), a subsidiary of the Company, entered into a printing agreement (the "Printing Agreement") for a term of three years, and on 18th November, 2003, the parties have entered into a supplemental agreement which extended the term of the Printing Agreement to 31st December, 2005. Huimei is owned as to 65% by Huicong Construction Limited, a company owned as to 80% by Mr. Guo Fansheng, the chief executive officer and an executive director of the Company, and as to 35% by Mr. Fan Yousheng, an independent third party.

Pursuant to the Printing Agreement, Huimei was appointed by HC Advertising to print various publications published by HC Advertising, including but not limited to Huicong Trade Catalogues 《慧聰商情廣告》 (the "Printing Services"). The fee payable by HC Advertising shall be the actual amount for the provision of the Printing Services by Huimei at market price no less favourable than as charged by independent third parties on a monthly basis.

As at 31st December, 2004, the Group prepaid printing costs for year 2005 amounting RMB2,100,000 to Huimei, which recorded as prepayment included in the current assets as at 31st December, 2004.

- (i) Rental income of RMB646,000 were received from Huimei for the year ended 31st December, 2004 (2003: RMB 600,000), and the fee was payable at market price no less favorable than as charged by independent third parties on a monthly basis.

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, except for (a), (b) & (g), will continue in future.



NOTES TO THE ACCOUNTS

31. PARTICULARS OF SUBSIDIARIES

The following is a list of the subsidiaries at 31st December, 2004:

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest ^a	Principal activities and place of operations
Shares held directly:				
Hong Kong Huicong International Group Limited	The British Virgin Islands 26th February, 1999	21,000,000 ordinary shares of US\$0.01 each	100%	Investment holding – Hong Kong
Shares held indirectly:				
北京慧聰國際資訊有限公司	The PRC 8th April, 1999	RMB110,000,000	82%	Provision of business information, market research services, search engine services, software licensing and system integration – The PRC
北京慧翔網絡技術有限公司	The PRC 5th May, 1993	RMB10,000,000	82%	Provision of business information – The PRC
北京市慧聰廣告有限公司	The PRC 25th June, 1996	RMB2,000,000	82%	Advertising – The PRC
北京慧聰金網廣告有限公司	The PRC 8th September, 1999	RMB1,000,000	82%	Advertising – The PRC
深圳市京慧聰廣告有限公司	The PRC 21st May, 1998	RMB2,000,000	82%	Advertising – The PRC
廣州市京慧聰廣告有限公司	The PRC 6th November, 1998	RMB1,000,000	82%	Advertising, market research services – The PRC
浙江慧聰網絡信息有限公司	The PRC 4th November, 1998	RMB500,000	77.9%	Advertising – The PRC
武漢慧聰廣告信息諮詢 有限責任公司	The PRC 19th January, 1995	RMB1,010,000	82% ^b	Advertising and market research services – The PRC



NOTES TO THE ACCOUNTS

31. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest ^a	Principal activities and place of operations
南京慧聰廣告信息有限公司	The PRC 15th January, 1993	RMB635,000	78.7%	Advertising software licensing and system integration – The PRC
濟南金慧聰廣告有限公司	The PRC 13th April, 2000	RMB500,000	82%	Advertising, exhibition and seminar services – The PRC
石家莊金慧聰廣告信息諮詢有限公司	The PRC 21st October, 2001	RMB500,000	82%	Advertising – The PRC
福州京慧聰廣告有限公司	The PRC 11th September, 2000	RMB1,000,000	82%	Advertising – The PRC
蘭州華媒盛視廣告傳播有限公司	The PRC 3rd April, 2003	RMB500,000	41.8%	Advertising – The PRC
烏魯木齊華媒盛視傳播有限公司	The PRC 7th April, 2003	RMB1,000,000	62.3%	Advertising – The PRC
鄭州華媒盛視廣告傳播有限公司	The PRC 11th March, 2003	RMB1,000,000	82%	Advertising – The PRC
濟南華盛視傳播有限公司	The PRC 27th January, 2003	RMB500,000	82%	Advertising – The PRC
廈門市京慧聰廣告有限公司	The PRC 17th April, 2003	RMB500,000	82%	Advertising – The PRC
北京京慧聰廣告有限公司	The PRC 27th January, 2003	RMB500,000	82%	Advertising – The PRC
上海慧龍廣告有限公司	The PRC 31st May, 2001	RMB1,000,000	82%	Advertising and market research services – The PRC
上海慧網網絡信息資訊有限公司	The PRC 14th March, 2001	RMB1,000,000	82%	Provision of business information services – The PRC



NOTES TO THE ACCOUNTS

31. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest ^a	Principal activities and place of operations
廣州市慧穎廣告有限公司	The PRC 21st October, 2003	RMB1,000,000	82%	Provision of business information, market research services, software licensing and system integration – The PRC
武漢慧聰網絡信息技術有限公司	The PRC 27th October, 2003	RMB1,000,000	82%	Provision of business information, market research services, software licensing and system integration – The PRC
北京中搜在線軟件有限公司 ^c	The PRC 28th May, 2003	RMB7,500,000	57.6%	Provision of search engine services, software licensing and system integration – The PRC
北京慧翔信息技術有限公司	The PRC 4th February, 2004	RMB10,000,000	82%	Provision of business information – The PRC
北京華媒盛視廣告有限公司	The PRC 29th April, 2004	RMB5,000,000	65.6%	Advertising – The PRC
北京華媒盛視信息技術有限公司	The PRC 24th June, 2004	RMB1,000,000	65.6%	Provision of business information – The PRC
北京慧聰網絡技術有限公司	The PRC 21st June, 2004	RMB1,000,000	41.8%	Provision of technical services – The PRC
北京慧聰再創科技有限公司	The PRC 17th September, 2004	RMB5,000,000	82%	Provision of business information – The PRC
北京慧聰互動信息諮詢有限公司 ^d	The PRC 10th October, 2004	RMB1,000,000	41.8%	Provision of business information – The PRC
蘭州華媒廣告傳播有限公司	The PRC 19th February, 2004	RMB1,000,000	41.8%	Advertising – The PRC



NOTES TO THE ACCOUNTS

31. PARTICULARS OF SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest ^a	Principal activities and place of operations
杭州慧聰廣告有限公司	The PRC 31st March, 2004	RMB1,000,000	82%	Advertising – The PRC
南京慧聰網廣告信息有限公司	The PRC 31st March, 2004	RMB500,000	82%	Advertising – The PRC
上海新慧聰網廣告有限公司	The PRC 30th July, 2004	RMB1,000,000	82%	Advertising – The PRC
蘇州京慧聰廣告信息有限公司	The PRC 11th August, 2004	RMB500,000	82%	Advertising – The PRC

- (a) The attributable interest of profit/loss sharing and voting power in certain subsidiaries held by the Company differ from its attributable equity interests in these subsidiaries because the minority shareholders of these subsidiaries have forfeited their rights of sharing profit/loss and voting power in these subsidiaries to the Group.
- (b) In May 2004, the Company acquired further interests from minority shareholders of 武漢慧聰廣告信息諮詢有限責任公司. The attributable interest of profit/loss sharing increased from 52% to 82%. The total consideration for the acquisition amounted to RMB900,000 and resulted in a negative goodwill of RMB332,000, which was recognised in the consolidated profit and loss account during the year.
- (c) Pursuant to an agreement dated 9th February, 2004, Beijing Huicong International Information Co., Ltd. (Beijing HC International), a subsidiary of the Company, transferred its capital contributions of RMB576,000, RMB144,000 and RMB80,000 in the registered capital of Beijing Zhongsou Zaixian Software Co., Ltd. (Zhongsou Zaixian) to Hong Kong HC International Group Limited ("Hong Kong Huicong"); Global Cyberlinks Holding Inc.; and IDG Technology Venture Investment, LP ("IDG LP") respectively. Hong Kong Huicong and IDG LP is a subsidiary and a shareholder of the Company respectively.
- Upon completion of the transfers, the attributable interest in Zhongsou Zaixian of the Company reduced from approximately 65.5% to 57.6%.
- (d) On 22nd October, 2004, the Group acquired 51% interests in 北京慧聰互動信息諮詢有限公司, and the attributable interest of profit/loss sharing is 41.8%. The total consideration for the acquisition amounted to RMB5,410,000, and resulted in a goodwill of RMB4,900,000, which represents the excess of the purchase cost of the acquisition over the fair value of the Group's share of net assets at the date of acquisition.

32. CONTINGENT LIABILITIES

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



NOTES TO THE ACCOUNTS

33. CONTINGENT ASSETS

On 17th June, 2003, Beijing HC International as plaintiff filed a statement of claim against a property developer (the "defendant") as defendant before Beijing No. 1 Intermediate Court, in which the claims are to demand the defendant to refund a total amount of RMB8,865,000 being the sum of money Beijing HC International has paid for the property; and to demand the defendant to compensate Beijing HC International for its loss arising from various matters, which has amounted to no less than RMB5,500,000. The total amount involved in the above claim is approximately RMB14,365,000.

Beijing HC International and the defendant entered into a settlement agreement, under the mediation of Beijing No. 1 Intermediate Court, in which the defendant refunded an amount of approximately RMB7,875,000 and compensated a property with value of RMB800,000 to Beijing HC International for settlement. As a result, an amount of RMB8,675,000 is included in other operating income set out in the consolidated profit and loss account.

Under the settlement agreement, the defendant will compensate a final settlement of approximately RMB2,000,000 to HC International in 2005. As the Group considers that an inflow of economic benefits is probable, but the receivable amount is not virtually certain, hence no income is recognised by the Group for the final settlement of approximately RMB2,000,000 in the current year's accounts.

34. SUBSEQUENT EVENTS

On 27th January, 2005, certain grantees under the Pre-IPO Share Option Scheme exercised their options in respect of 10,934,345 shares of the Company at HK\$0.44 (equivalent to RMB0.47) per share. The total issued share capital comprised 465,934,345 shares upon the exercise of such Pre-IPO Share Options.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 21st March, 2005.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the members of HC International, Inc. (the "Company") will be held at Tower B, Huaxing Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100088) on 22nd April, 2005 at 4:00 p.m. for the following purposes:–

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company and its subsidiaries for the year ended 31st December, 2004.
2. To re-elect directors and to fix the directors' remuneration.
3. To re-appoint auditors and authorise the board of directors to fix their remuneration.
4. To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

A. "THAT:

- (i) subject to paragraph (iii) of this resolution and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares or securities convertible into shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company during the Relevant Period as hereinafter defined) to make or grant offers, agreements, and options which would or might require the exercise of such power during or after the end of the Relevant Period as hereinafter defined);
- (iii) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to the exercise of options or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to:
 - (a) a Rights Issue (as hereinafter defined);
 - (b) the grant or exercise of any option under any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (c) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company in force from time to time; or
 - (d) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares.



NOTICE OF ANNUAL GENERAL MEETING

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (i) shall be limited accordingly;

- (iv) for the purpose of this resolution, “**Relevant Period**” means the period from the date of passing of this resolution until whichever is the earliest of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and
 - (c) the revocation or variation of the authority given to the directors of the Company under this resolution by an ordinary resolution of the shareholders of the Company in general meeting,

and “**Rights Issue**” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

B. “THAT:

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or any other stock exchange on which the shares of the Company may be listed and which are recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange and the Hong Kong Code on Share Repurchases as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which are authorised to be repurchased by the Company pursuant to the approval in paragraph (i) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the authority granted pursuant to paragraph (i) above shall be limited accordingly; and
- (iii) for the purpose of this resolution, “**Relevant Period**” means the period from the date of passing of this resolution until whichever is the earliest of:
 - (a) the conclusion of the next annual general meeting of the Company;



NOTICE OF ANNUAL GENERAL MEETING

- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable laws to be held; and
 - (c) the revocation or variation of the authority given to the directors of the Company under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."
- (C) "THAT conditional upon resolutions numbered 4(A) and 4(B) as set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to the said resolution numbered 4(A) be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted to the directors of the Company pursuant to the said resolution numbered 4(B), provided that such an amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution."
5. To transact any other ordinary business of the Company.

By Order of the board of the Directors
HC INTERNATIONAL, INC.
Guo Fansheng
Chief Executive Officer and Executive Director

Beijing, 31st March, 2005

Registered office:
4th Floor, One Capital Place
P.O. Box 847 George Town
Grand Cayman, Cayman Islands
British West Indies

Head office and principal place of business:
Tower B, Huaxing Building
42 North Street, Xizhimen
Haidian District
Beijing, the PRC

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrar, Hong Kong Registrars Limited, at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the meeting or any adjournment thereof should he so wishes.
3. Explanatory statements containing further details regarding resolutions numbered 4(B) and 5, inclusive, above as required by the GEM Listing Rules will be made available to the members of the Company on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from its posting.
4. The share register of the Company will be closed from 20th April, 2005 to 22nd April, 2005 (both dates inclusive). Shareholders on the share register as at 20th April, 2005 will be entitled to attend and vote at the meeting.



HC International, Inc.
慧聰國際資訊有限公司