



HC International, Inc.
慧聰國際資訊有限公司

Interim Report 2005

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

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to announce the results of the Group for the six months ended 30th June 2005 to the shareholders of the Company.

Financial Highlights

	Three months ended 30th June		Six months ended 30th June	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover	130,476	117,566	241,349	200,067
Gross Profit	49,318	44,075	89,458	75,416
EBITDA	5,141	15,997	4,859	27,164
(Loss)/profit attributable to equity holders of the Company	(817)	8,256	(4,996)	11,147

Key Financial Figures for the First Half of 2005

- Turnover of the Group for the six months ended 30th June 2005 was approximately RMB241.3 million as compared to approximately RMB200.1 million for the corresponding period last year.
- Gross profit ratio of the Group for the six months ended 30th June 2005 was approximately 37% as compared to approximately 38% for the corresponding period last year.
- EBITDA of the Group for the six months ended 30th June 2005 was approximately RMB4.9 million as compared to approximately RMB27.2 million for the corresponding period last year.
- Loss attributable to shareholders of the Group for the six months ended 30th June 2005 was approximately RMB5 million as compared to profit attributable to shareholders of approximately RMB11.1 million for the corresponding period last year.

Overview and Business Prospects

During the six-month period ended 30th June 2005, the Group recorded a turnover of approximately RMB241.3 million (2004: RMB200.1 million), representing an increase of approximately 21% over the corresponding period last year. The increase was mainly attributable to the rapid expansion of the Group's market share in the search engine and website construction business, the revenue generated from which increased by about 176% to approximately RMB61 million (2004: RMB22.1 million) amounting to about 25% of the Group's total revenue for the six months ended 30th June 2005.

The gross profit margin of the Group for the six months ended 30th June 2005 was approximately 37% as compared to approximately 38% for the corresponding period last year. Faced with keen competition in the television advertising sector, the revenue generated from the television advertising sector decreased by about 8% to approximately RMB61.9 million (2004: RMB67.3 million) as compared with the corresponding period in 2004. Together with the increase in costs, the television advertising sector recorded a negative gross profit margin for the six months ended 30th June 2005.

By capturing the business opportunities and potential in the fast growing on-line industry in the PRC, the Group achieved a segment result of approximately RMB41.1 million and a gross profit margin of 67% from its direct on-line business information provision segment, that is the Group's search engine and website construction business for the six months ended 30th June 2005.

The gross profit margins for the other business segments of the Group were relatively stable during the period under review.

To strengthen the Group's position as the leading business-to-business internet portal in the PRC, more efforts and resources have been devoted to widen the scope and range of business information provided through the Group's industry portal – hc360.com. More experienced editorials were recruited and advanced computer systems and editing tools were adopted by the Group to increase the accuracy, timeliness and efficiency of the processing of business information. Together with the launching of a new version of web-page presentation during the period, customers of hc360.com can easily obtain comprehensive, accurate and timely business information on-line.

The on-line marketplace “Mai-Mai-Tong” (買賣通), which was launched by the Group in 2004, was very well received and recognized by the business-to-business sector. As at 30th June 2005, the total number of registered members of “Mai-Mai-Tong” (買賣通) reached 2 million and contributed approximately RMB37 million to the total revenue of the Group for the six months ended 30th June 2005. With the establishment of a customer service department, “Buyer Center” (買家部), the Group provided more buy-side business information to the registered members of “Mai-Mai-Tong” (買賣通), which helped to facilitate the matching of buyers and sellers in commercial transactions. In May 2005, the Group also introduced another value added service – “Buyers-and-Sellers Meet” (供需見面會) to the registered members of “Mai-Mai-Tong” (買賣通). By joining this “Buyers-and-Sellers Meet” (供需見面會), customers are able to locate and meet their potential business partners face-to-face.

The Group also recorded a strong performance in the market research and analysis segment during the period under review. Total revenue of approximately RMB19.6 million for this segment was achieved for the six months ended 30th June 2005, which represents a growth of approximately 49% as compared to approximately RMB13.2 million for the corresponding period last year.

In order to maintain the Group’s position as a leading business information services provider in the PRC through the expansion into other communication channels such as printed media, industry portal and other complimentary online products, active steps have been taken by the Group to re-engineer its business structure. On 27th May 2005, the Group entered into a sale and purchase agreement with Metaphor Corp., a corporation quoted on the NASDAQ National Market in the United States, to dispose of its television advertising business in the PRC. The proceeds from this disposal will be devoted to further strengthen the Group’s other business segments, which include the industry portal, trade catalogues and yellow page directories segment and the search engine and website construction segment. The Group will explore overseas markets and pursue mergers and acquisitions when opportunities arise, and enhance its complimentary on-line products and services. The Group’s budget for products research and development in these areas will be increased accordingly. By leveraging on the global expertise and exposure in the broadcasting industry of Metaphor Corp., together with the injection of capital, the television advertising business can expand its program coverage and concentrate on its business development. To capture future potential growth of the television advertising business, the Group will retain a 28.68% equity interest in Metaphor Corp., together with a cash component of US\$3.785 million, as consideration for the disposal upon the completion of the transaction. For the six months ended 30th June 2005, the Group’s television advertising segment recorded a loss of approximately RMB6.9 million as compared to a profit of approximately RMB5 million for the corresponding period last year.

In order to enhance the development of the Group's internet public search technology used in "China Search – zhongsou.com" (中國搜索) and to increase the functionality and market share of its desktop search software "Net PIG – 網絡豬", the Group devoted more resources on research and development and marketing to this business segment. For the six months ended 30th June 2005, this segment recorded a loss of approximately RMB5.3 million as compared to a loss of approximately RMB1.6 million in the corresponding period last year. As the internet public search engine business requires substantial working capital, the Group has been actively seeking strategic investors in this segment.

Despite being under pressure due to the weak performance in the Group's television advertising business, the Group has achieved significant growth in total revenue. In order to focus on segments with higher return and growth potential, the Group carried out restructuring and disposed of the television advertising business in May 2005. Looking forward, the Group will continue to consolidate its position as the leading business-to-business internet portals in the PRC. The Group will pay close attention to the market trends, focus on capturing new business opportunities and to form strategic alliances with new business partners with the aim of promoting the interests of its shareholders.

On behalf of the board of directors, I would like to take this opportunity to thank the management team and staff member of their ongoing dedication and hard work.

Guo Fansheng

Chief Executive Officer and Executive Director

Beijing, PRC, 12th August 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

Including those assets classified as held for sale, as at 30th June 2005, the Group has a cash at bank balance of RMB98,124,000 and net current assets of RMB204,774,000. The Group maintained a strong working capital position during the six months period ended 30th June 2005.

Short-term loans amounted to RMB26,001,000 as at 30th June 2005, representing an increase of about 13% from that at 31st December 2004. Gearing ratio of the Group increased to 7.5% as at 30th June 2005 from 6.17% as at 31st December 2004, calculated with reference to its short-term loans of RMB26,001,000 (31st December 2004: RMB23,000,000) and shareholders' funds of RMB347,095,000 (31st December 2004: RMB344,344,000).

The Group's shareholders' funds increased by RMB2,751,000 from RMB344,344,000 as at 31st December 2004 to RMB347,095,000 as at 30th June 2005.

Significant Investment

The Group has no significant investment during the six months ended 30th June 2005.

Future Plans for Material Investments

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

Material Acquisitions and Disposals

On 27th May 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited, a wholly owned subsidiary of the Company, agreed to transfer to Metaphor Corp., a corporation quoted on the NASDAQ National Market in the United States, its entire interest in operations in relation to its television advertising business in the PRC in exchange for (i) an equity interest of 28.68% in Metaphor Corp., subject to adjustment provided under the sale and purchase agreement and (ii) two payments in the aggregate amount of US\$3.785 million (approximately HK\$29.5 million) in cash. Please refer to the announcement of the Company dated 27th May 2005 for further details of the disposal.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th June 2005, the Group has 4,150 employees.

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

Capital Structure

On 27th January 2005, certain grantees under the Pre-IPO Share Option Scheme (as defined below) 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 number of issued shares of the Company was 465,934,345 as at 30th June 2005.

Charge on Group Assets

As at 30th June 2005, a property and the associated land use rights carried at RMB51,774,333 were pledged to secure the Group's bank loan amounting to RMB23,000,000.

Exchange Risk

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

Contingent Liabilities

As at 30th June 2005, the Group had no material contingent liabilities (31st December 2004: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group’s business objectives as set out in the Company’s prospectus dated 8th December 2003 against the actual business progress from 1st January 2005 to 30th June 2005:

Business Objectives

Actual Business Progress

Broaden industry coverage

- Conduct feasibility studies to expand the coverage of the Group’s trade catalogues to new industry sectors in the next half of the year.

Ongoing feasibility studies have been carried out by the Group, together with its expertise and valuable market indicators derived from its data library, the Group continues to broaden its trade catalogue to other industry sectors.

Increase market share within an existing industry sector

- Continue to expand the market research and analysis services to other industry sectors.

Market research has been conducted and relevant reports have been issued by the Group to cover additional industry sectors.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(continued)***Business Objectives****Actual Business Progress****Utilise the Internet to support its operations**

- Continue to enrich the business information provided on the Group's website.
With the establishment of a "Buyer Center" (買家部), more buy-side business information and other business information such as technical articles, authority release and market/business opportunities, have been provided to the registered members of "Mai-Mai-Tong" (買賣通)
- Research and development of a trading platform to facilitate e-business on the Internet.
Ongoing research and development have been carried out by the Group.

Expand and strengthen the Group's data library

- 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 its data library and expand the information source of the data library.
- Continue to expand the information sources for the data library.

Expand search engine services

- Continue the research and development to upgrade the search engine software of the Group.
Ongoing research and developments have been carried out by the Group.

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 entered into a management agreement with a new television station, Sanya Television Station, in the first half of 2005.

USE OF PROCEEDS

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

	For the six months ended 30th June 2005	
	Proposed <i>RMB million</i>	Actual <i>RMB million</i>
Broaden industry coverage	1.0	0.8
• Conduct feasibility studies	1.0	0.8
Increase market share within an existing industry sector	1.0	1.0
• Set up, operate and promote website construction services	0.5	0.5
• Promote market research and analysis services to other industry sectors	0.5	0.5
Utilise the Internet to support its operations	4.5	4.5
• Research and development of new products	1.0	1.0
• Finance the launching of new products	3.0	3.0
• Enrich the contents on the Group's websites	0.5	0.5
Expand and strengthen the Group's data library	1.5	1.3
• Upgrade the software/hardware of the data library	0.5	0.5
• Expand the information source for the data library	1.0	0.8
Expand search engine services	3.0	3.0
• Research and development to enhance the existing search engine or the develop new search engine related software products	2.0	2.0
• Finance the launching of search engine services	1.0	1.0
Expand television advertising service	8.0	4.2
• Provide working capital for managing the advertising time-slots for new television stations	8.0	4.2
Working capital	1.5	1.5
	20.5	16.3

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

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
 FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE 2005

	Note	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
		2005 RMB'000	2004 RMB'000 (As restated)	2005 RMB'000	2004 RMB'000 (As restated)
Turnover	3	130,476	117,566	241,349	200,067
Cost of sales		(81,158)	(73,491)	(151,891)	(124,651)
Gross profit		49,318	44,075	89,458	75,416
Other revenues		199	178	316	357
Selling and distribution costs		(24,619)	(15,084)	(48,684)	(27,242)
Administrative expenses		(23,638)	(17,407)	(47,953)	(29,837)
Amortisation of deferred compensation expenses		(1,300)	(3,151)	(2,599)	(6,302)
Other operating income/(expenses), net		(2,222)	641	(189)	1,605
Finance costs	5	(326)	(193)	(732)	(627)
(Loss)/profit before taxation	6	(2,588)	9,059	(10,383)	13,370
Taxation	7	534	(404)	418	(965)
(Loss)/profit for the period from continuing operations		2,364	9,786	(1,043)	9,797
Profit for the period from discontinued operations	4	(4,418)	(1,131)	(8,922)	2,608
(Loss)/profit for the period		(2,054)	8,655	(9,965)	12,405
Attributable to equity holders of the Company		(817)	8,256	(4,996)	11,147
Minority interests		(1,237)	399	(4,969)	1,258
		(2,054)	8,655	(9,965)	12,405
Dividends	8	-	-	-	-

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT *(continued)*
 FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE 2005

		Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	Note	2005 RMB'000	2004 RMB'000 <i>(As restated)</i>	2005 RMB'000	2004 RMB'000 <i>(As restated)</i>
Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the period					
Basic	9	<u>RMB0.0061</u>	<u>RMB0.0185</u>	<u>RMB0.0042</u>	<u>RMB0.0177</u>
Diluted	9	<u>RMB0.0057</u>	<u>RMB0.0170</u>	<u>RMB0.0040</u>	<u>RMB0.0162</u>
Loss/earnings per share for (loss)/profit from discontinued operations attributable to the equity holders of the Company during the period					
Basic	9	<u>RMB(0.0078)</u>	<u>RMB0.0014</u>	<u>RMB(0.0150)</u>	<u>RMB0.0092</u>
Diluted	9	<u>RMB(0.0073)</u>	<u>RMB0.0013</u>	<u>RMB(0.0142)</u>	<u>RMB0.0084</u>

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2005

	Note	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000 (As restated)
Non-current assets			
Intangible assets	10	46,169	41,023
Land use right	10	20,502	20,715
Property, plant and equipment	10	104,535	94,987
Deferred tax assets		6,414	4,924
		<u>177,620</u>	<u>161,649</u>
Current assets			
Interests in a jointly controlled entity		—	1,682
Trade receivables	11	80,431	97,965
Deposits, prepayments and other receivables		63,803	65,629
Cash and cash equivalent		82,944	154,156
		<u>227,178</u>	<u>319,432</u>
Assets classified as held for sale		81,589	—
		<u>308,767</u>	<u>319,432</u>
Current liabilities			
Trade payables	12	3,702	5,231
Accrued expenses, deposits received and other payables		38,946	36,287
Accruals for statutory benefit funds	13	3,958	7,794
Short-term loans	14	26,001	23,000
Other taxes payable	15	14,342	15,206
Income tax payable	15	4,569	4,806
		<u>91,518</u>	<u>92,324</u>
Liabilities directly associated with assets classified as held for sale		7,532	—
		<u>99,050</u>	<u>92,324</u>
Net current assets		<u>209,717</u>	<u>227,108</u>
Total assets less current liabilities		<u>387,337</u>	<u>388,757</u>

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*
 AS AT 30TH JUNE 2005

	<i>Note</i>	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000 (As restated)
Equity:			
Share capital	16	49,839	48,669
Reserves		297,256	295,675
Shareholders' funds		347,095	344,344
Minority interests		37,103	41,692
Total equity		384,198	386,036
Non-current liability			
Deferred tax liabilities		3,139	2,721
Total equity and non-current liability		387,337	388,757

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Attributable to equity holders of the Company								Total RMB'000
	Share capital RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Shares Issuance costs RMB'000	Share premium RMB'000	Share- based compensation reserves RMB'000	Minority interest RMB'000	
At 1st January 2004 (audited), as previously reported as equity	42,784	987	108,830	14,118	-	55,654	-	-	222,373
Balance at 1st January 2004, as previously separately reported as minority interest	-	-	-	-	-	-	-	30,578	30,578
Balance at 1st January 2004, as restated	42,784	987	108,830	14,118	-	55,654	-	30,578	252,951
Issuance of shares	1,605	-	-	-	-	15,890	-	-	17,495
Profit for the period	-	-	-	11,147	-	-	-	1,258	12,405
Shares issue expenses	-	-	-	-	(7,204)	-	-	-	(7,204)
Offset of share issuance costs to share premium	-	-	-	-	7,204	(7,204)	-	-	-
Capital contribution from minority interest	-	-	-	-	-	-	-	1,334	1,334
Acquisition of subsidiary	-	-	-	-	-	-	-	490	490
Disposal of subsidiary	-	-	-	-	-	-	-	(22)	(22)
Employees share option scheme-value of employee services	-	-	-	-	-	-	6,302	-	6,302
At 30th June 2004 (unaudited)	44,389	987	108,830	25,265	-	64,340	6,302	33,638	283,751
At 1st January 2005 (audited), as previously reported as equity	48,669	987	108,830	61,410	-	124,448	-	-	344,344
Balance at 1st January 2005, as previously separately reported as minority interest	-	-	-	-	-	-	-	41,692	41,692
Employees share option scheme-value of employee services	-	-	-	(12,604)	-	-	12,604	-	-
Balance at 1st January 2005, as restated	48,669	987	108,830	48,806	-	124,448	12,604	41,692	386,036
Issuance of shares	1,170	-	-	-	-	3,978	-	-	5,148
Loss for the period	-	-	-	(4,996)	-	-	-	(4,969)	(9,965)
Capital contribution from minority interest	-	-	-	-	-	-	-	380	380
Employees share option scheme-value of employee services	-	-	-	-	-	-	2,599	-	2,599
At 30th June 2005 (unaudited)	49,839	987	108,830	43,810	-	128,426	15,203	37,103	384,198

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	Unaudited	
	2005	2004
	RMB'000	RMB'000
Net cash outflow from operating activities	(22,985)	(26,552)
Net cash outflow from investing activities	(41,576)	(19,970)
Net cash inflow from financing activities	8,529	8,291
Decrease in cash and cash equivalents	(56,032)	(38,231)
Cash and cash equivalents at 1st January	154,156	133,977
Cash and cash equivalents at 30th June	98,124	95,746
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	98,124	95,746
Included in assets classified as held for sale	(15,180)	-
	82,944	95,746

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

This unaudited condensed consolidated interim accounts ("Condensed Interim Accounts") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This Condensed Interim Account should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this Condensed Interim Account are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

This Condensed Interim Account has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (July 2005). The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this Condensed Interim Account.

The change to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(a) *Effect of adopting new HKFRS*

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements. The major effects on the new HKFRSs, which have had impacts on the unaudited interim results, are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets held for Sale and Discontinued Operation

HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- Amortised on a straight line basis over a period ranging of 3 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January 2005;
- Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment. HKFRS 3 (if applied) prospectively after the adoption date.

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

The Group adopted HKFRS 5 from 1st January 2005 prospectively in accordance with the standard's provisions. The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets held for sale. The non-current assets held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets held for sale or for continuing use.

The application of HKFRS 5 does not impact on the prior-year financial statements other than a change in the presentation of the results and cash flows of discontinued operations.

- (i) The adoption of revised HKAS 17 resulted in:

	As at 30th June 2005	As at 31st December 2004
Decrease in property, plant and equipment	(20,502)	(20,715)
Increase in land use rights	20,502	20,715

- (ii) The adoption of HKFRS 2 resulted in:

	As at 30th June 2005	As at 31st December 2004
Increase in share-based compensation reserves	(2,599)	(12,604)
Decrease in retained earnings	2,599	12,604

	For the year ended 31st December 2004	For the six months ended 30th June 2005	For the six months ended 30th June 2004
Increase in administrative expenses	12,604	2,599	6,302
Decrease in basic earnings per share	0.0299	0.0056	0.0152
Decrease in diluted earnings per share	0.0275	0.0053	0.0140

- (iii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at 30th June 2005
Increase in intangible assets	817
Increase in retained earnings	817
	For the six months ended 30th June 2005
Decrease in selling and marketing costs	817
Increase in basic earnings per share	0.0018
Increase in diluted earnings per share	0.0017

3. Segment information

(a) *Primary reporting format – business segments*

The Group is organised into the following business segments:

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

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

Unaudited
6 months ended 30th June 2005

	Industry portals, trade catalogues and yellow page directories <i>RMB'000</i>	Television advertising <i>RMB'000</i>	Printed periodicals <i>RMB'000</i>	Search engine and website construction series <i>RMB'000</i>	Market research and analysis <i>RMB'000</i>	Exhibition seminars and PR services <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	86,991	61,912	9,155	61,041	19,638	2,612	241,349
Segment results	40,696	(2,748)	389	41,124	9,965	32	89,458
Interest income							316
Unallocated costs							(99,425)
Finance costs							(732)
Loss before taxation							(10,383)
Taxation							418
Loss after taxation							(9,965)
Minority interests							4,969
Loss attributable to the equity holders of the Company							(4,996)

Unaudited
6 months ended 30th June 2004

	Industry portals, trade catalogues and yellow page directories <i>RMB'000</i>	Television advertising <i>RMB'000</i>	Printed periodicals <i>RMB'000</i>	Search engine and website construction series <i>RMB'000</i>	Market research and analysis <i>RMB'000</i>	Exhibition seminars and PR services <i>RMB'000</i>	Total <i>RMB'000</i> <i>(As restated)</i>
Turnover	83,860	67,315	11,415	22,077	13,159	2,241	200,067
Segment results	43,224	6,422	966	16,915	7,112	777	75,416
Interest income							357
Unallocated costs							(61,776)
Finance costs							(627)
Profit before taxation							13,370
Taxation							(965)
Profit after taxation							12,405
Minority interests							(1,258)
Profit attributable to the equity holders of the Company							11,147

(b) *Secondary reporting format – geographical segments*

The principal market of the Group is primarily in the People's Republic of China (the "PRC"), excluding Hong Kong Special Administrative Region and the turnover and operating profit attributable to other markets are both less than 10% of the Group's total turnover and operating profit for the six months ended June 2004 and 2005, individually. Accordingly, no segmental information analysed by geographical segment is presented.

4. Discontinued operation and assets classified as held for sale

On 27th May 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited, a wholly owned subsidiary of the Company, agreed to transfer to Metaphor Corp. (the "Acquiror") its entire interest in operations in relation to television advertising business in the PRC. Subject to the terms and conditions of the sale and purchase agreement, the Company has agreed to procure a restructuring in respect of its PRC domestic television advertising business, and the restructuring and transfers of relevant equity interests will take place on 30th August 2005 or such later date when all the conditions have been fulfilled or waived. Upon completion of the disposal, the Group discontinued to manage the operations of its television advertising products and services.

The turnover, results, cash flows and net assets of the discontinued operation were as follows:

	Unaudited	
	Six months ended	
	30th June	
	2005	2004
	RMB'000	RMB'000
Turnover	64,920	69,588
Operating costs	(73,702)	(66,980)
Operating (loss)/profit	(8,782)	2,608
Taxation	(140)	-
(Loss)/profit for the period	(8,922)	2,608
	Unaudited	
	30th June	31st December
	2005	2004
	RMB'000	RMB'000
Fixed assets	4,683	4,251
Current assets	86,136	69,776
Total assets	90,819	74,027
Total liabilities	(59,102)	(52,389)
Net assets	31,717	21,638

5. Finance costs

	Unaudited Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Interest on short-term bank loans	(732)	(627)

6. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging/(crediting) the following:

	Unaudited Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
		<i>(As restated)</i>
Staff costs, including directors' emoluments	93,433	53,585
Amortisation of deferred compensation expenses	2,599	6,302
Depreciation of fixed assets	9,064	5,108
Gain on disposal of subsidiaries	-	(1,878)
Loss/(gain) on disposal of fixed assets	183	(71)
Amortisation of software development costs	2,847	1,848
Amortisation of negative goodwill	-	(91)
Recognition of negative goodwill	-	(332)

7. Taxation

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

	Unaudited Six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
Hong Kong profits tax (i)	-	-
The PRC Enterprise income tax ("EIT") (ii)	(914)	(602)
Deferred taxation	1,332	(363)

- (i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period (2004: Nil).
- (ii) The PRC enterprise income tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

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

8. Dividends

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

9. Earnings per share

The calculation of basic earnings per share from continuing operations for the three months and six months ended 30th June 2005 is based on the respective unaudited continuing operation's profit attributable to the equity holders of RMB2,828,000 and RMB1,956,000 (2004: restated RMB7,672,000 and RMB7,335,000) and the weighted average of 465,934,000 and 464,355,000 (2004: 415,000,000 and 414,667,000) ordinary shares in issue during the period.

The calculation of basic earnings/(loss) per share from discontinued operations attributable to the equity holders for the three months and six months ended 30th June 2005 is based on the respective unaudited Group's profit/(loss) attributable to the equity holders of RMB(3,645,000) and RMB(6,952,000) (2004: unaudited Group's profit attributable to the equity holders of RMB584,000 and RMB3,812,000) and the denominators used are the same as those detailed above for basic earning per share.

The calculation of diluted earnings per share for the three months and six months ended 30th June 2005 is based on the unaudited continuing operation's profit attributable to the equity holders of RMB2,828,000 and RMB1,956,000 (2004: restated RMB7,672,000 and RMB7,335,000) and the weighted average of 500,261,000 and 490,484,000 (2004: 451,125,000 and 451,792,000) ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company, under the Pre-IPO Share Option Scheme had been exercised at the date of grant. Since the exercise price of the Share Options granted by the Company under Share Option Scheme is higher than the average market price of the Company, the effect of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.

The calculation of diluted earnings/(loss) per share from discontinued operations attributable to the equity holders for the three months and six months ended 30th June 2005 is based on the unaudited Group's profit/(loss) attributable to the equity holders of RMB(3,645,000) and RMB(6,952,000) (2004: unaudited Group's profit attributable to the equity holders of RMB584,000 and RMB3,812,000) and the denominators used are the same as those detailed above for diluted earning per share.

10. Capital expenditure

	Software development costs	Data library	Positive/(Negative) goodwill	Total intangible assets	Land use rights	Properties, plants and equipment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount as at 1st January 2005	17,707	18,688	4,628	41,023	20,715	94,987
Development costs recognised as an asset	7,993	-	-	7,993	-	-
Other additions	-	-	-	-	-	25,473
Disposals	-	-	-	-	-	(2,391)
Depreciation/amortisation charge	(1,748)	(1,099)	-	(2,847)	(213)	(8,851)
Closing net book amount as at 30th June 2005	23,952	17,589	4,628	46,169	20,502	109,218
Included in assets classified as held for sale	-	-	-	-	-	(4,683)
	<u>23,952</u>	<u>17,589</u>	<u>4,628</u>	<u>46,169</u>	<u>20,502</u>	<u>104,535</u>
Opening net book amount as at 1st January 2004	7,260	20,887	(158)	27,989	19,126	57,075
Development costs recognised as an asset	2,587	-	-	2,587	-	-
Other additions	-	-	-	-	2,006	15,559
Disposals	-	-	36	36	-	(1,139)
Depreciation/amortisation charge	(748)	(1,100)	91	(1,757)	(203)	(4,905)
Closing net book amount as at 30th June 2004	9,099	19,787	(31)	28,855	20,929	66,590
Development costs recognised as an asset	9,887	-	4,900	14,787	-	36,630
Other additions	-	-	-	-	-	-
Disposals	-	-	1	1	-	(787)
Depreciation/amortisation charge	(1,279)	(1,099)	(242)	(2,620)	(214)	(7,446)
Closing net book amount as at 31st December 2004	17,707	18,688	4,628	41,023	20,715	94,987

11. Trade receivables

The majority of the Group's turnover is on credit terms ranging from 30 to 120 days. The aging analysis of the trade receivables as at 30th June 2005 and 31st December 2004 is as follows:

	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000
Current to 90 days	67,422	61,793
91 to 180 days	33,190	24,653
181 to 365 days	26,747	11,969
Over 1 year	6,662	3,908
	134,021	102,323
Provision for doubtful debts	(6,371)	(4,358)
	127,650	97,965
Included in assets classified as held for sale	(47,219)	-
	80,431	97,965

12. Trade payables

The aging analysis of the trade payables as at 30th June 2005 and 31st December 2004 is as follows:

	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000
Current to 90 days	2,648	3,538
91 to 180 days	765	1,006
181 to 365 days	364	531
Over 1 year	62	156
	3,839	5,231
Included in assets classified as held for sale	(137)	-
	3,702	5,231

13. Accruals for statutory benefit funds

	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000
Accrual for retirement benefit	3,710	6,304
Accrual for medical benefit	44	–
Accrual for housing benefit	528	1,490
	4,282	7,794
Included in assets classified as held for sale	(324)	–
	3,958	7,794

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

14. Short-term loans

	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000
Bank loans, secured	23,000	23,000
Loans from a third party, unsecured	3,001	–
	26,001	23,000

- (a) The bank loan of RMB23,000,000 was secured by a property and the associated land use rights owned by the Group. It was interest bearing and repayable within one year.
- (b) This represented a loan of RMB3,001,000 provided by an independent third party to the Group. It was unsecured, interest bearing and repayable within one year.

15. Income tax payable and other taxes payable

	Unaudited 30th June 2005 RMB'000	Audited 31st December 2004 RMB'000
Income tax payable:		
EIT	4,639	4,806
Included in assets classified as held for sale	(70)	-
	4,569	4,806
Other taxes payable:		
Business tax	10,883	10,327
Cultural and development tax	1,914	2,484
Other taxes	1,877	2,395
	14,674	15,206
Included in assets classified as held for sale	(332)	-
	14,342	15,206

16. Share capital

	Unaudited 30th June 2005		Audited 31st December 2004	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each	1,000,000,000	100,000	1,000,000,000	100,000
		RMB'000		RMB'000
Equivalent to:		107,000		107,000
	Unaudited 30th June 2005		Audited 31st December 2004	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
Issued and fully paid				
At 1st January	455,000,000	48,669	400,000,000	42,784
Issue of new shares	10,934,345	1,170	40,000,000	4,280
Issue of shares pursuant Over-allotment Issue	-	-	15,000,000	1,605
At 30th June 2005/ 31st December 2004	465,934,345	49,839	455,000,000	48,669

Share option schemes

Share options outstanding at the end of the period have the following expiry date and exercise prices:

	Number of share options	
	Pre-IPO Share Option Plan	Share Option Scheme
Expiry date	2nd December 2013	18th February 2014
Exercise price per share (HK\$)	0.44	2.40
Outstanding at 1st January 2005	46,984,080	26,000,000
Exercised during the period	(10,934,345)	–
Cancelled during the period	–	(5,250,000)
Outstanding at 30th June 2005	<u>36,049,735</u>	<u>20,750,000</u>

Options exercised in year 2005 resulted in 10,934,345 shares being issued at HK\$0.44 each. The related closing share price at the time of exercise was HK\$1.63.

The fair value of options granted on 18th February 2004 determined using the Binomial Model valuation model was RMB20,193,000. The significant inputs into the model were exercise price shown above, standard deviation of expected share price returns of 32%, expected life of options ranging from 5.4 to 6.6 years expected dividend paid out rate of 0% and annual risk-free interest rate ranging from 1.34% to 4.43%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

17. Commitments

The Group entered into 5 (31st December 2004: 5) long-term sole and exclusive management agreements with Zhengzhou Television Station, Jinan Television Station, Urumqi Television Station and Lanzhou Television Station for the exclusive management of advertising time slots. Pursuant to the agreements, the Group pays monthly charge for the time slots.

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

As at 30th June 2005, the Group had future aggregate minimum payments under these agreements of approximately RMB121,848,000 (31st December 2004: RMB97,819,000), RMB211,982,000 (31st December 2004: RMB139,060,000) and 53,036,000 (31st December 2004: Nil) within one year, in the second to fifth years inclusive and later than five years, respectively.

18. Related party transactions

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

	Note	Unaudited Six months ended 30th June	
		2005 RMB'000	2004 RMB'000
Service income received from a minority shareholder of the Company	(a)	106	106
Distribution costs paid to a minority shareholder of the Company	(b)	120	120
Licence income received from a minority shareholder of the Company	(c)	120	120
Publication costs paid to a minority shareholder of the Company	(d)	50	50
Printing costs paid to a related company	(e)	14,961	11,851
Rental income received from a related company	(f)	323	323

- (a) HC Construction Limited entered into a Technology Services Agreement with the Group in 2005. Pursuant to the agreement, the Group received technical service income from HC Construction Limited based on the working hour devoted to the service and support.
- (b) HC Construction Limited entered into a Online Information Distribution Agreement with the Group in 2005. Pursuant to the agreement, HC Construction Limited received distribution income from the Group at a fixed fee. It disseminated the Group's business information and research reports on its web-site and on those as stipulated by the Group.
- (c) HC Construction Limited entered into a Domain Names and Trademark Licence Agreement with the Group in 2005. Pursuant to the agreement, HC Construction Limited was granted the right to use the domain names and trademark owned or attained by the Group during the agreement period for a fixed fee.
- (d) HC Construction Limited entered into a Online Advertisement Publication Agreement with the Group in 2005. Pursuant to the agreement, HC Construction Limited received publication income from the Group at a fixed fee. It published the Group's advertisements on its website and on those as stipulated by the Group.
- (e) Printing costs were charged by 北京慧美印刷有限公司, a vendor of printing services of the Group in which HC Construction Limited holds 65% equity interest.

- (f) Rental income of RMB323,000 were received from 北京慧美印刷有限公司, for the six months ended 30th June 2005 (2004: RMB323,000).

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

19. Contingent liabilities

At 30th June 2005, there were no material contingent liabilities to the Group (31st December 2004: Nil).

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

As at 30th June 2005, the interests and short positions of the Directors and the chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

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

Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Guo Fansheng	64,088,863	-	-	-	64,088,863	13.75%
Yang Fei	1,269,853	-	-	-	1,269,853	0.27%
Hugo Shong	1,269,853	-	-	-	1,269,853	0.27%
Wu Ying	1,538,602	-	-	-	1,538,602	0.33%
Lai Sau Kam, Connie	507,885	-	-	-	507,885	0.11%

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

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

(c) Directors' 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 30th June 2005
			As at 1st January 2005	Granted during the period	Exercised during the period	Cancelled during the period	
WU Ying	2nd December 2003	0.44	1,015,872	-	(338,590)	-	677,282
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	-	(507,885)	-	1,015,923
LAI Sau Kam, Connie	18th February 2004	2.40	1,500,000	-	-	-	1,500,000

SHARE OPTION SCHEMES

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

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 30th June 2005, options to subscribe for an aggregate of 36,049,735 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th June 2005 (Note 1)
			As at 1st January 2005	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
WU Ying	2nd December 2003	0.44	1,015,872	-	(338,590)	-	677,282
LAI Sau Kam, Connie	2nd December 2003	0.44	1,523,808	-	(507,885)	-	1,015,923
<i>Senior management</i>							
LEE Wee Ong, Alex	2nd December 2003	0.44	2,666,664	-	(888,799)	-	1,777,865
CHEN Bo	2nd December 2003	0.44	1,269,840	-	(423,238)	-	846,602
CHEN Pei	2nd December 2003	0.44	3,174,600	-	-	-	3,174,600
GUO Jiang	2nd December 2003	0.44	1,015,872	-	(338,590)	-	677,282
YAO Lin	2nd December 2003	0.44	317,460	-	(105,809)	-	211,651
WU Xian	2nd December 2003	0.44	698,412	-	(232,781)	-	465,631
WANG Chong	2nd December 2003	0.44	6,298,406	-	(2,099,256)	-	4,199,150
WANG Yonghui	2nd December 2003	0.44	5,917,454	-	(1,972,288)	-	3,945,166
<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	-	(402,076)	-	804,272
<i>Other employees</i>							
In aggregate (Note 2)	2nd December 2003	0.44	10,990,466	-	(3,625,033)	-	7,365,433
Total			46,984,080	-	(10,934,345)	-	36,049,735

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 comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).
- There are 43 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 10,990,466 shares.

(b) Share Option Scheme

As at 30th June 2005, options to subscribe for an aggregate of 20,750,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th June 2005 (Note 1)
			As at 1st January 2005	Granted during the period	Exercised during the period	Cancelled during the period	
Directors							
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
Senior management							
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
Other employees							
In aggregate (Note 2)	18th February 2004	2.40	16,460,000	-	-	(4,610,000)	11,850,000
Total			26,000,000	-	-	(5,250,000)	20,750,000

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 comprised in his or her option (less any number of Shares 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.

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

As at 30th June 2005, the interests and the short positions of substantial shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Number of ordinary shares	Nature of Interests/Holding capacity	Percentage of shareholding
IDG Technology Venture Investment, Inc. (note 1)	73,331,954	Beneficial owner	15.74%
International Data Group, Inc. (note 1)	73,331,954	Interest in controlled corporation	15.74%
Callister Trading Limited (note 2)	40,000,384	Beneficial owner	8.58%
Li Jianguang (note 2)	40,000,384	Interest in controlled corporation	8.58%
McCarthy Kent C.	24,546,000	Beneficial owner	5.27%
Jayhawk China Fund (Cayman), Ltd.	24,546,000	Interest in controlled corporation	5.27%

Notes:

- IDG Technology Venture Investment, Inc ("IDGVC") is beneficially owned by International Data Group, Inc..
- Callister Trading Limited is beneficially owned by Mr. Li Jianguang.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any internal code of conduct regarding directors' securities transactions, it has made specific enquiry of all Directors and the Directors have confirmed that they have complied with all the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the six months ended 30th June 2005.

AUDIT COMMITTEE

Pursuant to GEM Listing Rules 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 Accountant.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises a non-executive director, Mr. Yang Fei and two independent non-executive directors, Mr. Zhang Ke and Mr. Xiang Bing. 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, and the interim results of the Group for the six months ended 30 June 2005.

DIRECTORS INTERESTS IN COMPETING BUSINESS

Each of the directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them has had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30th June 2005.

ADVANCES TO AN ENTITY

As at 30th June 2005, the Group had not made any advance, which is of a non-trading nature, to any entity.

FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

As at 30th June 2005, the Group had not provided any financial assistance to any of its affiliated companies.

PRE-EMPTIVE RIGHTS

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

SPONSOR'S INTERESTS

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

As at 30th June 2005, China Alpha Fund (a mutual fund managed by First Shanghai Fund Management Ltd.) and China Assets (Holdings) Limited, both being associates of the Sponsor, held 2,500,000 shares of the Company and 534,000 shares of the Company, respectively. First Shanghai Investments Limited, the holding company of the Sponsor, held 6,000,000 shares of the Company.

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, except the following deviations:

Code provisions

Steps to be taken

A5.4 Securities transactions
by Directors

In the progress of adopting an internal code of conduct regarding directors' securities transactions, which is expected to be completed by September 2005

B1.1-1.5 Remuneration Committee

In the progress of forming a remuneration committee, which is expected to be established by December 2005

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2005.

By order of the board of Directors

HC International, Inc.

Guo Fansheng

Chief Executive Officer and Executive Director

The board of Directors of the Company comprises:

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

Ms. Wu Ying (*Executive Director*)

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

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

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

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

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

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

Beijing, PRC, 12th August 2005