Annual Report

2006

HC INTERNATIONAL, INC.
慧聰網有限公司

stock code：8292

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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

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

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

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

Contents

Corporate Information

EXECUTIVE DIRECTORS
GUO Fansheng
LAI Sau Kam, Connie
GUO Jiang

NON-EXECUTIVE DIRECTORS
LI Jianguang
PEPPLES John Craig

INDEPENDENT NON-EXECUTIVE DIRECTORS
ZHANG Ke
XIANG Bing
GUO Wei

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
CHENG Yik, Eric, HKICPA

AUDIT COMMITTEE
ZHANG Ke
XIANG Bing
PEPPLES John Craig

REMUNERATION COMMITTEE
ZHANG Ke
XIANG Bing
GUO Wei
PEPPLES John Craig
GUO Jiang

COMPLIANCE OFFICER
GUO Fansheng

AUTHORISED REPRESENTATIVES
CHENG Yik, Eric
GUO Jiang

AGENT FOR THE ACCEPTANCE OF SERVICE OF PROCESS
CHENG Yik, Eric

STOCK CODE
8292

COMPANY'S WEBSITE
www.hc360.com

AUDITORS
PricewaterhouseCoopers

LEGAL ADVISERS
Johnson Stokes & Master

PRINCIPAL BANKER
The Hongkong and Shanghai Banking
Corporation Limited

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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Tower B, Jieneng Building
42 North Street
Xizhimen Haidian District
Beijing
The People's Republic of China

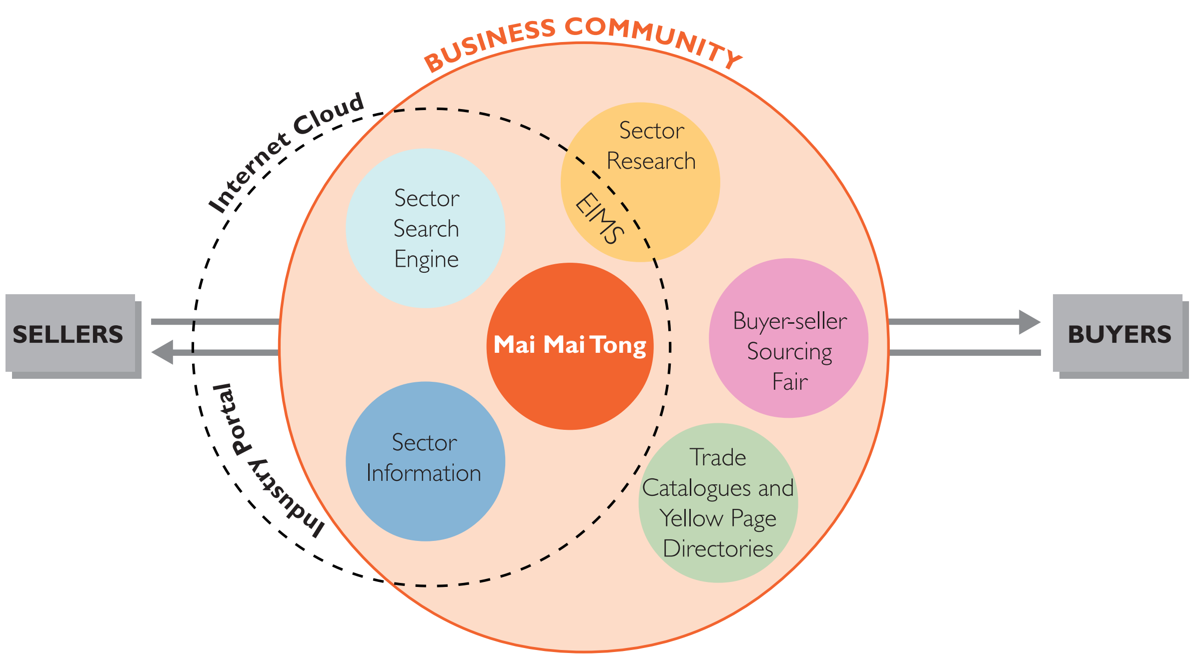
PRINCIPAL PLACE OF BUSINESS IN HONG KONG
18th Floor, Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

CORPORATE OVERVIEW

The Company is one of the leading business-to-business communities in China. With its professional information services and advanced internet technology, it has established a reliable demand and supply platform for SMEs, and has been providing them with comprehensive business solutions. Following 15 years of hard work and growth, we have expanded our business to over 100 cities nationwide, with branch offices in 16 cities and a workforce of nearly 2,600 people.

As a leading internet enterprise in the mainland, the Company not only offers comprehensive business solutions to users through Mai-Mai-Tong, an internet technology based product, it also fully utilises its strong traditional marketing channels, namely, the "HC Trade Catalogues", the "Yellow Page Directories", and the "Industry Research Reports", in order to provide multi-channel and all dimensional off-line supplementary services. Such complimentary and multi-facet structure has set an example for the B2B industry in China.

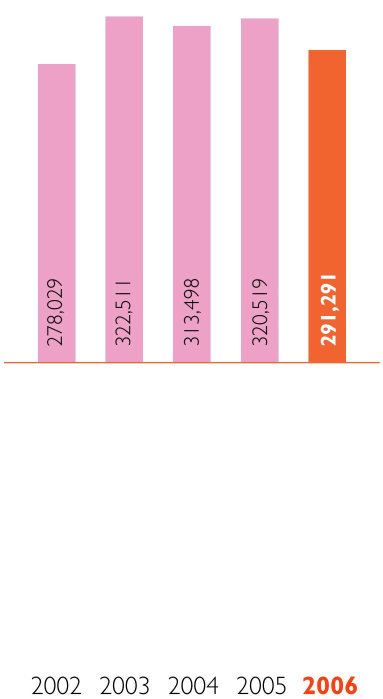
The Company is committed to provide professional and innovative services and products to meet market and users' needs, aiming at facilitating transactions among sellers and buyers of the e-commerce community, and to enhance domestic and international trading opportunities for such sellers and buyers. We believe that with the Company's advancement in internet technologies, it will continue to set the trend of this business market and create a win-win situation for both sellers and buyers in the e-commerce community through our continuous exploration and innovation.



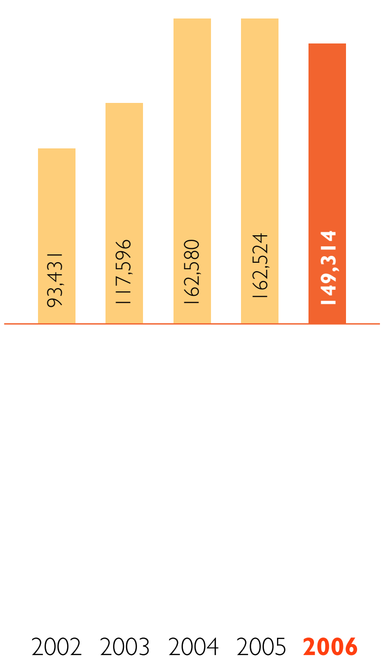
Financial Highlights

	2006 *RMB'000*	2005 *RMB'000*	2004 *RMB'000*	2003 *RMB'000*	2002 *RMB'000*
Results					
Turnover	**291,291**	320,519	313,498	322,511	278,029
Gross profit	**149,314**	162,524	162,580	117,596	93,431
EBITDA	**(42,924)**	12,050	66,025	56,886	32,068
(Loss)/profit attributable to equity holders	**(98,793)**	(24,747)	39,478	33,078	15,985
(Loss)/earnings per share					
– Basic	**RMB(0.1268)**	RMB(0.0023)	RMB0.0702	RMB0.109	RMB0.053
– Diluted	**RMB(0.1223)**	RMB(0.0021)	RMB0.0646	RMB0.108	N/A
Financial Position					
Net current assets	**91,913**	192,546	227,108	143,939	11,458
Total assets	**370,074**	485,753	481,081	341,847	196,810
Total liabilities	**125,019**	127,660	95,045	88,896	89,234
Total equity	**245,055**	358,093	386,036	252,951	107,576

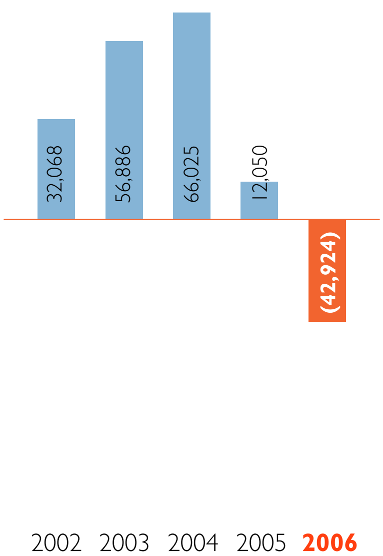
TURNOVER
RMB'000



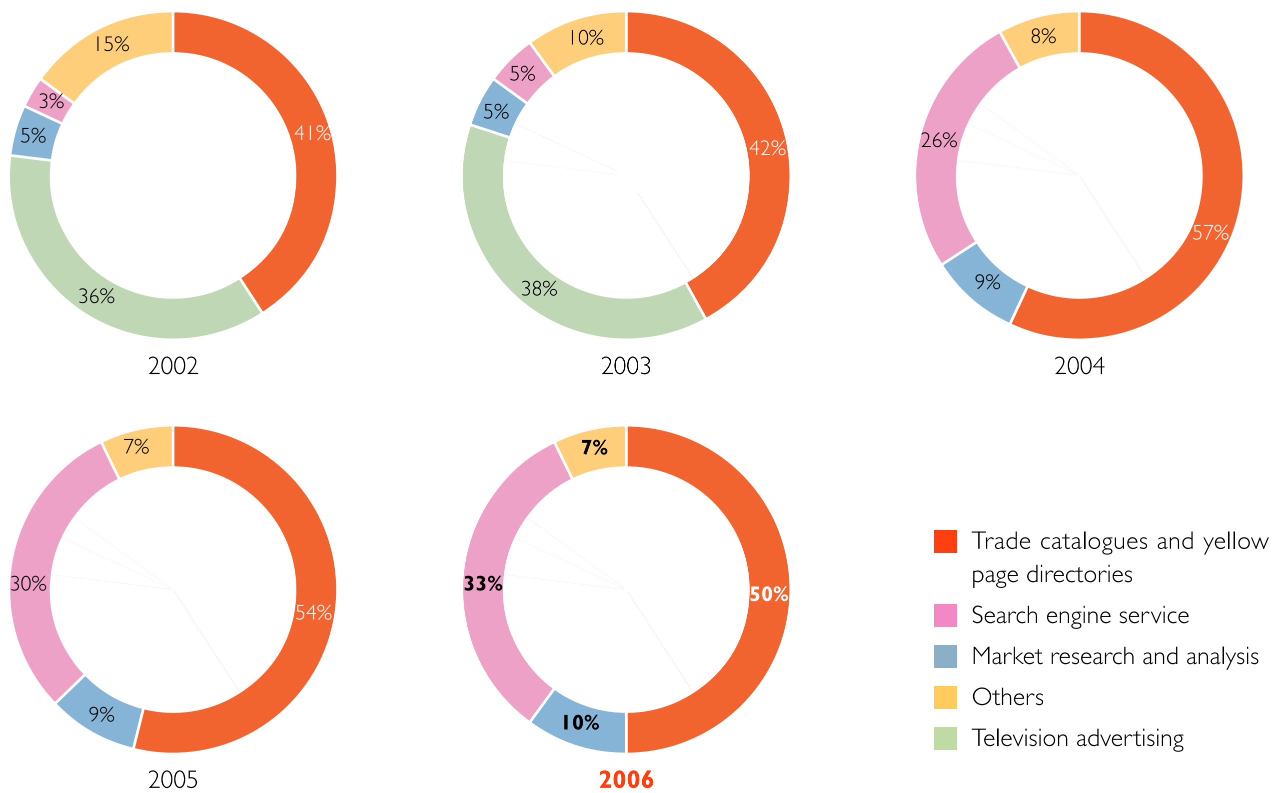
GROSS PROFIT
RMB'000



EBITDA
RMB'000



TURNOVER ANALYSIS



	Trade catalogues and yellow page directories *RMB'000*	Search engine services *RMB'000*	Market research and analysis *RMB'000*	Others *RMB'000*	Television advertising *RMB'000*	Total *RMB'000*
2006	**145,909**	**94,904**	**29,212**	**21,266**	**–**	**291,291**
2005	173,304	96,351	30,251	20,613	–	320,519
2004	179,195	82,373	28,565	23,365	–	313,498
2003	135,442	15,305	16,565	32,022	123,177	322,511
2002	113,273	7,503	14,334	42,682	100,237	278,029


聪明老板


网络商圈
聚网圈·智享商


网络商圈
聚网圈·智享


网络商圈
聚网圈·智


b2b


网络商圈
圈·智享商道

I would like to present to the shareholders of the Company my report on the operations of the Group for the year ended 31st December 2006.

CHANGE OF NAME IN CHINESE

The Company has changed its name in Chinese, "慧聰國際資訊有限公司", which it uses for identification purposes only to "慧聰網有限公司" with effect from 6th November 2006. Accordingly, the shares of the Company have been traded on GEM under the new Chinese stock short name of "慧聰網" with effect from 6th November 2006.

FINANCIAL REVIEW

For the financial year ended 31st December 2006, the Group generated a turnover of approximately RMB291,291,000 from continuing operations (2005: RMB320,519,000). This represents a decrease of approximately 9% in turnover as compared to that in 2005.

For the Group's financial performance from continuing operations in different segments, due to the termination of certain publications during the year including the sectors of gift and accessories, chemical products, and beauty and salon, the Group recorded a decrease of 16% in revenue generated from the trade catalogues and yellow page directories segment, from approximately RMB173,304,000 in 2005 to approximately RMB145,909,000 in 2006. After the disposal of the Group's public search business in August 2005, the revenue generated from the search engine business segment decreased slightly by approximately 1.5% when compared with that of last year. In 2006, a total revenue of RMB94,904,000 was achieved from the search engine business segment (2005: RMB96,351,000) which accounted for approximately 33% of the Group's total revenue. Total revenue of RMB29,212,000 was generated from the market research and analysis segment, which remained stable as compared to RMB30,251,000 recorded in 2005.

The gross profit margin of the Group's continuing operations remained steady at 51% in 2006 (2005: 51%). With strengthened cost control over direct sales and marketing expenses in the search engine business segment, the gross profit margin of this segment increased by 4 percentage points from approximately 71% in 2005 to approximately 75% in 2006. Due to keen competition in the trade catalogues and yellow page directories segment, the gross profit ratio of this segment decreased by 2 percentage points from approximately 48% in 2005 to approximately 46% in 2006.

To consolidate the Group's position as one of the leading business-to-business communities in the PRC, more resources have been dedicated to develop new technological features and functions for the Group's on-line marketplace, "Mai-Mai-Tong – 買賣通". Significant advertising resources were allocated by the Group in 2006 to enhance the brand name of "Mai-Mai-Tong – 買賣通". The Group suffered an operating loss before income tax of RMB75,153,000 for the financial year ended 31st December 2006, comprising the loss from the disposal and termination of subsidiaries and branches of RMB10,087,000.

The Board of Directors does not recommend payment of a dividend for the year ended 31st December 2006.

BUSINESS REVIEW

The number of SMEs in China has reached 40 million. The value of their products and services in aggregate accounts for 59% of the country's GDP. Among SMEs, the need for tools and channels that would assist in generating a direct increase in sales volume and profit has becoming more important than high-level management tools such as ERP or SCM. B2B services and the internet business community offer business opportunities to these SMEs.

While B2B e-commerce services can effectively assist SMEs in expanding their businesses from third-or fourth-tier cities to the country level and even to the international level, more and more enterprises are sourcing their business partners through the internet. iResearch, an independent market research company, estimates that by 2007, the overall scale of e-commerce market in China will reach RMB1,700 billion and the B2B e-commerce community is a realisation of this concept. The vast number of private enterprises in China promotes the development of internet business communities. The internet-based business community provides enterprises with more e-commerce channels and opportunities, thus attracting them to explore business opportunities through the internet. At present, nearly 10 million SMEs have joined the internet business community.

However, China's e-commerce market is still at its infant stage. It is a huge and energetic market with enormous potential. With the Company's leading position in such market, we believe that our efforts will be substantially rewarded in the future.

(1) Mai-Mai-Tong Members

In 2006, following the disposal of the discontinued operations, the Company has fully transformed to, and focused on, the development of B2B business community. After a year's development of Mai-Mai-Tong, "hc360.com" has approximately 3,000,000 registered users and over 50,000 fee-paying users as at 31st December 2006. Moreover, since the introduction of Mai-Mai-Tong IM feature in September 2005, which is an instant communication tool for business people, over 2,500,000 users have downloaded such product through the Company's portal.

(2) Product

In 2006, the Group has formed a multi-facet matrix of products and resources, comprising both on-line and off-line products. This provides users with a right mixture of different products and business solutions.

On-line Products

Mai-Mai-Tong

Mai-Mai-Tong provides enterprise users with a reliable and comprehensive platform to explore business opportunities, complete business transactions and meet business partners on-line. Through Mai-Mai-Tong, apart from setting up multi-functional on-line stores for product display, corporate promotion, on-line discussions and credit certification, enterprises can also receive timely and reliable business information which enhances competitiveness of businesses.

Search Ranking

In response to business development needs, the Company launched the search ranking business in December 2006. This new product offers better business opportunities to suppliers who operate in a competitive business environment.

On-line Advertising

In 2006, "hc360.com" has become an important channel for many enterprises for on-line brand promotions. As "hc360.com" attracts daily webpage visits of nearly 28 millions, multi-national enterprises have been promoting their brands through "hc360.com".

Off-line Products

Trade Catalogues

The Group's "Trade Catalogues" is an authoritative industry procurement guide in China and the founder of information services and quotation industry of the country. It covers over a thousand enterprises, and over ten thousand products. It is one of the leading catalogues in the industry in terms of coverage and reference.

Yellow Page Directories

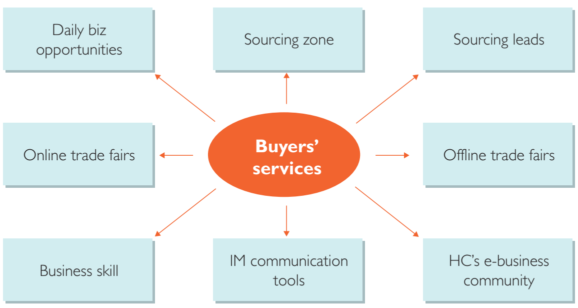
As a business yearbook for specific industries, the "Yellow Page Directories" features systematic compilation of industry information, product technology and industry news. It connects manufacturers, suppliers, management organisations and users in different industries.

Industry Market Research

The Company's Industry Market Research is one of the pioneers in China providing professional consultation services. With the Company's unparalleled business information database for China and advanced information technology software and resources, the Company's Industry Market Research offers clients all-rounded quality services in industry information advice, market survey and research, and marketing strategy. Through a networked platform, the Company's research product EIMS provides enterprises and users with comprehensive business information on other enterprises, industries and rivals.

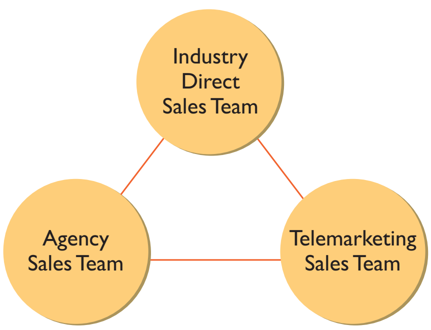
(3) Marketing Channels

8 buyers' services to assist sellers to acquire business opportunities and meet buyers



In response to business needs, the Group categorised its target users in August 2006, dividing them into professional industry and fast-moving consumer goods industry. The former includes 23 professional industries such as security and motor vehicles, while the latter is sub-divided into 10 sectors such as gifts, building materials, beauty and hair, etc. This categorisation enables the Company to fully integrate into the fast-moving consumer goods industries, which are more closely related to consumers. The growth in the number of registered and fee-paying members from these industries will further strengthen the Company's business development.

In 2006, to further strengthen its sales force, the Company established three key sales teams, namely Industry Direct Sales, Agency Sales and Telemarketing Sales to market its internet product Mai-Mai-Tong, as well as its off-line supplementary products HC Trade Catalogues and Yellow Page Directories.



Industry Direct Sales Team is the Company's major sales team, and is responsible for the sales of Mai-Mai-Tong and off-line products, HC Trade Catalogues and Yellow Page Directories.

Agency Sales Team is a supplement to the Industry Direct Sales Team, focusing on fast-moving consumer goods industries. The Company's agents cover over 39 provinces and cities in the PRC.

The Company's Telemarketing Sales Team was formed in August 2006. Through the utilisation of call centre technology, this establishment supplemented the existing sales channels of the Company's internet product Mai-Mai-Tong. The present focus of the Telemarketing Sales Team is the sales of Mai-Mai-Tong in the 10 top fast-moving consumer goods industries. During the past six months, the Group has attained a significant improvement in efficiency, marketing ability and clients' recognition and support. The Company has successfully developed its outstanding sales and marketing team.

(4) Customer Service

Services for Buyers

China is one of the largest production bases in the world. With a professional service team, the Company collects timely, reliable and comprehensive business information which covers over 60 industrial sectors and offers high quality services to buyers.

Member Care

The Company constantly introduces customer care campaigns to enhance services to end users, and offers them incomparable customer service experience. Through the integration of various on-line features such as IM, forums and blogs, "hc360.com" has developed the Member Care Scheme in order to enhance members' activity, satisfaction and loyalty levels. The Company is also one of the first companies in China adopting this kind of service concept. "hc360.com" will continue its wide range of member care activities to enhance members' experience and activity level, and satisfy all customer needs.

PROSPECT

During the past two years, the Company developed its expertise in the e-commerce application on the internet platform and has gained a more profound understanding of the significance of customer experience to the value chain of our business model. We have successfully attracted free members who subsequently became fee-paying members. Our quality customer service system encourages users' continuous support to the Company's services, which should have a positive impact on the Company's future performance.

The Group will continue to further research and develop its internet products, including "Mai-Mai-Tong". The Group will intensify the services offered to both sellers and buyers, and continue to fully utilise its advanced networking technology and call centre technology to assist users in various stages of a transaction, such as communication, discussions and transactions through the internet. The Group will expedite the process of upgrading its customer service system and further improve its ability in attracting and retaining members.

In order to fulfill customers' increasing demands on internet products, we will improve Mai-Mai-Tong and other supplementary search products of the Group through the development of new functions and features. While maintaining the advantage in the Trade Catalogues and Yellow Page Directories business, the Group will continue to improve its competitiveness in these well established businesses and strengthen the synergy between traditional trade catalogues business and internet products business with the aim to offer better solutions to business users.

Guo Fansheng
Chief Executive Officer and Executive Director

Beijing, PRC
26th March 2007

DIRECTORS

As at 31st December 2006, the board of Directors comprised:

Executive Directors

GUO Fansheng

Aged 51, is an executive Director and the Chief Executive Officer of the Company. Mr. Guo founded the Group in October 1992 and is responsible for the overall strategic development and policy of the Group. From 1990 to 1992, Mr. Guo worked as a manager in a State-owned business information company in Beijing. From 1987 to 1990, Mr. Guo served as a director of the Liaison Office and General Office of the Economic System Reform Institute under the State Commission for Economic Restructuring, and as the deputy director of the Western China Development Research Centre. Prior to working at the State Commission for Economic Restructuring, Mr. Guo served from 1982 to 1987 as a senior official in the government of the Inner Mongolia Autonomous Region. Mr. Guo obtained a bachelor degree in industrial economics from Renmin University of China in 1982.

WU Ying

Aged 39, is an executive Director and the Chief Administrative Officer of the Company. Ms. Wu joined the Group in 1993 and became its vice president in 1997. She is responsible for the overall management of the daily administration of the Group. Ms. Wu graduated from Shanxi Institute of Industry and Commerce with a bachelor degree in economic information management in 1988 and obtained a master of business administration degree from Guanghua School of Management of Peking University in 1999. She has resigned as executive director of the Company with effect from 28th February 2007.

LAI Sau Kam, Connie

Aged 33, is the executive Director and the Chief Financial Officer of the Company. Ms. Lai joined the Group in October 2000 as financial controller and is responsible for the management of the finance and accounting activities of the Group. Prior to that, she spent over four years in PricewaterhouseCoopers. She is a qualified accountant with over ten years experience in the fields of accounting, auditing and financial management. Ms. Lai graduated from the Chinese University of Hong Kong in 1996 with a bachelor degree in professional accountancy and is an associate member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

GUO Jiang

Aged 33, is an executive Director and Chief Operating Officer of the Company. Mr. Guo joined the Group in 1996 as a Sale Manager and became the Chief Operating Officer of the Group in late 2005 and is responsible for overseeing the operations of "hc360.com". Prior to that, Mr. Guo spent two years at the Broadcasting Science Institute of the State Administration of Radio, File and Television as an assistant to director. Mr. Guo graduated from the Harbin University of Commerce in 1994 with a bachelor degree in computer science. He also attended the Business Administration Course for Senior Management of Modern Enterprises conducted by Guanghua Business School of Peking University in 2002.

Non-executive Directors

LI Jianguang

Aged 41, is a non-executive Director. Mr. Li is the Vice-President of IDG Technology Venture Investment, Inc. ("IDG"), a substantial shareholder of the Company. Mr. Li is also a member of IDG Technology Venture Investments, LLC, which is the general partner of IDG Technology Venture Investments, LP. Mr. Li is responsible for the investment management of IDG's China-related early funds and IDG-Accel China Growth Fund. Prior to that, Mr. Li worked in Crosby Asset Management Limited as an investment manager. Mr. Li graduated from Peking University in 1987 with a bachelor degree in economics and attained a master degree from Guelph University in Canada in 1994.

PEPPLES John Craig

Aged 45, is a non-executive Director. Mr. Pepples is the Chief Operating Officer of Global Sources Ltd. ("Global Sources") and is responsible for Global Sources' worldwide operations including interactive media, corporate marketing, community development, information services, human resources and finance and acts as the publisher of Chief Executive China. Mr. Pepples joined Global Sources in October 1986, moving on to manage Global Sources' China sales operations from 1989 to 1992 and was the country manager for China from 1992 to 1999. Mr. Pepples graduated with a Bachelor degree in Linguistics from the Yale University.

Independent Non-executive Directors

ZHANG Ke

Aged 53, is an independent non-executive Director. Mr. Zhang is a certified public accountant in the PRC and is currently the Chairman and Managing Partner of ShineWing Certified Public Accountants. He graduated from Renmin University of China in 1982 with a bachelor degree in economics majoring in industry economics. He has over 20 years experience in the fields of economics, accounting and finance. Mr. Zhang is currently a Vice-President of the Chinese Institute of Certified Public Accountants, a member of the Certified Public Accountants Examination Committee of the Ministry of Finance and a part-time professor of the department of accounting of Renmin University of China.

XIANG Bing

Aged 44, is an independent non-executive Director. Dr. Xiang is currently the founding Dean and Professor of the Cheung Kong Graduate School of Business and a professor of the Guanghua School of Management of Peking University. He graduated from the University of Alberta with a master of business administration degree and subsequently obtained a doctorate degree. Dr. Xiang previously taught in the Hong Kong University of Science and Technology.

GUO Wei

Aged 43, is an independent non-executive Director. Mr. Guo has been the president and Chief Executive Officer of Digital China Holdings Limited since 2001. Mr. Guo obtained a bachelor degree in engineering management from Northeastern University, PRC in 1985 and subsequently graduated from the China University of Science and Technology in 1988 with a master of science degree in management. He joined Lenovo Group in 1988 and has held different senior positions in Lenovo Group, including assistant president of Lenovo Group, deputy general manager of Lenovo Hong Kong and executive director of Lenovo Group.

SENIOR STAFF

As at 31st December 2006, the management of the Company comprised the following members:

LEE Wee Ong, Alex

Aged 37, is the Chief Strategy Officer of the Company and he joined the Group in April 2000. Prior to joining the Group, Mr. Lee spent six years with Colonial First State Investments Group and Hambros Australia as a fund manager and was seconded to CMG CH China Funds Management. During that period, Mr. Lee managed a publicly listed closed-ended fund which invested in Greater China's equity market. Mr. Lee graduated with a bachelor degree in accounting from Northern University of Malaysia.

CHENG Yik, Eric

Aged 31, is the Finance Controller, Company Secretary and Qualified Accountant of the Company. Mr. Cheng joined the Group in May 2003 as a Finance Manager and is responsible for overseeing the finance department of the Group. Prior to joining the Group, he spent over three years at PricewaterhouseCoopers. Mr. Cheng graduated from the Hong Kong University of Science and Technology in 2000 with a bachelor degree in finance, and is an associate member of the Hong Kong Institute of Certified Public Accountants.

FANG Yu

Aged 42, rejoined the Group in 2006 and was appointed as the Chief Technology Officer of the Company in January 2007. Prior to joining the Group, Mr. Fang served as Senior Architect in First Data Corporation working on Electronic Federal Tax Payment System (EFTPS). He worked in Level 3 Communications as Senior Engineer and Project Manager for two years. Before that he worked in GTE Research Labs as Senior Engineer for five years. Mr. Fang was the Manager of Engineering department of the Company from 1993-1995. He holds a M.S. on Computer Science from UMass Boston and a M.S. on Semiconductor Science from Shanghai Jiaotong University.

LÜ Tong

Aged 40, joined the Group in 2005 and was appointed as the Chief Content Officer of the Company in October 2006 and is responsible for the system building and operating of the Group's industry portal "www.hc360.com". Prior to joining the Group, Mr. Lü spent three years at China Economic Net as the vice president and two and a half years at Legend FM365 Net as Senior Manager & Chief Content Editor. Mr. Lü graduated from Renmin University of China in 1991 with a Bachelor degree in Law.

YAO Jianjiang

Aged 33, joined the Group in 2005 as the Chief Marketing Officer. Prior to joining the Group, Mr. Yao spent five years at eLong Inc. as a Marketing Director. From 1998 to 2000, he was the Media Planning Manager of DMBB and the Operation Director of Asia Media. Mr. Yao graduated from the Renmin University of China in 1999 with a bachelor degree in administrative management. He also attained a master degree in business administration at the City University, Bellevue, WA in 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2006, the Group's cash and bank balances increased by RMB29,062,000 to RMB164,364,000, from RMB135,302,000, as at the end of the previous financial year.

Short-term loans amounted to RMB35,001,000 as at 31st December 2006, representing an increase of about 35% from that as at 31st December 2005. Gearing ratio of the Group increased to about 14.8% as at 31st December 2006 from about 7.9% as at 31st December 2005, calculated with reference to the short-term loans of RMB35,001,000 (2005: RMB26,001,000) and equity holders' funds of RMB236,218,000 (2005: RMB329,608,000).

The Group's net current assets totalled RMB91,913,000 as at 31st December 2006, against RMB192,546,000 as at the end of the previous financial year. Its current ratio was approximately 1.74 as at 31st December 2006 as compared to approximately 2.53 as at 31st December 2005.

The Group's trade receivables turnover has improved from approximately 57.9 days in 2005 to approximately 35.1 days in 2006.

The Group's equity holders' funds decreased by RMB93,390,000 to RMB236,218,000 as at 31st December 2006 from RMB329,608,000 as at the end of the previous financial year.

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

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31st December 2006.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 27th May 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited, a wholly-owned subsidiary of the Company, agreed to dispose its entire interest in the television advertising business. Pursuant to the Company's announcement dated 27th July 2006, the abovementioned sale and purchase agreement was terminated. As at 31st December 2006, all business entities relating to the television advertising business had ceased operations.

CAPITAL STRUCTURE

During the year ended 31st December 2006, 12,631,528 shares of the Company were issued upon the exercise of share options granted under the pre-IPO share option scheme of the Company. The total number of issued shares was 478,565,873 as at 31st December 2006.

STAFF

The success of the Group depends on the skills, motivation and commitment of its staff. As at 31st December 2006, the total number of Group's employees was 2,524. Of these, 1,154 were employed in our Sales and Marketing Division, 544 were employed in our Editorial, Research and Data Analysis Division, 174 were employed in our Information Technology Division and the remainder in other divisions of the Group.

Remuneration of employees is generally in line with the market trend and commensurates with the salary level 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.

CHARGES ON GROUP ASSETS

As at 31st December 2006, buildings carried at RMB31,639,000 and the associated land use rights carried at RMB19,860,000 were pledged to secure the Group's bank loan in the amount of RMB32,000,000.

EXCHANGE RISK

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

CONTINGENT LIABILITIES

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

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of a dividend.

RESERVES

Details of the movements in retained earnings of the Group during the year are set out on page 38.

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2006, calculated under the Company Law of Cayman Islands, amounted to approximately RMB113,581,000 (2005: RMB113,539,000).

DIRECTORS

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

Mr. Li Jianguang* *(Chairman)*	(appointed on 1st August 2006)
Mr. Guo Fansheng *(Chief Executive Officer)*	(appointed on 21st March 2000)
Ms. Wu Ying	(appointed on 30th September 2002 and resigned with effect from 28th February 2007)
Ms. Lai Sau Kam, Connie	(appointed on 28th March 2003)
Mr. Guo Jiang	(appointed on 1st August 2006)
Mr. Yang Fei*	(appointed on 5th December 2000 and resigned with effect from 1st August 2006)
Mr. John Craig Pepples*	(appointed on 1st August 2006)
Mr. Hugo Shong* *(Chairman)*	(appointed on 5th December 2000 and resigned with effect from 1st August 2006)
Mr. Zhang Ke#	(appointed on 28th March 2003)
Mr. Xiang Bing#	(appointed on 8th March 2002)
Mr. Guo Wei#	(appointed on 8th March 2002)

* *non-executive directors*

\# *independent non-executive directors*

In accordance with Article 86 of the Company's Articles of Association, Mr. Guo Jiang, Mr. Li Jianguang and Mr. John Craig Pepples will be subject to, and eligible for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 87 of the Company's Articles of Association, Mr. Guo Fansheng and Mr. Zhang Ke will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' PROFILE

The directors' profile is set out on pages 13 to 14.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, Mr. Guo Fansheng, Ms. Wu Ying and Ms. Lai Sau Kam, Connie, has entered into a director's service contract with the Company, whereby each of them has accepted the appointment as executive director of the Company for a term of three years from 30th November 2006 which may be terminated by either party giving three months' prior written notice or otherwise in accordance with the terms of the service contract.

Mr. Guo Jiang has entered into a director's service contract with the Company, whereby he has accepted the appointment as executive director of the Company for a term of three years from 1st August 2006 which may be terminated by either party giving three months' prior notice or otherwise in accordance with the terms of the service contract.

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in note 11, note 15 and note 32 to the financial statements, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party subsisted at the end of the year or at any time during the year.

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

As at 31st December 2006, the interests 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%
Li Jianguang	Beneficial owner	–	–	40,000,384 *(Note 1)*	–	40,000,384 *(Note 1)*	8.36%
Guo Jiang	Beneficial owner	6,309,923 *(Note 2)*	–	–	–	6,309,923 *(Note 2)*	1.32%
Wu Ying	Beneficial owner	3,715,884 *(Note 4)*	–	–	–	3,715,884 *(Note 4)*	0.77%
Lai Sau Kam, Connie	Beneficial owner	3,023,808 *(Note 5)*	–	–	–	3,023,808 *(Note 5)*	0.63%

(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%
Li Jianguang	Beneficial owner	–	–	40,000,384 *(Note 1)*	–	40,000,384 *(Note 1)*	8.36%
Guo Jiang	Beneficial owner	2,027,200 *(Note 3)*	–	–	–	2,027,200 *(Note 3)*	0.42%
Wu Ying	Beneficial owner	3,715,884 *(Note 4)*	–	–	–	3,715,884 *(Note 4)*	0.77%
Lai Sau Kam, Connie	Beneficial owner	3,023,808 *(Note 5)*	–	–	–	3,023,808 *(Note 5)*	0.63%

Notes:

1. 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.

2. Such interest in the Company comprises:

   (a) 3,152,559 shares of the Company of which 989,953 shares of the Company are held by Mr. Guo's spouse; and

   (b) 3,157,364 underlying shares derived from the share options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme of which 818,672 underlying shares derived from the share options granted to Mr. Guo's spouse under the Pre-IPO share option scheme and the share option scheme.

3. Such interest in the Company comprise 2,027,200 shares of the Company.

4. 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.

5. 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 prospectus of the Company dated 8th December 2003.

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 31st December 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:

			Number of share options				
Name of grantee	**Date of grant**	**Exercise price per share** *HK$*	**As at 1st January 2006**	**Granted during the period**	**Exercised during the period**	**Cancelled during the period**	**As at 31st December 2006** *(Note 1)*
Directors							
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
GUO Jiang	2nd December 2003	0.44	677,282	–	(338,590)	–	338,692
Senior management							
LEE Wee Ong, Alex	2nd December 2003	0.44	1,777,865	–	(888,799)	–	889,066
WANG Chong	2nd December 2003	0.44	4,199,150	–	(2,099,256)	–	2,099,894
Ex-employees							
FAN Qimiao	2nd December 2003	0.44	7,111,104	–	–	–	7,111,104
GU Yuanchao	2nd December 2003	0.44	3,777,774	–	–	–	3,777,774
Consultant							
YEN Earl Ching-Hwa	2nd December 2003	0.44	804,272	–	(402,076)	–	402,196
Other employees							
In aggregate *(Note 2)*	2nd December 2003	0.44	16,009,083	–	(8,394,922)	–	7,614,161
Total			36,049,735	–	(12,631,528)	–	23,418,207

Notes:

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

2. As at 31st December 2006, there are 48 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 7,614,161 shares.

(b) Share Option Scheme

As at 31st December 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:

			Number of share options				
Name of grantee	**Date of grant**	**Exercise price per share** *HK$*	**As at 1st January 2006**	**Granted during the period**	**Exercised during the period**	**Cancelled during the period**	**As at 31st December 2006** *(Note 1)*
Directors							
WU Ying	18th February 2004	2.40	1,500,000	–	–	–	1,500,000
LAI Sau Kam, Connie	18th February 2004	2.40	1,500,000	–	–	–	1,500,000
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
Senior management							
LEE Wee Ong, Alex	18th February 2004	2.40	1,500,000	–	–	–	1,500,000
WANG Chong	18th February 2004	2.40	3,400,000	–	–	–	3,400,000
Other employees							
In aggregate *(Note 2)*	18th February 2004	2.40	9,250,000	–	–	–	9,250,000
In aggregate *(Note 3)*	23rd June 2006	1.49	–	9,000,000	–	–	9,000,000
Total			18,150,000	10,000,000	–	–	28,150,000

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the granting of options (the "Offer Date").

   For the options exercisable at HK$2.40 granted on 18th February 2004, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first, second and third anniversaries of the Offer Date.

   During the year ended 31st December 2006, a total of 10,000,000 share options were granted to certain employees pursuant to the Share Option Scheme. The grantees can exercise 100% of 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st December 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	Approximate percentage of share capital
Hinrichs Merle Allan	234,560,134 *(Note 1)*	–	Interest in controlled corporation	49.01%
McCarthy Kent C.	120,505,850 *(Note 2)*	–	Interest in controlled corporation	25.18%
McGovern Patrick J.	25,473,954 *(Note 3)*	25,473,954 *(Note 3)*	Interest in controlled corporation	5.32%
PMA Capital Management Ltd.	24,540,000	–	Investment manager	5.13%

Notes:

1. Such interests in the Company comprises: (i) 62,652,000 shares of the Company of which 5,916,000 shares and 56,736,000 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 (ii) 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.

2. 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.

3. 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.

CONNECTED TRANSACTIONS

Certain related party transactions entered into by the Group during the year ended 31st December 2006, as disclosed in note 11 and note 32 to the financial statements which also constitute (i) connected transactions or (ii) continuing connected transactions under the GEM Listing Rules (as amended from time to time), are required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules.

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

i. Connected Transactions Disclosed During the Year Ended 31st December 2006

1. Save for the continuing connected transactions disclosed below, the Group did not enter into any connected transaction disclosable under GEM Listing Rules during the financial year ended 31st December 2006.

ii. Continuing Connected Transactions (the "Transactions")

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

   On 1st September 2002, 北京慧美印刷有限公司 ("Huimei") and 慧聰商情廣告(北京)有限公司 (formerly known as 北京慧聰商情廣告有限公司) ("HC Advertising"), a subsidiary of the Company, entered into a printing agreement (the "Printing Agreement") for a term of three years, and on 18th November 2003, the parties entered into a supplemental agreement which extended the term of the Printing Agreement to 31st December 2005. Huimei is owned as to 65% by Beijing Huicong Construction Information Consultation Co., Ltd., a company owned as to 80% by Mr. Guo, the Chief Executive Officer and an executive Director, and as to 35% by Mr. Fan Yousheng, an independent third party.

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

   On 1st September 2005, Huimei and HC Advertising entered into a new printing supplemental agreement, pursuant to which the term was extended to 31st December 2007 and the annual limits on the printing fees payable to Huimei for each of the three years ended 31st December 2007 were set at RMB36 million, RMB45 million and RMB52 million, respectively. During the financial year ended 31st December 2006, approximately RMB27 million was paid by HC Advertising to Huimei.

2. On 13th September 2006, Trade Media Limited ("Trade Media") and each of Beijing Jinghuicong Advertising Co., Ltd, Shanghai Xinhuicongwang Advertising Co., Ltd, Hangzhou Huicong Advertising Co., Ltd., Guangzhou Huiying Advertising Co., Ltd. and Shenzhen Huicongwang Advertising Co., Ltd., subsidiaries of the Company, entered into a representation agreement, pursuant to which such subsidiaries were appointed by Trade Media as its representative on a non-exclusive basis for the marketing and promotion of Trade Media's on-line advertising and marketing products and services for the machinery sector in the PRC, and the collection of fees under the customer contracts from its customers. During the financial year ended 31st December 2006, the transaction value under this agreement amounted to approximately RMB1.14 million.

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

In accordance with paragraph 20.38 of the GEM Listing Rules the board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the board of Directors.

MAJOR SUPPLIERS AND CUSTOMERS

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

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

AUDIT COMMITTEE

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

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises a non-executive Director, Mr. John Craig Pepples (appointed on 1st August 2006) 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 of the Company the accounting principles and practices adopted by the Group, the annual results of the Group for the year ended 31st December 2006 and met with external auditors and discussed the financial matters of the Group that arose during the course of audit for the year ended 31st December 2006. The audit committee held 4 meetings during the period.

DIRECTORS INTERESTS IN COMPETING BUSINESS

Mr. John Craig Pepples, a non-executive Director, is a director of Trade Media Limited and a shareholder of Global Sources Limited. Trade Media Limited is an indirect wholly-owned subsidiary of Global Sources Limited, which is a substantial shareholder of the Company. Global Sources Limited and its associates (as defined in the GEM Listing Rules) are engaged in business-to-business media businesses which provide global two-way trade services.

Save as disclosed above, each of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the year ended 31st December 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PRE-EMPTIVE RIGHTS

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

SUBSEQUENT EVENTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December 2006.

AUDITORS

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

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

Beijing, PRC, 26th March 2007

INTRODUCTION

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

CORPORATE GOVERNANCE PRACTICES

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

DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted written guidelines regarding Directors' securities transactions on terms not less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules on 20th March 2006. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31st December 2006.

On 20th March 2006, the board also adopted written guidelines on terms not less than the required standard of dealings for relevant employees in respect of their dealings in the securities of the Company. Prior to the adoption of such an internal code of conduct regarding securities transactions by employees, relevant employees who had in their possession of price-sensitive information were formally briefed on the dealing restrictions in relation to the securities of the Company at management meetings during the reporting period.

THE BOARD OF DIRECTORS

Composition

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

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

The board of Directors as at 31st December 2006 comprised:

Executive Directors: Guo Fansheng, Wu Ying, Lai Sau Kam Connie, Guo Jiang
Non-executive Directors: Li Jianguang (Chairman), Pepples John Craig
Independent Non-executive Directors: Zhang Ke, Xiang Bing, Guo Wei

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

Board Meetings

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

During the financial year ended 31st December 2006, 6 board meetings were held and the following is an attendance record of the meetings by each Director:

Directors	**Attendance**
Guo Fansheng	5/6
Wu Ying (resigned effective from 28th February 2007)	5/6
Lai Sau Kam, Connie	6/6
Guo Jiang (appointed on 1st August 2006)	2/2
Li Jianguang (appointed on 1st August 2006)	2/2
Pepples John Craig (appointed on 1st August 2006)	2/2
Shong Hugo (resigned effective from 1st August 2006)	2/4
Yang Fei (resigned effective from 1st August 2006)	3/4
Zhang Ke	5/6
Xiang Bing	2/6
Guo Wei	4/6

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

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

Delegation by the Board

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

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

Term of Appointment and Re-election

Under the provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. Each of the existing non-executive Directors was appointed for a fixed term of one year, subject to rotation and/or re-election at the annual general meeting of the Company, as specified by the Articles of Association of the Company.

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.

On 10th November 2006, a special resolution was passed by the shareholders of the Company to approve the amendments to the Company's Articles of Association to ensure compliance with the Code. Pursuant to the amended provisions of the Articles of Associations of the Company, any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting. 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 less than one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

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

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

REMUNERATION COMMITTEE

The remuneration committee was established on 20th March 2006. The Chairman of the committee is Mr. Zhang Ke, (independent non-executive Director) and other members include Mr. Guo Jiang (executive Director), Mr. John Craig Pepples (non-executive Director), Mr. Xiang Bing and Mr. Guo Wei (independent non-executive Directors).

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

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

The remuneration committee is provided with other resources enabling it to discharge its duties such as the access to professional advice if and when necessary. For the financial year ended 31st December 2006, the remuneration committee held 2 meetings. The individual attendance record of each member is as follows:

Members	**Attendance**
Zhang Ke	2/2
Wu Ying (resigned effective from 28th February 2007)	2/2
Xiang Bing	1/2
Guo Wei	1/2
Pepples John Craig (appointed on 1st August 2006)	1/1

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

At the meetings of the remuneration committee held in the period under review, the members of the remuneration committee have reviewed the Group's remuneration policy and discussed the remuneration packages of Directors and senior management for the forthcoming financial year.

The emoluments of the Directors and the management are determined based on the operating results of the Company, individual performance and/or prevailing market conditions. The Company has also adopted the Share Option Scheme as an incentive to Directors and senior management.

AUDIT COMMITTEE AND ACCOUNTABILITY

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

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

The audit committee is provided with sufficient resources enabling it to discharge its duties. For the financial year ended 31st December 2006, the audit committee held 4 meetings. The individual attendance record of each member is as follows:

Members	Attendance
Zhang Ke	4/4
Yang Fei (resigned with effect from 1st August 2006)	2/2
Pepples John Craig (appointed on 1st August 2006)	2/2
Xiang Bing	1/4

The audit committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, the financial results of the Group during the year ended 31st December 2006 and met with external auditors and discussed the financial matters of the Group that arose during the course of audit during the year ended 31st December 2006. The audit committee held 4 meetings during the period.

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

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 33 of this report.

Auditor's Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit function performed by external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Company has paid an aggregate of HK$1,700,000 to the external auditors for its audit and other audit-related services.

INTERNAL CONTROL

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

INVESTOR RELATIONS

The Company discloses all necessary information to the shareholders in compliance with the GEM Listing Rules. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries (if any). The Directors make efforts to attend annual general meetings so that they may answer any question raised by the shareholders of the Company.

The proceedings of the annual general meetings are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance.

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

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

We have audited the consolidated financial statements of HC International, Inc. (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 85, which comprise the consolidated and the Company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16th March 2007

Consolidated
Income Statement For the year ended 31st December 2006

	Note	2006 RMB'000	2005 RMB'000
Continuing operations			
Sales	5	**291,291**	320,519
Cost of sales	21	**(141,977)**	(157,995)
Gross profit		**149,314**	162,524
Other income	20	**1,672**	2,667
Selling and marketing expenses	21	**(105,766)**	(100,486)
Administrative expenses	21	**(104,790)**	(108,354)
(Loss)/gain on disposal and termination of subsidiaries and branches		**(10,087)**	28,399
Finance costs	23	**(868)**	(1,657)
Share of loss of a jointly controlled entity	10	**–**	(1,517)
Impairment of goodwill	7	**(4,628)**	–
Loss before income tax		**(75,153)**	(18,424)
Income tax	24	**3,221**	4,633
Loss for the year from continuing operations		**(71,932)**	(13,791)
Loss for the year from discontinued operations	33	**(49,577)**	(30,455)
Loss for the year		**(121,509)**	(44,246)
Attributable to:			
Equity holders of the Company		**(98,793)**	(24,747)
Minority interest		**(22,716)**	(19,499)
		(121,509)	(44,246)
Loss per share from continuing operations attributable to the equity holders of the Company during the year (expressed in RMB per share)			
Basic	27	**(0.1268)**	(0.0023)
Diluted	27	**(0.1223)**	(0.0021)
Loss per share from discontinued operations attributable to the equity holders of the Company during the year (expressed in RMB per share)			
Basic	27	**(0.0800)**	(0.0509)
Diluted	27	**(0.0771)**	(0.0482)
Dividends	28	**–**	–

Consolidated Balance Sheet

As at 31st December 2006

	Note	**2006** **RMB'000**	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**85,867**	88,895
Land use rights	6	**19,860**	20,287
Intangible assets	7	**29,153**	38,711
Amount due from a jointly controlled entity	10	**7,131**	10,131
Deferred income tax assets	17	**12,335**	9,276
		154,346	167,300
Current assets			
Amount due from a jointly controlled entity	10	**6,971**	3,000
Trade receivables	11	**27,978**	50,880
Deposits, prepayments and other receivables	11	**15,182**	50,748
Amounts due from related parties	11	**1,233**	3,921
Cash and cash equivalents	12	**164,364**	135,302
		215,728	243,851
Non-current assets classified as held for sale	33	**–**	74,602
		215,728	318,453
Total assets		**370,074**	485,753
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**51,153**	49,839
Other reserves	14	**255,009**	250,920
(Accumulated losses)/retained earnings		**(69,944)**	28,849
		236,218	329,608
Minority interest		**8,837**	28,485
Total equity		**245,055**	358,093

	Note	2006 RMB'000	2005 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	**1,204**	1,753
Current liabilities			
Trade payables	15	**5,049**	5,942
Deferred revenue	15	**43,329**	46,913
Amount due to a related party	15	**–**	833
Accrued expenses and other payables	15	**21,763**	9,748
Accruals for statutory benefit funds	19	**64**	1,777
Short-term loans	16	**35,001**	26,001
Other taxes payable	18	**15,747**	14,279
Income tax payable	18	**2,862**	3,329
		123,815	108,822
Liabilities directly associated with non-current assets classified as held for sale	33	**–**	17,085
		123,815	125,907
Total liabilities		**125,019**	127,660
Total equity and liabilities		**370,074**	485,753
Net current assets		**91,913**	192,546
Total assets less current liabilities		**246,259**	359,846

On behalf of the board of Directors

GUO Fansheng
Director

LAI Sau Kam, Connie
Director

Balance Sheet

	Note	2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**1,956**	1,956
		1,956	1,956
Current assets			
Loan to a subsidiary	9	**179,714**	174,592
Cash and cash equivalents	12	**5**	5
		179,719	174,597
Total assets		**181,675**	176,553
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**51,153**	49,839
Other reserves	14	**149,514**	141,103
Accumulated losses	26	**(19,312)**	(14,887)
Total equity		**181,355**	176,055
LIABILITIES			
Current liabilities			
Other payables and accruals		**320**	498
Total liabilities		**320**	498
Total equity and liabilities		**181,675**	176,553
Net current assets		**179,399**	174,099
Total assets less current liabilities		**181,355**	176,055

On behalf of the board of Directors

GUO Fansheng
Director

LAI Sau Kam, Connie
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2006

	Note	Attributable to the Company's equity holders				
	Note	Share Capital	Other reserves	Retained earnings/ (Accumulated losses)	Minority Interest	Total
Balance at 1st January 2005		48,669	242,079	53,596	41,692	386,036
Exercise of share options	*13, 14*	1,170	3,978	–	–	5,148
Capital contribution from minority interest		–	–	–	1,130	1,130
Disposal of subsidiaries		–	–	–	5,162	5,162
Loss for the year		–	–	(24,747)	(19,499)	(44,246)
Share option scheme-value of employee services	*14*	–	4,863	–	–	4,863
		1,170	8,841	(24,747)	(13,207)	(27,943)
Balance at 31st December 2005		49,839	250,920	28,849	28,485	358,093
Balance at 1st January 2006		49,839	250,920	28,849	28,485	358,093
Exercise of share options	*13, 14*	1,314	4,467	–	–	5,781
Disposal and termination of subsidiaries and branches		–	–	–	3,068	3,068
Loss for the year		–	–	(98,793)	(22,716)	(121,509)
Share option scheme-value of employee services	*14*	–	3,944	–	–	3,944
Currency translation difference	*14*	–	(4,322)	–	–	(4,322)
		1,314	4,089	(98,793)	(19,648)	(113,038)
Balance at 31st December 2006		**51,153**	**255,009**	**(69,944)**	**8,837**	**245,055**

Consolidated Cash Flow Statement

	Note	2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Cash generated from operations	29(a)	**23,062**	32,861
Interest received		**1,772**	757
Interest paid		**(868)**	(1,657)
PRC income tax paid		**(872)**	(2,182)
Net cash generated from operating activities		**23,094**	29,779
Cash flows from investing activities			
Purchase of property, plant and equipment		**(17,870)**	(47,086)
Proceed from sale of property, plant and equipment		**2,590**	4,147
Payment for software development costs		**–**	(15,958)
(Increase)/decrease in amount due from a jointly controlled entity		**(971)**	165
Disposal and termination of subsidiaries, branches and discontinued operations	29(c)	**(2,409)**	14,535
Net cash used in investing activities		**(18,660)**	(44,197)
Cash flows from financing activities			
Short-term loans raised		**32,000**	3,001
Repayment of short-term loans		**(23,000)**	–
Capital contribution from minority shareholders		**–**	1,130
Issue of ordinary shares		**5,781**	5,148
Net cash generated from financing activities		**14,781**	9,279
Net increase/(decrease) in cash and cash equivalents		**19,215**	(5,139)
Cash and cash equivalents at beginning of the year		**149,017**	154,156
Exchange losses on cash and cash equivalents		**(3,868)**	–
Cash and cash equivalents at end of the year		**164,364**	149,017
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		**164,364**	135,302
Bank balances and cash classified as non-current assets held for sales	33	**–**	13,715
		164,364	149,017

1. GENERAL INFORMATION

HC International, Inc. (the "Company") and its subsidiaries (together the "Group") organises a business-to-business community across China by providing business information through both on-line and offline channels. The Group operates an on-line market place and 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 generates 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, Cayman Islands, British West Indies.

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

These consolidated financial statements are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 16th March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but did not result in substantial changes to the Group's accounting policies:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

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

(a) Basis of preparation *(Continued)*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 Amendment	First-time Adoption of International Financial Reporting Standards
HK(IFRIC) – Int 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods that the Group has not early adopted:

HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods but are not relevant for the Group's operations:

HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 9	Reassessment of embedded derivatives

(b) Consolidation

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

(a) Subsidiaries

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

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

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

(b) Consolidation *(Continued)*

(a) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (note 2(h)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Jointly controlled entity

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

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

(c) Segment reporting

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

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

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

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

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

(d) Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(c) Group companies

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

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

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

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

(e) Land use rights

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

(f) Property, plant and equipment

Property, plant and equipment, comprising buildings, computer and telecommunications equipment, fixtures, fitting and office equipment, leasehold improvements and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

(f) Property, plant and equipment *(Continued)*

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

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

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

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and recognised within administrative expenses, in the income statement.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(g) Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Software development costs

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

(c) Data library

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

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

(h) Impairment of investments in subsidiaries and non-financial assets

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

(i) Financial assets

The Group classifies its investments as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing expenses in the income statement.

(k) Cash and cash equivalents

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

(l) Deferred revenue

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

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

(m) Borrowings

Borrowings comprise mainly bank loan and other short-term loan. They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Bank loan and other short-term loan are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank loan and other short-term loan are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(n) Share capital

Ordinary shares are classified as equity.

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

(o) Deferred income tax

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

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

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

(p) Employee benefits

(a) Employee leave entitlements

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

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

(b) Retirement benefit costs

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

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

(p) Employee benefits *(Continued)*

(c) Share-based compensation

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

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

(q) Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(s) Revenue recognition

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

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

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

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

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

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

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

(s) Revenue recognition *(Continued)*

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

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

Interest income is recognised on a time proportion basis, using the effective interest method, when a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

(t) Leases

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

(u) Borrowing costs

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

(v) Contingent liabilities

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

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

(w) Dividend distribution

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

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

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Cash flow and fair value interest rate risk

The Group has cash balances placed with reputable banks and financial institutions, which generate interest income for the Group. The Group manages its interest rate risk by placing such balances on various maturities and interest rate terms.

(b) Credit risk

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

(c) Liquidity risk

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

(b) Fair value estimation

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

(b) Estimated impairment of goodwill

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

(c) Provision for impairment of receivables

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

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31st December 2006, the Group is organised into the following business segments:

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

(ii) Search engine services – provision of search engine services to customers which allows a customer to register its own business website on the search engine platform.

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

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

There were no sales or other transactions between the business segments in 2006.

5. SEGMENT INFORMATION (Continued)

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

Year ended 31st December 2006

	Trade catalogues and yellow page directories RMB'000	Search engine services RMB'000	Market research and analysis RMB'000	Printed periodicals, seminars and other PR services RMB'000	Total RMB'000
Sales	**145,909**	**94,904**	**29,212**	**21,266**	**291,291**
Cost of sales	**(78,559)**	**(23,407)**	**(17,552)**	**(22,459)**	**(141,977)**
Segment results	**67,350**	**71,497**	**11,660**	**(1,193)**	**149,314**
Other income					**1,672**
Allocated costs	**(46,650)**	**(65,249)**	**(5,155)**	**(1,624)**	**(118,678)**
Unallocated costs					**(91,878)**
Loss on disposal and termination of subsidiaries and branches					**(10,087)**
Finance costs					**(868)**
Impairment of goodwill					**(4,628)**
Loss before income tax					**(75,153)**
Income tax					**3,221**
Loss for the year from continuing operations					**(71,932)**
Loss for the year from discontinued operations					**(49,577)**
Loss for the year					**(121,509)**
Attributable to:					
Equity holders of the Company					**(98,793)**
Minority interest					**(22,716)**
					(121,509)
Segment assets	**19,765**	**14,862**	**7,371**	**1,248**	**43,246**
Unallocated assets *(note a)*					**326,828**
Total assets					**370,074**

5. SEGMENT INFORMATION *(Continued)*

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

	Year ended 31st December 2006				
	Trade catalogues and yellow page directories	Search engine services	Market research and analysis	Printed periodicals, seminars and other PR services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment liabilities	**25,379**	**22,999**	**–**	**–**	**48,378**
Unallocated liabilities *(note b)*					**76,641**
Total liabilities					**125,019**
Unallocated capital expenditure *(note c)*	**–**	**–**	**–**	**–**	**17,062**
Unallocated depreciation					**(17,432)**
Amortisation	**–**	**(2,731)**	**–**	**–**	**(2,731)**
Unallocated amortisation					**(2,199)**
					(4,930)
Write off and provision for impairment of trade and other receivables	**(3,070)**	**–**	**(3,370)**	**(602)**	**(7,042)**
Unallocated write off and provision for impairment of trade and other receivables					**(5,587)**
					(12,629)

Notes:

(a) Unallocated assets mainly represent intangible assets, property, plant and equipment, land use rights, deferred income tax assets, deposits, prepayments and other receivables, amounts due from related parties and cash and bank balances, which are shared among the companies of the Group and which cannot be allocated to specific segments.

(b) Unallocated liabilities mainly represent accrued expenses and short-term loans, which are shared among the companies of the Group, and which cannot be allocated to specific segments.

(c) Unallocated capital expenditure mainly represent the purchase of property, plant and equipment which are shared among the companies of the Group, and which cannot be allocated to specific segments.

5. SEGMENT INFORMATION (Continued)

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

	Year ended 31st December 2005				
	Trade catalogues and yellow page directories *RMB'000*	Search engine services *RMB'000*	Market research and analysis *RMB'000*	Printed periodicals, seminars and other PR services *RMB'000*	Total *RMB'000*
Sales	173,304	96,351	30,251	20,613	320,519
Cost of sales	(90,841)	(28,304)	(15,193)	(23,657)	(157,995)
Segment results	82,463	68,047	15,058	(3,044)	162,524
Other income					2,667
Allocated costs	(46,827)	(53,287)	(3,540)	–	(103,654)
Unallocated costs					(105,186)
Gain on disposal of subsidiaries					28,399
Finance costs					(1,657)
Share of loss of a jointly controlled entity					(1,517)
Loss before income tax					(18,424)
Income tax					4,633
Loss for the year from continuing operations					(13,791)
Loss for the year from discontinued operations					(30,455)
Loss for the year					(44,246)
Attributable to:					
Equity holders of the Company					(24,747)
Minority interest					(19,499)
					(44,246)

5. SEGMENT INFORMATION *(Continued)*

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

	Year ended 31st December 2005				
	Trade catalogues and yellow page directories *RMB'000*	Search engine services *RMB'000*	Market research and analysis *RMB'000*	Printed periodicals, seminars and other PR services *RMB'000*	Total *RMB'000*
Segment assets	34,299	19,046	12,628	5,405	71,378
Unallocated assets *(note a)*					414,375
Total assets					485,753
Segment liabilities	22,156	29,581	–	1,118	52,855
Unallocated liabilities *(note b)*					74,805
Total liabilities					127,660
Capital expenditure	–	15,958	–	–	15,958
Unallocated capital expenditure *(note c)*					47,097
					63,055
Unallocated depreciation					(17,952)
Amortisation	–	(3,376)	–	–	(3,376)
Unallocated amortisation					(2,199)
					(5,575)
Write off and provision for impairment of trade and other receivables	(2,897)	–	(912)	(2,249)	(6,058)
Unallocated write off and provision for impairment of trade and other receivables					(3,052)
					(9,110)

5. SEGMENT INFORMATION *(Continued)*

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

Notes:

(a) Unallocated assets mainly represent intangible assets, property, plant and equipment, land use rights, deferred income tax assets, deposits, prepayments and other receivables, amounts due from related parties and cash and bank balances, which are shared among the companies of the Group and which cannot be allocated to specific segments.

(b) Unallocated liabilities mainly represent accrued expenses and short-term loans, which are shared among the companies of the Group, and which cannot be allocated to specific segments.

(c) Unallocated capital expenditure mainly represent the purchase of property, plant and equipment which are shared among the companies of the Group, and which cannot be allocated to specific segments.

(b) Secondary reporting format – geographical segments

The principal market of the Group is primarily in the People's Republic of China, excluding the Hong Kong Special Administrative Region, (the "PRC") and the turnover and operating profit attributable to other markets are both less than 10% of the Group's total turnover and operating profit for the year ended 31st December 2006, individually. Accordingly, no segmental information analysed by geographical segment is presented.

6. LAND USE RIGHTS – GROUP

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

	2006	2005
	RMB'000	*RMB'000*
Opening net book amount	**20,287**	20,715
Amortisation of land use rights	**(427)**	(428)
Closing net book amount	**19,860**	20,287

Bank loan is secured on land use rights for carrying amount of RMB19,860,000 (2005: RMB20,287,000) (note 16).

7. INTANGIBLE ASSETS – GROUP

	Goodwill *RMB'000*	Excess of fair value of acquiree's assets and liabilities over cost *RMB'000*	Software development costs *RMB'000*	Data library *RMB'000*	Total *RMB'000*
At 1st January 2005					
Cost	4,900	(368)	21,611	21,986	48,129
Accumulated amortisation and impairment	(272)	368	(3,904)	(3,298)	(7,106)
Net book amount	4,628	–	17,707	18,688	41,023
Year ended 31st December 2005					
Opening net book amount	4,628	–	17,707	18,688	41,023
Additions	–	–	15,958	–	15,958
Disposal of a subsidiary	–	–	(12,695)	–	(12,695)
Amortisation expense *(b)*	–	–	(3,376)	(2,199)	(5,575)
Closing net book amount	4,628	–	17,594	16,489	38,711
At 31st December 2005					
Cost	4,900	–	23,797	21,986	50,683
Accumulated amortisation and impairment	(272)	–	(6,203)	(5,497)	(11,972)
Net book amount	4,628	–	17,594	16,489	38,711
Year ended 31st December 2006					
Opening net book amount	4,628	–	17,594	16,489	38,711
Impairment of goodwill *(a)*	(4,628)	–	–	–	(4,628)
Amortisation expense *(b)*	–	–	(2,731)	(2,199)	(4,930)
Closing net book amount	–	–	14,863	14,290	29,153
At 31st December 2006					
Cost	4,900	–	23,797	21,986	50,683
Accumulated amortisation and impairment	(4,900)	–	(8,934)	(7,696)	(21,530)
Net book amount	–	–	14,863	14,290	29,153

(a) Impairment test for goodwill

Management considers 北京慧聰互動信息諮詢有限公司 as one cash-generating unit (the "CGU").

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rate of 23%. The weighted average growth rate was based on past performance of the Group business and its expectations for the market development and does not exceed the long-term average growth rate in which the CGU operates. The pre-tax discount rate of 6.3% applied to the cash flow projections reflects specific risks relating to the business. The carrying amount of the goodwill has been reduced to its recoverable amount through recognition of an impairment loss against it.

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

8. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Computer and telecom-munications equipment	Fixtures, fittings and office equipment	Leasehold improvements	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January 2005						
Cost	36,546	69,315	13,262	4,824	6,167	130,114
Accumulated depreciation	(2,899)	(24,625)	(4,836)	(475)	(2,292)	(35,127)
Net book amount	33,647	44,690	8,426	4,349	3,875	94,987
Year ended 31st December 2005						
Opening net book amount	33,647	43,907	7,743	2,339	3,100	90,736
Additions	3,146	38,086	953	1,999	99	44,283
Disposals	(1,516)	(1,782)	(327)	(236)	(311)	(4,172)
Disposal of subsidiaries	–	(22,448)	(1,002)	(550)	–	(24,000)
Depreciation *(b)*	(1,747)	(12,669)	(1,956)	(605)	(975)	(17,952)
Closing net book amount	33,530	45,094	5,411	2,947	1,913	88,895
At 31st December 2005						
Cost	37,592	75,213	11,800	3,820	4,747	133,172
Accumulated depreciation	(4,062)	(30,119)	(6,389)	(873)	(2,834)	(44,277)
Net book amount	33,530	45,094	5,411	2,947	1,913	88,895
Year ended 31st December 2006						
Opening net book amount	33,530	45,094	5,411	2,947	1,913	88,895
Additions	1,487	14,750	46	560	219	17,062
Disposals	–	(587)	(50)	(666)	(400)	(1,703)
Disposal and termination and branches of subsidiaries	(117)	(355)	(353)	(91)	(39)	(955)
Depreciation *(b)*	(1,892)	(12,916)	(1,111)	(1,286)	(227)	(17,432)
Closing net book amount	33,008	45,986	3,943	1,464	1,466	85,867
At 31st December 2006						
Cost	38,943	86,485	11,295	3,461	3,144	143,328
Accumulated depreciation	(5,935)	(40,499)	(7,352)	(1,997)	(1,678)	(57,461)
Net book amount	33,008	45,986	3,943	1,464	1,466	85,867

(a) As at 31st December 2006, buildings carried at RMB31,639,000 (2005: RMB33,491,000) are pledged to secure the Group's bank loan.

(b) Depreciation expenses of RMB3,604,000 (2005: RMB8,416,000) is including in selling and marketing expenses; and RMB13,828,000 (2005: RMB9,534,000) in administrative expenses in the consolidated income statement.

9. INVESTMENTS IN AND LOAN TO SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	*RMB'000*
Investments, unlisted shares, at cost *(note a)*	**1,956**	1,956
Loan to a subsidiary *(note b)*	**179,714**	174,592
	181,670	176,548

(a) The following is a list of the principal subsidiaries at 31st December 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/paid-up share capital	Effective interest held
* Hong Kong Huicong International Group Limited ("HKHC")	British Virgin Islands, limited liability company	Investment holding in Hong Kong	21,000,000 Ordinary shares of US$0.01 each	100%
** China Media Network International Inc.	British Virgin Islands, limited liability company	Investment holding in Hong Kong	50,000 Ordinary shares of US$1 each	100%
北京慧聰國際資訊有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB110,000,000	82%
北京慧聰互聯信息技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB10,000,000	82%
北京慧翔網絡技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB10,000,000	82%
北京慧聰再創科技有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB5,000,000	82%
北京京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%

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

(a) *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/paid-up share capital	Effective interest held
北京慧聰金網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
慧聰商情廣告(北京)有限公司 (formerly known as: 北京慧聰商情廣告有限公司)	The PRC, limited liability company	Advertising in the PRC	RMB2,000,000	82%
北京慧聰網展覽有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	61.5%
上海慧龍廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
上海新慧聰網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
上海慧網網絡信息資訊有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	82%
南京慧聰網廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
浙江慧聰網絡信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	77.9%
杭州慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
廣州市京慧聰商情廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,500,000	82%

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

(a) *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/paid-up share capital	Effective interest held
廣州市慧穎廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
廈門市京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
深圳市京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB2,000,000	82%
深圳市慧聰網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
濟南金慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
** 北京華媒盛視廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB5,000,000	65.6%
** 北京華媒盛視信息技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB20,000,000	65.6%
** 北京華媒盛視電廣科技有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB10,000,000	82%

* *Shares held directly by the Company.*

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

The attributable interest of profit/loss sharing and voting power in certain subsidiaries held by the Company differ from its attributable equity interests in these subsidiaries because the minority shareholders of these subsidiaries have forfeited their rights of sharing profit/loss and voting power in these subsidiaries to the Group.

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

(a) *(Continued)*

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

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/paid-up share capital	Effective interest held
* Hong Kong Huicong International Group Limited ("HKHC")	British Virgin Islands, limited liability company	Investment holding in Hong Kong	21,000,000 Ordinary shares of US$0.01 each	100%
** China Media Network International Inc.	British Virgin Islands, limited liability company	Investment holding in Hong Kong	50,000 Ordinary shares of US$1 each	100%
北京慧聰國際資訊有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB110,000,000	82%
北京慧聰互聯信息技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB10,000,000	82%
北京慧翔網絡技術有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB10,000,000	82%
北京慧聰再創科技有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB5,000,000	82%
北京慧聰互動信息諮詢有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	42%
北京京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
北京慧聰金網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
慧聰商情廣告(北京)有限公司 (formerly known as: 北京慧聰商情廣告有限公司)	The PRC, limited liability company	Advertising in the PRC	RMB2,000,000	82%
北京慧聰網展覽有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	61.5%
上海慧龍廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
上海新慧聰網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%

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

(a) *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/paid-up share capital	Effective interest held
上海慧網網絡信息資訊有限公司	The PRC, limited liability company	Provision of business information in the PRC	RMB1,000,000	82%
南京慧聰廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB635,000	78.7%
南京慧聰網廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
蘇州京慧聰廣告信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
浙江慧聰網絡信息有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	77.9%
杭州慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
廣州市京慧聰商情廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,500,000	82%
廣州市慧穎廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
福州京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
廈門市京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
深圳市京慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB2,000,000	82%
深圳市慧聰網廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB1,000,000	82%
濟南金慧聰廣告有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%
石家莊金慧聰廣告信息諮詢有限公司	The PRC, limited liability company	Advertising in the PRC	RMB500,000	82%

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

(a) *(Continued)*

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

* *Shares held directly by the Company.*

** *Operations carrying out by these entities are classified as discontinued operations in 2005 and were disposed and terminated or ceased operations during the year ended 31st December 2006.*

The attributable interest of profit/loss sharing and voting power in certain subsidiaries held by the Company differ from its attributable equity interests in these subsidiaries because the minority shareholders of these subsidiaries have forfeited their rights of sharing profit/loss and voting power in these subsidiaries to the Group.

(b) Loan to a subsidiary

The loan to a subsidiary is unsecured, interest-free and repayable on demand.

10. INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP

	2006	2005
	RMB'000	*RMB'000*
Interest in a jointly controlled entity *(note a)*	**–**	–
Amount due from a jointly controlled entity *(note b)*	**14,102**	13,131
	14,102	13,131
Less: current portion of amount due from a jointly controlled entity included in current assets *(note b)*	**(6,971)**	(3,000)
Long term portion	**7,131**	10,131

Notes:

(a) Interests in jointly controlled entities

	2006	2005
	RMB'000	*RMB'000*
Beginning of the year	**–**	1,682
Interest in a jointly controlled entity	**–**	1,517
Liquidation of a jointly controlled entity *(note c)*	**–**	(1,682)
Share of loss of a jointly controlled entity	**–**	(1,517)
	–	–

At 31st December 2006 and 2005, the Group had equity interest in the following jointly controlled entities, all of which are unlisted:

Name	**Place and date of incorporation**	**Principal activities**	**Particular of issued share capital/paid-up share capital**		**Effective Interest held**	
			2006	2005	**2006**	2005
Shares held directly:						
China Search Inc.	Cayman Islands 31st May 2004	Investment holding	**87,500,000 ordinary shares of USD0.00025**	84,166,666 ordinary shares of USD0.00025	**19.94%**	22.1%
			30,857,142 preferred shares of USD0.00025	22,285,714 preferred shares of USD0.00025		
Shares held indirectly through China Search Inc:						
北京中搜在線軟件有限公司	The PRC 28th May 2003	Provision of search engine service, software licensing and system integration	**RMB19,920,319**	RMB7,500,000	**18.43%**	20.22%

(b) Amount due from a jointly controlled entity is unsecured, interest-free and repayable within 4 years. The fair value equals its carrying amount, as the impact of discounting is not significant.

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

11. TRADE AND OTHER RECEIVABLES – Group

	2006 **RMB'000**	2005 *RMB'000*
Trade receivables *(note a)*	**29,998**	56,286
Less: write off and provision for impairment of trade receivables	**(2,020)**	(5,406)
Trade receivables – net	**27,978**	50,880
Deposits, prepayments and other receivables	**15,182**	50,748
Amounts due from related parties *(note b)*	**1,233**	3,921
	44,393	105,549

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

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

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

	2006 **RMB'000**	2005 *RMB'000*
Current to 90 days	**14,843**	26,094
91 to 180 days	**4,635**	11,152
181 to 365 days	**3,787**	10,285
Over 1 year	**6,733**	8,755
	29,998	56,286

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

The Group has recognised a loss of RMB7,042,000 (2005: RMB6,127,000) for the impairment of its trade receivables during the year ended 31st December 2006. The loss has been included in selling and marketing expenses in the consolidated income statement.

(b) Amounts due from related parties

	Note	**2006** **RMB'000**	2005 *RMB'000*
Amounts due from related companies:			
北京慧聰建設信息諮詢有限公司	*(i)*	**827**	–
北京慧美印刷有限公司	*(i)*	**406**	2,933
		1,233	2,933
Amounts due from officers of the Group *(note c)*		**–**	988
		1,233	3,921

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

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

(c) Amounts due from officers of the Group

Name	Maximum amount outstanding during the year *RMB'000*	Amount outstanding at 31st December 2006 *RMB'000*	Amount outstanding at 31st December 2005 *RMB'000*
Mr. Wu Xian (Director of subsidiaries)	450	–	450
Mr. Shen Qizhi (Director of subsidiaries)	202	–	202
Mr. Li Shuang Qing (Director of subsidiaries)	182	–	182
Mr. Yi Zhou (Director of subsidiaries)	154	–	154
	988	–	988

As at 31st December 2005, amounts due from officers were guaranteed by one of the directors of the Company, interest-bearing at prevailing interest rate and repayable within one year.

12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 **RMB'000**	2005 *RMB'000*	**2006** **RMB'000**	2005 *RMB'000*
Cash at bank and in hand	**164,364**	135,302	**5**	5
	164,364	135,302	**5**	5

As at 31st December 2006, bank and cash balance of approximately RMB99,583,000 (2005: RMB94,236,000) of the Group were denominated in Renminbi and deposited with banks in the PRC. The conversion of the Renminbi denominated balance into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

13. SHARE CAPITAL

	Number of shares	Ordinary shares *RMB'000*
At 1st January 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 31st December 2006	**478,565,873**	**51,153**

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.

13. 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 by the Company, Pursuant to the Pre-IPO Share Option Scheme, the board of Directors is authorised to grant options to any Directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board of Directors in accordance with the terms of the Pre-IPO Share Option Scheme. No additional share options were granted pursuant to the Pre-IPO Share Option Scheme during the year.

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

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

During the year ended 31st December 2004, a total of 26,000,000 share options were granted to two executive Directors and certain employees pursuant to the Share Option Scheme, of which 7,850,000 share options were cancelled during the year ended 31st December 2005. The grantees can exercise these options at an exercise price of HK$2.40 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 18th February 2004. 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 year ended 31st December 2006, a total of 10,000,000 share options were granted to an executive Director and certain employees pursuant to the Share Option Scheme. The grantees can exercise 100% of 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.

(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.

(iv) 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 of 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.

13. SHARE CAPITAL *(Continued)*

Share options *(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 31st December	**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	**1.49**	**10,000,000**	–	–
Cancelled	**2.40**	**–**	2.40	(7,850,000)
At 31st December	**2.40**	**18,150,000**	2.40	18,150,000
	1.49	**10,000,000**	–	–

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

(a) Pre-IPO Share Option Scheme

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

(b) Share Option Scheme

Expiry date	**Exercise price HK$ per share**	**Share options 2006**	**Share options** 2005
18th February 2014	2.40	**18,150,000**	18,150,000
23rd June 2016	1.49	**10,000,000**	–

14. OTHER RESERVES

	Group					
	Capital reserve	Merger reserve	Share-based compensation reserves	Share premium	Exchange reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January 2005	987	108,830	7,814	124,448	–	242,079
Exercise of share options	–	–	–	3,978	–	3,978
Share option scheme-value of employee services	–	–	4,863	–	–	4,863
At 31st December 2005	987	108,830	12,677	128,426	–	250,920
At 1st January 2006	987	108,830	12,677	128,426	–	250,920
Exercise of share options	–	–	–	4,467	–	4,467
Share option scheme-value of employee services	–	–	3,944	–	–	3,944
Currency translation difference	–	–	–	–	(4,322)	(4,322)
At 31st December 2006	**987**	**108,830**	**16,621**	**132,893**	**(4,322)**	**255,009**

	Company		
	Share-based compensation reserves	Share premium	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1st January 2005	7,814	124,448	132,262
Exercise of share options	–	3,978	3,978
Share option scheme-value of employee services	4,863	–	4,863
At 31st December 2005	12,677	128,426	141,103
At 1st January 2006	12,677	128,426	141,103
Exercise of share options	–	4,467	4,467
Share option scheme-value of employee services	3,944	–	3,944
At 31st December 2006	**16,621**	**132,893**	**149,514**

15. TRADE AND OTHER PAYABLES AND DEFERRED REVENUE – GROUP

	2006 **RMB'000**	2005 *RMB'000*
Trade payables *(note a)*	**5,049**	5,942
Deferred revenue	**43,329**	46,913
Amount due to a related party, 北京慧聰建設信息諮詢有限公司*(note b)*	**–**	833
Accrued expenses and other payables	**21,763**	9,748
	70,141	63,436

(a) The ageing analysis of the trade payables were as follows:

	2006 **RMB'000**	2005 *RMB'000*
Current to 90 days	**4,265**	4,072
91 to 180 days	**81**	598
181 to 365 days	**499**	840
Over 1 year	**204**	432
	5,049	5,942

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

16. SHORT-TERM LOANS

	2006 **RMB'000**	2005 *RMB'000*
Bank loan, secured *(note a)*	**32,000**	23,000
Other short-term loan *(note b)*	**3,001**	3,001
	35,001	26,001

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

(a) Bank loan of RMB32,000,000 (2005: RMB23,000,000) is interest-bearing at 6.73%, repayable within one year and secured by the land use rights and a building of the Group (note 6 and note 8).

(b) Other short-term loan of RMB3,001,000 (2005: RMB3,001,000) is unsecured, interest-bearing at LIBOR plus 1% and repayable on demand.

17. DEFERRED INCOME TAX – GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2005: 33%). Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset of current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority. The offset amounts are as follows:

	2006	2005
	RMB'000	*RMB'000*
Deferred income tax assets (to be recovered after more than 12 months)	**12,335**	9,276
Deferred income tax liabilities (to be settled after more than 12 months)	**(1,204)**	(1,753)
	11,131	7,523

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

The gross movement on the deferred income tax account is as follows:

	2006	2005
	RMB'000	*RMB'000*
At 1st January	**7,523**	2,203
Credited to income statement *(note 24)*	**3,608**	5,320
At 31st December	**11,131**	7,523

17. DEFERRED INCOME TAX – GROUP *(Continued)*

The movements in deferred tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same taxation jurisdiction, is as follows:

Deferred tax assets

	Provisions for impairment of trade receivables		Tax losses		Total	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	**RMB'000**	*RMB'000*	**RMB'000**	*RMB'000*
At 1st January	**7,440**	6,250	**5,632**	–	**13,072**	6,250
Credited to the income statement	**1,685**	1,190	**1,394**	5,632	**3,079**	6,822
At 31st December	**9,125**	7,440	**7,026**	5,632	**16,151**	13,072

Deferred tax liabilities

	Deferred development assets		Accrued staff welfare benefits		Total	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	**RMB'000**	*RMB'000*	**RMB'000**	*RMB'000*
At 1st January	**(1,176)**	(356)	**(4,373)**	(3,691)	**(5,549)**	(4,047)
Credited/(charged) to the income statement	**698**	(820)	**(169)**	(682)	**529**	(1,502)
At 31st December	**(478)**	(1,176)	**(4,542)**	(4,373)	**(5,020)**	(5,549)

18. INCOME TAX PAYABLE AND OTHER TAXES PAYABLE – GROUP

	2006	2005
	RMB'000	*RMB'000*
Income tax payable:		
Enterprise income tax	**2,862**	3,329
Other taxes payable:		
Business tax	**10,802**	9,298
Cultural and development tax	**1,789**	1,751
Other taxes	**3,156**	3,230
	15,747	14,279

19. ACCRUALS FOR STATUTORY BENEFITS FUNDS – GROUP

	2006 **RMB'000**	2005 *RMB'000*
Retirement benefit	**10**	1,757
Medical benefit	**47**	–
Housing benefit	**7**	20
	64	1,777

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

20. OTHER INCOME

	2006 **RMB'000**	2005 *RMB'000*
Interest income	**1,672**	627
Compensation from a legal claim	**–**	2,040
	1,672	2,667

21. EXPENSES BY NATURE

	2006 **RMB'000**	2005 *RMB'000*
Direct cost of trade catalogues and yellow page directories	**47,906**	49,467
Direct cost of search engine services	**4,427**	2,756
Direct cost of market research and analysis	**8,552**	5,188
Direct cost of printed periodicals, seminars and other PR services	**21,542**	22,446
Marketing expenses	**24,307**	19,603
Network and telephone expenses	**15,020**	13,151
Auditors' remuneration	**1,700**	1,600
Staff costs, including directors' emoluments *(note 22)*	**150,165**	168,914
Amortisation of land use rights *(note 6)*	**427**	428
Amortisation of intangible assets *(note 7)*	**4,930**	5,575
Depreciation of property, plant and equipment *(note 8)*	**17,432**	17,952
Write-off and provision for impairment of trade and other receivables	**12,629**	9,110
Loss on disposal of property, plant and equipment	**173**	25
Operating lease payments in respect of land and buildings	**16,575**	21,166
Other expenses	**26,748**	29,454
Total cost of sales, selling and marketing expenses and administrative expenses	**352,533**	366,835

22. EMPLOYEE BENEFIT EXPENSE

	2006 **RMB'000**	2005 *RMB'000*
Wages and salaries	**132,919**	154,135
Retirement benefits costs *(note a)*	**5,419**	7,299
Other benefits	**7,883**	14,322
Share option scheme – value of employee services	**3,944**	4,863
	150,165	180,619
Less: capitalised staff costs	**–**	(11,705)
	150,165	168,914

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

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

	2006 **RMB'000**	2005 *RMB'000*
Contributions paid and payable to the state retirement plans	**5,419**	7,299

As at 31st December 2006, the Group had outstanding contribution payable of approximately RMB10,000 (2005: RMB1,757,000) to the retirement plans participated by the Group, and there was no forfeited contributions available to offset future retirement benefit obligations of the Group.

(b) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2006 is set out below:

Name of Director		**Fees** *RMB'000*	**Salary** *RMB'000*	**Employer's contribution to pension scheme** *RMB'000*	**Total** *RMB'000*
Director	Mr. GUO Fansheng	–	600	50	650
	Ms. WU Ying	–	500	50	550
	Ms. LAI Sau Kam, Connie	–	800	–	800
	Mr. GUO Jiang	–	500	12	512
	Mr. SHONG Hugo	–	–	–	–
	Mr. YANG Fei	–	–	–	–
	Mr. LI Jianguang	–	–	–	–
	Mr. PEPPLES John Craig	–	–	–	–
	Mr. ZHANG Ke	80	–	–	80
	Mr. XIANG Bing	80	–	–	80
	Mr. GUO Wei	80	–	–	80

22. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Directors' and senior management's emoluments *(Continued)*

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**1,540**	1,300
Retirement plan contributions	**–**	90
	1,540	1,390

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Nil to RMB1,040,000 (equivalent to HK$1,000,000)	**2**	2

(d)

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

23. FINANCE COSTS

	2006 **RMB'000**	2005 *RMB'000*
Interest expense:		
– short-term loans	**868**	1,657
	868	1,657

24. INCOME TAX

	2006 **RMB'000**	2005 *RMB'000*
Current income tax		
– Hong Kong profits tax *(note a)*	**–**	–
– The PRC enterprise income tax ("EIT") *(note b)*	**387**	687
Deferred income tax *(note 17)*	**(3,608)**	(5,320)
	(3,221)	(4,633)

(a) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the year (2005: Nil).

(b) The PRC enterprise income tax represents taxation charged on assessable profits for the year at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

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

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

	2006 **RMB'000**	2005 *RMB'000*
Loss before income tax	**(75,153)**	(18,424)
Calculated at a taxation rate of 33%	**(24,800)**	(6,080)
Effect of different taxation rates in other cities	**(7,592)**	(14,585)
Income not subject to tax	**(16,890)**	(15,545)
Expenses not deductible for tax purposes	**30,018**	7,481
Tax losses for which no deferred income tax asset was recognised	**15,999**	23,738
Others	**44**	358
Income tax	**(3,221)**	(4,633)

25. NET FOREIGN EXCHANGE LOSSES

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

	2006 ***RMB'000***	2005 *RMB'000*
Administrative expenses	**64**	2,397

26. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB4,425,000 (2005: RMB6,003,000).

27. LOSS PER SHARE

	2006 ***RMB'000***	2005 *RMB'000*
Loss attributable to equity holders from continuing operations	**(60,580)**	(1,051)

	No. of shares ***'000***	No. of shares *'000*
Weighted average number of shares in issue	**477,873**	465,155
Incremental shares from assumed exercise of share options granted	**17,627**	26,316
Diluted weighted average number of shares	**495,500**	491,471
Basic loss per share from continuing operations	**RMB(0.1268)**	RMB(0.0023)
Diluted loss per share from continuing operations	**RMB(0.1223)**	RMB(0.0021)

The calculation of basic loss per share from continuing operations is based on the loss attributable to the equity holders of approximately RMB60,580,000 (2005: RMB1,051,000) for the year ended 31st December 2006 and the weighted average of approximately 477,873,000 (2005: 465,155,000) ordinary shares in issue during the year.

27. LOSS PER SHARE *(Continued)*

The calculation of diluted loss per share from continuing operations for the year ended 31st December 2006 is based on the loss attributable to the equity holders of RMB60,580,000 (2005: RMB1,051,000) and the diluted weighted average of 495,500,000 (2005: 491,471,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company under the Pre-IPO Share Option Scheme had been exercised at the date of grant. The effect of anti-dilutive potential ordinary shares arising from Share Option Scheme has not been taken into account in calculating diluted earnings per share. (Details of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 13).

	2006 **_RMB'000_**	2005 *RMB'000*
Loss attributable to equity holders from discontinued operations	**(38,213)**	(23,696)

	No. of shares **_'000_**	No. of shares *'000*
Weighted average number of shares in issue	**477,873**	465,155
Incremental shares from assumed exercise of share options granted	**17,627**	26,316
Diluted weighted average number of shares	**495,500**	491,471
Basic loss per share from discontinued operations	**RMB(0.0800)**	RMB(0.0509)
Diluted loss per share from discontinued operations	**RMB(0.0771)**	RMB(0.0482)

The calculation of basic loss per share from discontinued operations is based on the loss attributable to the equity holders of approximately RMB38,213,000 (2005: RMB23,696,000) for the year ended 31st December 2006 and the weighted average of approximately 477,873,000 (2005: 465,155,000) ordinary shares in issue during the year.

The calculation of diluted loss per share from discontinued operations for the year ended 31st December 2006 is based on the loss attributable to the shareholders of RMB38,213,000 (2005: RMB23,696,000) and the diluted weighted average of 495,500,000 (2005: 491,471,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company under the Pre-IPO Share Option Scheme had been exercised at the date of grant. The effect of anti-dilutive potential ordinary shares arising from Share Option Scheme has not been taken into account in calculating diluted earnings per share. (Details of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 13).

28. DIVIDENDS

No dividend was paid or declared by the Company during the year (2005: Nil).

29. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of loss before taxation to net cash generated from operating activities

	2006 **RMB'000**	2005 *RMB'000*
Loss before taxation	**(124,712)**	(48,685)
Depreciation of property, plant and equipment *(note 8 and 33)*	**18,554**	19,021
Amortisation of software development costs *(note 7)*	**4,930**	5,575
Share option scheme – value of employee services *(note 22)*	**3,944**	4,863
Amortisation of land use rights *(note 6)*	**427**	428
Impairment of goodwill *(note 7)*	**4,628**	–
Interest income *(note 20 and 33)*	**(1,772)**	(757)
Interest expenses *(note 23)*	**868**	1,657
Loss on disposal of property, plant and equipment	**1,211**	25
Gain on disposal and termination of subsidiaries, branches and discontinued operations *(note c)*	**(26,084)**	(44,095)
Share of loss of jointly controlled entities	**–**	1,517
Currency translation difference	**(454)**	–
Operating loss before working capital changes	**(118,460)**	(60,451)
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables *(note b)*	**74,262**	(6,459)
Increase in trade payables, deferred revenue, accrued expenses and other payables, accruals for statutory benefit funds, other taxes payable and amounts due (from)/to related parties	**67,260**	99,771
Net cash generated from operating activities	**23,062**	32,861

(b) Non-cash transactions

During the year, the Group disposed two subsidiaries with total consideration of RMB1,778,000. The Group will receive the consideration in 2007 and it was included in other receivables in the balance sheet as at 31st December 2006.

29. CASH GENERATED FROM OPERATIONS *(Continued)*

(c) Disposal and termination of subsidiaries, branches and discontinued operations

	2006	2005
	RMB'000	*RMB'000*
Net liabilities disposed of:		
Intangible assets	**–**	12,695
Property, plant and equipment	**4,529**	24,000
Trade and other receivables	**40,886**	10,662
Cash and bank balances	**2,409**	4,607
Trade and other payables	**(74,763)**	(63,587)
Income tax payable	**(435)**	(176)
Minority shareholders' interests	**3,068**	5,162
	(24,306)	(6,637)
Gain on disposal and termination of subsidiaries, branches and discontinued operations *(i)*	**26,084**	44,095
Proceeds receivable	**(1,778)**	(18,316)
Cash proceeds (net of professional fee paid)	**–**	19,142
Cash and cash equivalents disposed of	**(2,409)**	(4,607)
Net cash (outflow)/inflow on disposal and termination of subsidiaries, branches and discontinued operations	**(2,409)**	14,535

(i) The gain on disposal and termination of subsidiaries, branches and discontinued operations for the year ended 31st December 2006 is before the write-off of the shareholder's loans of RMB56,224,000.

30. COMMITMENTS

Commitments under operating leases – Group

At 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings which expire as follows:

	2006	2005
	RMB'000	*RMB'000*
Within one year	**12,274**	17,198
In the second to fifth year inclusive	**11,593**	28,219
	23,867	45,417

31. CONTINGENT LIABILITIES

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

32. RELATED-PARTY TRANSACTIONS

The following significant transactions were carried out with related parties:

(a) Sales of services

	2006 **RMB'000**	2005 *RMB'000*
Sales of services		
– 北京慧聰建設信息諮詢有限公司 (technology services) *(i)*	**211**	211
– 北京慧聰建設信息諮詢有限公司 (be granted the right to use the domain names and trademark) *(ii)*	**240**	240
– 北京慧美印刷有限公司 (rental services) *(iii)*	**701**	646
	1,152	1,097

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

(iii) Rental income of RMB701,000 was received from 北京慧美印刷有限公司, a company owned as to 65% by 北京慧聰建設信息諮詢有限公司 and as to 35% by Mr. Fan Yousheng, an independent third party for the year ended 31st December 2006 and the fee was payable at market price no less favorable than as charged by independent third parties on a monthly basis.

(b) Purchases of services

	2006 **RMB'000**	2005 *RMB'000*
Purchases of services:		
– 北京慧聰建設信息諮詢有限公司 (online information distribution services) *(i)*	**240**	240
– 北京慧聰建設信息諮詢有限公司 (online advertisement publication services) *(ii)*	**100**	100
– 北京慧美印刷有限公司 (printing services) *(iii)*	**26,651**	28,416
– 北京中搜在線軟件有限公司 (search engine services) *(iv)*	**–**	352
	26,991	29,108

32. RELATED-PARTY TRANSACTIONS *(Continued)*

(b) Purchases of services *(Continued)*

(i) 北京慧聰建設諮詢有限公司 entered into a three-year Online Information Distribution Agreement with the Group in 2002, 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 agreement, 北京慧聰建設諮詢有限公 司 received distribution income from the Group at a fixed fee. It disseminated the Group's business information and research reports on its web-site and on those as stipulated by the Group.

(ii) 北京慧聰建設信息諮詢有限公司 entered into a three-year Online Advertisement Publication Agreement with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental Agreement which extended the term of Online Advertisement Publication Agreement to 31st December, 2007. Pursuant to the agreement, 北京慧聰建設信息諮詢有 限公司 received publication income from the Group at a fixed fee. It published the Group's advertisements on its website and on those as stipulated by the Group.

(iii) On 1st September 2002, 北京慧美印刷有限公司 and 慧聰商情廣告(北京)有限公司 (formerly known as 北京慧聰商情廣告有限公司) ("HC Advertising"), a subsidiary of the Company, entered into a printing agreement (the "Printing Agreement") for a term of three years, and on 31st December 2004 and on 1st September 2005, the parties separately have entered into two supplemental agreements which extended the term of the Printing Agreement to 31st December 2007.

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 慧聰商情廣告(北京)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 慧聰商情廣告(北京)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

	2006 ***RMB'000***	2005 *RMB'000*
Salaries and other short-term employee benefits	**5,788**	4,647
Share-based payments	**1,430**	2,498
	7,218	7,145

32. RELATED-PARTY TRANSACTIONS *(Continued)*

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

	2006 **RMB'000**	2005 *RMB'000*
Amounts due from related companies *(note 11(b))*	**1,233**	2,933
Amount due to a related company *(note 15)*	**–**	833

(e) Loans to related parties

	2006 **RMB'000**	2005 *RMB'000*
Amount due from a jointly controlled entity *(note 10)*	**14,102**	13,131
Amounts due from officers of the Group *(note 11(c))*	**–**	988

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

On 27th May 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited ("HKHC"), a wholly-owned subsidiary of the Company, agreed to dispose its entire interest in operations in relation to television advertising business in the PRC. Subject to the terms and conditions of the sales and purchase agreement, the Company has agreed to procure a restructuring in respect of its PRC domestic television advertising business, 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.

Pursuant to the Company's announcement dated 27th July 2006, the above said sales and purchase agreement was terminated. As at 31st December 2006, all of the business entities related to the TV advertising business ceased operations.

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:

	2006 **RMB'000**	2005 *RMB'000*
Revenue	**18,075**	133,771
Cost of sales	**(21,864)**	(140,679)
Interest income	**100**	130
Expenses	**(25,817)**	(23,483)
Loss before income tax from discontinued operations	**(29,506)**	(30,261)
Income tax expense	**(18)**	(194)
Loss after income tax from discontinued operations	**(29,524)**	(30,455)
Loss on disposal and termination of discontinued operations	**(20,053)**	–
Loss for the year from discontinued operations	**(49,577)**	(30,455)

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

	2006 RMB'000	2005 RMB'000
Operating cash flows	**(13,967)**	(15,043)
Investing cash flows	**252**	(2,801)
Financing cash flows	**–**	20,000
Total cash flows	**(13,715)**	2,156

Non-current assets classified as held for sale:

	2006 RMB'000	2005 RMB'000
Property, plant and equipment	**–**	5,985
Trade receivables	**–**	43,533
Bank balance and cash	**–**	13,715
Other current assets	**–**	11,369
	–	74,602

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

	2006 RMB'000	2005 RMB'000
Trade payables	**–**	12,283
Other current liabilities	**–**	4,802
	–	17,085

(a) Expenses by nature

	2006 RMB'000	2005 RMB'000
Direct cost of television advertising business	**21,004**	137,511
Staff costs, including directors' emoluments	**5,832**	10,567
Depreciation of property, plant and equipment	**1,122**	1,069
Write-off and provision for impairment of trade and other receivables	**5,424**	5,176
Loss on disposal of property, plant and equipment	**354**	–
Operating lease payments in respect of land and buildings	**289**	601
Other expenses	**13,656**	9,238
Total cost of sales, selling and marketing expenses and administrative expenses	**47,681**	164,162

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

(b) Commitments

	2006 RMB'000	2005 RMB'000
Within one year	–	48,905
In the second to fifth year inclusive	–	175,162
Later than five years	–	118,260
	–	342,327

As at 31st December 2005, the Group entered into 4 long-term sole and exclusive management agreements with several television stations. Pursuant to the agreements, the Group paid monthly charge for the time lots. All of the business entities related to the TV advertising business ceased operations during the year. As the result, there was no commitment as at 31st December 2006.

34. EVENTS AFTER THE BALANCE SHEET DATE

On 12th January 2007, certain grantees under the Pre-IPO Share Option Scheme exercised their options in respect of 9,269,533 shares of the Company at HK$0.44 (equivalent to RMB0.44) per share. The total issued share capital comprised 487,835,406 shares upon the exercise of such Pre-IPO Share Options.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the members of HC International, Inc. (the "**Company**") will be held at Tower B, Jieneng Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100082) on 20th April 2007 at 4:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors of the Company and its subsidiaries for the year ended 31st December 2006.

2. To re-elect directors and to fix the directors' remuneration.

3. To re-appoint auditors and authorise the board of directors to fix their remuneration.

4. To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

A. **"THAT:**

(i) subject to paragraph (iii) of this resolution and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"), the exercise by the directors of the Company during the Relevant Period as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares or securities convertible into shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(ii) the approval in paragraph (i) of this resolution shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company during the Relevant Period as hereinafter defined) to make or grant offers, agreements, and options which would or might require the exercise of such power during or after the end of the Relevant Period as hereinafter defined);

(iii) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to the exercise of options or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to:

(a) a Rights Issue (as hereinafter defined);

(b) the grant or exercise of any option under any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or

(c) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company in force from time to time; or

(d) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares.

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

(iv) for the purpose of this resolution, "**Relevant Period**" means the period from the date of passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

(c) the revocation or variation of the authority given to the directors of the Company under this resolution by an ordinary resolution of the shareholders of the Company in general meeting,

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

B. **"THAT:**

(i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or any other stock exchange on which the shares of the Company may be listed and which are recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, in accordance with all applicable laws and/or the requirements of the Stock Exchange or of any other stock exchange and the Hong Kong Code on Share Repurchases as amended from time to time, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which are authorised to be repurchased by the Company pursuant to the approval in paragraph (i) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the authority granted pursuant to paragraph (i) above shall be limited accordingly; and

(iii) for the purpose of this resolution, "**Relevant Period**" means the period from the date of passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable laws to be held; and

(c) the revocation or variation of the authority given to the directors of the Company under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

C. **"THAT** conditional upon resolutions numbered 4(A) and 4(B) as set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to the said resolution numbered 4(A) be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted to the directors of the Company pursuant to the said resolution numbered 4(B), provided that such an amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution."

5. To transact any other ordinary business of the Company.

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

Beijing, PRC, 26th March 2007

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

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

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrar, Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the meeting or any adjournment thereof should he so wishes.

3. Explanatory statements containing further details regarding resolutions numbered 2 and 4 inclusive, above as required by the GEM Listing Rules will be made available to the members of the Company on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from its posting.

4. The share register of the Company will be closed from 18th April 2007 to 19th April 2007 (both dates inclusive). Shareholders on the share register as at 18th April 2007 will be entitled to attend and vote at the meeting.

HC INTERNATIONAL, INC.
慧 聰 網 有 限 公 司

HC360慧聪网.com