Annual Report **2005**

HC INTERNATIONAL, INC.
慧聰國際資訊有限公司

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 announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the 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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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, HKICPA

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

AUDITORS
PricewaterhouseCoopers

LEGAL ADVISERS
Johnson Stokes & Master
King & Wood

PRINCIPAL BANKER
The Hongkong and Shanghai Banking Corporation Limited

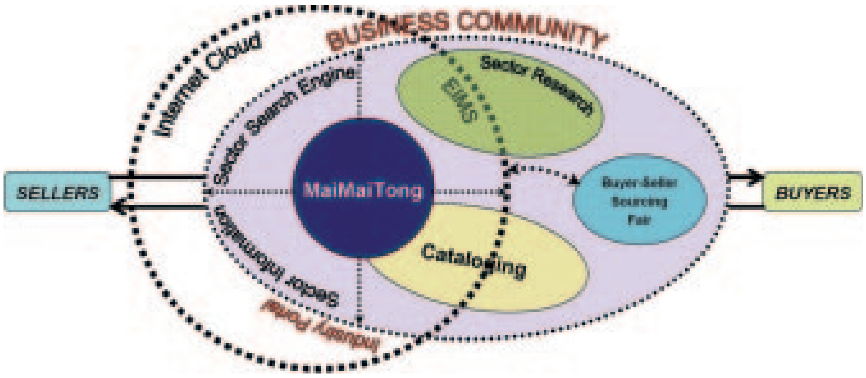
HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE
Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

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



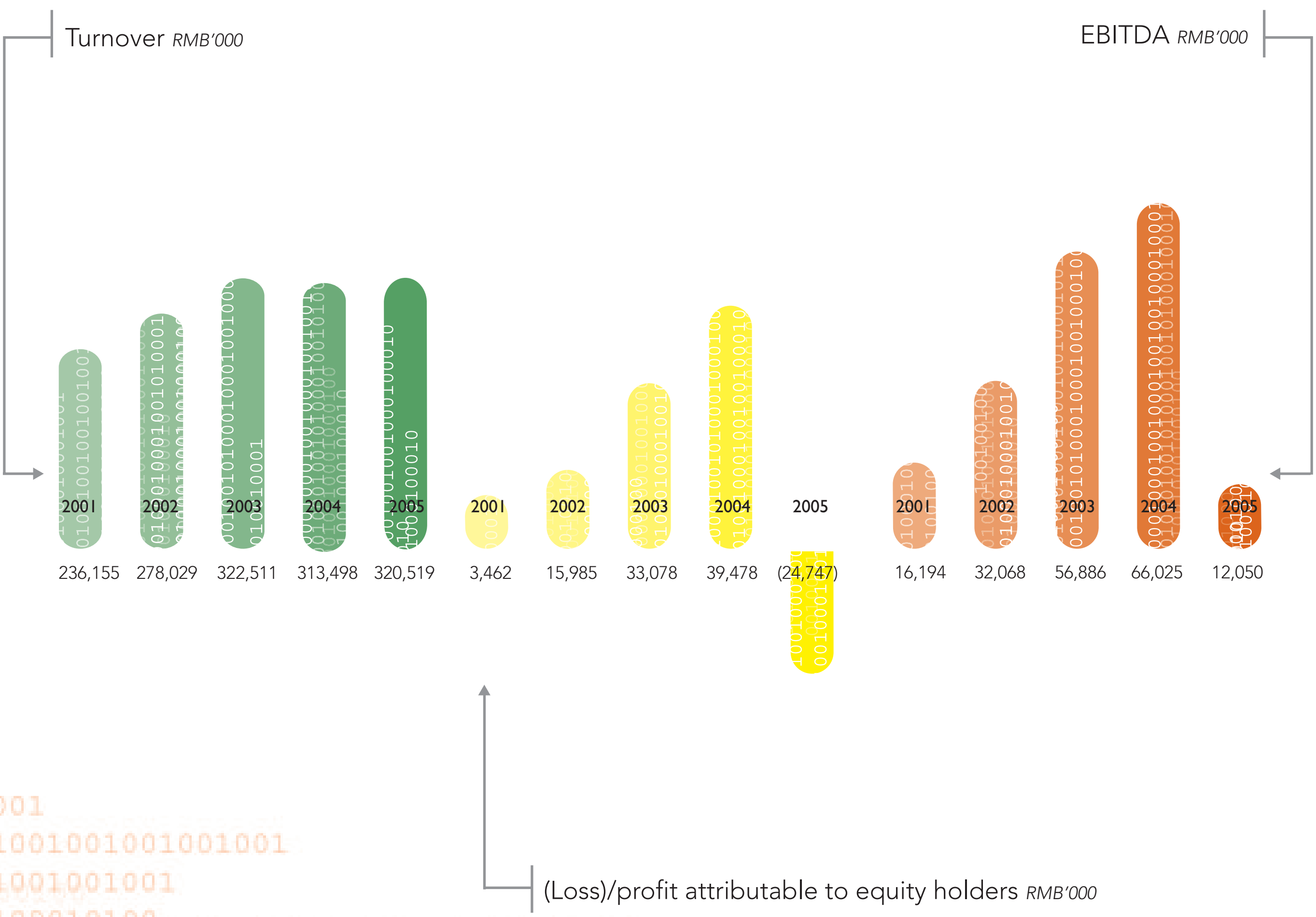
Business-to-Business Community of HC International, Inc.

The fast growing and liberalisation of the domestic market in the PRC create tremendous business opportunities. With intensified competition in the business world, the demand for timely and reliable business information services and products continues to increase rapidly.

Being one of the leading business-to-business communities in the PRC, we are committed to promoting productivity and awareness of members of the business-to-business community by offering professional, innovative and tailor-made services and products. As we strongly believe that it is with our broad-based members and their ever expanding businesses that we were able to grow to where we are now. With the excellence of on-line technology, our focus will remain on developing new on-line products and providing the best business-to-business services on-line.

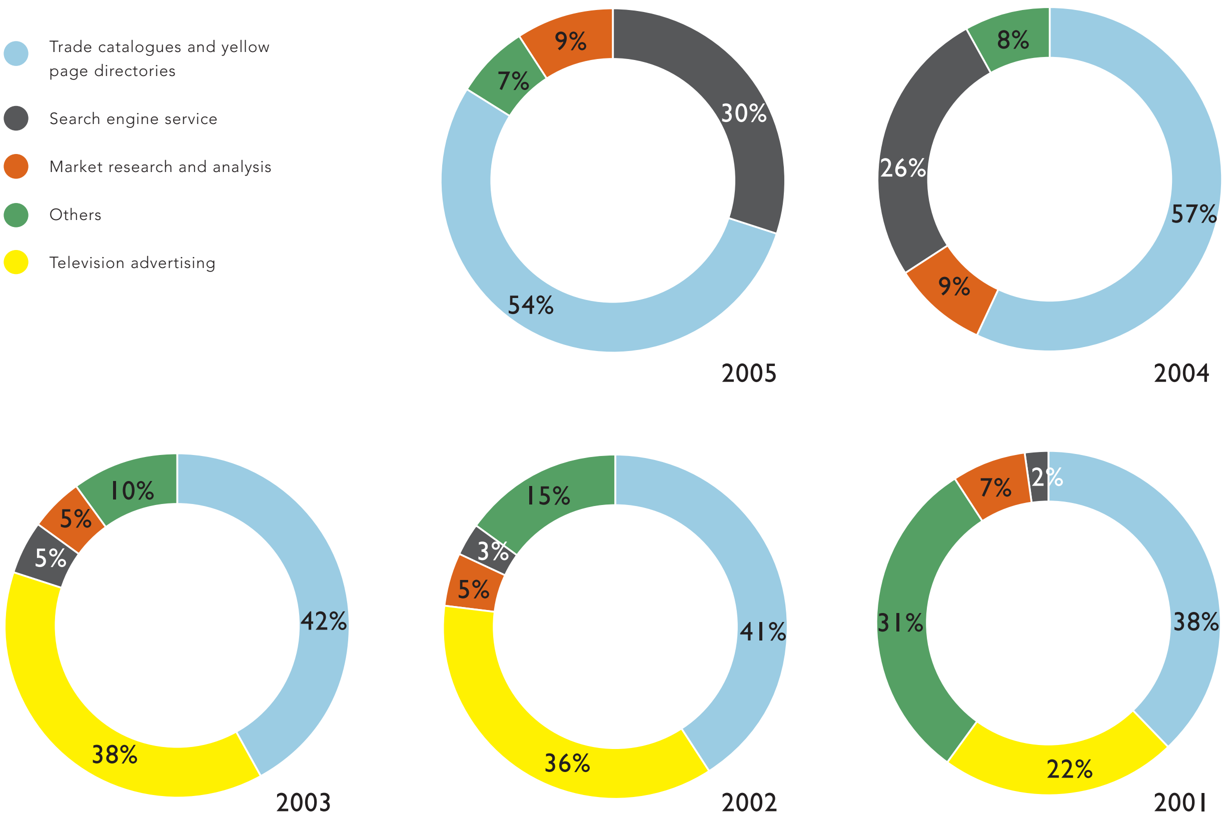
FINANCIAL HIGHLIGHTS

Results	2005 RMB'000	2004 RMB'000 (As restated)	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	320,519	313,498	322,511	278,029	236,155
Gross profit	162,524	162,580	117,596	93,431	85,325
EBITDA	12,050	66,025	56,886	32,068	16,194
(Loss)/profit attributable to equity holders	(24,747)	39,478	33,078	15,985	3,462
Earnings/(loss) per share					
– Basic	RMB(0.0023)	RMB0.0702	RMB0.109	RMB0.053	RMB0.012
– Diluted	RMB(0.0021)	RMB0.0646	RMB0.108	N/A	N/A
Financial Position					
Net current assets	192,546	227,108	143,939	11,458	16,224
Total assets	485,753	481,081	341,847	196,810	146,578
Total liabilities	127,660	95,045	88,896	89,234	54,548
Total equity	358,093	386,036	252,951	107,576	92,030

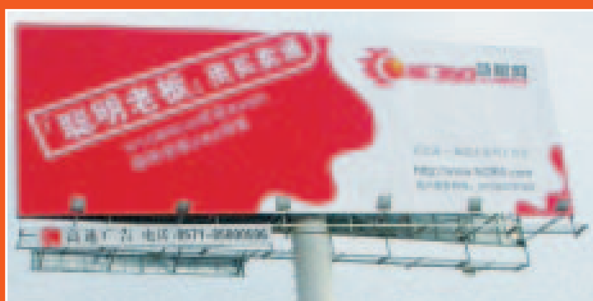


FINANCIAL HIGHLIGHTS

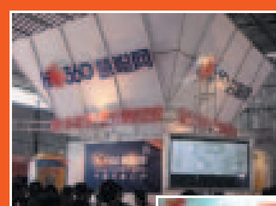
TURNOVER ANALYSIS



	Trade catalogues and yellow page directories *RMB'000*	Search engine services *RMB'000*	Market research and analysis *RMB'000*	Others *RMB'000*	Television advertising *RMB'000*	Total *RMB'000*
2005	173,304	96,351	30,251	20,613	–	320,519
2004	179,195	82,373	28,565	23,365	–	313,498
2003	135,442	15,305	16,565	32,022	123,177	322,511
2002	113,273	7,503	14,334	42,682	100,237	278,029
2001	88,166	5,473	16,553	73,094	52,869	236,155




网上商铺

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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 gain a strong momentum in increasing its market share by focusing on its core on-line business in 2005. During the twelve months ended 31st December 2005, the Group achieved a turnover of approximately RMB 320.5 million, of which, approximately RMB 96.4 million was generated from the direct on-line business sector (search engine services), accounting for over 30% of the Group's total revenue from continuing operations.

The demand for high quality business information services and products continues to increase in view of the rapid economic growth in the PRC. The nominal GDP of the PRC grew from RMB 7,835 billion in 1998 to RMB 18,232 billion in 2005, representing a CAGR of 9.9%. In 2005, the total transaction value of the business-to-business sector reached RMB 514 billion, representing a growth of approximately 62% when compared to that in 2004, and is expected to further grow to RMB 1,687 billion by the end of 2007. To capture this tremendous business opportunity and at the same time, to face keen competition, the Group reviewed and adjusted its business model by diverting its business focus from printed media to its on-line businesses during the reporting year. In line with the Group's adjusted business model, more resources have been devoted to develop its on-line businesses, which include the upgrade of system hardwares to cater for new products, hiring additional experienced technical and editorial personnel to develop new products and enrich the contents of the Group's website. As a result, the Group suffered an operating loss of approximately RMB13.8 million for the financial year ended 31st December 2005 for the continuing operations.

To further enhance the features of the Group's on-line marketplace, "Mai-Mai-Tong – 買賣通", an upgraded version, "Mai-Mai-Tong – 買賣通 version 2.0" was launched in November 2005 to cater for the needs of different members of the business-to-business community. A new product which uses advanced "sector search – 行業搜索" technology, "Mai-Mai-Tong VIP", was also introduced in November 2005. These products were all well received and recognised by the business-to-business community. During the same year, the Group had achieved another significant breakthrough in the development of its complimentary on-line products. Research and developments in the Group's new English on-line marketplace for business-to-business trades, "madeinchina.com", were completed in September 2005. Through "madeinchina.com", worldwide traders can easily assess the PRC market and obtain timely and reliable business information on-line. In addition, "madeinchina.com" also opens the door of international trade for domestic suppliers in the PRC, as searches for overseas buyers of PRC domestic products can be conveniently conducted on-line.

In order to implement the Group's newly adjusted business model, which focuses on the business-to-business sector, the Group has undergone restructuring of its business structure during the reporting year to dispose of its loss-making domestic television advertising business and public search engine business.

In the forthcoming year, the Group is committed to capturing the tremendous market potential emerging from the increase in awareness of on-line business-to-business services in the PRC by devoting more resources to this sector. I would like to express my deep appreciation to everyone in the Group for their dedicated service and hard work.

Hugo Shong
Non-executive Chairman

Beijing, 20th March 2006

MANAGEMENT'S STATEMENT

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 2005.

Financial Review

For the financial year ended 31st December 2005, the Group generated a turnover of approximately RMB320,519,000 and RMB133,771,000 from the continuing operations and discontinued operations, respectively (2004: RMB313,498,000 and RMB149,065,000, respectively). For the continuing operations, there is a slight increase of approximately 2% in turnover as compared to that in 2004. Due to the weak performance in the Group's television advertising business, a decrease of 10% in turnover was recorded for the discontinued operations as compared to that in 2004.

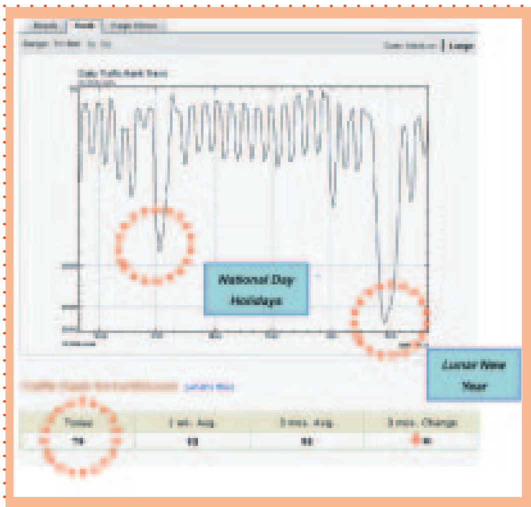
Comparing the Group's segment financial performance of the continuing operations against those achieved last year, the Group recorded a strong growth in the revenue generated from the search engine business segment. A total revenue of RMB96,351,000 was achieved by this segment in 2005, representing a growth of approximately 17% over last year (2004: RMB82,373,000). In 2005, the revenue generated from this on-line business segment (search engine services) accounted for over 30% of the Group's total revenue, representing an increase of about 4 percentage points when compared to that in 2004. The revenue generated from the trade catalogues and yellow page directories segment remained relatively stable in 2005. A total revenue of RMB173,304,000 was recorded during the year, representing a slight decrease of approximately 3% when compared with RMB179,195,000 recorded in 2004. A slight increase in turnover by 6% was recorded by the continuing operations in the market research and analysis segment, with a total revenue of RMB30,251,000 when compared with RMB28,565,000 recorded in 2004.

The gross profit margin of the Group's continuing operations decreased by about 2 percentage points from approximately 52% in 2004 to approximately 50% this year. As a result of the deferred generation of revenue from the search engine business together with the booking of substantial costs associated with sales and staff in 2005, the gross profit margin of the Group's search engine business segment also decreased by 4 percentage points from approximately 75% in 2004 to approximately 71% in 2005. Faced with keen competition and increasing costs in the television advertising sector, a total loss of RMB6,908,000 and negative gross profit margin were recorded for the discontinued operations of the Group in 2005.

MANAGEMENT'S STATEMENT

Suffering from the poor performance in the Group's discontinued operations and the increasing investment costs in relation to the enhancement in system technology and quality of on-line contents, the Group recorded a loss in the financial year ended 31st December 2005. A net loss attributable to equity holders of RMB24,747,000 was recorded by the Group in 2005.

The board of Directors does not recommend the payment of a dividend for the year ended 31st December 2005.



Source: www.alexa.com

Business Review

The Group published its first trade catalogue in 1992. During the past 14 years, in addition to the Group's printed media business which include trade catalogues, yellow page directories and market research reports, the group extended its services and products to cover the on-line sector and succeeded in expanding its business across China to become one of the leading domestic on-line business-to-business marketplace operators.

During the reporting period, the Group's business-to-business industry portal, "www.hc360.com", was ranked as one of the top 100 most popular websites worldwide by ALEXA, an independent web ranking services provider, with an average daily visitors identified by independent IP addresses of over 1.5 million and daily page-views of approximately 25 million.

The Group consolidated its position in the market by introducing a new trading platform, "Mai-Mai-Tong – 買賣通", in addition to its sector search prioritising service. "Mai-Mai-Tong – 買賣通" provides a reliable and comprehensive trading platform for buyers and sellers, and was well received and recognised by member of the business-to-business community.

"Mai-Mai-Tong – 買賣通", an on-line marketplace launched by the Group in late 2004, provides reliable and timely business information to members of the business-to-business community, and allows users to locate and source products on-line. The main features of this innovative on-line product of the Group include 1) the virtual display platform – where users can design personalised on-line storefronts; 2) the promotion platform – where users can display promotional items on-line; 3) the information platform – where users can compare features and prices of different products; 4) the trading platform – where users can place purchase orders on-line and conduct searches to match buyers and sellers; 5) the communication platform – where users can communicate on-line through e-mails and instant messages; and 6) the service platform – where users can recruit on-line and access recent market updates.

MANAGEMENT'S STATEMENT

"Mai-Mai-Tong – 買賣通" has become one of the largest web-based business transaction centers in the PRC, with over 2 million registered users and 30,000 fee-paying members. Further improvements have been made to this on-line product to cater for different needs of the members of the business-to-business community. A new version, "Mai-Mai-Tong – 買賣通version 2.0", was officially launched in November 2005 with more distinct built-in features such as powerful statistics tools. The new "Mai-Mai-Tong – 買賣通version 2.0" was once again well received and highly recognised by the business-to-business community.

The Group has developed an efficient and dedicated sales and marketing team with over 1,300 sales force and has established over 15 offices in different parts of the PRC, with emphasis on Yangzi River and Zhujiang Deltas. To further expand the Group's geographical market share, in particular, in terms of the sales of "Mai-Mai-Tong – 買賣通", feasibility studies on the Group's sales policy have been conducted during the reporting period. In the second half of 2005, agents were appointed to promote products and services of the Group in cities where the Group does have any presence. By the end of 2005, the Group has appointed over 100 agents in different areas of the PRC. The implementation of such a policy has proven to be successful and the Group will continue to allocate additional resources to explore new markets and adopt the same approach to promote sales of its on-line products and services.

The Group is committed to providing first-class services to members of the business-to-business community. In view of this, the Group has established the "Buyer Center – 買家中心" during the year to provide better after sales services to its customers. Extra resources have been devoted to this area for the recruitment of additional experienced editors and customer service officers.

The Group has also devoted resources to expand its market research and analysis services. In 2005, over 2,500 research reports were published by the Group. Moreover, the Group introduced a brand new web-based market intelligent research system designed for corporate users, the "Enterprise Information Management System – EMIS". "Enterprise Information Management System – EMIS" allows corporate users to search for timely, reliable and comprehensive tailor-made business information, and conduct analysis on peers in the industry and other related on-line research analysis.

MANAGEMENT'S STATEMENT

To provide members of the business-to-business community with a range of diversified products and services, the Group published over 57 regional and nationwide trade catalogues covering 28 industry sectors in the PRC during the reporting period. The trade catalogues and yellow page directories are distributed in printed versions and are also made available on-line in the Group's business-to-business internet portal, "www.hc360.com", to allow small and medium sized enterprises which do not have access to the internet to participate in the business-to-business community. The performance of the Group's trade catalogues and yellow page directories business, which supplements the core on-line businesses of the Group, remained stable in 2005.

Going Forward

In 2005, the Group suffered from the relatively weak performance of its television advertising and public search engine businesses. Accordingly, the Group has undergone a corporate restructuring to dispose of these loss-making businesses, and to focus on its core business-to-business on-line services.

Going forward, the Group will continue to upgrade its technological capability and develop tailor-made on-line products and services to meet different needs of the members of the business-to-business community. Additional resources will be devoted to the research and developments of its complimentary on-line products, such as the "sector search – 行業搜索", and the Group aims to achieve significant growth in terms of website traffic of its industry portal, "www.hc360.com". Following the completion of technological upgrade, the Group is expected to launch its "reversed-auction" services for search prioritisation in the second half of 2006.

The Group is committed to exploring the enormous market potential emerging from China's accession to the World Trade Organisation, the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai, and providing innovative business information products and services with the aim of maximising the interests of its shareholders.

On behalf of the board, I would like to thank the management team and staff members for their hard work and commitments, and our shareholders for their trust and support.

Guo Fansheng
Chief Executive Officer and Executive Director

Beijing, PRC, 20th March 2006

BIOGRAPHIC DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

GUO Fansheng

Aged 50, 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 38, is an executive Director and the Chief Administrative 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 administration 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 32, 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 nine 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 and Hong Kong Institute of Certified Public Accountants.

Non-executive Directors

SHONG Hugo

Aged 49, 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, tradeshows 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.

BIOGRAPHIC DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

YANG Fei

Aged 47, 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.

Independent Non-executive Directors

ZHANG Ke

Aged 52, 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 43, 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 42, 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 36, 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 32, joined the Group in 1996 as a Sale Manager and became the Chief Operating Officer of the Group in late 2005 and is responsible for overseeing the operations 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 Enterprises conducted by Guanghua Business School of Peking University in 2002.

FENG Yuejin

Aged 35, joined the Group in 2001 as a General Manager in the software research and development department and became the Chief Technology Officer of the Group in 2004. Prior to joining the Group, Mr. Feng spent one year at Soufun.com Co. Ltd. as the Chief Technology Officer and three years at Informix Software (China) Co. Ltd. as a senior engineer. He graduated from the Harbin Ship-building Engineering Institute in 1993 with a bachelor degree in computer science and attained a master degree in computer network at the Harbin Engineering University in 1996.

ZENG Xiangxue

Aged 40, joined the Group in 2005 as the Chief Content Officer and is responsible for the programming, editing and management of the contents of the Group's industry portal "www.hc360.com". Prior to joining the Group, Mr. Zeng spent five years at Sina.com as the chief editor of the finance channel, and four years at the Stock Exchange Executive Council and Hexun.com as a researcher and chief editor, respectively. Mr. Zeng also spent five years as a professor at Zhongnan University of Economics. He graduated from Huazhong Normal University in 1985 with a bachelor degree in science and attained a master degree in economics at the Northeast University of Finance & Economics in 1988.

YAO Jianjiang

Aged 32, joined the Group in 2005 as the Chief Marketing Officer. Prior to joining the Group, Mr. Yao spent five years at eLong Inc. as a Marketing Director. From 1998 to 2000, he was the Media Planning Manager of DMBB and the Operation Director of Asia Media. Mr. Yao graduated from the Renmin University of China in 1999 with a bachelor degree in administrative management. He also attained a master degree in business administration at the City University, Bellevue, WA in 2004.

CHENG Yik, Eric

Aged 30, became the General Finance Manager of the Group in 2005. Mr. Cheng joined the Group in May 2003 as a Finance Manager and is responsible for overseeing the finance department of the Group. Prior to joining the Group, he spent over three years at PricewaterhouseCoopers. Mr. Cheng graduated from the Hong Kong University of Science and Technology in 2000 with a bachelor degree in finance, and is an associate member of the Hong Kong Institute of Certified Public Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2005, the Group's cash and bank balances decreased by RMB18,854,000 to RMB135,302,000 as compared to RMB154,156,000 as at the end of the previous financial year.

Short-term loans amounted to RMB26,001,000 as at 31st December 2005, representing an increase of about 13% from that as at 31st December 2004. Gearing ratio of the Group increased to about 7.9% as at 31st December 2005 from about 6.7% as at 31st December 2004, calculated with reference to the short-term loans of RMB26,001,000 (2004: RMB23,000,000) and equity holders' funds of RMB329,608,000 (2004: RMB344,344,000).

The Group's net current assets totalled RMB192,546,000 as at 31st December 2005, against RMB227,108,000 as at the end of the previous financial year. Its current ratio was approximately 2.53 as at 31st December 2005 as compared to approximately 3.46 as at 31st December 2004.

The Group's trade receivables turnover has improved from approximately 77.3 days in 2004 to approximately 57.9 days in 2005.

The Group's equity holders' funds decreased by RMB14,736,000 to RMB329,608,000 as at 31st December 2005 as compared to RMB344,344,000 as at the end of the previous financial year.

The financial position of the Group has remained liquid and healthy.

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31st December 2005.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 27th May 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited ("HKHC"), a wholly-owned subsidiary of the Company, agreed to dispose of 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. Upon completion of the disposal, the Group will discontinue managing the operations of its television advertising products and services. The transaction is expected to be completed by May 2006. Please refer to the announcement of the Company dated 27th May 2005 for further details.

On 19th August 2005, the Company, through HKHC, entered into agreements to dispose of part of its equity interest in the public search engine business in the PRC. The transaction was completed on 26th October 2005, and upon the completion of the disposal, the Group discontinued managing the operations of its public search engine business. Please refer to the announcement of the Company dated 19th August 2005 for further details.

CAPITAL STRUCTURE

During the year ended 31st December 2005, 10,934,345 new shares of the Company were issued upon the exercise of share options granted under the pre-IPO share option scheme of the Company.

STAFF

The continued success of the Group depends on the skills, motivation and commitment of its staff. As at 31st December 2005, the total number of Group's employees was 3,144. Of these, 1,413 were employed in our Sales and Marketing Division, 650 were employed in our Editorial, Research and Data Analysis Division, 127 were employed in our Information Technology Division and the remainder in other division of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CHARGES ON GROUP ASSETS

As at 31st December 2005, buildings carried at RMB33,491,000 and the associated land use rights carried at RMB20,287,000 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 2005, the Group had no contingent liabilities (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 to the actual business progress for the year ended 31st December 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.
• Based on the results of the feasibility studies produced in the first half of the year, the Group will consider issuing the physical version of its catalogue in 5-6 new industry sectors.	With the increasing popularity of the internet, the Group considered that it would be more efficient to extend its industry coverage on-line and therefore, only 2 printed version of the Group's trade catalogues were published in 2005.
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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the "Buyer Center – 買家部", more buy-side business information, including technical articles, authority release and market/business opportunities, has 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 developments have been carried out by the Group.
• Launch the Internet trading platform, to provide business information on trades and transactions conducted via the Internet.	"Mai-Mai-Tong – 買賣通 version 2.0" was launched in November 2005 to provide customers with more timely and reliable business information on-line.
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 and expand the information source of the data library.
• Continue to expand the information sources for the data library.	Ongoing research and developments have been carried out by the Group to improve the data management system and expand the information source of the data library.
Expand search engine services	
• Continue the research and development to upgrade the search engine software of the Group.	Ongoing research and development in respect of the search engine software have been carried out by the Group.
• Consider launching the upgraded search engine software of the Group.	An upgraded "sector search prioritising service" was launched by the Group in November 2005.
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.
• Conduct site visits and feasibility studies on the provision of management services management services to new television stations.	Since it is the Group's intention to focus on the business-to-business on-line sector, no site visit or feasibility study on the provision of management services to new televisions stations has been conducted by the Group during the second half of 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The actual use of proceeds for the year ended 31st December 2005 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	**7.0**	**6.5**
• Conduct feasibility studies	1.0	0.8
• Extend the coverage into new industry sectors	6.0	5.7
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	**9.0**	**9.0**
• Research and development of new products	2.0	2.0
• Finance the launching of new products	6.0	6.0
• Enrich the contents on the Group's websites	1.0	1.0
Expand and strengthen the Group's data library	**3.0**	**2.4**
• Upgrade the software/hardware of the data library	1.0	0.8
• Expand the information source for the data library	2.0	1.6
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	**9.0**	**4.5**
• Conduct site visits and feasibility studies	1.0	–
• Provide working capital for managing the advertising time-slots for new television stations	8.0	4.5
Working capital	**3.0**	**3.0**
	38.0	32.4

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

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 9 to the financial statements.

An analysis of the Group's performance for the year by business segment, is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the reporting year are set out in the consolidated income statement on page 38.

The directors do not recommend the payment of a dividend.

RESERVES

Details of the movements in retained earnings of the Group during the reporting year are set out on page 42.

Details of the movements in other reserves of the Group are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 8 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 13 to the financial statements.

DISTRIBUTABLE RESERVES

The Company had reserves available for distribution calculated under the Company Law of Cayman Islands of approximately RMB113,539,000 as at 31st December 2005 (2004: RMB115,564,000).

DIRECTORS

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

Mr. Hugo Shong* *(Non-executive Chairman)*	(appointed on 5th December 2000)
Mr. Guo Fansheng *(Chief Executive Officer)*	(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, Mr. Hugo Shong and Ms. Lai Sau Kam, Connie 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 13 to 14.

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 11, note 15 and note 32 to the financial statements, 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 2005, 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 5.67 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	13.75%
Wu Ying	1,538,602	–	–	–	1,538,602	0.33%
Yang Fei	1,269,853	–	–	–	1,269,853	0.27%
Hugo Shong	1,269,853	–	–	–	1,269,853	0.27%
Lai Sau Kam, Connie	507,885	–	–	–	507,885	0.11%

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 1st January 2005	Granted during the year	Exercised during the year	Cancelled during the year	As at 31st December 2005
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 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 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 1st January 2005	Granted during the year	Exercised during the year	Cancelled during the year	As at 31st December 2005 *(Note 1)*
Directors							
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

DIRECTORS' REPORT

OUTSTANDING SHARE OPTIONS *(Continued)*

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

			Number of share options				
Name of grantee	Date of grant	Exercise price per share *HK$*	As at 1st January 2005	Granted during the year	Exercised during the year	Cancelled during the year	As at 31st December 2005 *(Note 1)*
Senior management							
LEE Wee Ong, Alex	2nd December 2003	0.44	2,666,664	–	(888,799)	–	1,777,865
GUO Jiang	2nd December 2003	0.44	1,015,872	–	(338,590)	–	677,282
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
Ex-employees							
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
Consultant							
Earl Ching-Hwa YEN	2nd December 2003	0.44	1,206,348	–	(402,076)	–	804,272
Other employees							
In aggregate *(note 2)*	2nd December 2003	0.44	16,450,778	–	(4,386,861)	–	12,063,917
Total			46,984,080	–	(10,934,345)	–	36,049,735

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM (the "Listing Date"), being 17th December 2003. Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the shares 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).

2. As at 31st December 2005, there were 47 employees who have been granted options under the Pre-IPO Share Option Scheme to acquire an aggregate of 12,063,917 shares.

DIRECTORS' REPORT

OUTSTANDING SHARE OPTIONS *(Continued)*

(b) Share Option Scheme

As at 31st December 2005, options to subscribe for an aggregate of 18,150,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding, details of which were as follows:

			Number of share options				
Name of grantee	Date of grant	Exercise price per share HK$	As at 1st January 2005	Granted during the year	Exercised during the year	Cancelled during the year	As at 31st December 2005 (Note 1)
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
GUO Jiang	18th February 2004	2.40	1,000,000	–	–	–	1,000,000
WANG Chong	18th February 2004	2.40	3,400,000	–	–	–	3,400,000
Other employees							
In aggregate *(Note 2)*	18th February 2004	2.40	17,100,000	–	–	(7,850,000)	9,250,000
Total			26,000,000	–	–	(7,850,000)	18,150,000

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the granting of options (the "Offer Date"), being 18th February 2004. Commencing from the first, second and third anniversaries of the Offer Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the shares 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).

2. As at 31st December 2005, there were 270 employees who have been granted options under the Share Option Scheme to acquire an aggregate of 9,250,000 share.

3. The fair value of options granted under Share Option Scheme determined using the Binomial Model value model was RMB20,193,000. The significant inputs into the model were the exercise price, 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.

DIRECTORS' REPORT

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

As at 31st December 2005, 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	15.74%
International Data Group, Inc. *(note 1)*	73,331,954	Interest in controlled corporation	15.74%
Jayhawk China Fund (Cayman), Ltd. *(note 2)*	48,072,000	Beneficial owner	10.32%
McCarthy Kent C. *(note 2)*	48,072,000	Interest in controlled corporation	10.32%
Callister Trading Limited *(note 3)*	40,000,384	Beneficial owner	8.58%
Li Jianguang *(note 3)*	40,000,384	Interest in controlled corporation	8.58%

Notes:

1. IDG Technology Venture Investment, Inc ("IDGVC") is beneficially owned by International Data Group, Inc.

2. Jayhawk China Fund (Cayman), Ltd. is beneficially owned by McCarthy Kent C.

3. Callister Trading Limited is beneficially owned by Li Jianguang.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Certain related party transactions entered into by the Group during the year ended 31st December 2005, as disclosed in note 11 and note 32 to the financial statements which also constitute (i) connected transactions or (ii) continuing connected transactions under the GEM Listing Rules (as amended from time to time), are required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules.

The following transactions between certain connected parties (as defined in the GEM Listing Rules) and the Company have been entered into and/or ongoing for which relevant announcements, if necessary, had been made by the Company in accordance with the requirements of the GEM Listing Rules.

i. Connected Transactions Disclosed During the Year Ended 31st December 2005

1. On 19th August 2005, Hong Kong Huicong International Group Limited ("HKHC"), China Search Inc. ("CSI"), Global Cyberlinks Holdings Inc. ("GC"), IDG Technology Venture Investments, LP ("IDGLP") and certain investors (the "Investors"), among others, entered into a share purchase agreement (the "Share Purchase Agreement") pursuant to which the following key transactions are contemplated: (i) HKHC agreed to sell 30,000,000 shares of CSI at a total consideration of US$3.6 million to GC and the Investors (the "Share Transfer"); (ii) CSI agreed to issue to each of the Investors and GC 7,500,000 shares of CSI in two tranches at a total consideration of US$0.9 million (the "Share Issuance"); (iii) CSI agreed to issue to each of the Investors a maximum of 30,857,142 convertible preferred shares of CSI each convertible into shares of CSI (the "Series A Shares") at a total consideration of US$6.5 million on or before 30th September 2005, (the "First Closing Date"); and subject to fulfillment of the performance targets by CSI and its subsidiary, the Investors have the right to subscribe additional Series A Shares at a total consideration of US$2.5 million as soon as practicable following the first anniversary of the First Closing Date (the "Series A Shares Issuance").

On the same date, HKHC and IDGLP entered into a share transfer agreement pursuant to which, HKHC will transfer, on a net basis, 4,000,000 shares of CSI to IDGLP for a net consideration of US$1.14 million in cash on the First Closing Date (the "HKHC Share Transfers").

Connected transactions contemplated under the Share Purchase Agreement comprise (i) the proposed issue of up to 5,142,857 Series A Shares by CSI to IDGLP, being part of the Series A Shares Issuance, pursuant to the Share Purchase Agreement; (ii) the proposed disposal of 2,500,000 shares of CSI to IDGLP and 15,000,000 shares of CSI to GC by HKHC, being part of the Share Transfer, pursuant to the Share Purchase Agreement; (iii) the proposed issuance of 625,000 shares of CSI to IDGLP and 3,750,000 shares of CSI to GC by CSI, being part of the Share Issuance, pursuant to the Share Purchase Agreement; and (iv) the HKHC Share Transfers (the "IDGLP and GC Transactions").

IDGLP has two partners being IDG Technology Venture Investments, Inc. ("IDGVC"), which own approximately 15.74% equity interest in the Company at the time of the Company's announcement dated 19 August 2005, and IDG Technology Venture Investments, LLC. Furthermore, IDGVC appointed two non-executive Directors to the board of Directors. Therefore, IDGLP, which indirectly owns an approximate 3.57% equity interest in the Company through Efland Holdings Ltd., its wholly-owned subsidiary as at the date of the Company's announcement dated 19 August 2005, is deemed to be a management shareholder of the Company and is, therefore a connected person.

GC, which owned 20.5% equity interest in CSI, was also a connected person of the Company pursuant to the GEM Listing rules.

The IDGLP and GC Transactions constituted connected transactions of the Company which were approved by the independent shareholders of the Company on 14th October 2005 in accordance with the requirements under the GEM Listing Rules.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

i. Connected Transactions Disclosed During the Year Ended 31st December 2005 *(Continued)*

2. On 27 May 2005, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which HKHC has agreed to transfer to Metaphor Corp. (the "Acquiror") 100% of the issued ordinary shares (the "Target Shares") of China Media Network International Inc. (the "Target Company") in exchange for (i) shares representing 28.68% of the Acquiror's common stock and (ii) two payments in the aggregate amount of US$ 3.785 million.

The proposed restructuring of the PRC domestic television advertising business (the "Proposed Restructuring"), which was previously carried out by the Group involving the PRC domestic subsidiaries of the Target Company, was required in preparation for the proposed disposal of the Target Shares by the Group to the Acquiror as envisaged by the Sale and Purchase Agreement. The Proposed Restructuring will comprise two parts, equity transfers and a capital increase.

As part of the Proposed Restructuring, (i) a newly setup domestic company, a limited liability company established in the PRC pursuant to the Proposed Restructuring with the registered capital of which owned as to 95% by Beijing Huamei Shengshi Information Technology Co., Ltd. ("Huamei Information"), acquired the capital contribution of RMB4.0 million in the registered capital of Beijing Huamei Shengshi Advertising Co., Ltd. from Beijing Huicong Hulian Information Technology Co., Ltd.; and (ii) the Target Company acquired the capital contribution of RMB19.6 million in the enlarged registered capital of Huamei Information from Beijing Huicong International Information Co., Ltd ("Beijing HC") (the "Proposed Restructuring Equity Transfers").

Mr. Guo Fansheng ("Mr. Guo") owns 80% equity interest in Beijing Huicong Construction Co., Ltd. ("Beijing Construction"), which in turn holds an 18% equity interest in Beijing HC. Accordingly, Beijing HC and its subsidiaries are regarded as a connected person of the Company pursuant to Rule 20.11(5) and 20.11(6) of GEM Listing Rules.

The applicable percentage ratios for determining disclosure and shareholder approval requirements under the GEM Listing Rules for the Proposed Restructuring Equity Transfers exceed 2.5%, but are below 25% and the total consideration for such transfers exceeds HK$10.0 million. Pursuant to Rule 20.13(1)(a) of the GEM Listing Rules, the Proposed Restructuring Equity Transfers constituted connected transactions of the Company and were approved by the independent shareholders of the Company on 20 July 2005.

ii. Continuing Connected Transactions (the "Transactions")

1. On 30th September 2004, Beijing HC and its subsidiaries entered into an agreement (the "Search Engine Sales Agency Framework Agreement") with Beijing Zhongsou Zaixian Software Co., Ltd. ("Zhongson Zaixian") for a term of two years effective from 9th February 2004, under which Beijing HC 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 HC 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 was 57.6% indirectly-owned by the Company prior to the completion of the disposal of part of the Group's equity interest in CSI as described in (i) above. .

Mr. Guo owns 80% of the equity of Beijing Construction which in turn holds 18% equity interest in Beijing HC. Accordingly, Beijing HC 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 constitute continuing connected transactions of the Company under Rule 20.14 of the GEM Listing Rules.

CONNECTED TRANSACTIONS *(Continued)*

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

1. 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.

As Zhongsou Zaixian ceased to be an indirect subsidiary of the Company upon completion of the disposal of part of the Group's equity interest in CSI on 26th October 2005, the transactions contemplated under the Search Engine Sales Agency Framework Agreement will no longer constitute continuing connected transactions of the Company.

The annual amount payable to Zhongsou Zaixian by Beijing Huicong International and its subsidiaries has been capped at RMB9.6 million for the year ended 31st December 2005. During the year ended 31st December 2005, approximately RMB4.4 million was paid by Beijing HC to Zhongsou Zaixian.

2. 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.

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 Construction, a company owned as to 80% by Mr. Guo, the Chief Executive Officer and an executive Director, 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.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

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

2. On 1st September 2005, Huimei and HC Advertising entered into a new printing supplemental agreement, pursuant to which the term was extended to 31st December 2007 and the annual limits on the printing fees payable to Huimei for each of the three years ended 31st December 2007 were set at RMB36 million, RMB45 million and RMB52 million, respectively. During the year ended 31st December 2005, approximately RMB28 million was paid by HC Advertising to Huimei. Please refer to the announcement of the Company dated 1st September 2005 for further details.

   Pursuant to 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.

   Based on the work performed, the auditors of the Company 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.

MAJOR SUPPLIERS AND CUSTOMERS

During the reporting 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.

Save for disclosed above, 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, 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 2005 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 2005. The audit committee held 4 meetings during the period.

DIRECTORS' REPORT

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 2005.

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 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 31st December 2005, 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.

SUBSEQUENT EVENTS

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

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 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 2005, Draco Equity Investment Limited, China Alpha Fund (a mutual fund managed by First Shanghai Fund Management Ltd.) and China Assets (Holdings) Limited, all of which are associates of the Sponsor, held 6,000,000 shares, 2,500,000 shares and 784,000 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.

First Shanghai Capital Limited ceased to be the sponsor of the Company upon the expiration of the term of contract on 31st December 2005.

DIRECTORS' REPORT

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 year ended 31st December 2005.

AUDITORS

The financial statements 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, 20th March 2006

CORPORATE GOVERNANCE REPORT

INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance as set out in Appendix 15 of the GEM Listing Rules (the "Code") and deviations, if any.

CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this document, the Company has complied with the provisions of the Code. The Company believes that by achieving high standard of corporate governance, the corporate value and accountability of the Company can be enhanced and the shareholders' interests can be maximised. The board of Directors has continued to monitor and review the Company's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to directors and senior management of the Company to ensure awareness to issues regarding corporate governance practices.

DIRECTOR AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted written guidelines regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules on 20th March 2006. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31st December 2005.

On 20th March 2006, the board also adopted written guidelines on no less exacting terms than the required standard of dealings for relevant employees in respect of their dealings in the securities of the Company. Prior to the adoption of such an internal code of conduct regarding securities transactions by employees, relevant employees who had in their possession of price-sensitive information were formally briefed on the dealing restrictions in relation to the securities of the Company at management meetings during the reporting period.

THE BOARD OF DIRECTORS

Composition

The board of Directors comprises eight Directors, of whom three are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The participation of non-executive Directors in the board of Directors provides to the Company a wide range of expertise and experience and play an important role in the work of the board of Directors and brings independent judgement on issues relating to the Company's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered. All Directors give sufficient time and attention to the affairs of the Company. Each executive Directors has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently

In full compliance with rule 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

The members of the board of Directors for the year ended 31st December 2005 were:

Chairman: Hugo Shong

Executive Directors: Guo Fansheng, Wu Ying, Lai Sau Kam Connie
Non-executive Directors: Yang Fei, Hugo Shong.
Independent Non-executive Directors: Zhang Ke, Xiang Bing, Guo Wei.

All independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors.

Board Meetings

The board of Directors meets in person or through other electronic means of communication at least four times every year. At least 14 days notice of all board meetings were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed. The finalised agenda and accompanying board papers are then sent to all Directors prior to the meeting.

In the financial year ended 31st December 2005, 6 board meetings were held and the following is an attendance record of the meetings by each Director:

Directors	Attendance
Guo Fansheng	6/6
Wu Ying	6/6
Lai Sau Kam, Connie	6/6
Hugo Shong	4/6
Yang Fei	4/6
Zhang Ke	6/6
Xiang Bing	4/6
Guo Wei	4/6

During regular meetings of the board of Directors, the directors discuss and formulate the overall strategies of the Company, monitor financial performances and discuss the annual and interim results, set annual budgets, as well as discuss and decide on other significant matters.

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the board together with concerns raised and dissenting views expressed (if any). Drafts of board minutes are circulated to all Directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any Director. All Directors have access to relevant and timely information at all times as the Chairman ensures that management will supply the board of Directors and its committees with all relevant information in a timely manner.

All directors have formal letters of appointment setting out key terms and conditions relative to their appointment.

CORPORATE GOVERNANCE REPORT

Delegation by the Board

The Company has set out the respective functions and responsibilities reserved to the board of directors and those delegated to management. The Board delegates day-to-day operations of the Group to executive directors and senior management while reserving certain key matters for its approval. The Board is responsible for the approval and monitoring of the Company's overall strategies and policies; approval of business plans; evaluating the performance of the Company and oversight of management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.

Term of Appointment and Re-election

Under the provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Directors, Mr. Hugo Shong and Mr. Yang Fei were not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meetings, as specified by the Company's Articles of Association. All other non-executive Directors are appointed for a specific term of one year, subject to re-election.

The board of Directors will review the existing policy and propose any amendment, where appropriate, to ensure compliance with the Code.

Under the provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the provisions of the Articles of Association of the Company, any director appointed by the board either to fill a casual vacancy or as an addition to the board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the chairman of the board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

Proposed amendments to the Articles of Association of the Company will be put forward to the shareholders of the Company at a separate general meeting to be held in 2006 in order to comply with the Code.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

To improve transparency and independency, the roles of Chairman and Chief Executive Officer of the Company are segregated and are not exercised by the same individual during the year under review.

The Chairman is responsible for ensuring that the Board functions effectively and smoothly. In doing so, the Chairman ensures that good corporate governance practices and procedures are established and followed, and that all Directors are properly briefed and received all relevant information prior to each meeting.

Mr. Guo Fansheng assumes the role of the Chief Executive Officer of the Company. He is responsible for overseeing the day-to-day operations of the Company. The Chairman is responsible for overseeing the implementation of corporate strategies of the Company.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The remuneration committee was established on 20th March 2006. The Chairman of the committee is Zhang Ke, (an independent non-executive Director) and other members include Wu Ying (an executive Director), Xiang Bing, Guo Wei (independent non-executive Directors) and Yang Fei (non-executive Director).

The remuneration committee is responsible for formulating and recommending the board of Directors in relation to the remuneration policy, determining the remunerations of executive directors and members of the senior management of the Company, and reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The remuneration committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations.

Prior to the formation of the remuneration committee, such duties were performed by the board of Directors during the reporting year.

The remuneration committee is provided with other resources enabling it to discharge its duties such as the access to professional advice if and when necessary. For the financial year ended 31st December 2005, the remuneration committee did not hold any meeting since it was established on 20th March 2006. Regular meetings of the remuneration committee will be held to discuss on related remuneration and compensation issues.

AUDIT COMMITTEE AND ACCOUNTABILITY

Management provides all relevant information and record to the board of Directors enabling the board of Directors to make assessment and to prepare the financial statements and other financial disclosures. In full compliance with rule 5.28 and 5.33 of the GEM Listing Rules, the audit committee was established in 2003 and is currently chaired by Zhang Ke, an independent non-executive Director. Other members of the audit committee are Yang Fei (a non-executive Director) and Xiang Bing (an independent non-executive Director).

The audit committee's primary duties include ensuring the Company's financial statements, annual and interim reports, and the auditors' report present a true and balanced assessment of the Company's financial position; reviewing the Company's financial control, internal control and risk management systems; and reviewing the Company's financial and accounting policies and practices.

The audit committee is provided with sufficient resources enabling it to discharge its duties. For the financial year ended 31st December 2005, the audit committee held 4 meetings. The individual attendance record of each member is as follows:

Members	**Attendance**
Zhang Ke	4/4
Yang Fei	3/4
Xiang Bing	3/4

Full minutes of all audit committee meetings are properly kept by the Company. In line with practices consistent with meetings of the board of Directors and other committee meetings, draft and final versions of audit committee meeting minutes are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 37 of this report.

CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Company has paid an aggregate of HK$1,750,000 to the external auditors for its audit and other audit-related services.

INTERNAL CONTROL

The board of Directors is responsible for maintaining sound and effective internal control systems for the Company to safeguard the Company's assets and shareholders' interests, as well as for reviewing such systems' effectiveness. The board of Directors has conducted a review of the Company's internal control systems periodically, covering financial, operational and compliance controls and risk management functions. In such review, the board of Directors has considered factors such as changes since the last review; scope and quality of management's monitoring of risks; incidence of significant control failings and weaknesses identified; and effectiveness relating to financial reporting and compliance with the Listing Rules.

INVESTOR RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries. Directors of the Company make efforts to attend the annual general meetings so that they may answer any questions from the Company's shareholders.

The proceedings of the annual general meetings are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. The annual general meetings circular, which is circulated to all shareholders at least 21 days prior to the annual general meetings, sets out details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information.

The Company also communicates to its shareholders through its annual, interim and quarterly reports. The Directors, Company Secretary or other appropriate members of senior management also respond to inquiries from shareholders and investors promptly.

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF
HC INTERNATIONAL, INC.
(incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 38 to 90 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the Group's loss 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, 20th March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (As restated)
Continuing operations			
Sales	5	320,519	313,498
Cost of sales		(157,995)	(150,918)
Gross profit		162,524	162,580
Other gains – net	20	2,667	9,379
Selling and marketing expenses	21	(100,486)	(58,212)
Administrative expenses	21	(108,354)	(72,169)
Gain on disposal of subsidiaries		28,399	–
Finance costs	23	(1,657)	(1,371)
Share of loss of jointly controlled entities	10	(1,517)	(265)
(Loss)/profit before income tax		(18,424)	39,942
Income tax	24	4,633	(2,569)
(Loss)/profit for the year from continuing operations		(13,791)	37,373
(Loss)/profit for the year from discontinued operations	33	(30,455)	9,172
(Loss)/profit for the year		(44,246)	46,545
Attributable to:			
Equity holders of the Company		(24,747)	39,478
Minority interest		(19,499)	7,067
		(44,246)	46,545
(Loss)/earnings per share from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic	27	(0.0023)	0.0702
Diluted	27	(0.0021)	0.0646
(Loss)/earnings per share from discontinued operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic	27	(0.0509)	0.0235
Diluted	27	(0.0482)	0.0216
Dividends	28	–	–

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (As restated)
ASSETS			
Non-current assets			
Property, plant and equipment	8	88,895	94,987
Land use rights	6	20,287	20,715
Intangible assets	7	38,711	41,023
Interests in a jointly controlled entity	10	10,131	–
Deferred income tax assets	17	9,276	4,924
		167,300	161,649
Current assets			
Interests in a jointly controlled entity	10	3,000	1,682
Trade receivables	11	50,880	97,965
Deposits, prepayments and other receivables	11	50,748	58,571
Amounts due from related parties	11	3,921	7,058
Cash and cash equivalents	12	135,302	154,156
		243,851	319,432
Non-current assets classified as held for sale	33	74,602	–
		318,453	319,432
Total assets		485,753	481,081
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	49,839	48,669
Other Reserves	14	250,920	242,079
Retained earnings		28,849	53,596
		329,608	344,344
Minority interest		28,485	41,692
Total equity		358,093	386,036

CONSOLIDATED BALANCE SHEET
As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (As restated)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	1,753	2,721
Current liabilities			
Trade payables	15	5,942	5,231
Deferred revenue	15	46,913	27,500
Amount due to a related party	15	833	–
Accrued expenses and other payables	15	9,748	8,787
Accruals for statutory benefit funds	19	1,777	7,794
Short-term loans	16	26,001	23,000
Other taxes payable	18	14,279	15,206
Income tax payable	18	3,329	4,806
		108,822	92,324
Liabilities directly associated with non-current assets classified as held for sale	33	17,085	–
		125,907	92,324
Total liabilities		127,660	95,045
Total equity and liabilities		485,753	481,081
Net current assets		192,546	227,108
Total assets less current liabilities		359,846	388,757

On behalf of the board

GUO Fansheng	**LAI Sau Kam, Connie**
Director	*Director*

BALANCE SHEET
As at 31st December 2005

	Note	2005 RMB'000	2004 RMB'000 (As restated)
ASSETS			
Non-current assets			
Investments in subsidiaries	9	1,956	1,956
Loan to a subsidiary	9	174,592	168,122
		176,548	170,078
Current assets			
Other receivables		–	1,964
Cash and cash equivalents	12	5	5
		5	1,969
Total assets		176,553	172,047
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	49,839	48,669
Other Reserves	14	141,103	132,262
Accumulated losses	26	(14,887)	(8,884)
Total equity		176,055	172,047
LIABILITIES			
Current liabilities			
Other payables and accruals		498	–
Total liabilities		498	–
Total equity and liabilities		176,553	172,047
Net current (liabilities)/assets		(493)	1,969
Total assets less current liabilities		176,055	172,047

On behalf of the board

GUO Fansheng	LAI Sau Kam, Connie
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2005

	Note	Share Capital	Other reserves	Retained earnings	Minority Interest	Total
		Attributable to equity holders of the Company				
Balance at 1st January 2004, as previously reported as equity		42,784	165,471	14,118	–	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	165,471	14,118	30,578	252,951
Issuance of shares	*13, 14*	5,885	81,374	–	–	87,259
Share issue cost	*14*	–	(12,580)	–	–	(12,580)
Capital contribution from minority interest		–	–	–	3,514	3,514
Acquisition of a subsidiary		–	–	–	490	490
Disposal of subsidiaries		–	–	–	43	43
Profit for the year		–	–	47,292	7,067	54,359
Employee share option scheme-value of employee services	*14*	–	7,814	(7,814)	–	–
		5,885	76,608	39,478	11,114	133,085
Balance at 31st December 2004, as restated		48,669	242,079	53,596	41,692	386,036
Balance at 1st January 2005 as previously reported as equity		48,669	234,265	61,410	–	344,344
Balance at 1st January 2005, as previously separately reported as minority interest		–	–	–	41,692	41,692
Employee share option scheme-value of employee services		–	7,814	(7,814)	–	–
Balance at 1st January 2005, as restated		48,669	242,079	53,596	41,692	386,036
Exercise of share options	*13, 14*	1,170	3,978	–	–	5,148
Capital contribution from minority interest		–	–	–	1,130	1,130
Disposal of subsidiaries		–	–	–	5,162	5,162
Loss for the year		–	–	(24,747)	(19,499)	(44,246)
Employee share option scheme-value of employee services	*14*	–	4,863	–	–	4,863
		1,170	8,841	(24,747)	(13,207)	(27,943)
Balance at 31st December 2005		49,839	250,920	28,849	28,485	358,093

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2005

	Note	2005 RMB'000	2004 RMB'000
Cash flows from operating activities			
Cash generated from operations	29(a)	32,861	15,955
Interest received		757	739
Interest paid		(1,657)	(1,371)
PRC income tax paid		(2,182)	(3,394)
Net cash generated from operating activities		29,779	11,929
Cash flows from investing activities			
Purchase of property, plant and equipment		(47,086)	(51,890)
Acquisition of a subsidiary, net of cash acquired	29(d)	–	(4,410)
Proceed from disposal of property, plant and equipment		4,147	814
Payment for software development costs		(15,958)	(12,474)
Decrease in interests in jointly controlled entities		165	246
Disposals of subsidiaries	29(e)	14,535	(229)
Net cash used in investing activities		(44,197)	(67,943)
Cash flows from financing activities	29(b)		
Short-term loans raised		3,001	23,000
Repayment of short-term loans		–	(25,000)
Capital contribution from minority shareholders		1,130	3,514
Issue of ordinary shares		5,148	87,259
Shares issue costs		–	(12,580)
Net cash inflow from financing		9,279	76,193
Net (decrease)/increase in cash and cash equivalents		(5,139)	20,179
Cash and cash equivalents at beginning of the year		154,156	133,977
Cash and cash equivalents at end of the year		149,017	154,156
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		135,302	154,156
Bank balances and cash classified as non-current assets held for sales	33	13,715	–
		149,017	154,156

1. GENERAL INFORMATION

HC International Inc ("the Company") and its subsidiaries (together the Group) organises a business-to-business community across China by providing business information through both on-line and offline channels. The Group operates an on-line market place and provide industrial search result prioritising services through its business-to-business website "hc360.com". The Group also publishes its own trade catalogues and yellow page directories and generate market research report in China.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the board of Directors on 20th March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowings Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new/revised HKAS 1, 7, 8, 10, 16, 21, 23, 24, 27, 31, 33 and HKAS-Ints 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKAS 7, 8, 10, 16, 23, 27, 31, 33 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

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

The adoption of HKAS 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.

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 income statements. Effective on 1st January 2005, the Group expenses the cost of share options in the income statement. 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 income statement 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 to 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 ended 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

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.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005;

– HKFRS 3 – prospectively after 1st January 2005; and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

The adoption of HKAS 17 resulted in:

	2005 *RMB'000*	2004 *RMB'000*
Decrease in property, plant and equipment	20,287	20,715
Increase in land use rights	20,287	20,715

The adoption of HKFRS 2 resulted in:

	2005 *RMB'000*	2004 *RMB'000*
Increase in share compensation reserve	12,677	7,814
Decrease in retained earnings	12,677	7,814
Increase in administrative expenses	4,863	7,814
Decrease in basic earnings per share from continuing operations	0.0104	0.0185
Decrease in diluted earnings per share from continuing operations	0.0099	0.0171

The adoption of HKFRS 3 and HKAS 38 resulted in:

	2005 *RMB'000*
Increase in intangible assets	980
Increase in retained earnings	980
Decrease in administrative expenses	980
Increase in basic earnings per share from continuing operations	0.0021
Increase in diluted earnings per share from continuing operations	0.0020

The adoption of HKAS 39 resulted in:

	2005 *RMB'000*
Decrease in other financial assets through profit and loss	1,869
Decrease in retained earnings	1,869
Increase in administrative expenses	1,869
Decrease in basic earnings per share from continuing operations	0.0040
Decrease in diluted earnings per share from continuing operations	0.0038

There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKFRS 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The group consider that the adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures and Amendment to HKAS1, Presentation of Financial Statements-Capital Disclosures
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

(b) Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls any entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

(b) Jointly controlled entity

The Group's interest in jointly controlled entity is accounted for by the equity method of accounting and is initially recognised at cost.

The Group's share of its jointly controlled entity's post acquisition profits or losses is recognised in the income statement. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 property, plant and equipment.

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.

(d) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Land use rights

Land use rights are recorded at cost less subsequent accumulated amortisation. Land use rights are amortised using the straight-line method over their lease terms of 50 years.

(f) Property, plant and equipment

Property, plant and equipment, comprising buildings, 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. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight line method to allocate cost to their residual values over its estimated useful lives, as follows:

Leasehold improvements	Over the lease terms from 2 to 5 years
Buildings	5%
Computer and telecommunications equipment	20%
Fixtures, fittings and office equipment	20%
Motor vehicles	10%

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

The assets residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 income statement.

All assets carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

(g) Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets *(Continued)*

(b) Software 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.

(c) 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.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Investments

The Group classifies its investments into financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables and interests in a jointly controlled entity in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents represent cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) Deferred revenue

Deferred revenue represents advertising revenue and subscription revenue received in advance from third party customers.

(m) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax is provided on temporary difference arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and its is probable that the temporary difference will not reverse in the foreseeable future.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

(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.

(iii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

When the share options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(q) Revenue recognition

Revenue, net of business tax and after eliminating sales within the Group, is recognised as follows:

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition *(Continued)*

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) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(s) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(t) 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(v) Non-current assets held for sales and discontinued operations

Non-current assets are classified as non-current assets held for sales 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.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department (the "Finance Department") headed by the Chief Financial Office of the Group. The Finance Department identifies and evaluates financial risks in close co-operation with the Group's operating units to cope with overall risk management as well as specific areas such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investing excess liquidity.

(a) Market risk

Foreign exchange risk

The Group operates nationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to HK dollar, US dollar and Renminbi. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group engage in transactions mainly in HK dollar, US dollar and Renminbi to the extent possible. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency, the Finance Department is responsible for managing the net position in each foreign currency.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Finance Department aims to maintain flexibility in funding by keeping committed banking facilities available.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment and intangible assets (excluding goodwill)

The Group evaluates whether property, plant and equipment and intangible assets (excluding goodwill) have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates.

(c) Provision for impairment of receivables

Significant judgement is exercised in the assessment of the collectivity of trade receivable from each customer. In making its judgement, management considers a wide range of factors such as results of following procedures performed by sales personnel, customers' payment record and subsequent settlements.

5. SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31st December 2005, the Group is organised into the following business segments:

(i) Trade catalogues and yellow page directors – provision of trade information through trade catalogues and yellow page directories operated/published by the Group.

(ii) 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.

(iii) Market research and analysis – provision of business information and analysis services.

(iv) Printed periodicals, seminars and other PR services – wholesaling of advertisement space in newspapers and magazines and provision of arrangement, assistance and PR services for hosting of seminars.

There were no sales or other transactions between the business segments in 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(Continued)*

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

	Year ended 31st December 2005				
	Trade catalogues and yellow page directories *RMB'000*	Search engine services *RMB'000*	Market research and analysis *RMB'000*	Printed periodicals, seminars and other PR services *RMB'000*	Total *RMB'000*
Turnover	173,304	96,351	30,251	20,613	320,519
Cost	(90,841)	(28,304)	(15,193)	(23,657)	(157,995)
Segment results	82,463	68,047	15,058	(3,044)	162,524
Other gains – net					2,667
Allocated costs	(46,827)	(53,287)	(3,540)	–	(103,654)
Unallocated costs					(105,186)
Gain on disposal of subsidiaries					28,399
Finance costs					(1,657)
Share of loss of a jointly controlled entity					(1,517)
Loss before income tax					(18,424)
Income tax					4,633
Loss for the year from continuing operations					(13,791)
Loss for the year from discontinued operations					(30,455)
Loss for the year					(44,246)
Attributable to:					
Equity holders of the Company					(24,747)
Minority interest					(19,499)
					(44,246)
Segment assets	34,299	19,046	12,628	5,405	71,378
Unallocated assets *(note a)*					414,375
Total assets					485,753
Segment liabilities	22,156	29,581	–	1,118	52,855
Unallocated liabilities *(note b)*					74,805
Total liabilities					127,660
Capital expenditure	–	15,958	–	–	15,958
Unallocated capital expenditure *(note c)*					47,097
					63,055
Amortisation	–	(3,376)	–	–	(3,376)
Unallocated amortisation					(2,199)
					(5,575)
Provision for impairment of trade and other receivables	(2,897)	–	(912)	(2,249)	(6,058)
Unallocated provision for impairment of trade and other receivables					(3,052)
					(9,110)

Notes:

(a) Unallocated assets mainly represent intangible assets, property, plant and equipment, 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 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 property, plant and equipment which are shared among the companies of the Group, and which cannot be allocated to specific segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(Continued)*

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

	Year ended 31st December 2004				
	Trade catalogues and yellow page directories *RMB'000*	Search engine services *RMB'000*	Market research and analysis *RMB'000*	Printed periodical, seminars and other PR services *RMB'000*	Total *RMB'000*
Turnover	179,195	82,373	28,565	23,365	313,498
Cost	(89,586)	(20,248)	(14,181)	(26,903)	(150,918)
Segment results	89,609	62,125	14,384	(3,538)	162,580
Other gains – net					9,379
Allocated costs	(49,091)	(42,279)	(6,573)	–	(97,943)
Unallocated costs					(32,438)
Gain on disposal of subsidiaries					–
Finance costs					(1,371)
Share of loss of a jointly controlled entity					(265)
Profit before income tax					39,942
Income tax					(2,569)
Profit for the year from continuing operations					37,373
Profit for the year from discontinued operations					9,172
Profit for the year					46,545
Attributable to:					
Equity holders of the Company					39,478
Minority Interest					7,067
					46,545
Segment assets	23,518	27,438	9,654	9,424	70,034
Unallocated assets *(note a)*					411,047
Total assets					481,081
Segment liabilities	21,913	6,490	–	1,316	29,719
Unallocated liabilities *(note b)*					65,326
Total liabilities					95,045
Capital expenditure	–	12,474	–	–	12,474
Unallocated capital expenditure *(note c)*					59,095
					71,569
Amortisation	–	(2,027)	–	–	(2,027)
Unallocated amortisation					(2,350)
					(4,377)
(Provision)/write-back for impairment of trade and other receivables	(169)	–	–	908	739
Unallocated provision for impairment of trade and other receivables					(2,952)
					(2,213)

Notes:

(a) Unallocated assets mainly represent intangible assets, property, plant and equipment, 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 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 property, plant and equipment which are shared among the companies of the Group, and which cannot be allocated to specific segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

The principal market of the Group is primarily in the People's Republic of China, excluding the Hong Kong Special Administrative Region, (the "PRC") 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 2005, individually. Accordingly, no segmental information analysed by geographical segment is presented.

6. LAND USE RIGHTS – GROUP

The Group's interests in land use rights in the PRC represent prepaid operating lease payments with a lease period of 50 years and their net book value are analysed as follows:

	2005 *RMB'000*	2004 *RMB'000*
Opening net book amount	20,715	19,126
Additions	–	2,006
Amortisation of land use rights	(428)	(417)
Closing net book amount	20,287	20,715

Bank borrowings are secured on land use rights for carrying amount of RMB20,287,000 (2004: RMB20,715,000) *(note 16)*

7. INTANGIBLE ASSETS – GROUP

	Goodwill	Negative Goodwill	Software Development Cost	Data Library	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January 2004					
Cost	–	(628)	9,137	21,986	30,495
Accumulated amortisation and impairment	–	470	(1,877)	(1,099)	(2,506)
Net book amount	–	(158)	7,260	20,887	27,989
Year ended 31st December 2004					
Opening net book amount	–	(158)	7,260	20,887	27,989
Additions	4,900	–	12,474	–	17,374
Disposals	–	37	–	–	37
Amortisation expense (a)	(272)	121	(2,027)	(2,199)	(4,377)
Closing net book amount	4,628	–	17,707	18,688	41,023
At 31st December 2004					
Cost	4,900	(368)	21,611	21,986	48,129
Accumulated amortisation and impairment	(272)	368	(3,904)	(3,298)	(7,106)
Net book amount	4,628	–	17,707	18,688	41,023
Year ended 31st December 2005					
Opening net book amount	4,628	–	17,707	18,688	41,023
Additions	–	–	15,958	–	15,958
Disposal of a subsidiary	–	–	(12,695)	–	(12,695)
Amortisation expense (a)	–	–	(3,376)	(2,199)	(5,575)
Closing net book amount	4,628	–	17,594	16,489	38,711
At 31st December 2005					
Cost	4,900	–	23,797	21,986	50,683
Accumulated amortisation and impairment	(272)	–	(6,203)	(5,497)	(11,972)
Net book amount	4,628	–	17,594	16,489	38,711

(a) Amortisation of intangible assets is included in administrative expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Computer and telecom-munications equipment	Fixtures, fittings and office equipment	Leasehold improvements	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January 2004						
Cost	32,035	36,356	6,651	1,002	5,604	81,648
Accumulated depreciation	(1,578)	(17,380)	(3,563)	(64)	(1,988)	(24,573)
Net book amount	30,457	18,976	3,088	938	3,616	57,075
Year ended 31st December 2004						
Opening net book amount	30,457	18,976	3,088	938	3,616	57,075
Additions	5,322	34,481	7,154	3,822	1,410	52,189
Disposals	(541)	(366)	(16)	–	(151)	(1,074)
Disposal of subsidiaries	–	(330)	(181)	–	(341)	(852)
Depreciation *(b)*	(1,591)	(8,071)	(1,619)	(411)	(659)	(12,351)
Closing net book amount	33,647	44,690	8,426	4,349	3,875	94,987
At 31st December 2004						
Cost	36,546	69,315	13,262	4,824	6,167	130,114
Accumulated depreciation	(2,899)	(24,625)	(4,836)	(475)	(2,292)	(35,127)
Net book amount	33,647	44,690	8,426	4,349	3,875	94,987
Year ended 31st December 2005						
Opening net book amount	33,647	44,690	8,426	4,349	3,875	94,987
Less: Included in non-current assets held for sale	–	(783)	(683)	(2,010)	(775)	(4,251)
Opening net book amount (restated)	33,647	43,907	7,743	2,339	3,100	90,736
Additions	3,146	38,086	953	1,999	99	44,283
Disposals	(1,516)	(1,782)	(327)	(236)	(311)	(4,172)
Disposal of subsidiaries	–	(22,448)	(1,002)	(550)	–	(24,000)
Depreciation *(b)*	(1,747)	(12,669)	(1,956)	(605)	(975)	(17,952)
Closing net book amount	33,530	45,094	5,411	2,947	1,913	88,895
At 31st December 2005						
Cost	37,592	75,213	11,800	3,820	4,747	133,172
Accumulated depreciation	(4,062)	(30,119)	(6,389)	(873)	(2,834)	(44,277)
Net book amount	33,530	45,094	5,411	2,947	1,913	88,895

(a) As at 31st December 2005, a building carried at RMB33,491,000 (2004: RMB32,110,000) is pledged to secure the Group's bank loan.

(b) Depreciation expenses of RMB8,416,000 (2004: RMB4,923,000) is including in selling and marketing expenses; and RMB9,534,000 (2004: RMB7,181,000) in administrative expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS IN AND LOAN TO SUBSIDIARIES

	Company	
	2005	2004
	RMB'000	*RMB'000*
Investments, unlisted shares, at cost *(note a)*	1,956	1,956
Loan to a subsidiary *(note b)*	174,592	168,122
	176,548	170,078

(a) The following is a list of the principal subsidiaries at 31st December 2005:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Effective Interest held
Hong Kong Huicong International Group Limited ("HKHC")	British Virgin Islands, limited liability company	Investment holding in Hong Kong	21,000,000 Ordinary shares of US$0.01 each	100%
*China Media Network International Inc.	British Virgin Islands, limited liability company	Investment holding in Hong Kong	50,000 Ordinary shares of US$1 each	100%
北京慧聰國際資訊有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB 110,000,000	82%
北京慧聰互聯信息技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB 10,000,000	82%
北京慧翔網絡技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB 10,000,000	82%
北京慧聰再創科技有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB 5,000,000	82%
北京慧聰互動信息諮詢有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	42%
北京京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
北京慧聰金網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS IN AND LOAN TO SUBSIDIARIES *(Continued)*

(a) The following is a list of the principal subsidiaries at 31st December 2005: *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Effective Interest held
北京慧聰商情廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB2,000,000	82%
北京慧聰網展覽有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	61.5%
上海慧龍廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
上海新慧聰網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
上海慧網網絡信息資訊有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	82%
南京慧聰廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB635,000	78.7%
南京慧聰網廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
蘇州京慧聰廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
浙江慧聰網絡信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	77.9%
杭州慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
廣州市京慧聰商情廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,500,000	82%
廣州市慧穎廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
福州京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
廈門市京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS IN AND LOAN TO SUBSIDIARIES *(Continued)*

(a) The following is a list of the principal subsidiaries at 31st December 2005: *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Effective Interest held
深圳市京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB2,000,000	82%
深圳市慧聰網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
濟南金慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
石家莊金慧聰廣告信息諮詢有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
武漢慧聰廣告信息諮詢有限責任公司	The PRC, limited liability company	Advertising in the PRC	RMB1,010,000	82%
武漢慧聰網絡信息技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	82%
*北京華媒盛視廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB5,000,000	65.6%
*北京華媒盛視信息技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB20,000,000	65.6%
*北京華媒盛視電廣科技有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB10,000,000	82%
*濟南華媒盛視傳播有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
*鄭州華媒盛視廣告傳播有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
*蘭州華媒廣告傳播有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	41.8%
*蘭州華媒盛視廣告傳播有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	41.8%
*烏魯木齊華媒盛視傳播有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	62.3%
*海南電廣華媒傳播有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	32.8%

* Operations carrying out by these entities are classified as discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(i) 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.

(ii) During the year, the Company, through HKHC, entered into agreements to dispose of part of its equity interest in the public search engine business in the PRC – 北京中搜在線軟件有限公司 for a consideration of RMB38,443,000 upon the completion of the disposal, 北京中搜在線軟件有限公司 became a jointly controlled entity of the Group.

(iii) During the year, the Group disposed of its entire interest in a subsidiary – 北京慧聰網網絡技術有限公司 for a consideration of RMB2,587,000.

(b) Loan to a subsidiary

Amount due from a subsidiary is unsecured, non-interest bearing and not repayable within twelve months of the balance sheet date.

10. INTERESTS IN A JOINTLY CONTROLLED ENTITY – GROUP

	2005 *RMB'000*	2004 *RMB'000*
Interest in a jointly controlled entity *(note a)*	–	1,682
Amount due from a jointly controlled entity *(note b)*	13,131	–
	13,131	1,682
Less: current portion of amount due from a jointly controlled entity included in current assets *(note b)*	(3,000)	–
Long term portion	10,131	1,682

(a) Interest in jointly controlled entities

	2005 *RMB'000*	2004 *RMB'000*
Beginning of the year	1,682	1,947
Interest in a jointly controlled entity	1,517	–
Liquidation of a jointly controlled entity *(note c)*	(1,682)	–
Share of loss of jointly controlled entities	(1,517)	(265)
	–	1,682

At 31st December 2005, the Group had equity interest in the following jointly controlled entity:

Name	Place and date of incorporation	Principal activities	Particular of issued share capital held	Interest held
Shares held directly:				
China Search Inc.	Cayman Islands 31st May 2004	Investment holding	23,600,000 ordinary shares of USD0.00025	22.1%
Shares held indirectly through China Search Inc:				
北京中搜在線軟件有限公司	The PRC 28th May 2003	Provision of search engine service, software licensing and system integration	RMB7,500,000	20.22%

10. INTERESTS IN A JOINTLY CONTROLLED ENTITY – GROUP *(Continued)*

(b) Amount due from a jointly controlled entity is unsecured, non-interest-bearing and repayable within 5 years in 5 equal instalments. Changes in fair value of amount due from the jointly controlled entity, RMB1,869,000, is recorded in administrative expenses in the income statement.

(c) During the year ended 31st December 2005, a joint controlled entity, 北京新浪慧聰廣告公司 was liquidated.

11. TRADE AND OTHER RECEIVABLES – GROUP

	2005 *RMB'000*	2004 *RMB'000*
Trade receivables *(note a)*	56,286	102,323
Less: provision for impairment of trade receivables	(5,406)	(4,358)
Trade receivables – net	50,880	97,965
Deposits, prepayments and other receivables	50,748	58,571
Amounts due from related parties	3,921	7,058
	105,549	163,594

The carrying amounts of trade receivables, deposits, prepayments and other receivables, net, approximate their fair values.

All non-current receivables are due within five years from the balance sheet date.

(a) The Group generally grants a credit period of 30 days to 90 days to customers. The ageing analysis of the trade receivables were as follows:

	2005 *RMB'000*	2004 *RMB'000*
Current to 90 days	26,094	61,793
91 to 180 days	11,152	24,653
181 to 365 days	10,285	11,969
Over 1 year	8,755	3,908
	56,286	102,323

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers nationally dispersed.

The Group has recognised a loss of RMB6,127,018 (2004: RMB255,242) for the impairment of its trade receivables during the year ended 31st December 2005. The loss has been included in selling and marketing expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES – GROUP *(Continued)*

(b) Amounts due from related parties

	Note	2005 RMB'000	2004 RMB'000
Amounts due from related companies:			
北京慧聰建設信息諮詢有限公司	(i)	–	299
北京慧美印刷有限公司	(i)	**2,933**	2,125
		2,933	2,424
Amounts due from officers of the Group *(note c)*		**988**	4,634
		3,921	7,058

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

(c) Amounts due from officers of the Group

Name	Maximum amount outstanding during the year RMB'000	Amount outstanding at 31st December 2005 RMB'000	Amount outstanding at 31st December 2004 RMB'000
Mr. Wong Chong (Vice President and Director of subsidiaries)	1,000	–	1,000
Ms. Wong Yong Hui (Vice President of a subsidiary)	1,000	–	1,000
Mr. Yao Lin (Vice President of the Group prior to September 2005)	1,000	–	1,000
Mr. Wu Xian (Director of subsidiaries)	450	**450**	450
Mr. Shen Qizhi (Director of subsidiaries)	202	**202**	202
Global Cyberlinks Holdings Inc. (a company controlled by Mr. Chen Pei and Mr. Chen Bo, Director and Senior Management of a jointly controlled entity of the Group respectively)	800	–	800
Mr. Li Shuang Qing (Director of subsidiaries)	182	**182**	182
Mr. Yi Zhou (Director of subsidiaries)	154	**154**	–
	4,788	**988**	4,634

Amounts due from officers are guaranteed by one of the directors of the Company, interest-bearing at prevailing interest rate and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	135,302	154,156	5	5
	135,302	154,156	5	5

As at 31st December 2005, bank and cash balance of approximately RMB94,236,000 (2004: RMB83,681,000) of the Group were denominated in Renminbi and deposited with banks in the PRC. The conversion of the Renminbi denominated balance into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

13. SHARE CAPITAL

	Number of shares	Ordinary shares *RMB'000*
At 1st January 2004	400,000,000	42,784
Issue of share	55,000,000	5,885
At 31st December 2004	455,000,000	48,669
Exercise of share options	10,934,345	1,170
At 31st December 2005	465,934,345	49,839

The total authorised number of ordinary shares is 1,000 million shares (2004: 1,000 million shares) with a par value of HK$0.1 per share (2004: HK$0.1 per share). All issued shares are fully paid.

Share options

(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 of Directors 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.

Each option under the Pre-IPO Share Option Scheme has a 10-year exercised period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of he Company first commenced on GEM, 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.

(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 of Directors 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, of which 7,850,000 share options were cancelled during the year ended 31st December 2005. 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 CONSOLIDATED FINANCIAL STATEMENTS

13. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

Each option under the Share Option Scheme has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the granting of options, 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.

(iii) 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 cut 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.

Movements in the number of share options outstanding and their exercise prices are as follows:

(a) Pre-IPO Share Option Scheme

	2005 Exercise price in HK$ per share	2005 Share Options	2004 Exercise price in HK$ per share	2004 Share Options
At 1st January	0.44	46,984,080	0.44	46,984,080
Exercised	0.44	(10,934,345)	0.44	–
At 31 December	0.44	36,049,735	0.44	46,984,080

(b) Share Option Scheme

	2005 Exercise price in HK$ per share	2005 Share Options	2004 Exercise price in HK$ per share	2004 Share Options
At 1st January	2.40	26,000,000	2.40	–
Granted	2.40	–	2.40	26,000,000
Cancelled	2.40	(7,850,000)	2.40	–
At 31 December	2.40	18,150,000	2.40	26,000,000

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

(a) Pre-IPO Share Option Scheme

Expiry date	Exercise price	Share options	
	HK$ per share	2005	2004
17th December 2013	0.44	36,049,735	46,984,080

(b) Share Option Scheme

Expiry date	Exercise price	Share options	
	HK$ per share	2005	2004
18th February 2014	2.40	18,150,000	26,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. OTHER RESERVES

	Group					
	Capital reserve RMB'000	Merger reserve RMB'000	Issuance costs RMB'000	Share-based compensation reserves RMB'000	Share premium RMB'000	Total RMB'000
At 1st January 2004	987	108,830	–	–	55,654	165,471
Issuance of shares	–	–	–	–	81,374	81,374
Share option scheme-value of employee services	–	–	–	7,814	–	7,814
Share issue expenses	–	–	(12,580)	–	–	(12,580)
Offset of share issuance costs to share premium	–	–	12,580	–	(12,580)	–
At 31st December 2004 (restated)	987	108,830	–	7,814	124,448	242,079
At 1st January 2005	987	108,830	–	–	124,448	234,265
Share option scheme-value of employee services	–	–	–	7,814	–	7,814
At 1st January 2005 (restated)	987	108,830	–	7,814	124,448	242,079
Issuance of shares	–	–	–	–	3,978	3,978
Share option scheme-value of employee services	–	–	–	4,863	–	4,863
At 31st December 2005	987	108,830	–	12,677	128,426	250,920

	Company			
	Accumulated losses RMB'000	Share-based compensation reserves RMB'000	Share premium RMB'000	Total RMB'000
At 1st January 2004	(699)	–	55,654	54,955
Loss for the year	(371)	–	–	(371)
Share option scheme-value of employee services	(7,814)	7,814	–	–
Issuance of shares	–	–	81,374	81,374
Share issue expenses	–	–	(12,580)	(12,580)
At 31st December 2004 (restated)	(8,884)	7,814	124,448	123,378
At 1st January 2005	(8,884)	–	124,448	115,564
Share option scheme-value of employee services	–	7,814	–	7,814
At 1st January 2005 (restated)	(8,884)	7,814	124,448	123,378
Loss for the year	(6,003)	–	–	(6,003)
Issuance of shares	–	–	3,978	3,978
Share option scheme-value of employee services	–	4,863	–	4,863
At 31st December 2005	(14,887)	12,677	128,426	126,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER PAYABLES – GROUP

	2005 *RMB'000*	2004 *RMB'000*
Trade payables *(note a)*	5,942	5,231
Deferred revenue	46,913	27,500
Amount due to a related party, 北京慧聰建設信息諮詢有限公司 *(note b)*	833	–
Accrued expenses and other payables	9,748	8,787
	63,436	41,518

(a) At 31st December 2005, the ageing analysis of the trade payables were as follows:

	2005 *RMB'000*	2004 *RMB'000*
Current to 90 days	4,072	3,538
91 to 180 days	598	1,006
181 to 365 days	840	531
Over 1 year	432	156
	5,942	5,231

(b) Amount due to a related party arised from normal course of business, is unseured, interest-free and with a credit period of approximately 30 days.

16. SHORT-TERM LOANS

	2005 *RMB'000*	2004 *RMB'000*
Bank loan, secured *(note a)*	23,000	23,000
Other short-term loan *(note b)*	3,001	–
	26,001	23,000

The carrying amounts of short-term borrowings approximately their fair values. All the borrowings are denominated in RMB.

(a) Bank borrowing of RMB23,000,000 (2004: RMB23,000,000) is interest bearing at 5.26% and is secured by the land use rights and a building of the Group (note 6 and note 8).

(b) Other short-term loan of RMB3,001,000 (2004: Nil) is unsecured, interest-bearing at LIBOR plus 1% and repayable within 1 year.

17. DEFERRED TAXATION – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2004: 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:

	2005 *RMB'000*	2004 *RMB'000*
Deferred tax assets (to be recovered after more than 12 months)	9,276	4,924
Deferred tax liabilities (to be settled after more than 12 months)	(1,753)	(2,721)
	7,523	2,203

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:

	2005 *RMB'000*	2004 *RMB'000*
At 1st January	2,203	2,629
Deferred taxation transferred from/(to) income statement *(note 24)*	5,320	(426)
At 31st December	7,523	2,203

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 impairment of trade receivables		Tax losses		Total	
	2005 *RMB'000*	2004 *RMB'000*	2005 *RMB'000*	2004 *RMB'000*	2005 *RMB'000*	2004 *RMB'000*
At 1st January	6,250	5,891	–	–	6,250	5,891
Transfer from/(to) income statement	1,190	359	5,632	–	6,822	359
At 31st December	7,440	6,250	5,632	–	13,072	6,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. DEFERRED TAXATION – GROUP *(Continued)*

Deferred tax liabilities

	Deferred development assets		Accrued staff welfare benefits		Total	
	2005	2004	2005	2004	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January	(356)	(292)	(3,691)	(2,970)	(4,047)	(3,262)
Transfer from/(to) income statement	(820)	(64)	(682)	(721)	(1,502)	(785)
At 31st December	(1,176)	(356)	(4,373)	(3,691)	(5,549)	(4,047)

18. INCOME TAX PAYABLE AND OTHER TAXES PAYABLE – GROUP

	2005	2004
	RMB'000	*RMB'000*
Income taxes payable:		
EIT	3,329	4,806
Other taxes payable:		
Business tax	9,298	10,327
Cultural and development tax	1,751	2,484
Other taxes	3,230	2,395
	14,279	15,206

19. ACCRUALS FOR STATUTORY BENEFITS FUNDS – GROUP

	2005	2004
	RMB'000	*RMB'000*
Retirement benefit	1,757	6,304
Medical benefit	–	–
Housing benefit	20	1,490
	1,777	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.

20. OTHER GAINS – NET

	2005 *RMB'000*	2004 *RMB'000*
Interest income	627	699
Compensation from a legal claim	2,040	8,680
	2,667	9,379

21. EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	2005 *RMB'000*	2004 *RMB'000*
Auditors' remuneration	1,600	1,060
Staff costs, including directors' emoluments *(Note 22)*	168,914	129,871
Depreciation of property, plant and equipment	17,952	12,104
Amortisation of land use rights	428	417
Write-off and provision for impairment of trade and other receivables	9,110	2,213
Loss on disposal of property, plant and equipment	25	260
Operating lease payments in respect of land and buildings	21,166	18,207
Amortisation of intangible assets	5,575	4,226
Amortisation of goodwill	–	151
Research and development costs	19,979	15,123
Less: costs capitalised *(note 7)*	(15,958)	(12,474)
	4,021	2,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. EMPLOYEE BENEFIT EXPENSE

	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	154,135	116,686
Retirement benefits costs *(a)*	7,299	7,376
Other benefits	14,322	6,962
Share options granted to directors and employees	4,863	7,814
	180,619	138,838
Less: capitalised staff costs	(11,705)	(8,967)
	168,914	129,871

Note a:

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:

	2005	2004
	RMB'000	*RMB'000*
Contributions paid and payable to the state retirement plans	7,229	7,376

As at 31st December 2005, the Group has outstanding contribution payable of approximately RMB1,757,000 (2004: RMB6,304,000) to the retirement plans participated by the Group, and there was no forfeited contributions available to offset future retirement benefit obligations of the Group.

22. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director		Fees	Salary	Employer's contribution to pension scheme	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Director	Mr. GUO Fansheng	–	600	50	650
	Ms. WU Ying	–	500	43	543
	Ms. LAI San Kan, Connie	–	800	–	800
	Mr. SHONG Hugo	–	–	–	–
	Mr. YANG Fei	–	–	–	–
	Mr. ZHANG Ke	80	–	–	80
	Mr. XIANG Bing	80	–	–	80
	Mr. Guo Wei	80	–	–	80

The remuneration of every Director for the year ended 31st December 2004 is set out below:

Name of Director		Fees	Salary	Employer's contribution to pension scheme	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Director	Mr. GUO Fansheng	–	600	50	650
	Ms. WU Ying	–	500	43	543
	Ms. LAI San Kan, Connie	–	800	–	800
	Mr. SHONG Hugo	–	–	–	–
	Mr. YANG Fei	–	–	–	–
	Mr. ZHANG Ke	80	–	–	80
	Mr. XIANG Bing	80	–	–	80
	Mr. Guo Wei	80	–	–	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005 *RMB'000*	2004 *RMB'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	1,300	1,300
Retirement plan contributions	90	90
	1,390	1,390

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Nil to RMB1,040,000 (equivalent to HK$1,000,000)	2	2

(d) 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.

23. FINANCE COSTS

	2005 *RMB'000*	2004 *RMB'000*
Interest expense:		
– short-term loans	1,657	1,371
	1,657	1,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. INCOME TAX EXPENSE

	2005 *RMB'000*	2004 *RMB'000*
Current income tax		
– Hong Kong profits tax *(note a)*	–	–
– The PRC enterprise income tax ("EIT") *(note b)*	687	2,143
Deferred income tax *(note 17)*	(5,320)	426
	(4,633)	2,569

(a) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the year (2004: 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 tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Group companies as follows:

	2005 *RMB'000*	2004 *RMB'000*
(Loss)/profit before income tax	(18,424)	39,942
Calculated at a taxation rate of 33%	(6,080)	13,181
Effect of different taxation rates in other cities	(14,585)	(532)
Income not subject to tax	(15,545)	(13,147)
Expenses not deductible for tax purposes	7,481	1,095
Effect on unutilised tax losses	23,738	1,984
Others	358	(12)
Tax expense	(4,633)	2,569

25. NET FOREIGN EXCHANGE GAINS/(LOSSES)

The exchange differences recognised in the income statement are included as follows:

	2005 *RMB'000*	2004 *RMB'000*
Administrative expenses	(2,397)	10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB6,003,000 (2004 restated: RMB8,185,000).

27. EARNINGS PER SHARE

	2005 *RMB'000*	2004 *RMB'000* (As stated)
(Loss)/profit attributable to equity holders from continuing operations	(1,051)	29,575
	No. of shares *'000*	No. of shares *'000*
Weighted average number of shares in issue	465,155	421,521
Incremental shares from assumed exercise of share options granted	26,316	36,182
Diluted weighted average number of shares	491,471	457,703
Basic (loss)/earnings per share from continuing operations	RMB(0.0023)	RMB0.0702
Diluted (loss)/earnings per share from continuing operations	RMB(0.0021)	RMB0.0646

The calculation of basic (loss)/earnings per share from continuing operations is based on the (loss)/profit attributable to the equity holders of approximately RMB(1,051,000) (2004: RMB29,575,000 profit) for the year ended 31st December 2005 and the weighted average of approximately 465,155,000 (2004: 421,521,000) ordinary shares in issue during the year.

The calculation of diluted (loss)/earnings per share from continuing operations for the year ended 31st December 2005 is based on the (loss)/profit attributable to the equity holders of RMB(1,051,000) (2004: RMB29,575,000 profit) and the diluted weighted average of 491,471,000 (2004: 457,703,000) 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 13).

27. EARNINGS PER SHARE *(Continued)*

	2005 *RMB'000*	2004 *RMB'000* (As restated)
(Loss)/profit attributable to equity holders from discontinued operations	(23,696)	9,903
	No. of shares *'000*	No. of shares *'000*
Weighted average number of shares in issue	465,155	421,521
Incremental shares from assumed exercise of share options granted	26,316	36,182
Diluted weighted average number of shares	491,471	457,703
Basic (loss)/earnings per share from discontinued operations	RMB(0.0509)	RMB0.0235
Diluted (loss)/earnings per share from discontinued operations	RMB(0.0482)	RMB0.0216

The calculation of basic (loss)/earnings per share from discontinued operations is based on the loss attributable to the equity holders of approximately RMB(23,696,000) (2004: profit RMB9,903,000) for the year ended 31st December 2005 and the weighted average of approximately 465,155,000 (2004: 421,521,000) ordinary shares in issue during the year.

The calculation of diluted (loss)/earnings per share from discontinued operations for the year ended 31st December 2005 is based on the loss attributable to the shareholders of RMB(23,696,000) (2004: profit RMB9,903,000) and the diluted weighted average of 491,471,000 (2004: 457,703,000) 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 13).

28. DIVIDENDS

No dividend was paid or declared by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. CASH GENERATED FROM OPERATIONS

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

	2005 *RMB'000*	2004 *RMB'000* (As restated)
(Loss)/profit before taxation	(48,685)	49,114
Depreciation of property, plant and equipment	19,021	12,351
Amortisation of software development costs and goodwill	5,575	4,377
Amortisation of deferred compensation expenses	4,863	7,814
Amortisation of land use rights	428	417
Interest income	(757)	(739)
Interest expenses	1,657	1,371
Loss on disposal of property, plant and equipment	25	260
Compensation receipt from a legal claim	–	(800)
(Gain) on disposal of subsidiaries (note (e))	(44,095)	(1,248)
Share of loss of a jointly controlled entity	1,517	265
Operating (loss)/profit before working capital changes	(60,451)	73,182
Increase in trade receivables, deposits, prepayments, and other receivables and amount due from a jointly controlled entity (note (c))	(6,459)	(61,895)
Increase in trade payables, accrued expenses, deposits received, other payables, other taxes payable and amounts due (from) to related parties	99,771	4,668
Net cash inflow generated from operations	32,861	15,955

29. CASH GENERATED FROM OPERATIONS *(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 2004	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
Cash inflow from share issuance	1,170	3,978	–	–	–
Draw down of loans	–	–	–	–	3,001
Share of net loss by minority shareholders	–	–	–	(19,499)	–
Capital contribution from minority shareholders	–	–	–	1,130	–
Disposal of subsidiaries (note (e))	–	–	–	5,162	–
At 31st December 2005	49,839	128,426	–	28,485	26,001

(c) Major non-cash transaction

During the year, the Group disposed certain of its interests in two subsidiaries with total consideration of RMB41,030,000. As at 31st December 2005, the Group received RMB22,714,000 and the remaining RMB18,316,000 will be received in 2006 and was included in other receivables in the balance sheet as at 31st December 2005. In addition, as the result of the disposal of the subsidiaries, an amount due from a subsidiary at fair value of RMB13,131,000 was classified as amount due from a jointly controlled entity as at 31st December 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. CASH GENERATED FROM OPERATIONS *(Continued)*

(d) Acquisition of a subsidiary

	2005 *RMB'000*	2004 *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:

	2005 *RMB'000*	2004 *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

	2005 *RMB'000*	2004 *RMB'000*
Net (liabilities)/assets disposed		
Intangible assets	12,695	–
Property, plant and equipment	24,000	852
Trade and other receivables	10,662	1,633
Cash and bank balances	4,607	417
Trade and other payables	(63,587)	(3,656)
Income tax payable	(176)	(272)
Unamortised goodwill	–	(37)
Minority shareholders' interests *(note (b))*	5,162	43
	(6,637)	(1,020)
Gain on disposal of subsidiaries *(i)*	44,095	1,248
Proceeds receivable	(18,316)	(40)
Cash proceeds (net of professional fee paid)	19,142	188
Cash and cash equivalents disposed of	(4,607)	(417)
Net cash inflow/(outflow) on disposal of subsidiaries	14,535	(229)

(i) The gain on disposal of subsidiaries for the year ended 31st December 2005 is before the write-off of the shareholder's loans of RMB17,212,000. Gain on disposal of subsidiaries for the year ended 31st December 2004 was recorded in selling and marketing expenses.

30. COMMITMENTS

(a) Commitments under operating leases – Group

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings which expire as follows:

	2005 *RMB'000*	2004 *RMB'000*
Within one year	17,198	8,857
In the second to fifth year inclusive	28,219	31,615
	45,417	40,472

31. CONTINGENT LIABILITIES

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

32. RELATED-PARTY TRANSACTIONS

The following transactions were carried out with related parties:

(a) Sales of services

	2005 *RMB'000*	2004 *RMB'000*
Sales of services		
– 北京慧聰建設信息諮詢有限公司 (technology services) (i)	211	211
– 北京慧聰建設信息諮詢有限公司 (be granted the right to use the domain names and trademark) (ii)	240	240
– 北京慧美印刷有限公司 (rental services) (iii)	646	646
	1,097	1,097

(i) 北京慧聰建設諮詢有限公司, a company owned as to 80% by Mr. Guo Fansheng, the chief executive officer and an executive director of the Company, entered into a three-year Technology Services Agreement with the Group in 2002. Pursuant to the agreement, the Group received technical service income from 北京慧聰建設諮詢有限公司 based on the working hours devoted to the service and support.

(ii) 北京慧聰建設信息諮詢有限公司 entered into a three-year Domain Names and Trademark Licence Agreement with the Group in 2002. Pursuant to the agreement, 北京慧聰建設信息諮詢有限公司 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.

(iii) Rental income of RMB646,000 were received from 北京慧美印刷有限公司 a company owned as to 65% by 北京慧聰建設信息諮詢有限公司 and as to 35% by Mr. Fan Yousheng, an independent third party for the year ended 31st December 2005 and the fee was payable at market price no less favorable than as charged by independent third parties on a monthly basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Purchases of services

	2005 *RMB'000*	2004 *RMB'000*
Purchases of services:		
– 北京慧聰建設信息諮詢有限公司 (online information distribution services) (i)	240	240
– 北京慧聰建設信息諮詢有限公司 (online advertisement publication services) (ii)	100	100
– 北京慧美印刷有限公司 (printing services) (iii)	28,416	21,958
– 北京中搜在線軟件有限公司 (search engine services) (iv)	352	–
	29,108	22,298

(i) 北京慧聰建設諮詢有限公司 entered into a three-year Online Information Distribution Agreement with the Group in 2002. Pursuant to the agreement, 北京慧聰建設諮詢有限公司 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.

(ii) 北京慧聰建設信息諮詢有限公司 entered into a three-year Online Advertisement Publication Agreement with the Group in 2002. Pursuant to the agreement, 北京慧聰建設信息諮詢有限公司 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.

(iii) On 1st September 2002, 北京慧美印刷有限公司 and 北京慧聰商情廣告有限公司 ("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.

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

(iv) 北京中搜在線軟件有限公司, a jointly controlled entity of the Group, entered into a "Search Engine Sale Agency Framework Agreement" with the Group in 2004, pursuant to the agreement, Beijing Huicong International and its subsidiaries are charged by 北京中搜在線軟件有限公司 for its technical support on the search engine services provided to the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. RELATED-PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

	2005 *RMB'000*	2004 *RMB'000*
Salaries and other short-term employee benefits	4,647	4,220
Share-based payments	2,498	1,523
	7,145	5,743

(d) Year end balance from sales/purchase of services

	2005 *RMB'000*	2004 *RMB'000*
Amount due from related companies *(note 11(b))*	2,933	2,424
Amount due to a related company *(note 15)*	833	–

(e) Loans to related parties

Amount due from a jointly controlled entity *(note 10)*	13,131	–
Amounts due from officers of the Group *(note 11(c))*	988	4,634

33. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On 27th May 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited ("HKHC"), a wholly-owned subsidiary of the Company, agreed to dispose its entire interest in operations in relation to television advertising business in the PRC. Subject to the terms and conditions of the sales and purchase agreement, the Company has agreed to procure a restructuring in respect of its PRC domestic television advertising business. Upon completion of the disposal the Group will discontinue managing the operations of its television advertising products and services. The completion date for the transaction is expected by May 2006.

The discontinued operation is related to TV advertising business, which formerly presented as a business segment of the Group.

An analysis of the results of discontinued operations is as follows:

	2005 *RMB'000*	2004 *RMB'000*
Revenue	133,771	149,065
Cost of sales	(140,679)	(125,905)
Interest income	130	40
Expenses	(23,483)	(14,028)
(Loss)/profit before income tax of discontinued operations	(30,261)	9,172
Income tax	(194)	–
(Loss)/profit for the year from discontinued operations	(30,455)	9,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

	2005 *RMB'000*	2004 *RMB'000*
Operating cash flows	(15,043)	1,600
Investing cash flows	(2,801)	(4,099)
Financing cash flows	20,000	7,000
Total cash flows	2,156	4,501

	2005 *RMB'000*
Non-current assets classified as held for sale:	
Property, plant and equipment	5,985
Trade receivables	43,533
Bank balance and cash	13,715
Other current assets	11,369
	74,602

Liabilities directly associated with non-current assets classified as held for sale:

	2005 *RMB'000*
Trade payables	12,283
Other current liabilities	4,802
	17,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

(a) Expenses by nature

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	2005 *RMB'000*	2004 *RMB'000*
Staff costs, including directors' emoluments	10,567	5,803
Depreciation of property, plant and equipment	1,069	247
Write-off and provision for impairment of trade and other receivables	5,176	2,091
Operating lease payments in respect of land and buildings	601	295

(b) Commitments

The Group entered into 4 (2004: 5) long-term sole and exclusive management agreements with Urumqi Television Station, Lanzhou Television Station, Sanya Television Station and Hainan 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 14% subject to the mutual agreement between the parties. The Group adopted the minimum increment rate for calculating the future aggregate minimum payments.

	2005 *RMB'000*	2004 *RMB'000*
Within one year	48,905	132,706
In the second to fifth year inclusive	175,162	245,325
Later than five years	118,260	66,745
	342,327	444,776

(c) Events after the balance sheet date

On 9th March 2006, the Group entered into a supplemental long term sole and exclusive advertising agency agreement with Hainan TV Station for the exclusive management of advertising time slot for a period of three years ending 31st December 2008.

Pursuant to the agreement, the Group committed to pay an annual advertising fee plus an additional 10% of the annual advertising fee worth of properties or expenses compensation.

The committed annual advertising fee for 2006, 2007 and 2008 is RMB43,000,000, RMB44,290,000 and RMB45,580,000 respectively.

34. EVENTS AFTER THE BALANCE SHEET DATE

On 20th January 2006, certain grantees under the Pre-IPO Share Option Scheme exercised their options in respect of 12,631,528 shares of the Company at HK$0.44 (equivalent to RMB0.47) per share. The total issued share capital comprised 478,565,873 shares upon the exercise of such Pre-IPO Share Options.

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 20th April 2006 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 2005.

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);

NOTICE OF ANNUAL GENERAL MEETING

(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.

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)."

NOTICE OF ANNUAL GENERAL MEETING

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 he 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;

(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."

NOTICE OF ANNUAL 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, PRC, 25th March 2006

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

NOTICE OF ANNUAL GENERAL MEETING

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 18th April 2006 to 19th April 2006 (both dates inclusive). Shareholders on the share register as at 18th April 2006 will be entitled to attend and vote at the meeting.

HC International, Inc.
慧聰國際資訊有限公司