



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

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



## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

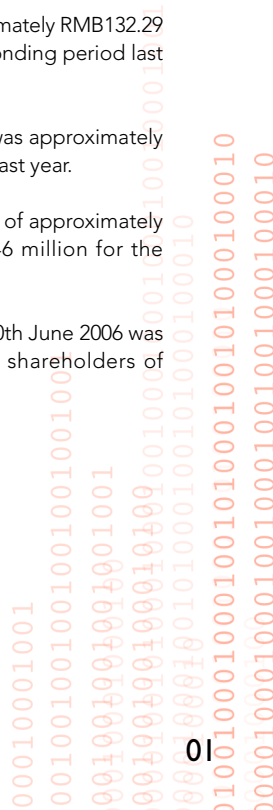
I hereby announce the results of the Group for the six months ended 30th June 2006 to the shareholders of the Company.

### Financial Highlights

|   | Three months ended<br>30th June |                                  | Six months ended<br>30th June |                                  |
|---|---------------------------------|----------------------------------|-------------------------------|----------------------------------|
|   | 2006<br>RMB'000                 | 2005<br>RMB'000<br>(As restated) | 2006<br>RMB'000               | 2005<br>RMB'000<br>(As restated) |
| Turnover  | <b>74,724</b>                   | 97,469                           | <b>132,287</b>                | 176,429                          |
| Gross Profit  | <b>40,303</b>                   | 49,439                           | <b>66,708</b>                 | 89,603                           |
| EBITDA  | <b>(1,524)</b>                  | 9,949                            | <b>(14,618)</b>               | 13,458                           |
| Loss attributable to<br>equity holders of the Company | <b>(15,829)</b>                 | (900)                            | <b>(36,134)</b>               | (4,996)                          |

### Key Financial Figures for the First Half of 2006

- Turnover of the Group for the six months ended 30th June 2006 was approximately RMB132.29 million as compared to approximately RMB176.43 million for the corresponding period last year.
- Gross profit ratio of the Group for the six months ended 30th June 2006 was approximately 50.4% as compared to approximately 50.8% for the corresponding period last year.
- EBITDA of the Group for the six months ended 30th June 2006 was a loss of approximately RMB14.62 million as compared to a profit of approximately RMB13.46 million for the corresponding period last year.
- Loss attributable to shareholders of the Group for the six months ended 30th June 2006 was approximately RMB36.13 million as compared to loss attributable to shareholders of approximately RMB5 million for the corresponding period last year.





## Financial and Business Review

During the six month period ended 30th June 2006, the Group recorded a turnover of approximately RMB132.29 million and RMB18.08 million from the continuing operations and discontinued operations, respectively (2005: RMB176.43 million and RMB64.92 million). For the continuing operations, turnover decreased by approximately 25% when compared to that in the corresponding period last year. As part of the restructuring of the Group's domestic television advertising business in the PRC, certain loss-making television stations had ceased operations during the period under review and a decrease of approximately 72.2% in turnover was recorded by the Group for the discontinued operations as compared to that in the corresponding period last year.

During the reporting period, the Group achieved a turnover of approximately RMB45.51 million from its direct on-line business segment, which contributed to about 34.4% of the Group's total revenue from the continuing operations during the period under review, representing a decrease of about 25.4% when compared with the corresponding period last year.

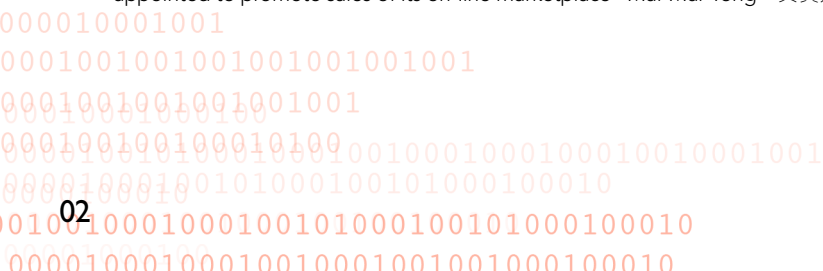
The gross profit margin of the Group's continuing operations decreased by about 0.4 percentage points from approximately 50.8% last year to approximately 50.4% during the period under review. The gross profit margin of the trade catalogues and yellow page directories business segment of the Group remained stable relatively at 44.5% while the gross profit margin of the Group's search engine business segment increased by about 8 percentage points to 75% when compared with the corresponding period last year.

During the six month period ended 30th June 2006, a net loss attributable to equity holders of approximately RMB36.13 million was recorded by the Group.

The Group continued to enhance the features of its on-line marketplace, "Mai-Mai-Tong – 買賣通", to cater for different needs of members of the business-to-business community. In March 2006, 3 new products line namely, "Silver Mai-Mai-Tong – 銀牌買賣通", "Golden Mai-Mai-Tong – 金牌買賣通" and "Platinum Mai-Mai-Tong – 鉑金買賣通", were introduced to the market. In May 2006, an advanced version of the instant messaging software and new search engine technology were added to "Mai-Mai-Tong – 買賣通".

"Mai-Mai-Tong – 買賣通" is an innovative and user-friendly on-line marketplace software which allows members of the business-to-business community to access timely and reliable business information. The product is well recognized by users in the business-to-business community since its introduction to the market in October 2004. The number of registered users of the product continued to grow during the period under review and reached approximately 2.5 million as at 30th June 2006.

To further expand the Group's geographical market share, resources had been allocated by the Group to develop its sales agency network in the PRC. Agents in different parts of the PRC were appointed to promote sales of its on-line marketplace "Mai-Mai-Tong – 買賣通".





In June 2006, Global Sources Ltd., through its wholly-owned subsidiary, became a strategic investor of the Group. Global Sources Ltd. is a leading business-to-business media company listed on NASDAQ (NASDAQ: GSOL) which provides global two-way trade services. Leveraging on the strategic investment by Global Sources Ltd., the Group will continue to explore business opportunities with Global Sources Ltd. to jointly offer comprehensive domestic, export and import marketing solutions through industry-focused websites, magazines and trade shows for businesses in the PRC.

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

**Guo Fansheng**

*Executive Director and Chief Executive Officer*

Beijing, PRC, 9th August 2006





## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources

As at 30th June 2006, the Group has a cash at bank balance of RMB102,876,000 and net current assets of RMB156,010,000. The Group maintained a strong working capital position during the six months period ended 30th June 2006.

Short-term loans amounted to RMB3,001,000 as at 30th June 2006, representing an decrease of about 88.5% from that as at 31st December 2005. Gearing ratio of the Group decreased to 1.0% as at 30th June 2006 from 7.9% as at 31st December 2005, calculated with reference to its short-term loans of RMB3,001,000 (31st December 2005: RMB26,001,000) and equity holders' funds of RMB300,282,000 (31st December 2005: RMB329,608,000).

The Group's equity holders' funds decreased by RMB29,326,000 from RMB329,608,000 as at 31st December 2005 to RMB300,282,000 as at 30th June 2006.

### Significant Investment

The Group has no significant investment during the six months ended 30th June 2006.

### Future Plans for Material Investments

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

### Material Acquisitions and Disposals

The Group has no material acquisition or disposal during the six months ended 30th June 2006.

### Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th June 2006, the Group has 2,634 employees.

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





## Capital Structure

On 20th January 2006, certain grantees under the Pre-IPO Share Option Scheme (as defined below) exercised their options in respect of 12,631,528 shares of the Company at HK\$0.44 (equivalent to RMB0.46) per share. The total number of issued shares of the Company was 478,565,873 as at 30th June 2006.

## Charge on Group Assets

As at 30th June 2006, no asset of the Group was pledged to secure any of the Group's loan.

## Exchange Risk

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

## Contingent Liabilities

As at 30th June 2006, the Group had no material contingent liabilities (31st December 2005: Nil).





## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE 2006

|  | Note | Unaudited<br>Three months ended<br>30th June |                                  | Unaudited<br>Six months ended<br>30th June |                                  |
|--|------|--|----------------------------------|--|----------------------------------|
|  |      | 2006<br>RMB'000                              | 2005<br>RMB'000<br>(As restated) | 2006<br>RMB'000                            | 2005<br>RMB'000<br>(As restated) |
| Continuing operations                                      |      |  |                                  |  |                                  |
| Sales  | 3    | <b>74,724</b>                                | 97,469                           | <b>132,287</b>                             | 176,429                          |
| Cost of sales  | 5    | <b>(34,421)</b>                              | (48,030)                         | <b>(65,579)</b>                            | (86,826)                         |
| Gross profit   |      | <b>40,303</b>                                | 49,439                           | <b>66,708</b>                              | 89,603                           |
| Other gains – net  |      | <b>398</b>                                   | 334                              | <b>740</b>                                 | 2,470                            |
| Selling and marketing expenses                             | 5    | <b>(25,269)</b>                              | (22,491)                         | <b>(47,712)</b>                            | (43,632)                         |
| Administrative expenses                                    | 5    | <b>(24,323)</b>                              | (24,750)                         | <b>(47,547)</b>                            | (49,310)                         |
| Gain on disposal of subsidiaries                           |      | <b>728</b>                                   | –                                | <b>728</b>                                 | –                                |
| Finance costs  | 6    | <b>(322)</b>                                 | (326)                            | <b>(685)</b>                               | (732)                            |
| Impairment of goodwill                                     | 10   | <b>(2,314)</b>                               | –                                | <b>(2,314)</b>                             | –                                |
| (Loss)/profit before income tax                            |      | <b>(10,799)</b>                              | 2,206                            | <b>(30,082)</b>                            | (1,601)                          |
| Income tax   | 7    | <b>933</b>                                   | 604                              | <b>2,199</b>                               | 558                              |
| (Loss)/profit for the period from<br>continuing operations |      | <b>(9,866)</b>                               | 2,810                            | <b>(27,883)</b>                            | (1,043)                          |
| Loss for the period from<br>discontinued operations        | 4    | <b>(10,935)</b>                              | (4,947)                          | <b>(19,841)</b>                            | (8,922)                          |
| Loss for the period  |      | <b>(20,801)</b>                              | (2,137)                          | <b>(47,724)</b>                            | (9,965)                          |
| Attributable to:   |      |  |                                  |  |                                  |
| Equity holders of the Company                              |      | <b>(15,829)</b>                              | (900)                            | <b>(36,134)</b>                            | (4,996)                          |
| Minority interest  |      | <b>(4,972)</b>                               | (1,237)                          | <b>(11,590)</b>                            | (4,969)                          |
|  |      | <b>(20,801)</b>                              | (2,137)                          | <b>(47,724)</b>                            | (9,965)                          |





**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT** (continued)  
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE 2006

|   | Note | Unaudited<br>Three months ended<br>30th June |                          | Unaudited<br>Six months ended<br>30th June |                          |
|---|------|--|--------------------------|--|--------------------------|
|   |      | 2006   | 2005                     | 2006                                       | 2005                     |
|   |      | RMB'000                                      | RMB'000<br>(As restated) | RMB'000                                    | RMB'000<br>(As restated) |
| (Loss)/earnings per share from continuing operations attributable to the equity holders of the Company (expressed in RMB per share) |      |  |                          |  |                          |
| Basic   | 8    | <u>RMB(0.0173)</u>                           | RMB0.0070                | <u>RMB(0.0487)</u>                         | RMB0.0042                |
| Diluted   | 8    | <u>RMB(0.0167)</u>                           | RMB0.0066                | <u>RMB(0.0470)</u>                         | RMB0.0040                |
| Loss per share from discontinued operations attributable to the equity holders of the Company (expressed in RMB per share)          |      |  |                          |  |                          |
| Basic   | 8    | <u>RMB(0.0158)</u>                           | RMB(0.0090)              | <u>RMB(0.0271)</u>                         | RMB(0.0150)              |
| Diluted   | 8    | <u>RMB(0.0153)</u>                           | RMB(0.0084)              | <u>RMB(0.0261)</u>                         | RMB(0.0142)              |
| Dividends   | 9    | <u>-</u>                                     | -                        | <u>-</u>                                   | -                        |





## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2006

|  | Note | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|--|------|---|---|
| <b>ASSETS</b>                                  |      |   |   |
| <b>Non-current assets</b>                      |      |   |   |
| Property, plant and equipment                  | 10   | 87,448                                    | 88,895                                      |
| Land use rights                                | 10   | 20,074                                    | 20,287                                      |
| Intangible assets                              | 10   | 33,932                                    | 38,711                                      |
| Interests in a jointly controlled entity       | 18   | 10,131                                    | 10,131                                      |
| Deferred income tax assets                     |      | 12,351                                    | 9,276                                       |
|  |      | <u>163,936</u>                            | <u>167,300</u>                              |
| <b>Current assets</b>                          |      |   |   |
| Interests in a jointly controlled entity       | 18   | 5,380                                     | 3,000                                       |
| Trade receivables                              | 11   | 41,915                                    | 50,880                                      |
| Deposits, prepayments and other receivables    |      | 53,948                                    | 50,748                                      |
| Amounts due from related parties               | 18   | 1,432                                     | 3,921                                       |
| Cash and cash equivalents                      |      | 102,876                                   | 135,302                                     |
|  |      | <u>205,551</u>                            | <u>243,851</u>                              |
| Non-current assets classified as held for sale | 4    | 35,329                                    | 74,602                                      |
|  |      | <u>240,880</u>                            | <u>318,453</u>                              |
| Total assets                                   |      | <u>404,816</u>                            | <u>485,753</u>                              |

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**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

AS AT 30TH JUNE 2006

|  | Note | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|--|------|---|---|
| <b>EQUITY</b>  |      |   |   |
| Capital and reserves attributable to the Company's                                     |      |   |   |
| Equity holders   |      |   |   |
| Share capital  | 16   | 51,153                                    | 49,839                                      |
| Other Reserves   | 17   | 256,414                                   | 250,920                                     |
| (Accumulated losses)/retained earnings   |      | (7,285)                                   | 28,849                                      |
|  |      | <b>300,282</b>                            | 329,608                                     |
| Minority interest  |      | <b>17,866</b>                             | 28,485                                      |
| Total equity   |      | <b>318,148</b>                            | 358,093                                     |
| <b>LIABILITIES</b>   |      |   |   |
| Non-current liabilities  |      |   |   |
| Deferred income tax liabilities  |      | 1,798                                     | 1,753                                       |
| Current liabilities  |      |   |   |
| Trade payables   | 12   | 3,148                                     | 5,942                                       |
| Deferred revenue   |      | 48,870                                    | 46,913                                      |
| Amount due to a related party  | 18   | –   | 833   |
| Accrued expenses and other payables  |      | 346                                       | 9,748                                       |
| Accruals for statutory benefit funds   | 13   | 1,082                                     | 1,777                                       |
| Short-term loans   | 14   | 3,001                                     | 26,001                                      |
| Other taxes payable  | 15   | 14,265                                    | 14,279                                      |
| Income tax payable   | 15   | 3,620                                     | 3,329                                       |
|  |      | <b>74,332</b>                             | 108,822                                     |
| Liabilities directly associated with non-current<br>assets classified as held for sale | 4    | 10,538                                    | 17,085                                      |
|  |      | <b>84,870</b>                             | 125,907                                     |
| Total liabilities  |      | <b>86,668</b>                             | 127,660                                     |
| Total equity and liabilities   |      | <b>404,816</b>                            | 485,753                                     |
| Net current assets   |      | <b>156,010</b>                            | 192,546                                     |
| Total assets less current liabilities  |      | <b>319,946</b>                            | 359,846                                     |



**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE SIX MONTHS ENDED 30TH JUNE 2006

|  | Note   | Attributable to equity holders<br>of the Company |                   |                      |                      | Total          |
|--|--------|--|-------------------|----------------------|----------------------|----------------|
|  |        | Share<br>Capital                                 | Other<br>reserves | Retained<br>earnings | Minority<br>Interest |                |
| Balance at 1st January 2005                                |        | 48,669   | 242,079           | 53,596               | 41,692               | 386,036        |
| Exercise of share options                                  | 16, 17 | 1,170  | 3,978             | -                    | -                    | 5,148          |
| Capital contribution from<br>minority interest             |        | -  | -                 | -                    | 380                  | 380            |
| Loss for the period  |        | -  | -                 | (4,996)              | (4,969)              | (9,965)        |
| Employee share option scheme-value<br>of employee services | 17     | -  | 2,599             | -                    | -                    | 2,599          |
| <b>Balance at 30th June 2005</b>                           |        | <b>49,839</b>                                    | <b>248,656</b>    | <b>48,600</b>        | <b>37,103</b>        | <b>384,198</b> |
| Balance at 1st January 2006                                |        | 49,839   | 250,920           | 28,849               | 28,485               | 358,093        |
| Exercise of share options                                  | 16, 17 | 1,314  | 4,467             | -                    | -                    | 5,781          |
| Disposal of subsidiaries                                   |        | -  | -                 | -                    | 971                  | 971            |
| Loss for the period  |        | -  | -                 | (36,134)             | (11,590)             | (47,724)       |
| Employee share option scheme-value<br>of employee services | 17     | -  | 1,027             | -                    | -                    | 1,027          |
| <b>Balance at 30th June 2006</b>                           |        | <b>51,153</b>                                    | <b>256,414</b>    | <b>(7,285)</b>       | <b>17,866</b>        | <b>318,148</b> |





## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

|  | Note | Unaudited       |                 |
|--|------|-----------------|-----------------|
|  |      | 2006<br>RMB'000 | 2005<br>RMB'000 |
| Net cash outflow from operating activities                             |      | (15,936)        | (22,985)        |
| Net cash outflow from investing activities                             |      | (9,808)         | (41,576)        |
| Net cash (outflow)/inflow from financing activities                    |      | (17,220)        | 8,529           |
| Decrease in cash and cash equivalents                                  |      | (42,964)        | (56,032)        |
| Cash and cash equivalents at 1st January                               |      | 149,017         | 154,156         |
| Cash and cash equivalents at 30th June                                 |      | 106,053         | 98,124          |
| Analysis of balances of cash and cash equivalents                      |      |                 |                 |
| Bank balances and cash   |      | 102,876         | 82,944          |
| Bank balances and cash classified as non-current assets held for sales | 4    | 3,177           | 15,180          |
|  |      | 106,053         | 98,124          |

## NOTES TO THE ACCOUNTS

### 1. General information and basis of preparation

#### General information

HC International, Inc. ("the Company") and its subsidiaries (collectively referred as the "Group") organise a business-to-business community across China by providing business information through both on-line and off-line channels. The Group operates an on-line marketplace and provides 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 reports 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 Islands, British West Indies.

The Company has its primary listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The unaudited condensed consolidated interim financial statements have been approved for issue by the board of Directors on 9th August 2006.



## 1. General information and basis of preparation (continued)

### *Basis of preparation*

This unaudited condensed consolidated interim financial information for the half-year ended 30th June 2006 has been prepared in accordance with HKAS 34, "Interim financial reporting". The unaudited condensed interim financial report should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2005.

### *Comparatives*

In its interim report of 2005, the Group presented operating results for the six months ended 30 June 2005 by combining the continuing and discontinued operations. To be consistent with the presentation of operating results as in the 2005 annual report of the Group, the comparative figures for the six months ended 30 June 2005 have been reclassified by separately reflecting the operating results from continuing and discontinued operations.

## 2. Accounting policies

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December 2005.

During the period, the Group has changed of its accounting policies following the adoption of new standards, amendments to standards and interpretations which are effective for accounting periods commencing on or after 1st January 2006.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC/HK(IFRIC)-Int 7, "Applying the Restatement Approach under IFRS/HKFRS 29", effective for annual periods beginning on or after 1st March 2006. Management do not expect the interpretation to be relevant for the Group;
- IFRIC/HK(IFRIC)-Int 8, "Scope of IFRS/HKFRS 2", effective for annual periods beginning on or after 1st May 2006. Management is currently assessing the impact of IFRIC/HK(IFRIC)-Int 8 on the Group's operations;
- IFRIC/HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1st June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with IFRIC/HK(IFRIC)-Int 9; and
- IFRS/HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1st January 2007. IAS/HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of IFRS/HKFRS 7 and the amendment to IAS/HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS/HKAS 1. The Group will apply IFRS/HKFRS 7 and the amendment to IAS/HKAS 1 from annual periods beginning 1st January 2007.



### 3. Segment information

(a) *Primary reporting format – business segments*

At 30th June 2006, 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.

|  | Unaudited<br>6 months ended 30th June 2006              |                                   |   |  |                  |
|--|---|-----------------------------------|---|--|------------------|
|  | Trade catalogues and yellow page directories<br>RMB'000 | Search engine services<br>RMB'000 | Market research and analysis<br>RMB'000 | Printed periodicals, seminars and other PR services<br>RMB'000 | Total<br>RMB'000 |
| Turnover   | <u>64,080</u>   | <u>45,512</u>                     | <u>13,687</u>                           | <u>9,008</u>   | <u>132,287</u>   |
| Segment results                                  | <u>28,487</u>   | <u>34,149</u>                     | <u>5,083</u>                            | <u>(1,011)</u>   | 66,708           |
| Other gains – net                                |   |                                   |   |  | 740              |
| Unallocated costs                                |   |                                   |   |  | (96,845)         |
| Finance costs                                    |   |                                   |   |  | (685)            |
| Loss before taxation                             |   |                                   |   |  | (30,082)         |
| Taxation   |   |                                   |   |  | <u>2,199</u>     |
| Loss for the period from continuing operations   |   |                                   |   |  | (27,883)         |
| Loss for the period from discontinued operations |   |                                   |   |  | (19,841)         |
| Loss for the period                              |   |                                   |   |  | <u>(47,724)</u>  |
| Attributable to:                                 |   |                                   |   |  |                  |
| Equity holders of the Company                    |   |                                   |   |  | (36,134)         |
| Minority interest                                |   |                                   |   |  | (11,590)         |
|  |   |                                   |   |  | <u>(47,724)</u>  |



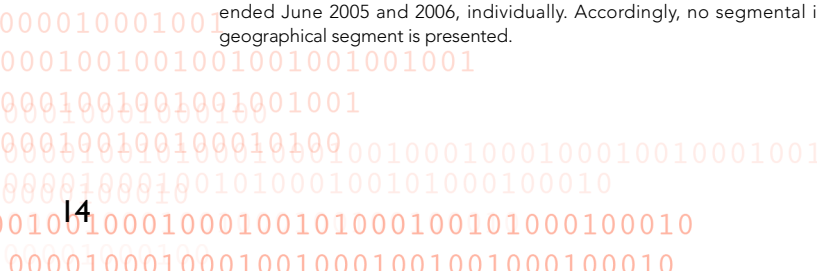
3. Segment information (continued)

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

|  | Unaudited<br>6 months ended 30th June 2005              |                                   |   |  |                  |
|--|---|-----------------------------------|---|--|------------------|
|  | Trade catalogues and yellow page directories<br>RMB'000 | Search engine services<br>RMB'000 | Market research and analysis<br>RMB'000 | Printed periodicals, seminars and other PR services<br>RMB'000 | Total<br>RMB'000 |
| Turnover   | 86,991  | 61,041                            | 19,638                                  | 8,759  | 176,429          |
| Segment results                                  | 40,696  | 41,124                            | 9,965                                   | (2,182)  | 89,603           |
| Other gains – net                                |   |                                   |   |  | 2,470            |
| Unallocated costs                                |   |                                   |   |  | (92,942)         |
| Finance costs                                    |   |                                   |   |  | (732)            |
| Loss before taxation                             |   |                                   |   |  | (1,601)          |
| Taxation   |   |                                   |   |  | 558              |
| Loss for the period from continuing operations   |   |                                   |   |  | (1,043)          |
| Loss for the period from discontinued operations |   |                                   |   |  | (8,922)          |
| Loss for the period                              |   |                                   |   |  | (9,965)          |
| Attributable to:                                 |   |                                   |   |  |                  |
| Equity holders of the Company                    |   |                                   |   |  | (4,996)          |
| Minority interest                                |   |                                   |   |  | (4,969)          |
|  |   |                                   |   |  | (9,965)          |

(b) Secondary reporting format – geographical segments

The principal market of the Group is primarily in the People's Republic of China (the "PRC"), excluding Hong Kong Special Administrative Region and the turnover and operating profit attributable to other markets are both less than 10% of the Group's total turnover and operating profit for the six months ended June 2005 and 2006, individually. Accordingly, no segmental information analysed by geographical segment is presented.







**4. Discontinued operation and assets classified as held for sale**

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

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:

|   | <b>Unaudited<br/>Six months ended<br/>30th June</b> |   |
|---|---|---|
|   | <b>2006</b>   | <b>2005</b>   |
|   | <b>RMB'000</b>                                      | <b>RMB'000</b>  |
| Revenue   | 18,075  | 64,920  |
| Cost of sales                                     | (19,518)  | (65,065)  |
| Interest income                                   | 93  | -   |
| Expenses  | (18,491)  | (8,637)   |
| Loss before income tax of discontinued operations | (19,841)  | (8,782)   |
| Income tax  | -   | (140)   |
| Loss for the period from discontinued operations  | <b>(19,841)</b>                                     | <b>(8,922)</b>  |
|   | <b>Unaudited<br/>30th June<br/>2006<br/>RMB'000</b> | <b>Audited<br/>31st December<br/>2005<br/>RMB'000</b> |
| Operating cash flows                              | (10,623)  | (15,043)  |
| Investing cash flows                              | 85  | (2,801)   |
| Financing cash flows                              | -   | 20,000  |
| Total cash flows                                  | <b>10,538</b>                                       | <b>2,156</b>  |

Non-current assets classified as held for sale:

|                               |               |
|-------------------------------|---------------|
| Property, plant and equipment | 4,348         |
| Trade receivables             | 16,666        |
| Bank balance and cash         | 3,177         |
| Other current assets          | 11,138        |
|                               | <b>35,329</b> |



**4. Discontinued operation and assets classified as held for sale** (continued)

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

|                           | <b>Unaudited<br/>30th June<br/>2006<br/>RMB'000</b> |
|---------------------------|---|
| Trade payables            | 4,349   |
| Other current liabilities | 6,189   |
|                           | <hr/> <b>10,538</b> <hr/>                           |

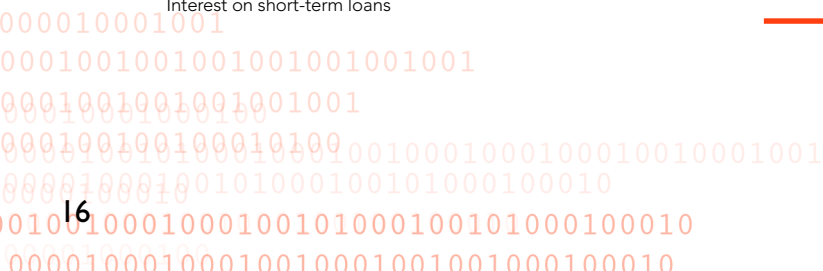
**5. Expenses by Nature**

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

|   | <b>Unaudited<br/>Six months ended<br/>30th June</b> |                      |
|---|---|----------------------|
|   | <b>2006<br/>RMB'000</b>                             | 2005<br>RMB'000      |
|   |   | (As restated)        |
| Staff costs, including directors' emoluments                          | <b>68,761</b>                                       | 88,743               |
| Depreciation of property, plant and equipment                         | <b>8,762</b>  | 8,604                |
| Amortisation of land use rights                                       | <b>213</b>  | 213                  |
| Write-off and provision for impairment of trade and other receivables | <b>4,618</b>  | 957                  |
| Loss on disposal of property, plant and equipment                     | <b>13</b>   | 183                  |
| Operating lease payments in respect of land and buildings             | <b>8,282</b>  | 10,163               |
| Amortisation of intangible assets                                     | <b>2,465</b>  | 2,847                |
| Amortisation of deferred compensation expenses                        | <b>1,027</b>  | 2,599                |
| Impairment of goodwill  | <b>2,314</b>  | -                    |
|   | <hr/> <b>2,314</b> <hr/>                            | <hr/> <b>-</b> <hr/> |

**6. Finance costs**

|                              | <b>Unaudited<br/>Six months ended<br/>30th June</b> |                          |
|------------------------------|---|--------------------------|
|                              | <b>2006<br/>RMB'000</b>                             | 2005<br>RMB'000          |
| Interest on short-term loans | <b>(685)</b>  | (732)                    |
|                              | <hr/> <b>(685)</b> <hr/>                            | <hr/> <b>(732)</b> <hr/> |





## 7. Income tax expense

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

|  | Unaudited<br>Six months ended<br>30th June<br>2006 |   | 2005<br>RMB'000 |
|--|--|---|-----------------|
|  | RMB'000  |   |                 |
| Current income tax                           |  |   |                 |
| – Hong Kong profits tax (i)                  |  | – | –               |
| – The PRC Enterprise income tax (“EIT”) (ii) | (830)  |   | (774)           |
| Deferred income tax                          | 3,029  |   | 1,332           |
|  | <u>2,199</u>                                       |   | <u>558</u>      |

- (i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period (2005: Nil).
- (ii) The PRC enterprise income tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

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

## 8. Earnings per share

|   | Unaudited<br>Three months ended<br>30th June<br>2006 |                    | Unaudited<br>Six months ended<br>30th June<br>2006 |                    |
|---|--|--------------------|--|--------------------|
|   | RMB'000  |                    | RMB'000  |                    |
|   | (As restated)  |                    | (As restated)                                      |                    |
| (Loss)/profit attributable to equity holders from continuing operations | (8,263)  | 3,278              | (23,222)   | 1,956              |
|   | No. of shares '000                                   | No. of shares '000 | No. of shares '000                                 | No. of shares '000 |
| Weighted average number of shares in issue                              | 478,566  | 465,934            | 477,170  | 464,355            |
| Incremental shares from assumed exercise of share options granted       | 17,145   | 34,327             | 17,264   | 26,129             |
| Diluted weighted average number of shares                               | <u>495,711</u>                                       | <u>500,261</u>     | <u>494,434</u>                                     | <u>490,484</u>     |
| Basic (loss)/earnings per share from continuing operations              | <u>RMB(0.0173)</u>                                   | <u>RMB0.0070</u>   | <u>RMB(0.0487)</u>                                 | <u>RMB0.0042</u>   |
| Diluted (loss)/earnings per share from continuing operations            | <u>RMB(0.0167)</u>                                   | <u>RMB0.0066</u>   | <u>RMB(0.0470)</u>                                 | <u>RMB0.0040</u>   |



## 8. Earnings per share (continued)

The calculation of basic (loss)/earnings per share from continuing operations for the three months and six months ended 30th June 2006 is based on the respective unaudited continuing operation's (loss)/profit attributable to the equity holders of RMB(8,263,000) and RMB(23,222,000) (2005: RMB3,278,000 and RMB1,956,000) and the weighted average of 478,566,000 and 477,170,000 (2005: 465,934,000 and 464,355,000) ordinary shares in issue during the period.

The calculation of diluted (loss)/earnings per share for the three months and six months ended 30th June 2006 is based on the unaudited continuing operation's (loss)/profit attributable to the equity holders of RMB(8,263,000) and RMB(23,222,000) (2005: RMB3,278,000 and RMB1,956,000) and the weighted average of 495,711,000 and 494,434,000 (2005: 500,261,000 and 490,484,000) ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company, under the Pre-IPO Share Option Scheme had been exercised at the date of grant. Since the exercise price of the Share Options granted by the Company under Share Option Scheme is higher than the average market price of the Company, the effect of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.

|   | Unaudited<br>Three months ended<br>30th June |                                  | Unaudited<br>Six months ended<br>30th June |                                  |
|---|--|----------------------------------|--|----------------------------------|
|   | 2006<br>RMB'000                              | 2005<br>RMB'000<br>(As restated) | 2006<br>RMB'000                            | 2005<br>RMB'000<br>(As restated) |
| Loss attributable to equity holders from discontinued operations  | (7,566)                                      | (4,178)                          | (12,912)                                   | (6,952)                          |
|   | No. of shares<br>'000                        | No. of shares<br>'000            | No. of shares<br>'000                      | No. of shares<br>'000            |
| Weighted average number of shares in issue                        | 478,566                                      | 465,934                          | 477,170                                    | 464,355                          |
| Incremental shares from assumed exercise of share options granted | 17,145                                       | 34,327                           | 17,264                                     | 26,129                           |
| Diluted weighted average number of shares                         | 495,711                                      | 500,261                          | 494,434                                    | 490,484                          |
| Basic loss per share from discontinued operations                 | RMB(0.0158)                                  | RMB(0.0090)                      | RMB(0.0271)                                | RMB(0.0150)                      |
| Diluted loss per share from discontinued operations               | RMB(0.0153)                                  | RMB(0.0084)                      | RMB(0.0261)                                | RMB(0.0142)                      |

The calculation of basic loss per share from discontinued operations for the three months and six months ended 30th June 2006 is based on the respective unaudited discontinued operation's loss attributable to the equity holders of RMB(7,566,000) and RMB(12,912,000) (2005: RMB(4,178,000) and RMB(6,952,000)) and the weighted average of 478,566,000 and 477,170,000 (2005: 465,934,000 and 464,355,000) ordinary shares in issue during the period.



**8. Earnings per share (continued)**

The calculation of diluted (loss)/earnings per share from discontinued operations for the three months and six months ended 30th June 2006 is based on the unaudited discontinued operation's (loss)/profit attributable to the equity holders of RMB(7,566,000) and RMB(12,912,000) (2005: RMB(4,178,000) and RMB(6,952,000)) and the weighted average of 495,711,000 and 494,434,000 (2005: 500,261,000 and 490,484,000) ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company, under the Pre-IPO Share Option Scheme had been exercised at the date of grant. Since the exercise price of the Share Options granted by the Company under Share Option Scheme is higher than the average market price of the Company, the effect of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.

**9. Dividends**

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

**10. Capital expenditure**

|   | Software<br>development<br>costs<br>RMB'000 | Data<br>library<br>RMB'000 | Goodwill<br>RMB'000 | Total<br>intangible<br>assets<br>RMB'000 | Land use<br>rights<br>RMB'000 | Properties,<br>plants and<br>equipment<br>RMB'000 |
|---|---|----------------------------|---------------------|--|-------------------------------|---|
| Opening net book amount as<br>at 1st January 2006           | 17,594                                      | 16,489                     | 4,628               | 38,711                                   | 20,287                        | 88,895  |
| Development costs recognised<br>as an asset                 | -   | -                          | -                   | -  | -                             | -   |
| Other additions   | -   | -                          | -                   | -  | -                             | 8,499   |
| Disposals   | -   | -                          | -                   | -  | -                             | (1,184)   |
| Impairment  | -   | -                          | (2,314)             | (2,314)                                  | -                             | -   |
| Depreciation/amortisation charge                            | (1,366)                                     | (1,099)                    | -                   | (2,465)                                  | (213)                         | (8,762)   |
| <b>Closing net book amount as at<br/>30th June 2006</b>     | <b>16,228</b>                               | <b>15,390</b>              | <b>2,314</b>        | <b>33,932</b>                            | <b>20,074</b>                 | <b>87,448</b>                                     |
| Opening net book amount as<br>at 1st January 2005           | 17,707                                      | 18,688                     | 4,628               | 41,023                                   | 20,715                        | 90,736  |
| Development costs recognised<br>as an asset                 | 7,993                                       | -                          | -                   | 7,993                                    | -                             | -   |
| Other additions   | -   | -                          | -                   | -  | -                             | 24,795  |
| Disposals   | -   | -                          | -                   | -  | -                             | (2,392)   |
| Depreciation/amortisation charge                            | (1,748)                                     | (1,099)                    | -                   | (2,847)                                  | (213)                         | (8,604)   |
| <b>Closing net book amount as at<br/>30th June 2005</b>     | <b>23,952</b>                               | <b>17,589</b>              | <b>4,628</b>        | <b>46,169</b>                            | <b>20,502</b>                 | <b>104,535</b>                                    |
| Development costs recognised<br>as an asset                 | 7,965                                       | -                          | -                   | 7,965                                    | -                             | -   |
| Other additions   | -   | -                          | -                   | -  | -                             | 19,488  |
| Disposals   | (12,695)                                    | -                          | -                   | (12,695)                                 | -                             | (25,780)  |
| Depreciation/amortisation charge                            | (1,628)                                     | (1,100)                    | -                   | (2,728)                                  | (215)                         | (9,348)   |
| <b>Closing net book amount as at<br/>31st December 2005</b> | <b>17,594</b>                               | <b>16,489</b>              | <b>4,628</b>        | <b>38,711</b>                            | <b>20,287</b>                 | <b>88,895</b>                                     |



## 11. Trade receivables

The majority of the Group's turnover is on credit terms ranging from 30 to 120 days. The aging analysis of the trade receivables as at 30th June 2006 and 31st December 2005 is as follows:

|   | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|---|---|---|
| Current to 90 days                                  | 21,405                                    | 26,094                                      |
| 91 to 180 days                                      | 4,758                                     | 11,152                                      |
| 181 to 365 days                                     | 11,490                                    | 10,285                                      |
| Over 1 year   | 6,366                                     | 8,755                                       |
|   | <u>44,019</u>                             | <u>56,286</u>                               |
| Less: provision for impairment of trade receivables | (2,104)                                   | (5,406)                                     |
|   | <u>41,915</u>                             | <u>50,880</u>                               |

## 12. Trade payables

The aging analysis of the trade payables as at 30th June 2006 and 31st December 2005 is as follows:

|                    | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|--------------------|---|---|
| Current to 90 days | 1,966                                     | 4,072                                       |
| 91 to 180 days     | 424                                       | 598   |
| 181 to 365 days    | 9   | 840   |
| Over 1 year        | 749                                       | 432   |
|                    | <u>3,148</u>                              | <u>5,942</u>                                |

## 13. Accruals for statutory benefit funds

|                                | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|--------------------------------|---|---|
| Accrual for retirement benefit | 1,029                                     | 1,757                                       |
| Accrual for medical benefit    | 44  | -   |
| Accrual for housing benefit    | 9   | 20  |
|                                | <u>1,082</u>                              | <u>1,777</u>                                |

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



#### 14. Short-term loans

|                       | Notes | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|-----------------------|-------|---|---|
| Bank loan, secured    |       | -   | 23,000                                      |
| Other short-term loan | (a)   | 3,001                                     | 3,001                                       |
|                       |       | <b>3,001</b>                              | <b>26,001</b>                               |

(a) This represented a loan of RMB3,001,000 provided by an independent third party to the Group. It was unsecured, interest bearing and repayable within one year.

#### 15. Income tax payable and other taxes payable

|                              | Unaudited<br>30th June<br>2006<br>RMB'000 | Audited<br>31st December<br>2005<br>RMB'000 |
|------------------------------|---|---|
| Income tax payable:          |   |   |
| EIT                          | 3,620                                     | 3,329                                       |
| Other taxes payable:         |   |   |
| Business tax                 | 9,500                                     | 9,298                                       |
| Cultural and development tax | 1,601                                     | 1,751                                       |
| Other taxes                  | 3,164                                     | 3,230                                       |
|                              | <b>14,265</b>                             | <b>14,279</b>                               |

#### 16. Share Capital

|                           | Number of<br>shares | Ordinary<br>shares<br>RMB'000 |
|---------------------------|---------------------|-------------------------------|
| At 1st January 2005       | 455,000,000         | 48,669                        |
| Exercise of share options | 10,934,345          | 1,170                         |
| At 31st December 2005     | 465,934,345         | 49,839                        |
| Exercise of share options | 12,631,528          | 1,314                         |
| At 30th June 2006         | <b>478,565,873</b>  | <b>51,153</b>                 |

The total authorised number of ordinary shares is 1,000 million shares (2005: 1,000 million shares) with a par value of HK\$0.1 per share (2005: HK\$0.1 per share). All issued shares are fully paid.



## 16. Share Capital (continued)

### 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 period.

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 the 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 Share Option Scheme.

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

During the period ended 30th June 2006, a total of 10,000,000 share options were granted to certain employees pursuant to the Share Option Scheme. The grantees can exercise these options at an exercise price of HK\$1.49 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 23rd June 2006. Commencing from the first anniversaries of the Offer Date, the relevant grantee may fully exercise options.

- (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 of HK\$2.4, 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.

The fair value of options granted on 23rd June 2006 determined using the Binomial Model valuation model was RMB3,919,003. The significant inputs into the model were exercise price of HK\$1.49, standard deviation of expected share price returns of 34.8%, expected life of options ranging from 3.2 to 5.5 years expected dividend paid cut rate of 0% and annual risk-free interest rate 4.911%. 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.





16. Share Capital (continued)

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

(a) Pre-IPO Share Option Scheme

|                | 2006                             |               | 2005                             |               |
|----------------|----------------------------------|---------------|----------------------------------|---------------|
|                | Exercise price in HK\$ per share | Share Options | Exercise price in HK\$ per share | Share Options |
| At 1st January | 0.44                             | 36,049,735    | 0.44                             | 46,984,080    |
| Exercised      | 0.44                             | (12,631,528)  | 0.44                             | (10,934,345)  |
| At 30th June   | 0.44                             | 23,418,207    | 0.44                             | 36,049,735    |

(b) Share Option Scheme

|                | 2006                             |               | 2005                             |               |
|----------------|----------------------------------|---------------|----------------------------------|---------------|
|                | Exercise price in HK\$ per share | Share Options | Exercise price in HK\$ per share | Share Options |
| At 1st January | 2.40                             | 18,150,000    | 2.40                             | 26,000,000    |
| Granted        | 2.40                             | -             | 2.40                             | -             |
| Cancelled      | 2.40                             | -             | 2.40                             | (5,250,000)   |
| At 30th June   | 2.40                             | 18,150,000    | 2.40                             | 20,750,000    |
| At 1st January | 1.49                             | -             | -                                | -             |
| Granted        | 1.49                             | 10,000,000    | -                                | -             |
| At 30th June   | 1.49                             | 10,000,000    | -                                | -             |

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

(a) Pre-IPO Share Option Scheme

| Expiry date        | Exercise price HK\$ per share | Share options 2006 | 2005       |
|--------------------|-------------------------------|--------------------|------------|
| 17th December 2013 | 0.44                          | 23,418,207         | 36,049,735 |



**16. Share Capital (continued)**

(b) *Share Option Scheme*

| <b>Expiry date</b> | <b>Exercise price<br/>HK\$ per share</b> | <b>Share options<br/>2006</b> | <b>2005</b> |
|--------------------|--|-------------------------------|-------------|
| 18th February 2014 | 2.40                                     | <b>18,150,000</b>             | 20,750,000  |
| 22nd June 2016     | 1.49                                     | <b>10,000,000</b>             | —           |

**17. OTHER RESERVES**

|  | <b>Capital<br/>reserve<br/>RMB'000</b> | <b>Merger<br/>reserve<br/>RMB'000</b> | <b>Group<br/>Share-based<br/>compensation<br/>reserves<br/>RMB'000</b> | <b>Share<br/>premium<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|--|--|---------------------------------------|--|--------------------------------------|--------------------------|
| At 1st January 2005                                | 987                                    | 108,830                               | 7,814  | 124,448                              | 242,079                  |
| Issuance of shares                                 | —                                      | —                                     | —  | 3,978                                | 3,978                    |
| Share option scheme-value<br>of employee services  | —                                      | —                                     | 2,599  | —                                    | 2,599                    |
| Share issue expenses                               | —                                      | —                                     | —  | —                                    | —                        |
| Offset of share issuance costs<br>to share premium | —                                      | —                                     | —  | —                                    | —                        |
| At 30th June 2005<br>(restated)                    | <u>987</u>                             | <u>108,830</u>                        | <u>10,413</u>  | <u>128,426</u>                       | <u>248,656</u>           |
| At 1st January 2006                                | 987                                    | 108,830                               | 12,677   | 128,426                              | 250,920                  |
| Issuance of shares                                 | —                                      | —                                     | —  | 4,467                                | 4,467                    |
| Share option scheme-value<br>of employee services  | —                                      | —                                     | 1,027  | —                                    | 1,027                    |
| At 30th June 2006                                  | <u>987</u>                             | <u>108,830</u>                        | <u>13,704</u>  | <u>132,893</u>                       | <u>256,414</u>           |





## 18. Related-party transactions

The following transactions were carried out with related parties:

(a) Sales of services

|   | Unaudited<br>Six months ended<br>30th June |                 |
|---|--|-----------------|
|   | 2006<br>RMB'000                            | 2005<br>RMB'000 |
| Sales of services   |  |                 |
| - 北京慧聰建設信息諮詢有限公司 (technology services) <sup>(i)</sup>   | 106  | 106             |
| - 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) <sup>(ii)</sup> | 120  | 120             |
| - 北京慧美印刷有限公司 (rental services) <sup>(iii)</sup>   | 329  | 323             |
|   | <b>555</b>                                 | <b>549</b>      |

- (i) 北京慧聰建設信息諮詢有限公司, 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 ("Technology Services Agreement") with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Technology Services Agreement to 31st December 2007.

Pursuant to the Technology Services Agreement, the Group received technical service income from 北京慧聰建設信息諮詢有限公司 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 ("Domain Names and Trademark Licence Agreement") with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Domain Names and Trademark Licence Agreement to 31st December 2007.

Pursuant to the Domain Names and Trademark Licence Agreement, 北京慧聰建設信息諮詢有限公司 was granted the right to use the domain name and trademark owned or attained by the Group during the agreement period for a fixed fee.

- (iii) Rental income of RMB329,000 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 period ended 30th June 2006 and the fee was payable at market price no less favorable than as charged by independent third parties on a monthly basis.



18. Related-party transactions (continued)

(b) Purchases of services

|  | Unaudited        |               |
|--|------------------|---------------|
|  | Six months ended |               |
|  | 30th June        |               |
|  | 2006             | 2005          |
|  | RMB'000          | RMB'000       |
| Purchases of services:   |                  |               |
| - 北京慧聰建設信息諮詢有限公司 (online information distribution services) <sup>(i)</sup>   | 120              | 120           |
| - 北京慧聰建設信息諮詢有限公司 (online advertisement publication services) <sup>(ii)</sup> | 50               | 50            |
| - 北京慧美印刷有限公司 (printing services) <sup>(iii)</sup>                            | 13,189           | 14,961        |
| - 北京中搜在線軟件有限公司 (search engine services) <sup>(iv)</sup>                      | 756              | -             |
|  | <b>14,115</b>    | <b>15,131</b> |

(i) 北京慧聰建設信息諮詢有限公司 entered into a three-year Online Information Distribution Agreement ("Online Information Distribution Agreement") with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Online Information Distribution Agreement to 31st December 2007.

Pursuant to the Online Information Distribution Agreement, 北京慧聰建設信息諮詢有限公司 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 ("Online Advertisement Publication Agreement") with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Online Advertisement Publication Agreement to 31st December 2007.

Pursuant to the Online Advertisement Publication 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 web-site 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 (現慧聰商情廣告(北京)有限公司, "HC Advertising"), a subsidiary of the Company, entered into a three-year Printing Agreement ("Printing Agreement"), and on 31st December 2004 and 1st September 2005, the parties separately entered into two supplemental agreements which extended the term of the Printing Agreement to 31st December 2007.





**18. Related-party transactions (continued)**

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.

(c) *Key management compensation*

|   | <b>Unaudited</b>        |                |
|---|-------------------------|----------------|
|   | <b>Six months ended</b> |                |
|   | <b>30th June</b>        |                |
|   | <b>2006</b>             | <b>2005</b>    |
|   | <b>RMB'000</b>          | <b>RMB'000</b> |
| Salaries and other short-term employee benefits | <b>2,382</b>            | 2,324          |
| Share-based payments                            | <b>315</b>              | 762            |
|   | <b>2,697</b>            | 3,086          |

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

|                                    | <b>30th June</b> | <b>31st December</b> |
|------------------------------------|------------------|----------------------|
|                                    | <b>2006</b>      | <b>2005</b>          |
|                                    | <b>RMB'000</b>   | <b>RMB'000</b>       |
| Amounts due from related companies | <b>444</b>       | 2,933                |
| Amounts due to a related company   | <b>-</b>         | 833                  |

(e) *Loans to related parties*

|  |               |        |
|--|---------------|--------|
| Amounts due from a jointly controlled entity | <b>15,511</b> | 13,131 |
| Amounts due from officers of the Group       | <b>988</b>    | 988    |

**19. Events occurring after the balance sheet date**

Reference is made to note 4. Hong Kong HC International was informed that Metaphor Corp. lacks funding to finance the proposed acquisition under the sale and purchase agreement. The Directors considered that it would be in the interests of the Company and its shareholders as a whole to terminate the sale and purchase agreement and not to proceed with the proposed disposal. The Company is considering a further restructuring of its domestic television advertising business in the PRC to align with the Group's current business and investment strategies.

**20. Contingent liabilities**

At 30th June 2006, there were no material contingent liabilities to the Group (31st December 2005: Nil).



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

As at 30th June 2006, the interests and short positions of the Directors and the chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

### (a) Directors' Long Positions

| Name of Director    | Capacity         | Personal interests    | Family interests | Corporate interests | Other interests | Total number of shares | Percentage of shareholding |
|---------------------|------------------|-----------------------|------------------|---------------------|-----------------|------------------------|----------------------------|
| Guo Fansheng        | Beneficial owner | 64,088,863            | -                | -                   | -               | 64,088,863             | 13.39%                     |
| Wu Ying             | Beneficial owner | 3,715,884<br>(Note 1) | -                | -                   | -               | 3,715,884<br>(Note 1)  | 0.77%                      |
| Lai Sau Kam, Connie | Beneficial owner | 3,023,808<br>(Note 2) | -                | -                   | -               | 3,023,808<br>(Note 2)  | 0.63%                      |
| Yang Fei            | Beneficial owner | 1,269,853             | -                | -                   | -               | 1,269,853              | 0.27%                      |
| Hugo Shong          | Beneficial owner | 1,269,853             | -                | -                   | -               | 1,269,853              | 0.27%                      |

### (b) Directors' Short Positions

| Name of Director    | Capacity         | Personal interests    | Family interests | Corporate interests | Other interests | Total number of shares | Percentage of shareholding |
|---------------------|------------------|-----------------------|------------------|---------------------|-----------------|------------------------|----------------------------|
| Guo Fansheng        | Beneficial owner | 64,088,863            | -                | -                   | -               | 64,088,863             | 13.39%                     |
| Wu Ying             | Beneficial owner | 3,715,884<br>(Note 1) | -                | -                   | -               | 3,715,884<br>(Note 1)  | 0.77%                      |
| Lai Sau Kam, Connie | Beneficial owner | 3,023,808<br>(Note 2) | -                | -                   | -               | 3,023,808<br>(Note 2)  | 0.63%                      |
| Yang Fei            | Beneficial owner | 1,269,853             | -                | -                   | -               | 1,269,853              | 0.27%                      |
| Hugo Shong          | Beneficial owner | 1,269,853             | -                | -                   | -               | 1,269,853              | 0.27%                      |

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**(b) Directors' Short Positions** *(continued)*

Notes:

1. Such interest in the Company comprises:
  - (a) 1,538,602 shares of the Company; and
  - (b) 2,177,282 underlying shares derived from the share options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.
  
2. Such interest in the Company comprises:
  - (a) 1,015,770 shares of the Company; and
  - (b) 2,008,038 underlying shares derived from the share options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

**SHARE OPTION SCHEMES**

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





## OUTSTANDING SHARE OPTIONS

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

As at 30th June 2006, options to subscribe for an aggregate of 23,418,207 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<br>HK\$ | Number of share options |                           |                             |                             | As at 30th June 2006<br>(Note 1) |
|--------------------------|-------------------|----------------------------------|-------------------------|---------------------------|-----------------------------|-----------------------------|----------------------------------|
|                          |                   |                                  | As at 1st January 2006  | Granted during the period | Exercised during the period | Cancelled during the period |                                  |
| <i>Directors</i>         |                   |                                  |                         |                           |                             |                             |                                  |
| WU Ying                  | 2nd December 2003 | 0.44                             | 677,282                 | -                         | -                           | -                           | 677,282                          |
| LAI Sau Kam, Connie      | 2nd December 2003 | 0.44                             | 1,015,923               | -                         | (507,885)                   | -                           | 508,038                          |
| <i>Senior management</i> |                   |                                  |                         |                           |                             |                             |                                  |
| LEE Wee Ong, Alex        | 2nd December 2003 | 0.44                             | 1,777,865               | -                         | (888,799)                   | -                           | 889,066                          |
| GUO Jiang                | 2nd December 2003 | 0.44                             | 677,282                 | -                         | (338,590)                   | -                           | 338,692                          |
| WANG Chong               | 2nd December 2003 | 0.44                             | 4,199,150               | -                         | (2,099,256)                 | -                           | 2,099,894                        |
| WANG Yonghui             | 2nd December 2003 | 0.44                             | 3,945,166               | -                         | (1,972,288)                 | -                           | 1,972,878                        |
| <i>Ex-employees</i>      |                   |                                  |                         |                           |                             |                             |                                  |
| FAN Qimiao               | 2nd December 2003 | 0.44                             | 7,111,104               | -                         | -                           | -                           | 7,111,104                        |
| GU Yuanchao              | 2nd December 2003 | 0.44                             | 3,777,774               | -                         | -                           | -                           | 3,777,774                        |
| <i>Consultant</i>        |                   |                                  |                         |                           |                             |                             |                                  |
| Earl Ching-Hwa YEN       | 2nd December 2003 | 0.44                             | 804,272                 | -                         | (402,076)                   | -                           | 402,196                          |
| <i>Other employees</i>   |                   |                                  |                         |                           |                             |                             |                                  |
| In aggregate (Note 2)    | 2nd December 2003 | 0.44                             | 12,063,917              | -                         | (6,422,634)                 | -                           | 5,641,283                        |
| Total                    |                   |                                  | 36,049,735              | -                         | (12,631,528)                | -                           | 23,418,207                       |





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

Notes:

- Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM (the "Listing Date"), being 17th December 2003. Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).
- As at 30th June, 2006, there were 47 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 5,641,283 shares.

**(b) Share Option Scheme**

As at 30th June 2006, options to subscribe for an aggregate of 28,150,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

| Name of grantee          | Date of grant      | Exercise price per share<br>HK\$ | Number of share options |                           |                             |                             | As at 30th June 2006<br>(Note 1) |
|--------------------------|--------------------|----------------------------------|-------------------------|---------------------------|-----------------------------|-----------------------------|----------------------------------|
|                          |                    |                                  | As at 1st January 2006  | Granted during the period | Exercised during the period | Cancelled during the period |                                  |
| <i>Directors</i>         |                    |                                  |                         |                           |                             |                             |                                  |
| WU Ying                  | 18th February 2004 | 2.40                             | 1,500,000               | -                         | -                           | -                           | 1,500,000                        |
| LAI Sau Kam, Connie      | 18th February 2004 | 2.40                             | 1,500,000               | -                         | -                           | -                           | 1,500,000                        |
| <i>Senior management</i> |                    |                                  |                         |                           |                             |                             |                                  |
| LEE Wee Ong, Alex        | 18th February 2004 | 2.40                             | 1,500,000               | -                         | -                           | -                           | 1,500,000                        |
| GUO Jiang                | 18th February 2004 | 2.40                             | 1,000,000               | -                         | -                           | -                           | 1,000,000                        |
| GUO Jiang                | 23rd June 2006     | 1.49                             | -                       | 1,000,000                 | -                           | -                           | 1,000,000                        |
| WANG Chong               | 18th February 2004 | 2.40                             | 3,400,000               | -                         | -                           | -                           | 3,400,000                        |
| <i>Other employees</i>   |                    |                                  |                         |                           |                             |                             |                                  |
| In aggregate (Note 2)    | 18th February 2004 | 2.40                             | 9,250,000               | -                         | -                           | -                           | 9,250,000                        |
| In aggregate (Note 3)    | 23rd June 2006     | 1.49                             | -                       | 9,000,000                 | -                           | -                           | 9,000,000                        |
| <b>Total</b>             |                    |                                  | <b>18,150,000</b>       | <b>10,000,000</b>         | <b>-</b>                    | <b>-</b>                    | <b>28,150,000</b>                |



**(b) Share Option Scheme** *(continued)*

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"). Commencing from the first, second and third anniversaries of the Offer Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).

During the period ended 30th June 2006, a total of 10,000,000 share options were granted to certain employees pursuant to the Share Option Scheme. The grantees can exercise these options at an exercise price of HK\$1.49 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 23rd June 2006.

2. 270 employees have been granted options under the Share Option Scheme to acquire an aggregate of 9,250,000 shares of the Company at HK\$2.40 per share.
3. 100 employees have been granted options under the Share Option Scheme to acquire an aggregate of 9,000,000 shares of the Company at HK\$1.49 per share.
4. The fair value of options granted under the Share Option Scheme on 18th February 2004, 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.
5. The fair value of options granted under the Share Option Scheme on 23rd June 2006, determined using the Binomial Model valuation model, was RMB3,919,003. The significant inputs into the model were exercise price of HK\$1.49, standard deviation of expected share price returns of 34.8%, expected life of options ranging from 3.2 to 5.5 years expected dividend paid cut rate of 0% and annual risk free interest rate 4.911%. 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.





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

As at 30th June 2006, the interests and the short positions of substantial shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

| Name of substantial shareholder   | Long position           | Short position         | Nature of Interests/Holding capacity | Percentage of shareholding |
|---|-------------------------|------------------------|--------------------------------------|----------------------------|
| Hinrichs Merle Allan  | 225,682,134<br>(Note 1) | –                      | Interest in controlled corporation   | 46.75%                     |
| McCarthy Kent C.  | 54,404,000<br>(Note 2)  | –                      | Interest in controlled corporation   | 11.37%                     |
| Li Jianguang  | 40,000,384<br>(Note 3)  | 40,000,384<br>(Note 3) | Interest in controlled corporation   | 8.36%                      |
| APAC Capital Advisors Ltd sub a/c<br>APAC Greater China Fund (Cayman) Ltd | 29,931,850              | –                      | Investment manager                   | 6.25%                      |
| McGovern Patrick J.   | 25,473,954<br>(Note 4)  | 25,473,954<br>(Note 4) | Interest in controlled corporation   | 5.32%                      |
| PMA Capital Management Ltd.   | 24,540,000              | –                      | Investment manager                   | 5.13%                      |

Notes:

- Such interest in the Company comprises:
  - 53,774,000 shares of the Company of which 5,916,000 shares and 47,858,000 shares were held by Global Sources Ltd., which is owned as to approximately 61% by Mr. Hinrichs, and Trade Media Holdings Limited, which is a wholly-owned subsidiary of Global Sources Ltd., respectively; and
  - 171,908,134 underlying shares of the Company derived from certain call options granted to Trade Media Holdings Limited, a wholly-owned subsidiary of Global Sources Ltd., which is owned as to approximately 61% by Mr. Hinrichs.
- Such shares of the Company were held by Jayhawk China Fund (Cayman), Ltd., the entire issued share capital of which is owned by Mr. McCarthy.
- The references to 40,000,384 shares of the Company relate to the same block of shares of the Company held by Callister Trading Limited, the entire share capital of which is owned by Mr. Li.
- The references to 25,473,954 shares of the Company relate to the same block of shares of the Company held by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., which is owned as to approximately 33% by Mr. McGovern.



## SECURITIES TRANSACTIONS BY DIRECTORS

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 during the six months ended 30th June 2006.

## AUDIT COMMITTEE

Pursuant to GEM Listing Rules 5.28, the Company established an audit committee on 24th July 2003 with written terms of reference based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountant.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. As at the date of this report, the audit committee comprises a non-executive director, Mr. John Craig Pepples and two independent non-executive directors, Mr. Zhang Ke and Mr. Xiang Bing. Mr. Zhang Ke is the Chairman of the audit committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and the interim results of the Group for the six months ended 30th June 2006.

## DIRECTORS INTERESTS IN COMPETING BUSINESS

Each of the directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them has had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30th June 2006.

## ADVANCES TO AN ENTITY

As at 30th June 2006, the Group had not made any advance, which is of a non-trading nature, to any entity.

## FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

As at 30th June 2006, the Group had not provided any financial assistance to any of its affiliated companies.

## PRE-EMPTIVE RIGHTS

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



## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

1. 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 therein, 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.

2. The remuneration committee was established on 20th March 2006. Prior to the formation of the remuneration committee, such duties were performed by the board of Directors.





## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2006.

By order of the board of Directors  
**HC International, Inc.**  
**Guo Fansheng**  
*Chief Executive Officer and Executive Director*

As at the date of this report, the board of Directors comprises:

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

Ms. Wu Ying (*Executive Director*)

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

Mr. Guo Jiang (*Executive Director*)

Mr. Li Jianguang (*Non-executive Director*)

Mr. John Craig Pepples (*Non-executive Director*)

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

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

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

Beijing, PRC, 9th August 2006

