stock code：HK8292

# Annual Report 2007

慧聰網有限公司
HC INTERNATIONAL,INC.

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

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

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

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

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

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

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# Corporate Information

## EXECUTIVE DIRECTORS
GUO Fansheng
GUO Jiang
WU Hui

## NON-EXECUTIVE DIRECTOR
LI Jianguang

## 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
LI Jianguang

## REMUNERATION COMMITTEE
ZHANG Ke
XIANG Bing
GUO Wei
GUO Jiang
LI Jianguang

## 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

## HONG KONG LEGAL ADVISERS
JSM

## 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 Portfolio

## COMPANY OVERVIEW

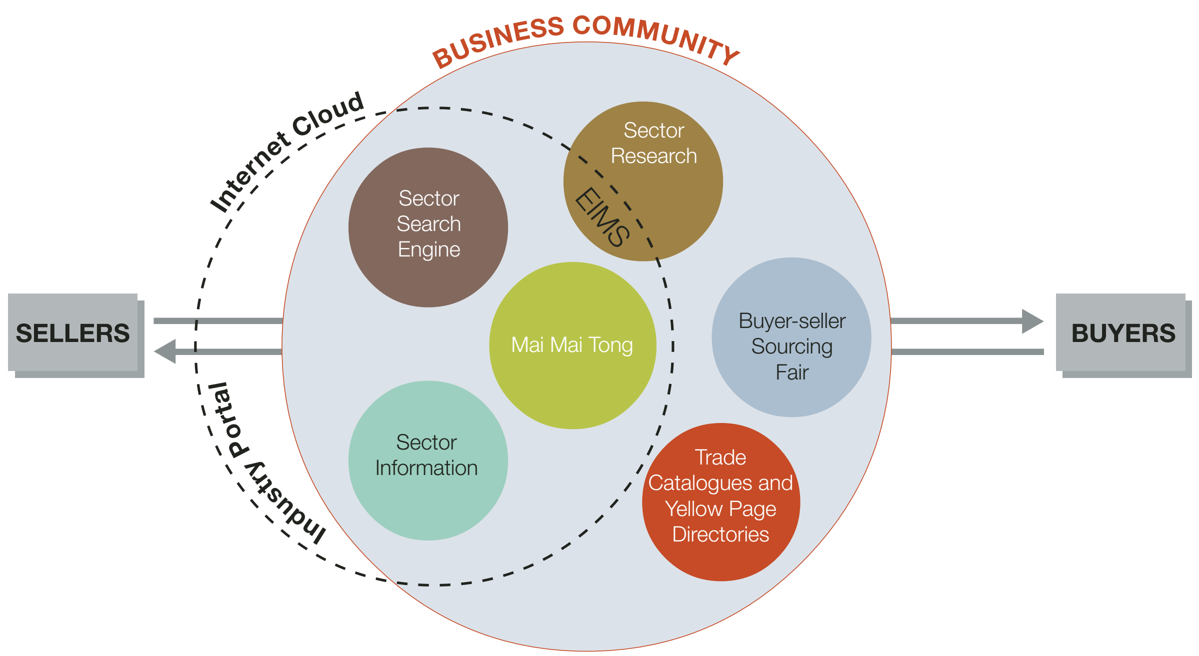
The Company is one of the leading e-commerce communities in China. With its professional information services and advanced internet technologies, it has established a reliable demand and supply platform for small to medium enterprises (SMEs), and has been providing them with complete business solutions. Through dedicated efforts and developments over the past 16 years, we have expanded our business scope to cover more than 100 cities nationwide, with branches in 16 cities and a service team of about 2,300 individuals.

With its professional experience and skills acquired from various industries over the past 16 years, the Company not only offers complete marketing solutions for SMEs through Mai-Mai-Tong, an internet technology based product, it also offers customers with multi-channel, all-dimensional on-line and off-line supplementary services through the Company's traditional marketing products, namely, "HC Trade Catalogues", "HC Yellow Page Directory" and "Industrial Market Research". Such a complementary and multi-dimensional structure allows the Company to create a unique development path amid the rapid expansion of the B2B industry in China.

Through the determined implementation of the professional and focused strategy, the Company has been offering professional and all-dimensional marketing solutions to customers in those traditional industrial sectors during the past 2 years. At the same time, we have been actively expanding into the fast-moving consumer goods markets. Based on the differences in our targeted market segments, the Company developed two unique business models for relationship-based customers and transaction-based customers, respectively. Coupled with our direct sales, channel sales and telemarketing sales teams, we provide relationship-based customers with one-to-one, in-depth and professional industry solutions, and efficient, user-friendly and standardised solutions and business platforms for transaction-based customers. Through these services, the Company satisfies its customers' needs.

In the past 2 years, the Company divested of its non-core businesses and has placed its focus, attention and resources on its business expertise. We experienced constant improvement in the Company's financial conditions during the past financial years. Reorganisation of the Company's management structure resulted in more efficient operations, laying a solid foundation for the future growth of the Company's core businesses.

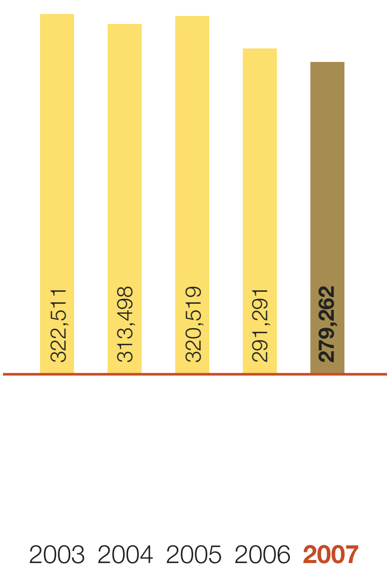
The Company is committed to providing professional and innovative services and products to meet market and users' needs, and facilitating transactions. Customer experience and service quality are our constant concerns. In the past 2 years, the Company's businesses became more focused, product lines were more precise, and business model and market demands were more in line. We strongly believe that the Company is well prepared for the harvest in the forthcoming years following transformation and preparation.



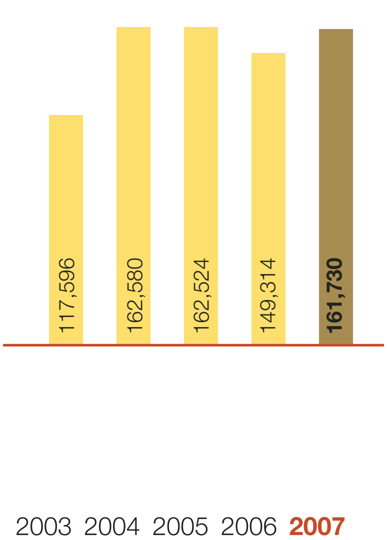
# Financial Highlights

| | 2007<br>RMB'000 | 2006<br>RMB'000 | 2005<br>RMB'000 | 2004<br>RMB'000 | 2003<br>RMB'000 |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Sales | **279,262** | 291,291 | 320,519 | 313,498 | 322,511 |
| Gross profit | **161,730** | 149,314 | 162,524 | 162,580 | 117,596 |
| EBITDA | **(19,105)** | (42,924) | 12,050 | 66,025 | 56,886 |
| (Loss)/profit attributable to equity holders of the Company | **(39,441)** | (98,793) | (24,747) | 39,478 | 33,078 |
| (Loss)/earnings per share | | | | | |
| – Basic | **RMB(0.0807)** | RMB(0.1268) | RMB(0.0023) | RMB0.0702 | RMB0.109 |
| – Diluted | **RMB(0.0807)** | RMB(0.1268) | RMB(0.0023) | RMB0.0646 | RMB0.108 |
| Financial Position | | | | | |
| Net current assets | **71,047** | 91,913 | 192,546 | 227,108 | 143,939 |
| Total assets | **313,174** | 370,074 | 485,753 | 481,081 | 341,847 |
| Total liabilities | **105,562** | 125,019 | 127,660 | 95,045 | 88,896 |
| Total equity | **207,612** | 245,055 | 358,093 | 386,036 | 252,951 |

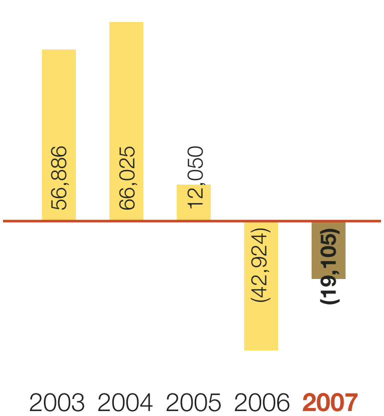
**SALES**
*RMB'000*



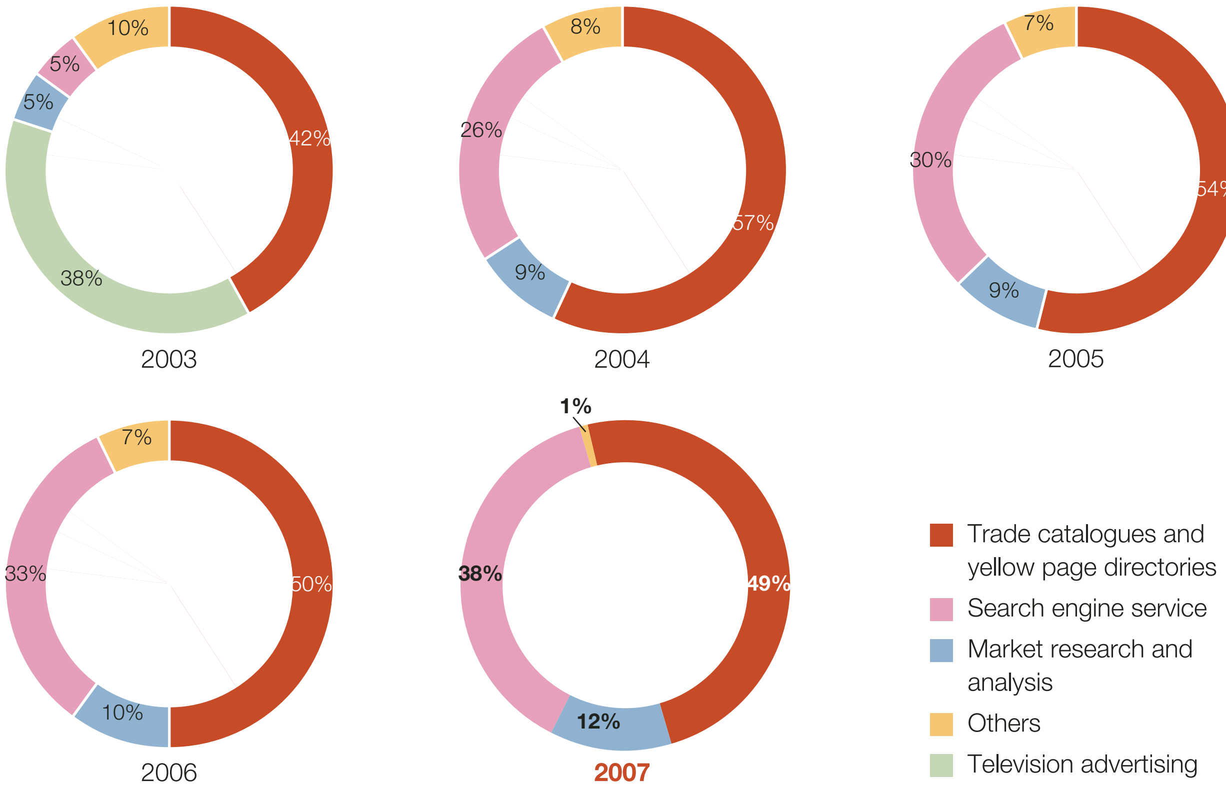

**GROSS PROFIT**
*RMB'000*



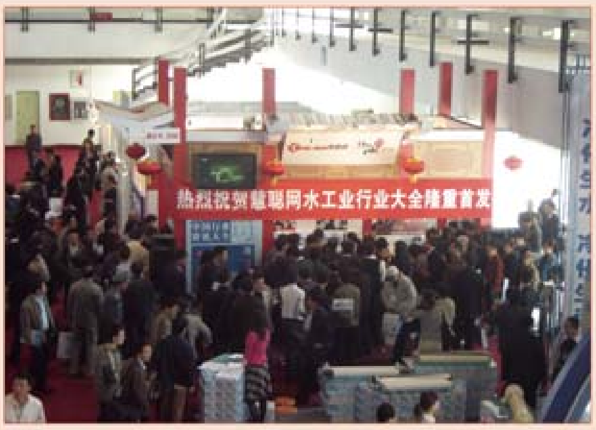

**EBITDA**
*RMB'000*



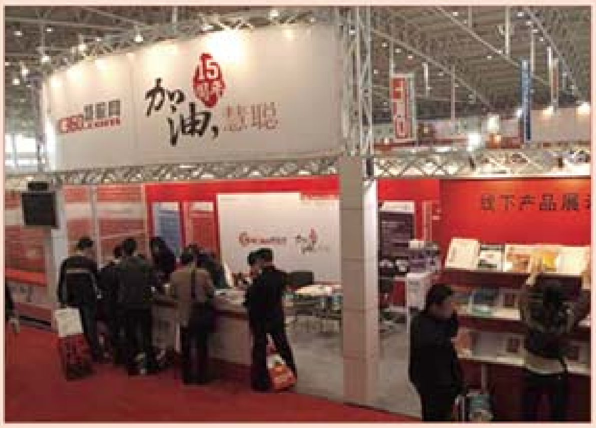
## SALES ANALYSIS




| | **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 |
|---|---|---|---|---|---|---|
| **2007** | **136,247** | **107,826** | **32,990** | **2,199** | **–** | **279,262** |
| 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 |


热烈祝贺慧聪网水工业行业大全隆重首发


网
www.hc360.com
不爱


加油，慧聪


HC360


找客户，做
慧聪网优质供应商！


找客户，做
慧聪网优质供应商！


找客户，做
慧聪网优质供应商！

# Management's Statement

I would like to present to the shareholders of the Company my report on the operations of the Group for the financial year ended 31st December 2007.

## FINANCIAL REVIEW

For the financial year ended 31st December 2007, the Group generated a turnover of approximately RMB279,262,000 from continuing operations (2006: RMB291,291,000). This represents a decrease of approximately 4.1% in turnover as compared to that in 2006.

For the Group's financial performance from continuing operations in different segments, the Group recorded a decrease of approximately 6.6% in revenue generated from the trade catalogues and yellow page directories segment, from approximately RMB145,909,000 in 2006 to approximately RMB136,247,000 in 2007. In 2007, a total revenue of approximately RMB107,826,000 was achieved from the search engine business segment, which accounted for approximately 38.6% of the Group's total revenue and represents an increase of approximately 13.6% from approximately RMB94,904,000 in 2006. Total revenue of approximately RMB32,990,000 was generated from the market research and analysis segment, which represents an increase of approximately 12.9% from approximately RMB29,212,000 in 2006.

Due to the termination of part of the Group's printed periodicals businesses and the increase in revenue contribution from the search engine services to the Group, the gross profit margin of the Group's continuing operations increased by 6.6 percentage points to approximately 57.9% in 2007 (2006: 51.3%). The gross profit margin of the Group's search engine business segment remained steady at approximately 75.4% in 2007 (2006: 75.3%). The gross profit margin of the Group's trade catalogues and yellow page directories segment increased by 3.9 percentage points from approximately 46.2% in 2006 to approximately 50.1% in 2007.

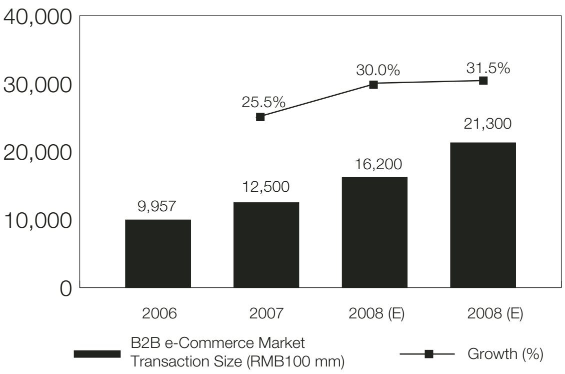
During the year ended 31st December 2007, the Group reduced its operating expenses from approximately RMB210,556,000 in 2006 to approximately RMB193,750,000. The Group also reduced its loss before income tax from approximately RMB75,153,000 in 2006 to approximately RMB47,923,000 in 2007.

The board of Directors does not recommend payment of a dividend for the year ended 31st December 2007.

## BUSINESS REVIEW

According to the "Netguide 2008 China Internet Survey Report" released by the Internet Association of China, the transaction size of the B2B e-commerce market of China in 2007 amounted to RMB1,250 billion, which represents an increase of approximately 25.5% when compared to RMB995.7 billion in 2006.

**China B2B e-Commerce Market Transaction Size Development**




Source: 2008 China Internet Survey, DCCI

The report shows that such strong growth in market transaction size has been mainly driven by the penetration of e-commerce applications into enterprises in China. The B2B e-commerce market transaction size of China is expected to continue its rapid growth in the next 2 years, reaching approximately RMB1,620 billion in 2008 and approximately RMB2,130 billion in 2009.

The Company's B2B business has experienced rapid development since the launch of its B2B product Mai-Mai-Tong in 2004, and the product has become a major contributor to the Company's total revenue. As one of the B2B market leaders in China, the Company will capture its golden time under an increasingly heating up climate of the B2B market.

**(1) Mai-Mai-Tong Members**

The number of Mai-Mai-Tong members has increased significantly during the past financial years. As at 31st December 2007, the Company has approximately 7.5 million registered users, which represents an increase of approximately 150% when compared to approximately 3 million in 2006, and approximately 65,000 fee-paying users, which represents an increase of approximately 30% when compared to approximately 50,000 in 2006. The number of download users of HC FAFA (慧聰發發) (originally known as Mai-Mai-Tong IM), an instant communication tool for business users introduced in September 2005, amounted to approximately 4.3 million, which represents a growth of approximately 72% when compared to approximately 2.5 million in 2006.

**(2) Products**

After 2 years' transformation, the Group has formed a multi-facet matrix of products and resources, comprising both on-line and off-line products. This provides users with an optimised mixture of different products and business solutions.


*On-line Products*

Mai-Mai-Tong is a reliable platform for enterprise users to do business 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 identity certification, enterprises can also maximise business opportunities by enhancing competitiveness.


*Jin-Bang-Ti-Ming (金榜題名)*

In order to satisfy Mai-Mai-Tong members' demand for on-line marketing services and maximise the effectiveness of use of Mai-Mai-Tong product, the Company introduced the on-line marketing product line "Jin-Bang-Ti-Ming" in 2007. It comprises the Super Booth Service, the Prime Booth Service and the Rolling Ranking Service. The Super Booth and the Prime Booth Services allow users to advertise their brands beside the search results. Based on the service of business opportunity search, the Rolling Ranking Service offers suppliers operating in an competitive business environment with better business opportunities.

*On-line Advertising*

Our on-line advertising services provide precise marketing channels for enterprises aiming to expand in the SME market. In 2007, the on-line advertising business of our portal "hc360.com" continued to grow. At present, daily webpage visits of "hc360.com" have reached nearly 32 million, and many 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. It covers information of over a thousand enterprises and quotations of over ten thousand products. It is one of the leading catalogues in the industry in terms of coverage and reference.

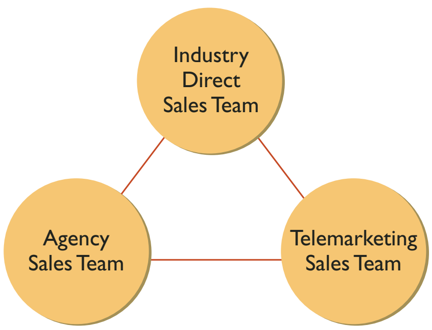
Yellow Page Directories

As a business yearbook for specific industries, the "Yellow Page Directories" feature systematic compilation of industry information, product technology and industry news. The product 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 unique business information database for China and advanced information technology software and resources, it 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 a variety of enterprises, industries and rivals.

**(3) Marketing Channels**




To further strengthen its sales capability, the Company established three key sales teams, namely the Industry Direct Sales, the Agency Sales and the Telemarketing Sales teams in 2006, to market its on-line and off-line products and services to different target market segments.

After over a year of practice and exploration, the Company have made adjustments and carried out reorganisations on its sales models, user categorisation, and product differentiation so as to avoid management overlap and administrative duplication arising from the parallel implementation of the three sales models.

The Industry Direct Sales Team is currently the Company's major sales force, focusing on selling high value and high-end on-line and off-line products, targeting at value-based and relationship-based customers. It maximises users' value by providing in-depth professional products and services in different industrial sectors.

The Telemarketing Sales Team was formed in August 2006. Through the utilisation of call centre technology, the establishment supplemented the existing sales channels of the Company's internet product, Mai-Mai-Tong. After a year and a half of development, the Group has attained significant improvement in its efficiency and marketing ability, and its sales capacity is growing steadily. With a current focus on number of customers and transaction-based customers, the Telemarketing Sales Team will enable a fast expansion of the Company's customer base by offering users standardised products and services, and efficient transaction platform in a fast-moving consumer goods market.

The Agency Sales Team was established to supplement the Industry Direct Sales Team, covering over 40 provinces and cities in China. Agencies expand the Company's market coverage to areas where its own sales force is unable to reach to the greatest extent.

**(4) Customer Service**

*Services for Buyers*

With a professional service team, the Company collects comprehensive inquiry information covering over 60 sectors. It facilitates transactions by way of supply-and-demand meetings and on-line negotiations.

*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 features such as HC FAFA, forums and blogs, "hc360.com" has developed the Member Care Scheme in order to enhance members' activities, satisfaction and loyalty levels. The Company is also one of the first companies in China to adopt this kind of servicing concept. In the future, "hc360.com" will continue its wide range of member care activities to enhance members' experience and activity level, and to provide meticulous services in order to build internet business communities.

## PROSPECTS

Since the Company's listing in 2003, from diverse expansion to divestment of non-core businesses, and from a traditional media firm to a transformed B2B internet enterprise, the Company has been actively exploring its most appropriate development path through transitions. Having reviewed the Company's development in the past 16 years, we realised our key competitive strengths, core resources and value, and based on which we developed a right direction for the Company. On continuous self-examination, exploration and review, our deep understanding of customers' needs, the market, products and services, and business operations become the key factors for the Company's future success.

As customer behaviours of the B2B fast-moving consumer goods market can be characterised by low-value, high-frequency and massive transaction of supply-side and demand-side, an efficient, low-cost, standardised product and service solution will satisfied the need of transaction-based customers.

As customer behaviours of the B2B professional industrial market is characterised by high-value, low-frequency and relative small groups of supply-side and demand-side, a highly value-added, customised, professional product and service solution offers relationship-based customers superior service experience.

Facilitation of transactions is considered to be core to the Company's business operations at all times. The Company will continue to focus on this by facilitating communication and interaction, and providing information and value-add services.

In addition, on 22nd October 2007, Hong Kong Huicong International Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Madeinchina, Inc. and Mr. Zheng Min, pursuant to which the Group acquired a 19% equity interest in Madeinchina, Inc. with a call option which enables the Group to fully evaluate the growth and performance of this international on-line marketplace before increasing its investment to approximately 28.9% in Madeinchina, Inc. at the pre-fixed exercise price. Through the Group's investment in Madeinchina, Inc., the Group divested its business into the international e-commerce market to capture opportunities arising from enormous consumer demand as a result of the significant growth in both the import and export sectors in China. "Made in China" is a business application tool offering optimised search engine and overseas marketing solutions through the B2B platform. It is a product for the international trade businesses, which provides international buyers with the best quality domestic suppliers and offer domestic suppliers complete on-line and overseas marketing solutions so as to establish a new global trade business platform.

On behalf of the board of Directors, I would like to take this opportunity to thank the management and every member of the Group for their on-going dedication and hard work in the past year.

**Guo Fansheng**
*Chief Executive Officer and Executive Director*

Beijing, PRC
26th March 2008

# Biographic Details of Directors and Senior Management

## DIRECTORS

As at 31st December 2007, the board of Directors comprised:

### Executive Directors

*GUO Fansheng*

Aged 52, 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's degree in industrial economics from Renmin University of China in 1982.

*GUO Jiang*

Aged 34, is an executive Director and the 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.

*WU Hui*

Aged 34, is an executive Director and the Chief Financial Officer of the Company. Mr. Wu joined the Group in May 2007 as the Chief Financial Officer. Mr. Wu has over 8 years senior financial management experiences in telecom, internet, and IT manufacturing industries. Prior to joining the group, he worked as the Chief Financial Officer of Lenovo Mobile, Director of Finance & Planning at Lenovo Group, Senior Finance Manager at Dell China, and Vice-president and Finance Controller at two prestigious venture capital invested companies. Mr. Wu graduated from the Beijing Foreign Studies University in 1997 with a bachelor's degree and got a Master of Science in Management from the University of Bath in 1999. He also studied the MBA at City University of Seattle and Certified Diploma in Accounting and Finance of ACCA.

**Non-executive Directors**

*LI Jianguang*

Aged 42, 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's degree in economics and attained a master degree from Guelph University in Canada in 1994. Mr. Li has been serving as a non-executive Director since August 2006.

**Independent Non-executive Directors**

*ZHANG Ke*

Aged 54, 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. Mr. Zhang has been serving as an independent non-executive Director since March 2003.

*XIANG Bing*

Aged 45, 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 MBA degree and subsequently obtained a doctorate degree. Dr. Xiang previously taught in the Hong Kong University of Science and Technology. Mr. Xiang has been serving as an independent non-executive Director since March 2002.

*GUO Wei*

Aged 44, is an independent non-executive Director. Mr. Guo is currently the Chairman, the President and Chief Executive Officer of Digital China Holdings Limited. Mr. Guo obtained a bachelor's degree in engineering management from Northeastern University, PRC in 1985 and subsequently graduated from the University of Science and Technology of China 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. Mr. Guo has served as an independent non-executive Director since March 2002.

## SENIOR STAFF

As at 31st December 2007, the management of the Company comprised the following members:

*GENG Yi*

Aged 34, joined the Group in August 1995 as an editor and was appointed as the Chief Sales Officer in January 2006. Ms. Geng graduated from the University of International Business Economics and gained a MBA degree.

*CHENG Yik, Eric*

Aged 32, 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.

*HONG, John*

Aged 38, joined the group in October 2007 as the Chief Technology Officer of the Group. Mr. Hong worked at Silicon Valley from 1994 to 2000, during which he founded Webston Corporation which mainly rendered technical service for B2B corporations such as Chemdex. In 2000, he came back to China and founded a video conferencing software company called VisionNex. Before joining the Group, Mr. Hong was the Vice-president of technology of Linkone (Nasdaq: LTON). Mr. Hong graduated from the Mississippi State University with a bachelor's degree in computer science and a master degree in computer engineering.

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2007, the Group's cash and bank balances decreased by approximately RMB79,086,000 to approximately RMB85,278,000, from approximately RMB164,364,000, as at the end of the previous financial year.

Short-term loans amounted to approximately RMB3,001,000 as at 31st December 2007, representing a decrease of about 91.4% from that as at 31st December 2006. Gearing ratio of the Group decreased to about 1.5% as at 31st December 2007 from about 14.8% as at 31st December 2006, calculated with reference to short-term loans of approximately RMB3,001,000 (2006: approximately RMB35,001,000) and capital and reserves attributable to the Company's equity holders of approximately RMB205,051,000 (2006: approximately RMB236,218,000). The capital and reserves attributable to the Company's equity holders decreased by approximately RMB31,167,000 as compared to last year.

The Group's net current assets totalled approximately RMB71,047,000 as at 31st December 2007, against approximately RMB91,913,000 as at the end of the previous financial year. Its current ratio was approximately 1.68 as at 31st December 2007 as compared to approximately 1.74 as at 31st December 2006.

The Group's trade receivables turnover has slightly improved from approximately 35.1 days in 2006 to approximately 34.0 days in 2007.

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 2007.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisitions and disposals of subsidiaries in the year ended 31st December 2007.

## CAPITAL STRUCTURE

During the year ended 31st December 2007, 14,271,087 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 492,836,960 as at 31st December 2007.

## STAFF

The success of the Group depends on the skills, motivation and commitment of its staff. As at 31st December 2007, the total number of Group's employees were 2,362. Of these, 1,071 were employed in our Sales and Marketing Division, 497 were employed in our Editorial, Research and Data Analysis Division, 179 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 2007, no asset was pledged to secure any of the Group's loan.

## EXCHANGE RISK

As the Group's operations are principally in the PRC and majority assets and liabilities of the Group are denominated in Renminbi, the Directors believe that the Group is not subject to significant exchange risk.

## CONTINGENT LIABILITIES

As at 31st December 2007, the Group had no contingent liability (2006: Nil).

# Directors' Report

The Directors submit their report together with the audited financial statements for the financial year ended 31st December 2007.

## 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 consolidated financial statements.

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the financial 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 accumulated losses of the Group during the financial year are set out on page 38.

Details of the movements in other reserves of the Group are set out in note 15 to the consolidated 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 consolidated 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 14 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2007, calculated under the Company Law of Cayman Islands, amounted to approximately RMB114,603,000 (2006: RMB113,581,000).

## 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 and resigned with effect from 15th May 2007) |
| Mr. Guo Jiang | (appointed on 1st August 2006) |
| Mr. Wu Hui | (appointed on 22nd October 2007) |
| Mr. John Craig Pepples* | (appointed on 1st August 2006 and resigned with effect from 18th December 2007) |
| 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. Wu Hui 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. Xiang Bing and Mr. Guo Wei 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 Mr. Guo Fansheng, Mr. Guo Jiang and Mr. Wu Hui has entered into a director's service contract with the Company, whereby each of them has accepted the appointment as an executive director of the Company for a term of three years from 30th November 2006, 1st August 2006 and 22nd October 2007, respectively, which may be terminated by either party giving three months' prior written notice or otherwise in accordance with the terms of their respective service contracts.

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 directors 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 terms of their respective service contracts.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in note 12 and note 33 to the consolidated financial statements, no Director was materially interested, 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 2007, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

### (a) Directors' Long Positions in the shares of the Company

| Name of Director | Capacity | Personal interests | Family interests | Corporate interests | Other interests | Total number of ordinary shares | Percentage of shareholding |
|---|---|---|---|---|---|---|---|
| Guo Fansheng | Beneficial owner | 64,088,863 | – | – | – | 64,088,863 | 13.00% |
| Li Jianguang | Beneficial owner | – | – | 40,000,384 (Note 1) | – | 40,000,384 (Note 1) | 8.12% |
| Guo Jiang | Beneficial owner | 8,509,923 (Note 2) | – | – | – | 8,509,923 (Note 2) | 1.73% |
| Wu Hui | Beneficial owner | 800,000 (Note 3) | – | – | – | 800,000 (Note 3) | 0.16% |

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) 3,575,923 shares of the Company of which 1,074,625 shares of the Company are held by Mr. Guo's spouse; and

   (b) 4,934,000 underlying shares derived from the share options granted under the Share Option Scheme (as defined on page 21) of which 734,000 underlying shares derived from the share options granted to Mr. Guo's spouse under the Share Option Scheme.

3. The references to 800,000 underlying shares are derived from the share options granted under the Share Option Scheme.

### (b) Directors' Short Positions in the shares of the Company

There was no Directors' short position as at 31st December 2007.

## SHARE OPTION SCHEMES

Pursuant to the 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 2007, options to subscribe for an aggregate of 9,147,120 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 2007** | **Granted during the year** | **Exercised during the year** (Note 3) | **Lapsed during the year** | **As at 31st December 2007** (Note 1) |
| Directors | | | | | | | |
| GUO Jiang | 2nd December 2003 | 0.44 | 338,692 | – | (338,692) | – | – |
| Ex-employees | | | | | | | |
| FAN Qimiao | 2nd December 2003 | 0.44 | 7,111,104 | – | (2,000,000) | – | 5,111,104 |
| GU Yuanchao | 2nd December 2003 | 0.44 | 3,777,774 | – | – | – | 3,777,774 |
| Consultant | | | | | | | |
| YEN Earl Ching-Hwa | 2nd December 2003 | 0.44 | 402,196 | – | (402,196) | – | – |
| Other employees | | | | | | | |
| In aggregate (Note 2) | 2nd December 2003 | 0.44 | 11,788,441 | – | (11,530,199) | – | 258,242 |
| Total | | | 23,418,207 | – | (14,271,087) | – | 9,147,120 |

Notes:

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

2. As at 31st December 2007, there were 3 employees who had been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 258,242 shares of the Company.

3. During the year ended 31st December 2007, 14,271,087 options granted to employees under the Pre-IPO Share Option Scheme were exercised. At the date before the options were exercised, the weighted average closing price per share of the Company was HK$1.43.

**(b) Share Option Scheme**

As at 31st December 2007, options to subscribe for an aggregate of 39,340,000 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 2007** | **Granted during the year** | **Exercised during the year** | **Lapsed during the year** | **As at 31st December 2007** (Note 1) |
| Directors | | | | | | | |
| GUO Jiang | 18th February 2004 | 2.40 | 1,000,000 | – | – | – | 1,000,000 |
| | 23rd June 2006 | 1.49 | 1,000,000 | – | – | – | 1,000,000 |
| | 11th July 2007 | 1.24 | – | 2,200,000 | – | – | 2,200,000 |
| WU Hui | 11th July 2007 | 1.24 | – | 800,000 | – | – | 800,000 |
| Senior management | | | | | | | |
| GENG Yi | 18th February 2004 | 2.40 | 300,000 | – | – | – | 300,000 |
| | 23rd June 2006 | 1.49 | 434,000 | – | – | – | 434,000 |
| ZHANG Chuanjun | 18th February 2004 | 2.40 | 50,000 | – | – | – | 50,000 |
| | 23rd June 2006 | 1.49 | 200,000 | – | – | – | 200,000 |
| | 11th July 2007 | 1.24 | – | 980,000 | – | – | 980,000 |
| WANG Lijie | 18th February 2004 | 2.40 | 175,000 | – | – | – | 175,000 |
| | 23rd June 2006 | 1.49 | 266,000 | – | – | – | 266,000 |
| | 11th July 2007 | 1.24 | – | 1,460,000 | – | – | 1,460,000 |
| Other employees | | | | | | | |
| In aggregate (Note 2) | 18th February 2004 | 2.40 | 16,625,000 | – | – | (9,350,000) | 7,275,000 |
| In aggregate (Note 3) | 23rd June 2006 | 1.49 | 8,100,000 | – | – | (2,460,000) | 5,640,000 |
| In aggregate (Note 4) | 11th July 2007 | 1.24 | – | 17,560,000 | – | – | 17,560,000 |
| Total | | | 28,150,000 | 23,000,000 | – | (11,810,000) | 39,340,000 |

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 grant of options.

   For the options exercisable at HK$2.40 granted on 18th February 2004, the relevant grantees 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 date of the grant of options.

   For the options exercisable at HK$1.49 granted on 23rd June 2006, the relevant grantees may exercise these options in a 10-year period starting from the expiry of twelve months from the date of the grant of options.

   For the options exercisable at HK$1.24 granted on 11th July 2007, the relevant grantees may exercise options up to 50% 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 and second anniversaries of the date of the grant of options.

2. 87 employees have been granted options under the Share Option Scheme to acquire an aggregate of 7,275,000 shares of the Company at HK$2.40 per share.

3. 70 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,640,000 shares of the Company at HK$1.49 per share.

4. 91 employees have been granted options under the Share Option Scheme to acquire an aggregate of 17,560,000 shares of the Company at HK$1.24 per share.

5. The fair value of options granted under the Share Option Scheme on 18th February 2004, determined using the Binomial Model value model, was approximately RMB20,193,000. The significant inputs into the model were the 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 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.

6. The fair value of options granted under the Share Option Scheme on 23rd June 2006, determined using the Binomial Model valuation model, was approximately RMB3,919,000. 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.

7. The fair value of options granted under the Share Option Scheme on 11th July 2007, determined using the Binomial Model valuation model, was approximately RMB9,390,000. The significant inputs into the model were exercise price of HK$1.24 standard deviation of expected share price returns of 49.0%, expected life of options ranging from 2.4 to 6.2 years expected dividend paid cut rate of 0% and annual risk-free interest rate 4.757%. 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 2007, the interests and 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 | Class of shares | Long position | Nature of Short position | Interests/Holding capacity | Approximate percentage of share capital |
|---|---|---|---|---|---|
| McCarthy Kent C. | Ordinary | 111,499,850 (Note 1) | – | Interest in controlled corporation | 22.62% |
| McGovern Patrick J. | Ordinary | 104,790,697 (Note 2) | – | Interest in controlled corporation | 21.26% |
| Zhou Quan | Ordinary | 79,316,743 (Note 3) | – | Interest in controlled corporation | 16.09% |

Notes:

1. Such interest in the Company comprises 12,789,850 shares, 86,828,121 shares, 6,415,000 shares and 5,466,879 shares owned by Jayhawk China Fund (Cayman), Ltd, Jayhawk Private Equity Fund, L.P., Buffalo Jayhawk China Fund and Jayhawk Private Equity Co-Invest Fund, L.P., respectively. The entire issued share capital of each of the abovementioned companies is owned by Mr. McCarthy.

2. Such interest in the Company comprises 25,473,954 shares, 16,664,743 shares and 62,652,000 shares owned by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., the majority shareholder of which is Mr. Patrick McGovern, IDG Technology Venture Investments, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investments, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, and IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, respectively.

3. Such interest in the Company comprises 16,664,743 shares and 62,652,000 shares owned by IDG Technology Venture Investments, L.P., a limited partnership controlled by IDG Technology Venture Investments, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, and IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, respectively.

Save as disclosed above, as at 31st December 2007, the Company had not been notified of any interests or short positions of substantial shareholders or other persons in the shares and underlying shares of the Company which are required to be kept under Section 336 of the SFO.

## CONNECTED TRANSACTIONS

Certain related party transactions entered into by the Group, as disclosed in note 12 and note 33 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 2007**

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 2007.

**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 RMB36,000,000, RMB45,000,000 and RMB52,000,000, respectively. For the financial year ended 31st December 2007, approximately RMB25,310,000 was paid by HC Advertising to Huimei.

   In 2008, Huimei and HC Advertising will enter into a new printing supplemental agreement.

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 2007, the transaction value under this agreement amounted to approximately RMB1,948,000.

   The representative agreement expired on 12th September 2007.

   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 Transactions 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.

   The auditors of the Company have reviewed the Transactions and confirmed that the Transactions (a) have received the approval of the board of Directors; (b) are in accordance with the pricing policies of the Company; (c) have been entered into in accordance with the relevant agreements governing the transactions; and (d) have not exceeded the relevant caps.

## 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 two independent non-executive Directors, Mr. Zhang Ke and Mr. Xiang Bing and an non-executive Director, Mr. Li Jianguang (appointed on 3rd September 2007). 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 internal control procedures, the annual results of the Group for the year ended 31st December 2007 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 2007. The audit committee held 4 meetings during the period.

## DIRECTORS INTERESTS IN COMPETING BUSINESS

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 materially 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 2007.

## 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 35 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December 2007.

## 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 2008

# Corporate Governance Report

## INTRODUCTION

Maintaining high standards of business ethics and corporate governance practices has always been one of the Company's goals. This report describes its corporate governance practices, explains the applications of the principles of the Code on Corporate Governance Practices 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 2007.

On 20th March 2006, the board of Directors 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 seven Directors, of whom three are executive Directors, one is non-executive Director 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 2007 comprised:

Executive Directors: Guo Fansheng, Guo Jiang, Wu Hui
Non-executive Director: Li Jianguang (Chairman)
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 2007, 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) | 1/1 |
| Lai Sau Kam, Connie (resigned effective from 15th May 2007) | 3/3 |
| Guo Jiang | 6/6 |
| Wu Hui (appointed on 22nd October 2007) | 1/1 |
| Li Jianguang | 6/6 |
| Pepples John Craig (resigned effective from 18th December 2007) | 6/6 |
| Zhang Ke | 6/6 |
| Xiang Bing | 4/6 |
| Guo Wei | 4/6 |

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

The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the board of Directors 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.

**Nomination of Directors**

In considering the nomination of a new Director, the board of Directors takes into account the qualifications, competence, working experiences and professional ethics of candidates. Currently the board of Directors is responsible for the selection of candidates and the approval of any appointment of members to the board of Directors. The board of Directors will call for meetings for the nomination of Directors when needed.

The board of Directors held one meeting during the financial year ended 31st December 2007 for the nomination of a director and the following is an attendance record of the meeting by each Director:

| Directors | Attendance |
|---|---|
| Guo Fansheng | 1/1 |
| Guo Jiang | 1/1 |
| Li Jianguang | 1/1 |
| Pepples John Craig (resigned effective from 18th December 2007) | 1/1 |
| Zhang Ke | 1/1 |
| Xiang Bing | 1/1 |
| Guo Wei | 1/1 |

**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. Li Jianguang (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 2007, 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 form 28th February 2007) | 1/1 |
| Guo Jiang (appointed on 28th February 2007) | 1/1 |
| Xiang Bing | 1/2 |
| Guo Wei | 1/2 |
| Pepples John Craig (resigned effective from 3rd September 2007) | 2/2 |

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. Li Jianguag (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 2007, the audit committee held 4 meetings. The individual attendance record of each member is as follows:

| Members | Attendance |
|---|---|
| Zhang Ke | 4/4 |
| Pepples John Craig (resigned effective from 3rd September 2007) | 3/3 |
| Xiang Bing | 2/4 |
| Li Jianguang (appointed on 3rd September 2007) | 1/1 |

The audit committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, the internal control procedures, the financial results of the Group during the year ended 31st December 2007 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 2007. 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$1,988,360 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 Group 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.

# Auditor's Report

**INDEPENDENT AUDITOR'S 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 89, which comprise the consolidated and the Company balance sheets as at 31st December 2007, 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

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 2007 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, 20th March 2008

# Consolidated Income Statement

For the year ended 31st December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| Continuing operations | | | |
| Sales | 5 | **279,262** | 291,291 |
| Cost of sales | 22 | **(117,532)** | (141,977) |
| Gross profit | | **161,730** | 149,314 |
| Other income | 21 | **1,871** | 1,672 |
| Selling and marketing expenses | 22 | **(103,664)** | (110,696) |
| Administrative expenses | 22 | **(90,086)** | (99,860) |
| Loss on disposal and termination of subsidiaries and branches | | **(2,132)** | (10,087) |
| Finance costs | 24 | **(1,512)** | (868) |
| Provision for impairment of amount due from a jointly controlled entity | 10 | **(14,130)** | – |
| Impairment of goodwill | 7 | **–** | (4,628) |
| Loss before income tax | | **(47,923)** | (75,153) |
| Income tax | 25 | **2,410** | 3,221 |
| Loss for the year from continuing operations | | **(45,513)** | (71,932) |
| Loss for the year from discontinued operations | 34 | **–** | (49,577) |
| Loss for the year | | **(45,513)** | (121,509) |
| Attributable to: | | | |
| Equity holders of the Company | | **(39,441)** | (98,793) |
| Minority interest | | **(6,072)** | (22,716) |
| | | **(45,513)** | (121,509) |
| Loss per share from continuing operations attributable to the equity holders of the Company during the year (expressed in RMB per share) | | | |
| Basic | 28 | **(0.0807)** | (0.1268) |
| Diluted | 28 | **(0.0807)** | (0.1268) |
| Loss per share from discontinued operations attributable to the equity holders of the Company during the year (expressed in RMB per share) | | | |
| Basic | 28 | **N/A** | (0.0800) |
| Diluted | 28 | **N/A** | (0.0800) |
| Dividends | 29 | **–** | – |

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31st December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | **74,135** | 85,867 |
| Land use rights | 6 | **19,433** | 19,860 |
| Intangible assets | 7 | **26,985** | 29,153 |
| Amount due from a jointly controlled entity | 10 | **–** | 7,131 |
| Deferred income tax assets | 18 | **17,065** | 12,335 |
| | | **137,618** | 154,346 |
| Current assets | | | |
| Amount due from a jointly controlled entity | 10 | **–** | 6,971 |
| Trade receivables | 11 | **25,996** | 27,978 |
| Deposits, prepayments and other receivables | 11 | **61,714** | 15,182 |
| Amounts due from related parties | 12 | **2,568** | 1,233 |
| Cash and cash equivalents | 13 | **85,278** | 164,364 |
| | | **175,556** | 215,728 |
| Total assets | | **313,174** | 370,074 |
| **EQUITY** | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 14 | **52,551** | 51,153 |
| Other reserves | 15 | **261,885** | 255,009 |
| Accumulated losses | | **(109,385)** | (69,944) |
| | | **205,051** | 236,218 |
| Minority interest | | **2,561** | 8,837 |
| Total equity | | **207,612** | 245,055 |

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

| | Note | **2007 RMB'000** | 2006 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 18 | **1,053** | 1,204 |
| Current liabilities | | | |
| Trade payables | 16 | **6,033** | 5,049 |
| Deferred revenue | 16 | **53,703** | 43,329 |
| Amount due to a related party | 12 | **604** | – |
| Accrued expenses and other payables | 16 | **22,531** | 21,763 |
| Accruals for statutory benefit funds | 20 | **101** | 64 |
| Short-term loans | 17 | **3,001** | 35,001 |
| Other taxes payable | 19 | **13,721** | 15,747 |
| Income tax payable | 19 | **4,815** | 2,862 |
| | | **104,509** | 123,815 |
| Total liabilities | | **105,562** | 125,019 |
| Total equity and liabilities | | **313,174** | 370,074 |
| Net current assets | | **71,047** | 91,913 |
| Total assets less current liabilities | | **208,665** | 246,259 |

On behalf of the board of Directors

**GUO Fansheng**
*Director*

**WU Hui**
*Director*

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

# Balance Sheet

As at 31st December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Investments in subsidiaries | 9 | **1,956** | 1,956 |
| | | **1,956** | 1,956 |
| Current assets | | | |
| Amount due from a subsidiary | 9 | **185,471** | 179,714 |
| Other receivables | 11 | **155** | – |
| Cash and cash equivalents | 13 | **5** | 5 |
| | | **185,631** | 179,719 |
| Total assets | | **187,587** | 181,675 |
| **EQUITY** | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 14 | **52,551** | 51,153 |
| Other reserves | 15 | **157,760** | 149,514 |
| Accumulated losses | 15 | **(23,044)** | (19,312) |
| Total equity | | **187,267** | 181,355 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accrued expenses and other payables | 16 | **320** | 320 |
| Total liabilities | | **320** | 320 |
| Total equity and liabilities | | **187,587** | 181,675 |
| Net current assets | | **185,311** | 179,399 |
| Total assets less current liabilities | | **187,267** | 181,355 |

On behalf of the board of Directors

| **GUO Fansheng** | **WU Hui** |
|---|---|
| *Director* | *Director* |

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2007

| | Notes | Attributable to the Company's equity holders | | | | |
|---|---|---|---|---|---|---|
| | | **Share Capital** | **Other reserves** | **Retained earnings/ (Accumulated losses)** | **Minority interest** | **Total** |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1st January 2006 | | 49,839 | 250,920 | 28,849 | 28,485 | 358,093 |
| Exercise of share options | 14, 15 | 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 | 15 | – | 3,944 | – | – | 3,944 |
| Currency translation difference | 15 | – | (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 |
| Balance at 1st January 2007 | | 51,153 | 255,009 | (69,944) | 8,837 | 245,055 |
| Exercise of share options | 14, 15 | **1,398** | **4,754** | **–** | **–** | **6,152** |
| Termination of subsidiaries and branches | | **–** | **–** | **–** | **(204)** | **(204)** |
| Loss for the year | | **–** | **–** | **(39,441)** | **(6,072)** | **(45,513)** |
| Share option scheme-value of employee services | 15 | **–** | **3,778** | **–** | **–** | **3,778** |
| Currency translation difference | 15 | **–** | **(1,656)** | **–** | **–** | **(1,656)** |
| | | **1,398** | **6,876** | **(39,441)** | **(6,276)** | **(37,443)** |
| **Balance at 31st December 2007** | | **52,551** | **261,885** | **(109,385)** | **2,561** | **207,612** |

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31st December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 30(a) | **10,056** | 23,516 |
| Interest received | | **1,871** | 1,772 |
| Interest paid | | **(1,512)** | (868) |
| PRC income tax paid | | **(518)** | (872) |
| Net cash generated from operating activities | | **9,897** | 23,548 |
| Cash flows from investing activities | | | |
| Purchase of an entrusted fund | | **(55,000)** | – |
| Purchase of property, plant and equipment | | **(7,088)** | (17,870) |
| Proceeds from sale of property, plant and equipment | 30(d) | **243** | 2,590 |
| Increase in amount due from a jointly controlled entity | | **–** | (971) |
| Disposal and termination of subsidiaries, branches and discontinued operations | 30(c) | **–** | (2,409) |
| Net cash used in investing activities | | **(61,845)** | (18,660) |
| Cash flows from financing activities | | | |
| Short-term loans raised | | **–** | 32,000 |
| Repayment of short-term loans | | **(32,000)** | (23,000) |
| Issue of ordinary shares | | **6,152** | 5,781 |
| Net cash (used in)/generated from financing activities | | **(25,848)** | 14,781 |
| Net (decrease)/increase in cash and cash equivalents | | **(77,796)** | 19,669 |
| Cash and cash equivalents at beginning of the year | | **164,364** | 149,017 |
| Exchange loss on cash and cash equivalents | | **(1,290)** | (4,322) |
| Cash and cash equivalents at end of the year | | **85,278** | 164,364 |

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

As at 31st December 2007

## 1. GENERAL INFORMATION

HC International, Inc. (the "Company") and its subsidiaries (together the "Group") organise 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 Growth Enterprise Market of 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 20th March 2008.

## 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 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and 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.

*(a) Standards, amendment and interpretations effective in 2007*

HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.

The following interpretations are mandatory for accounting periods beginning on or after 1st January 2007 but did not result in substantial changes to the Group's accounting policies:

| | |
|---|---|
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |

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

### (a) Basis of preparation (Continued)

*(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting policies beginning on or after 1st January 2008 or later periods but which the Group has not early adopted:

- HK(IFRIC)-Int 11, "HKFRS 2 – Group and Treasury Share Transactions", effective for annual periods beginning on or after 1st March 2007. This interpretation clarifies that certain types of transactions are accounted for as equity-settled or cash-settled transactions under HKFRS 2. The Group has already commenced the assessment of the impact of this new interpretation, but is not yet in a position to state whether this new interpretation would have a significant impact on its results of operations and financial position.

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1st January 2008. Management does not expect the adoption of this interpretation to be relevant for the Group.

- HK(IFRIC)-Int 13, "Customer Loyalty Programmes", effective for annual periods beginning on or after 1st July 2008. Management is in the process of assessing the impact of this interpretation.

- HK(IFRIC)-Int 14, "HKFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and Their Interaction", effective for annual periods beginning on or after 1st January 2008. Management does not expect the adoption of this interpretation to be relevant for the Group.

- HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1st January 2009. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported in the segmental analysis based on the internal reporting. Management is in the process of assessing the impact of this amendment.

- HKAS 23 (Revised), "Borrowing Cost", effective for annual periods beginning on or after 1st January 2009. Management is in the process of assessing the impact of this amendment.

- HKAS 1 (Revised), "Presentation of Financial Statements", effective for annual periods beginning on or after 1st January 2009. Management is in the process of assessing the impact of this amendment.

### (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.

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

**(b) Consolidation** (Continued)

*(a) Subsidiaries* (Continued)

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.

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 (note 2(g)). 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 consolidated 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 consolidated 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 tax payable and accrued expenses. Capital expenditure comprises additions to intangible assets and property, plant and equipment.

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

**(c) Segment reporting** (Continued)

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

**(d) Foreign currency translation**

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

*(c) Group companies*

The results and financial position of all the group entities 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 and accumulated impairment loss. 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 consolidated 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, at the following rates per annum:

| | |
|---|---|
| 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 consolidated 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 consolidated 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, jointly controlled entity and non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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).

**(i) Financial assets**

The Group's financial assets are 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 initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

**(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 are considered indicators that the trade and other receivables are 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 consolidated income statement. 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 consolidated 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 loans and other short-term loans. 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 loans and other short-term loans 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 loans and other short-term loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated 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) Current and deferred income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 the 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.

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

### (p) Employee benefits (Continued)

*(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.

*(c) Bonus entitlements*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

*(d) 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 consolidated 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.

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

### (s) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

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

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

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

Interest income is recognised on a time proportion basis, using the effective interest method.

### (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 consolidated income statement on a straight-line basis over the period of the lease.

### (u) 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 consolidated 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.

### (v) 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.

## 3. FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price 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 Chief Financial Officer 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 market 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 the HK dollar and US dollar.

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.

During the year ended 31st December 2007, if RMB had strengthened/weakened by 5% against the HK dollar and US dollar, with all other variables held constant, post-tax loss for the year would have been approximately RMB478,000 (2006: RMB588,000), higher or lower. At 31st December 2007, if RMB had strengthened/weakened by 5% against the HK dollar and US dollar, equity would have been approximately RMB48,000 (2006: RMB2,857,000), lower or higher.

(ii) Interest rate risk

The Group has cash balances placed with reputable banks and financial institutions, which generate interest income for the Group.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 17.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit or loss of a 60 basis-point shift would be a maximum increase/decrease of RMB164,000 (2006: RMB69,000) for the year ended 31st December 2007.

(iii) Price risk

The Group is not exposed to any equity securities price risk and commodity price risk.

## 3. FINANCIAL RISK MANAGEMENT (Continued)

**(a) Financial risk factors** (Continued)

*(b) Credit risk*

Credit risk is managed on a group basis. The Group's credit risk mainly arises from cash and cash equivalents, as well as credit exposures to trade receivables. The Finance Department has policies in place to monitor the exposures to these credit risks on an on-going basis.

The Group has put in place policies to ensure that provision of services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

The table below shows the credit limit and balance of the five major debtors at the balance sheet date.

| | **As at 31st December** | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| **Counterparty** | **Credit limit RMB'000** | **Utilised RMB'000** | Credit limit RMB'000 | Utilised RMB'000 |
| Customer A | **1,000** | **355** | 1,000 | 244 |
| Customer B | **1,000** | **292** | 1,000 | – |
| Customer C | **1,000** | **200** | 1,000 | 360 |
| Customer D | **1,000** | **184** | 1,000 | 452 |
| Customer E | **1,000** | **165** | 1,000 | 7 |
| Customer F | **1,000** | **162** | 1,000 | – |

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the counterparty's default history. The table below shows the trade receivables that have been outstanding for up to 90 days, the normal credit period granted to customers, but not impaired as at the balance sheet date.

| | **As at 31st December** | |
|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 |
| **Trade receivables** | | |
| Listed customers | **3,049** | 2,204 |
| Unlisted customers | **14,184** | 12,639 |
| **Total** | **17,233** | 14,843 |

The table below shows the investment in an entrusted fund by the Group at balance sheet date.

| | **As at 31st December** | |
|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 |
| Investment in an entrusted fund (note 11(b)) | | |
| Listed financial institutions | **55,000** | – |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (a) Financial risk factors (Continued)

(b) *Credit risk* (Continued)

The table below shows the cash and cash equivalent held by different type of financial institutions at balance sheet date.

| | As at 31st December | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| **Cash and cash equivalents** | | |
| Cash at banks and bank deposits | | |
| Listed financial institutions | **74,284** | 159,408 |
| Unlisted financial institutions | **10,581** | 3,108 |
| Cash on hand | **413** | 1,848 |
| **Total** | **85,278** | 164,364 |

(c) *Liquidity risk*

Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining sufficient cash from operating activities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **Less than 1 year RMB'000** | **Between 1 and 2 years RMB'000** | **Between 2 and 5 years RMB'000** | **Over 5 years RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|
| **At 31st December 2006** | | | | | |
| Short-term loans | 35,001 | – | – | – | 35,001 |
| Trade payables | 5,049 | – | – | – | 5,049 |
| **At 31st December 2007** | | | | | |
| Short-term loans | 3,001 | – | – | – | 3,001 |
| Amount due to a related party | 604 | – | – | – | 604 |
| Trade payables | 6,033 | – | – | – | 6,033 |

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis based on a ratio calculated by dividing short-term loans by total equity (excluding minority interest). Management considers a ratio of not more than 20% as reasonable.

| | **2007**<br>**RMB'000** | 2006<br>RMB'000 |
|---|---|---|
| Short-term loans | **3,001** | 35,001 |
| Total equity (excluding minority interest) | **205,051** | 236,218 |
| | **1.46%** | 14.8% |

The decrease in the ratio during 2007 is resulted primarily from repayment of bank loans during the year.

### (c) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, trade and other receivables, trade and other payables, investment in an entrusted fund (note 11(b)) amounts due from/to related parties, amount due from a jointly controlled entity and short-term loans approximate their fair values due to their short maturities.

## 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 to 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) 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.

## 4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

**(b) Provision for impairment of receivables**

Significant judgement is exercised in the assessment of the collectibility of trade and other receivables, from each debtor. 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.

**(c) Income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgement 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 2007, 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 during the year ended 31st December 2007 (2006: Nil).

## 5. SEGMENT INFORMATION (Continued)

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

| | Year ended 31st December 2007 | | | | |
|---|---|---|---|---|---|
| | **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 | **136,247** | **107,826** | **32,990** | **2,199** | **279,262** |
| Cost of sales | **(68,035)** | **(26,533)** | **(21,838)** | **(1,126)** | **(117,532)** |
| Segment results | **68,212** | **81,293** | **11,152** | **1,073** | **161,730** |
| Other income | | | | | **1,871** |
| Allocated costs | **(43,554)** | **(67,155)** | **(6,281)** | **(1,181)** | **(118,171)** |
| Unallocated costs | | | | | **(75,579)** |
| Loss on disposal and termination of subsidiaries and branches | | | | | **(2,132)** |
| Finance costs | | | | | **(1,512)** |
| Provision for impairment of amount due from a jointly controlled entity | | | | | **(14,130)** |
| Loss before income tax | | | | | **(47,923)** |
| Income tax | | | | | **2,410** |
| Loss for the year | | | | | **(45,513)** |
| Attributable to: | | | | | |
| Equity holders of the Company | | | | | **(39,441)** |
| Minority interest | | | | | **(6,072)** |
| | | | | | **(45,513)** |

## 5. SEGMENT INFORMATION (Continued)

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

| | As at 31st December 2007 | | | | |
|---|---|---|---|---|---|
| | 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 | 24,477 | 14,894 | 3,536 | 550 | 43,457 |
| Unallocated assets (note a) | | | | | 269,717 |
| Total assets | | | | | 313,174 |
| Segment liabilities | 28,799 | 28,123 | 2,814 | – | 59,736 |
| Unallocated liabilities (note b) | | | | | 45,826 |
| Total liabilities | | | | | 105,562 |
| Capital expenditure | – | 3,000 | – | – | 3,000 |
| Unallocated capital expenditure (note c) | | | | | 7,088 |
| Total capital expenditure | | | | | 10,088 |
| Unallocated depreciation | | | | | (18,021) |
| Amortisation | – | (2,881) | – | – | (2,881) |
| Unallocated amortisation | | | | | (2,626) |
| | | | | | (5,507) |
| (Provision for)/write-back of impairment of trade and other receivables | (8,000) | – | (936) | 458 | (8,478) |
| Unallocated provision for impairment of trade and other receivables | | | | | (1,778) |
| | | | | | (10,256) |
| Provision for impairment of amount due from a jointly controlled entity | | | | | (14,130) |

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 cash equivalents, which are shared among the companies of the Group and cannot be allocated to specific segments.

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

(c) Unallocated capital expenditure mainly represents 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 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) |

## 5. SEGMENT INFORMATION (Continued)

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

| | As at 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 |
| Segment assets | 19,765 | 14,863 | 7,371 | 1,247 | 43,246 |
| Unallocated assets (note a) | | | | | 326,828 |
| Total assets | | | | | 370,074 |
| 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 | | | | | (2,626) |
| | | | | | (5,357) |
| Provision for impairment of trade and other receivables | (3,070) | – | (3,370) | (602) | (7,042) |
| Unallocated provision for impairment of trade and other receivables | | | | | (5,587) |
| | | | | | (12,629) |

## 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 cash equivalents, which are shared among the companies of the Group and which cannot be allocated to specific segments.

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

(c) Unallocated capital expenditure mainly represents 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 sales and operating loss attributable to other markets are both less than 10% of the Group's total turnover, operating loss and total assets for the year ended 31st December 2007, 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 is analysed as follows:

| | **2007<br>RMB'000** | 2006<br>RMB'000 |
|---|---|---|
| Opening net book amount | **19,860** | 20,287 |
| Amortisation | **(427)** | (427) |
| Closing net book amount | **19,433** | 19,860 |

Amortisation of the Group's land use rights is included in administrative expenses in the consolidated income statement.

## 7. INTANGIBLE ASSETS – GROUP

| | Goodwill<br>RMB'000 | Software development costs<br>RMB'000 | Data library<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **At 1st January 2006** | | | | |
| 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 (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 |
| **Year ended 31st December 2007** | | | | |
| Opening net book amount | – | 14,863 | 14,290 | 29,153 |
| Addition | – | 3,000 | – | 3,000 |
| Currency translation difference | – | (88) | – | (88) |
| Amortisation (b) | – | (2,881) | (2,199) | (5,080) |
| Closing net book amount | – | 14,894 | 12,091 | 26,985 |
| **At 31st December 2007** | | | | |
| Cost | – | 26,620 | 21,986 | 48,606 |
| Accumulated amortisation and impairment | – | (11,726) | (9,895) | (21,621) |
| Net book amount | – | 14,894 | 12,091 | 26,985 |

(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 fully written off through recognition of an impairment loss against it.

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

## 8. PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Buildings RMB'000 (a) | Computer and telecom-munications equipment RMB'000 | Fixtures, fittings and office equipment RMB'000 | Leasehold improvements RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 1st January 2006** | | | | | | |
| 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 of subsidiaries and branches | (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 |
| **Year ended 31st December 2007** | | | | | | |
| Opening net book amount | 33,008 | 45,986 | 3,943 | 1,464 | 1,466 | 85,867 |
| Additions | – | 7,055 | 28 | 5 | – | 7,088 |
| Disposals | – | (17) | (192) | – | (301) | (510) |
| Termination of subsidiaries and branches | – | (83) | – | (206) | – | (289) |
| Depreciation (b) | (1,938) | (13,844) | (1,330) | (563) | (346) | (18,021) |
| Closing net book amount | 31,070 | 39,097 | 2,449 | 700 | 819 | 74,135 |
| **At 31st December 2007** | | | | | | |
| Cost | 38,943 | 93,132 | 11,046 | 3,153 | 2,397 | 148,671 |
| Accumulated depreciation | (7,873) | (54,035) | (8,597) | (2,453) | (1,578) | (74,536) |
| Net book amount | 31,070 | 39,097 | 2,449 | 700 | 819 | 74,135 |

(a) As at 31st December 2006, buildings carried at RMB31,639,000 are pledged to secure the Group's bank loan (Note 17). The bank loan was repaid during the year ended 31st December 2007.

(b) Depreciation of RMB3,258,000 (2006: RMB3,604,000) is included in selling and marketing expenses; and RMB14,763,000 (2006: RMB13,828,000) in administrative expenses in the consolidated income statement.

## 9. INVESTMENTS IN AND LOAN TO A SUBSIDIARY

| | Company 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Investments, unlisted shares, at cost (note a) | **1,956** | 1,956 |
| Loan to a subsidiary (note b) | **185,471** | 179,714 |
| | **187,427** | 181,670 |

**(a)** The following is a list of the principal subsidiaries at 31st December 2007 :

| 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$1.00 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 A SUBSIDIARY (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 |
|---|---|---|---|---|
| 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% |
| 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% |

## 9. INVESTMENTS IN AND LOAN TO A SUBSIDIARY (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 |
|---|---|---|---|---|
| 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% |
| 寧波慧聰網絡技術有限公司 | The PRC, limited liability company | Provision of business information in the PRC | RMB1,500,000 | 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.

** These companies are in the process of liquidation as at 31 December 2007.

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) Amount due from a subsidiary**

The amount due from a subsidiary is denominated in Hong Kong dollar, unsecured, interest-free and repayable on demand. The carrying value of this balance approximates its fair value.

## 10. INTEREST IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY – GROUP

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Interest in a jointly controlled entity | **–** | – |
| Amount due from a jointly controlled entity (note a) | **13,980** | 14,102 |
| Add: Assignment of loan from a shareholder of the jointly controlled entity (note c) | **3,150** | – |
| Settlement through transfer of an intangible asset (note 7 and note 30(b)) | **(3,000)** | – |
| Less: Provision for impairment of amount due from a jointly controlled entity (note 5) | **(14,130)** | – |
| | **–** | 14,102 |
| Less: current portion of amount due from a jointly controlled entity | **–** | (6,971) |
| Long term portion | **–** | 7,131 |

Notes:

At 31st December 2006 and 2007, 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** **2007** | 2006 | **Effective Interest held** **2007** | 2006 |
|---|---|---|---|---|---|---|
| Shares held directly: | | | | | | |
| China Search Inc. | Cayman Islands 31st May 2004 | Investment holding | **87,500,000 ordinary shares of USD0.00025 each** | 87,500,000 ordinary shares of USD0.00025 each | **19.94%** | 19.94% |
| | | | **30,857,142 preferred shares of USD0.00025 each** | 30,857,142 preferred shares of USD0.00025 each | | |
| 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 | **RMB19,920,000** | RMB19,920,000 | **18.43%** | 18.43% |

## 10. INTEREST IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY – GROUP (Continued)

Notes (Continued):

(a) Amount due from a jointly controlled entity is denominated in RMB, unsecured, interest-free and repayable within 3 years. The fair value approximates its carrying amount due to its short maturities.

(b) Movements on the provision for impairment of amount due from a jointly controlled entity are as follow:

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| At beginning of the year | – | – |
| Provision for impairment of amount due from a jointly controlled entity | 14,130 | – |
| At end of the year | 14,130 | – |

(c) During the year ended 31st December 2007, the Group entered into an agreement with the jointly controlled entity and Global Cyberlinks Holdings Inc., a shareholder of the jointly controlled entity, whereby the amount due to the Group by Global Cyberlinks Holdings Inc. will be assigned to the jointly controlled entity.

## 11. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Trade receivables (note a) | 26,411 | 29,998 | – | – |
| Less: provision for impairment of trade receivables | (415) | (2,020) | – | – |
| Trade receivables – net | 25,996 | 27,978 | – | – |
| Deposits, prepayments and other receivables (note b) | 61,714 | 15,182 | 155 | – |
| | 87,710 | 43,160 | 155 | – |

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

| | Group | |
|---|---|---|
| | 2007 RMB'000 | 2006 RMB'000 |
| Current to 90 days | 17,233 | 14,843 |
| 91 to 180 days | 3,583 | 4,635 |
| 181 to 365 days | 4,211 | 3,787 |
| Over 1 year | 1,384 | 6,733 |
| | 26,411 | 29,998 |

## 11. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

**(a)** (Continued)

The fair values of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 |
| Trade receivables | **25,996** | 27,978 |

Balances are denominated in RMB and 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 approximately RMB8,478,000 (2006: RMB7,042,000) for the impairment of its trade receivables during the year ended 31st December 2007.

As at 31st December 2007, trade receivables of approximately RMB415,000 (2006: RMB2,020,000) were impaired and have been provided for. The individually impaired receivables mainly represent sales made to customers which have remained long overdue.

As at 31st December 2007 trade receivables of approximately RMB8,763,000 (2006: RMB13,135,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 |
| Up to 90 days | **–** | – |
| 91 to 180 days | **3,583** | 4,635 |
| 181 to 365 days | **4,211** | 3,787 |
| Over 1 year | **969** | 4,713 |
| | **8,763** | 13,135 |

Movements on the provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 |
| At beginning of the year | **2,020** | 5,406 |
| Reversal of impairment of receivables | **(1,605)** | (3,386) |
| At end of the year | **415** | 2,020 |

## 11. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

**(a)** (Continued)

The creation and release of provision for impaired receivables have been included in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair values of trade receivables disclosed above.

**(b) Deposits, prepayments and other receivables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 | **2007 RMB'000** | 2006 RMB'000 |
| Deposits | **2,065** | 2,099 | **–** | – |
| Prepayments | **2,693** | 5,480 | **–** | – |
| Other receivables | | | | |
| Investment in an entrusted fund (note (i)) | **55,000** | – | **–** | – |
| Others | **1,956** | 7,603 | **155** | – |
| | **56,956** | 7,603 | **155** | – |
| | **61,714** | 15,182 | **155** | – |
| The fair values are as follows: | | | | |
| Deposits | **2,065** | 2,099 | **–** | – |
| Prepayments | **2,693** | 5,480 | **–** | – |
| Other receivables | **56,956** | 7,603 | **155** | – |
| | **61,714** | 15,182 | **155** | – |
| Denominated in: | | | | |
| HK$ | **279** | 126 | **155** | – |
| RMB | **61,435** | 15,056 | **–** | – |
| | **61,714** | 15,182 | **155** | – |

Note (i) In December 2007, the Group entered into an arrangement with a commercial bank in the PRC to invest in an entrusted fund, totally RMB55,000,000. The fund bears interest at 4.2% per annum and settled in January 2008.

## 12. AMOUNTS DUE FROM/TO RELATED PARTIES – GROUP

| | Note | 2007<br>RMB'000 | 2006<br>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) | 2,568 | 406 |
| | | 2,568 | 1,233 |
| Amounts due to a related company: | | | |
| 北京慧聰建設信息諮詢有限公司 | (ii) | 604 | – |

(i) The amounts due from related companies that arose from normal course of business are denominated in RMB, unsecured, interest-free and with a credit period of approximately 30 days. These related parties have no default history. The carrying value of these balances approximate their fair values.

(ii) The amount is denominated in RMB, unsecured, interest free and repayable upon demand. The carrying value of the balance approximates its fair values.

## 13. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007<br>RMB'000 | 2006<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
| Cash at banks and on hand | 85,278 | 164,364 | 5 | 5 |
| | 85,278 | 164,364 | 5 | 5 |
| Denominated in: | | | | |
| – HK$ | 7,950 | 30,048 | – | – |
| – RMB | 74,987 | 100,646 | – | – |
| – US$ | 2,267 | 33,598 | 5 | 5 |
| – Other currencies | 74 | 72 | – | – |
| | 85,278 | 164,364 | 5 | 5 |

As at 31st December 2007, bank and cash balance of approximately RMB74,692,000 (2006: RMB99,583,000) 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.

Cash and cash equivalents include the following for the purposes of the consolidated cash flow statement:

| | Group | |
|---|---|---|
| | 2007<br>RMB'000 | 2006<br>RMB'000 |
| Cash and bank balances | 85,278 | 164,364 |

## 14. SHARE CAPITAL

| | Number of shares | Ordinary shares RMB'000 |
|---|---|---|
| At 1st January 2006 | 465,934,345 | 49,839 |
| Exercise of share options | 12,631,528 | 1,314 |
| At 31st December 2006 | 478,565,873 | 51,153 |
| Exercise of share options | 14,271,087 | 1,398 |
| **At 31st December 2007** | **492,836,960** | **52,551** |

The total authorised number of ordinary shares is 1,000,000,000 shares (2006: 1,000,000,000 shares) with a par value of HK$0.1 per share (2006: HK$0.1 per share). All issued shares are fully paid.

**Share options**

(i) Pursuant to a written resolution of the shareholders of the Company dated 30th November 2003, a Pre-IPO Share Option Scheme was adopted 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 exercisable period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM, being 17th December 2003 ("Listing Date"). 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 and 9,350,000 share options were lapsed during the year ended 31st December 2005 and 2007, respecitvely. 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 of which 2,460,000 share options were lapsed during the year ended 31st December 2007. 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.

## 14. SHARE CAPITAL (Continued)

**Share options** (Continued)

During the year ended 31st December 2007, a total of 23,000,000 share options were granted to two executive Directors and certain employees pursuant to Share Option Scheme. The grantees can exercise these options at an exercise price of HK$1.24 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 11th July 2007. Commencing from the first and second anniversaries of the Offer Date, the relevant grantee may exercise options up to 50% and 100% respectively.

(iii) The fair value of options granted on 18th February 2004, determined using the Binomial Model valuation model, was approximately 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 yield 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 approximately RMB3,919,000. 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 yield 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.

(v) The fair value of options granted under the Share Option Scheme on 11th July 2007, determined using the Binomial Model valuation model, was approximately RMB9,390,000. The significant inputs into the model were exercise price of HK$1.24, standard deviation of expected share price returns of 49.0%, expected life of options ranging from 2.4 to 6.2 years, expected dividend yield rate of 0% and annual risk-free interest rate 4.757%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

The weighted average assumptions used are as follows:

| | **Options granted on** | | |
|---|---|---|---|
| | 18th February 2004 | 23rd June 2006 | 11th July 2007 |
| Risk free interest rate (in %) | 4.43 | 4.911 | 4.757 |
| Expected life (in years) | 6.6 | 5.5 | 6.2 |
| Volatility (in %) | 32 | 34.8 | 49 |
| Expected dividend per share (cents) | 0 | 0 | 0 |

At the date before options were granted, 17th February 2004, 22nd June 2006 and 10th July 2007, the market value per share was HK$2.45, HK$1.45, and HK$1.24, respectively.

## 14. 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*

| | **2007** Exercise price in HK$ per share | **2007** Share options | 2006 Exercise price in HK$ per share | 2006 Share options |
|---|---|---|---|---|
| At 1st January | **0.44** | **23,418,207** | 0.44 | 36,049,735 |
| Exercised | **0.44** | **(14,271,087)** | 0.44 | (12,631,528) |
| At 31st December | **0.44** | **9,147,120** | 0.44 | 23,418,207 |

(b) *Share Option Scheme*

| | **2007** Exercise price in HK$ per share | **2007** Share options | 2006 Exercise price in HK$ per share | 2006 Share options |
|---|---|---|---|---|
| At 1st January | **2.40** | **18,150,000** | 2.40 | 18,150,000 |
| | **1.49** | **10,000,000** | 1.49 | – |
| | **1.24** | **–** | 1.24 | – |
| Grant | **2.40** | **–** | 2.40 | – |
| | **1.49** | **–** | 1.49 | 10,000,000 |
| | **1.24** | **23,000,000** | 1.24 | – |
| Lapsed | **2.40** | **(9,350,000)** | 2.40 | – |
| | **1.49** | **(2,460,000)** | 1.49 | – |
| | **1.24** | **–** | 1.24 | – |
| At 31st December | **2.40** | **8,800,000** | 2.40 | 18,150,000 |
| | **1.49** | **7,540,000** | 1.49 | 10,000,000 |
| | **1.24** | **23,000,000** | 1.24 | – |

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 2007** | **Share options** 2006 |
|---|---|---|---|
| 17th December 2013 | 0.44 | **9,147,120** | 23,418,207 |

## 14. SHARE CAPITAL (Continued)

**Share options** (Continued)

*(b) Share Option Scheme*

| Expiry date | Exercise price HK$ per share | Share options 2007 | 2006 |
|---|---|---|---|
| 18th February 2014 | 2.40 | **8,800,000** | 18,150,000 |
| 23rd June 2016 | 1.49 | **7,540,000** | 10,000,000 |
| 11th July 2017 | 1.24 | **23,000,000** | – |

## 15. OTHER RESERVES

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Share premium RMB'000 | Capital reserve RMB'000 | Merger reserve RMB'000 | Share-based compensation reserves RMB'000 | Exchange reserve RMB'000 | Total RMB'000 |
| At 1st January 2006 | 128,426 | 987 | 108,830 | 12,677 | – | 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 | 132,893 | 987 | 108,830 | 16,621 | (4,322) | 255,009 |
| At 1st January 2007 | 132,893 | 987 | 108,830 | 16,621 | (4,322) | 255,009 |
| Exercise of share options | 4,754 | – | – | – | – | 4,754 |
| Share option scheme-value of employee services | – | – | – | 3,778 | – | 3,778 |
| Currency translation difference | – | – | – | – | (1,656) | (1,656) |
| **At 31st December 2007** | **137,647** | **987** | **108,830** | **20,399** | **(5,978)** | **261,885** |

| | Company | | | | |
|---|---|---|---|---|---|
| | Accumulated losses RMB'000 | Share premium RMB'000 | Share-based compensation reserves RMB'000 | Exchange reserve RMB'000 | Total RMB'000 |
| At 1st January 2006 | (14,887) | 128,426 | 12,677 | – | 126,216 |
| Exercise of share options | – | 4,467 | – | – | 4,467 |
| Share option scheme-value of employee services | – | – | 3,944 | – | 3,944 |
| Loss for the year | (4,425) | – | – | – | (4,425) |
| At 31st December 2006 | (19,312) | 132,893 | 16,621 | – | 130,202 |
| At 1st January 2007 | (19,312) | 132,893 | 16,621 | – | 130,202 |
| Exercise of share options | – | 4,754 | – | – | 4,754 |
| Share option scheme-value of employee services | – | – | 3,778 | – | 3,778 |
| Currency translation difference | – | – | – | (286) | (286) |
| Loss for the year | (3,732) | – | – | – | (3,732) |
| **At 31st December 2007** | **(23,044)** | **137,647** | **20,399** | **(286)** | **134,716** |

## 16. TRADE PAYABLES, DEFERRED REVENUE AND ACCRUED EXPENSES AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade payables (note a) | **6,033** | 5,049 | **–** | – |
| Deferred revenue | **53,703** | 43,329 | **–** | – |
| Accrued expenses and other payables | **22,531** | 21,763 | **320** | 320 |
| | **82,267** | 70,141 | **320** | 320 |

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

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current to 90 days | **5,192** | 4,265 |
| 91 to 180 days | **759** | 81 |
| 181 to 365 days | **43** | 499 |
| Over 1 year | **39** | 204 |
| | **6,033** | 5,049 |

Balances are denominated in RMB and the carrying amounts of the trade payables approximate their fair values.

## 17. SHORT-TERM LOANS – GROUP

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Bank loan, secured | **–** | 32,000 |
| Other short-term loan (note a) | **3,001** | 3,001 |
| | **3,001** | 35,001 |
| Representing: | | |
| Unsecured | **3,001** | 3,001 |
| Secured | **–** | 32,000 |
| | **3,001** | 35,001 |

(a) Other short-term loan of RMB3,001,000 (2006: RMB3,001,000) is unsecured, interest-bearing at LIBOR plus 1% and repayable on demand.

Bank loans drawn by the Group as at 31st December 2006 are secured by buildings of approximately RMB31,639,000 (Note 8).

The carrying amounts of short-term borrowings approximate their fair values due to their short maturities.

The Group's borrowings are all denominated in RMB and repayable within one year.

The weighted average effective interest rate per annum of the Group's borrowings at 31st December 2007 is 6.06% (2006: 6.69%).

## 18. DEFERRED INCOME TAX – GROUP

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:

| | **2007**<br>**RMB'000** | 2006<br>RMB'000 |
|---|---|---|
| Deferred income tax assets (to be recovered after more than 12 months) | **17,065** | 12,335 |
| Deferred income tax liabilities (to be settled after more than 12 months) | **(1,053)** | (1,204) |
| | **16,012** | 11,131 |

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 net movement on the deferred income tax account is as follows:

| | **2007**<br>**RMB'000** | 2006<br>RMB'000 |
|---|---|---|
| At 1st January | **11,131** | 7,523 |
| Credited to consolidated income statement (note 25) | **4,881** | 3,608 |
| At 31st December | **16,012** | 11,131 |

## 18. 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, are as follows:

**Deferred tax assets**

| | Provisions for impairment of trade receivables | | Tax losses | | Total | |
|---|---|---|---|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 | **2007 RMB'000** | 2006 RMB'000 | **2007 RMB'000** | 2006 RMB'000 |
| At 1st January | **9,125** | 7,440 | **7,026** | 5,632 | **16,151** | 13,072 |
| Credited/(charged) to the consolidated income statement | **2,194** | 1,685 | **(195)** | 1,394 | **1,999** | 3,079 |
| At 31st December | **11,319** | 9,125 | **6,831** | 7,026 | **18,150** | 16,151 |

**Deferred tax liabilities**

| | Deferred development costs | | Accrued staff welfare benefits | | Total | |
|---|---|---|---|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 | **2007 RMB'000** | 2006 RMB'000 | **2007 RMB'000** | 2006 RMB'000 |
| At 1st January | **(478)** | (1,176) | **(4,542)** | (4,373) | **(5,020)** | (5,549) |
| Credited/(charged) to the consolidated income statement | **201** | 698 | **2,681** | (169) | **2,882** | 529 |
| At 31st December | **(277)** | (478) | **(1,861)** | (4,542) | **(2,138)** | (5,020) |

On 16th March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China ( the "new CIT Law"). The new CIT Law reduces the corporate income tax rate for domestic enterprises from 33% to 25% with effect from 1st January 2008 and increases the corporate income tax rate for foreign invested enterprise from 15% to 18% with effect from 1st January 2008. As a result of the new CIT Law, the carry value of deferred tax has been written down by RMB586,000 in the year ended 31st December 2007.

## 19. INCOME TAX PAYABLE AND OTHER TAXES PAYABLE – GROUP

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Income tax payable: | | |
| Enterprise income tax | **4,815** | 2,862 |
| Other taxes payable: | | |
| Business tax | **8,774** | 10,802 |
| Cultural and development tax | **1,721** | 1,789 |
| Other taxes | **3,226** | 3,156 |
| | **13,721** | 15,747 |

## 20. ACCRUALS FOR STATUTORY BENEFITS FUNDS – GROUP

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Retirement benefit | **46** | 10 |
| Medical benefit | **20** | 47 |
| Housing benefit | **35** | 7 |
| | **101** | 64 |

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.

Balances are denominated in RMB and the carrying values of these balances approximate their fair values.

## 21. OTHER INCOME

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Interest income | **1,871** | 1,672 |

## 22. EXPENSES BY NATURE

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Direct cost of trade catalogues and yellow page directories | **42,520** | 47,906 |
| Direct cost of search engine services | **1,500** | 4,427 |
| Direct cost of market research and analysis | **10,352** | 8,552 |
| Direct cost of printed periodicals, seminars and other PR services | **546** | 21,542 |
| Marketing expenses | **20,176** | 24,307 |
| Network and telephone expenses | **15,322** | 15,020 |
| Auditors' remuneration | **1,938** | 1,700 |
| Staff costs, including directors' emoluments (note 23) | **146,956** | 150,165 |
| Amortisation of land use rights (note 6) | **427** | 427 |
| Amortisation of intangible assets (note 7) | **5,080** | 4,930 |
| Depreciation of property, plant and equipment (note 8) | **18,021** | 17,432 |
| Provision for impairment of trade and other receivables | **10,256** | 12,629 |
| Loss on disposal of property, plant and equipment | **267** | 173 |
| Operating lease payments in respect of land and buildings | **14,710** | 16,575 |
| Other expenses | **23,211** | 26,748 |
| Total cost of sales, selling and marketing expenses and administrative expenses | **311,282** | 352,533 |

## 23. EMPLOYEE BENEFIT EXPENSE

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Wages and salaries | **130,831** | 132,919 |
| Retirement benefits costs (note a) | **4,187** | 5,419 |
| Other benefits | **8,160** | 7,883 |
| Share option scheme – value of employee services | **3,778** | 3,944 |
| | **146,956** | 150,165 |

(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.

## 23. EMPLOYEE BENEFIT EXPENSE (Continued)

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

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Contributions paid and payable to the state retirement plans | **4,187** | 5,419 |

As at 31st December 2007, the Group had outstanding contribution payable of approximately RMB46,000 (2006: RMB10,000) 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 2007 is set out below:

| Name of Director | | Fees<br>RMB'000 | Salary<br>RMB'000 | Employer's contribution to pension scheme<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| Director | Mr. GUO Fansheng | – | 600 | 14 | 614 |
| | Ms. WU Ying | – | 83 | 14 | 97 |
| | Ms. LAI Sau Kam, Connie | – | 333 | – | 333 |
| | Mr. GUO Jiang | – | 560 | 14 | 574 |
| | Mr. WU Hui | – | 351 | 21 | 372 |
| | Mr. LI Jianguang | – | – | – | – |
| | Mr. PEPPLES John Craig | – | – | – | – |
| | Mr. ZHANG Ke | 80 | – | – | 80 |
| | Mr. XIANG Bing | 80 | – | – | 80 |
| | Mr. GUO Wei | 80 | – | – | 80 |

## 23. EMPLOYEE BENEFIT EXPENSE (Continued)

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

The remuneration of every Director for the year ended 31st December 2006 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 | 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 |

**(c) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include two (2006: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: two) individuals during the year are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Basic salaries, housing allowances, share options, other allowances and benefits in kind | **1,772** | 1,540 |
| Retirement plan contributions | **22** | – |
| | **1,794** | 1,540 |

## 23. EMPLOYEE BENEFIT EXPENSE (Continued)

**(c) Five highest paid individuals** (Continued)

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2007** | 2006 |
| Nil to RMB1,000,000 (approximately HK$1,070,000) | **5** | 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.

## 24. FINANCE COSTS

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Interest expense: | | |
| – short-term loans | **1,512** | 868 |

## 25. INCOME TAX

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax (note a) | **–** | – |
| – The PRC enterprise income tax ("EIT") (note b) | **2,471** | 387 |
| Deferred income tax (note 18) | **(4,881)** | (3,608) |
| | **(2,410)** | (3,221) |

(a) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the year (2006: 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.

## 25. INCOME TAX (Continued)

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:

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Loss before income tax | **(47,923)** | (75,153) |
| Tax calculated at domestic tax rates applicable to profit in the respective entities | **(15,815)** | (24,800) |
| Effect of different taxation rates in other cities | **635** | (629) |
| Income not subject to tax | **–** | (6,859) |
| Expenses not deductible for tax purposes | **6,670** | 15,807 |
| Utilisation of previously unrecognised tax losses | **(1,176)** | – |
| Impact of change in enacted tax rate on deferred taxation | **586** | – |
| Tax losses for which no deferred income tax asset was recognised | **6,582** | 13,216 |
| Others | **108** | 44 |
| Income tax | **(2,410)** | (3,221) |

## 26. NET FOREIGN EXCHANGE LOSSES

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

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Administrative expenses | **1,717** | 64 |

## 27. 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 RMB3,732,000 (2006: RMB4,425,000).

## 28. LOSS PER SHARE

| | **2007** **RMB'000** | 2006 RMB'000 |
|---|---|---|
| Loss attributable to equity holders from continuing operations | **(39,441)** | (60,580) |

| | **No. of shares** **'000** | No. of shares '000 |
|---|---|---|
| Weighted average number of shares in issue | **488,966** | 477,873 |
| Incremental shares from assumed exercise of share options granted | **6,439** | 17,627 |
| Diluted weighted average number of shares | **495,405** | 495,500 |
| Basic loss per share from continuing operations | **RMB(0.0807)** | RMB(0.1268) |
| Diluted loss per share from continuing operations | **RMB(0.0807)** | RMB(0.1268) |

The calculation of basic loss per share from continuing operations is based on the loss attributable to the equity holders of the Company of approximately RMB39,441,000 (2006: RMB60,580,000) for the year ended 31st December 2007 and the weighted average of approximately 488,966,000 (2006: 477,873,000) ordinary shares in issue during the year.

Diluted loss per share from continuing operations for the two years ended 31st December 2007 and 2006 are the same as basic loss per share since all potential ordinary shares are anti-dilutive.

| | 2006 RMB'000 |
|---|---|
| Loss attributable to equity holders from discontinued operations | (38,213) |
| | No. of shares '000 |
| Weighted average number of shares in issue | 477,873 |
| Incremental shares from assumed exercise of share options granted | 17,627 |
| Diluted weighted average number of shares | 495,500 |
| Basic loss per share from discontinued operations | RMB(0.0800) |
| Diluted loss per share from discontinued operations | RMB(0.0800) |

## 28. LOSS PER SHARE (Continued)

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

Diluted loss per share from discontinued operations for the year ended 31st December 2006 is the same as basic loss per share since all potential ordinary shares are anti-dilutive.

## 29. DIVIDENDS

No dividend was paid or declared by the Company during the year (2006: Nil).

## 30. CASH GENERATED FROM OPERATIONS

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

| | **2007 RMB'000** | 2006 RMB'000 |
|---|---|---|
| Loss before taxation | **(47,923)** | (124,712) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment (note 8 and 34) | **18,021** | 18,554 |
| Amortisation of intangible assets (note 7) | **5,080** | 4,930 |
| Share option scheme – value of employee services (note 23) | **3,778** | 3,944 |
| Amortisation of land use rights (note 6) | **427** | 427 |
| Impairment of goodwill (note 7) | **–** | 4,628 |
| Interest income (note 21 and 34) | **(1,871)** | (1,772) |
| Interest expenses (note 24) | **1,512** | 868 |
| Loss on disposal of property, plant and equipment (note d) | **267** | 1,211 |
| Loss/(gain) on disposal and termination of subsidiaries, branches and discontinued operations (note c) | **2,132** | (26,084) |
| Provision for impairment of amount due from a jointly controlled entity (note 10) | **14,130** | – |
| Operating loss before working capital changes | **(4,447)** | (118,006) |
| Decrease in trade receivables, deposits, prepayments and other receivables | **6,459** | 74,262 |
| 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 | **8,044** | 67,260 |
| Net cash generated from operating activities | **10,056** | 23,516 |

**(b) Non-cash transactions**

During the year ended 31st December 2007, a jointly controlled entity partially settled its amount due to the Group by transferring certain intangible assets with the value of RMB3,000,000 to the Group.

## 30. CASH GENERATED FROM OPERATIONS (Continued)

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

| | **2007 RMB'000** | 2006 RMB'000 |
|---|---|---|
| Net assets/(liabilities) disposed of: | | |
| Intangible assets | **–** | – |
| Property, plant and equipment | **289** | 4,529 |
| Trade receivables, deposits, prepayment and other receivable | **2,046** | 40,886 |
| Cash and cash equivalents | **1** | 2,409 |
| Trade payables | **–** | (74,763) |
| Income tax payable | **–** | (435) |
| Minority shareholders' interests | **(204)** | 3,068 |
| | **2,132** | (24,306) |
| (Loss)/gain on disposal and termination of subsidiaries, branches and discontinued operations | **(2,132)** | 26,084 |
| Proceeds receivables | **–** | 1,778 |
| Cash proceeds (net of professional fee paid) | **–** | – |
| Cash and cash equivalents disposed of | **–** | (2,409) |
| Net cash outflow on disposal and termination of subsidiaries, branches and discontinued operations | **–** | (2,409) |

**(d) Proceeds from disposal of property, plant and equipment**

In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

| | **2007 RMB'000** | 2006 RMB'000 |
|---|---|---|
| Net book amount: | | |
| – Property, plant and equipment | **510** | 3,801 |
| Loss on disposal of property, plant and equipment | **(267)** | (1,211) |
| Proceeds from disposal of property, plant and equipment | **243** | 2,590 |

## 31. COMMITMENTS – GROUP

**Commitments under operating leases**

At 31st December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings which expire as follows:

| | **2007 RMB'000** | 2006 RMB'000 |
|---|---|---|
| Within one year | **10,337** | 12,274 |
| In the second to fifth year inclusive | **448** | 11,593 |
| | **10,785** | 23,867 |

## 32. CONTINGENT LIABILITIES

At 31st December 2007, there were no material contingent liabilities to the Group (2006: Nil).

## 33. RELATED-PARTY TRANSACTIONS

The following significant transactions were carried out with related parties:

### (a) Sales of services

| | **2007 RMB'000** | 2006 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) | **729** | 701 |
| | **1,180** | 1,152 |

(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 and on 30th December 2007, the parties entered into a Supplemental Agreement which extended the term of the Technology Services Agreement to 31st December 2009.

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 and on 30th December 2007, the parties entered into a supplemental agreement which extended the term of the Domain names and Trademark Licence to 31st December 2009.

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 RMB729,000 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, for the year ended 31st December 2007 and the fee was payable at market price no less favorable than as charged by independent third parties on a monthly basis.

## 33. RELATED-PARTY TRANSACTIONS (Continued)

### (b) Purchases of services

| | 2007 RMB'000 | 2006 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) | **25,310** | 26,651 |
| | **25,650** | 26,991 |

(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 and 30th December 2007, the parties entered into a supplemental Agreement which extended the term of the Online Information Distribution Agreement to 31st December 2007 and 31st December 2009. 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 and 30th December 2007, the parties entered into a supplemental Agreement which extended the term of Online Advertisement Publication Agreement to 31st December 2007 and 31st December 2009. 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.

## 33. RELATED-PARTY TRANSACTIONS (Continued)

### (c) Key management compensation

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **5,878** | 5,788 |
| Share-based payments | **1,544** | 1,430 |
| | **7,422** | 7,218 |

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

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Amounts due from related companies (note 12) | **2,568** | 1,233 |
| Amount due to a related company (note 12) | **604** | – |

### (e) Loans to related parties

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Amount due from a jointly controlled entity (note 10) | **–** | 14,102 |

## 34. 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.

## 34. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

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

| | 2006<br>RMB'000 |
|---|---|
| Sales | 18,075 |
| Cost of sales | (21,864) |
| Interest income | 100 |
| Expenses | (25,817) |
| Loss before income tax from discontinued operations | (29,506) |
| Income tax | (18) |
| Loss after income tax from discontinued operations | (29,524) |
| Loss on disposal and termination of discontinued operations | (20,053) |
| Loss for the year from discontinued operations | (49,577) |
| Operating cash flows | (13,967) |
| Investing cash flows | 252 |
| Financing cash flows | – |
| Total cash flows | (13,715) |

**(a) Expenses by nature**

| | 2006<br>RMB'000 |
|---|---|
| Direct cost of television advertising business | 21,004 |
| Staff costs, including directors' emoluments | 5,832 |
| Depreciation of property, plant and equipment | 1,122 |
| Write-off and provision for impairment of trade and other receivables | 5,424 |
| Loss on disposal of property, plant and equipment | 354 |
| Operating lease payments in respect of land and buildings | 289 |
| Other expenses | 13,656 |
| Total cost of sales, selling and marketing expenses and administrative expenses | 47,681 |

## 35. EVENTS AFTER THE BALANCE SHEET DATE

On 22nd October 2007, 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 sell an internet software and a domain name to Madeinchina, Inc. ("Madeinchina") and it will be settled by 19% of the enlarged issued share capital of Madeinchina after the completion. Pursuant to the agreement, HKHC shall be granted a two-year call option for subscription for additional shares representing 11% of the share capital of Madeinchina after the completion subject to the terms and conditions of the sales and purchase agreement. Upon completion of the sales and purchase agreement the Group will recognise Madeinchina as an associated company.

The directors expect the transaction will be completed prior to the end of the first quarter in 2008.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting of the members of HC International, Inc. (the "**Company**") will be held at Tower B, Jieneng Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100082) on 25th April 2008 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 2007.

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 recognised 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 2008

*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 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 23rd April 2008 to 24th April 2008 (both dates inclusive). Shareholders on the share register as at 23rd April 2008 will be entitled to attend and vote at the meeting.