

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 announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to 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
WU Ying
LAI Sau Kam, Connie

NON-EXECUTIVE DIRECTORS

SHONG Hugo
YANG Fei

INDEPENDENT NON-EXECUTIVE DIRECTORS

ZHANG Ke
XIANG Bing
GUO Wei

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

LAI Sau Kam, Connie, ACCA

AUDIT COMMITTEE

ZHANG Ke
XIANG Bing
YANG Fei

COMPLIANCE OFFICER

GUO Fansheng

AUTHORISED REPRESENTATIVES

WU Ying
LAI Sau Kam, Connie

AGENT FOR THE ACCEPTANCE OF SERVICE OF PROCESS

LAI Sau Kam, Connie

STOCK CODE

8292

COMPANY'S WEBSITE

www.hc360.com

SPONSOR

First Shanghai Capital Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS

Herbert Smith
King & Wood

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

HONG KONG BRANCH SHARE REGISTRATION AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Tower B, Huaxing Building
42 North Street
Xizhimen Haidian District
Beijing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

12th Floor, Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Corporate Information

OUR MISSION:

TO FACILITATE THE MATCHING OF BUYERS AND SELLERS IN COMMERCIAL TRANSACTIONS AND TO ASSIST THEIR BUSINESS DECISION MAKING BY PROVIDING COMMUNICATION CHANNELS FOR THEM TO DISSEMINATE AND/OR RECEIVE BUSINESS INFORMATION EFFECTIVELY.

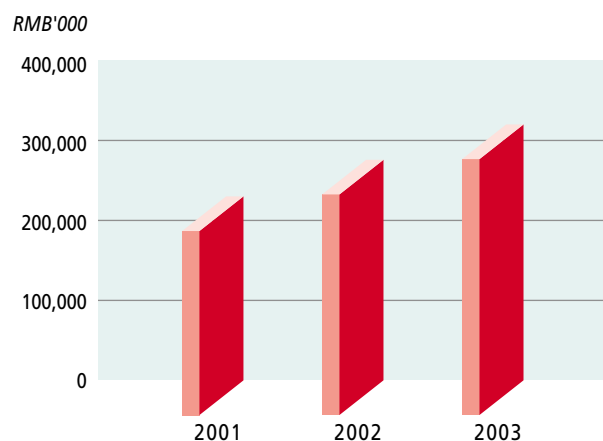
HC International, Inc., the PRC's leading cross-media business information services provider, in year 2003 achieved:

- 16% growth in turnover from RMB278 million to RMB323 million
- 78% growth in EBITDA from RMB32 million to RMB57 million
- 106% growth in profit attributable to shareholders from RMB16 million to RMB33 million

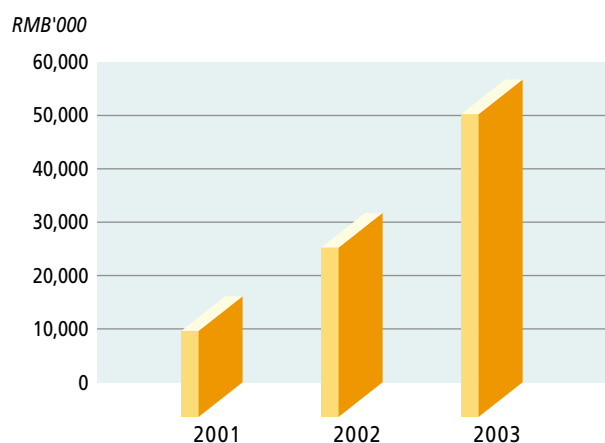
Financial Highlights

	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>
Results			
Turnover	236,155	278,029	322,511
Gross profit	85,325	93,431	117,596
EBITDA	16,194	32,068	56,886
Profit attributable to shareholders	3,462	15,985	33,078
Earnings per share			
– Basic	RMB0.012	RMB0.053	RMB0.109
– Diluted	N/A	N/A	RMB0.108
Financial Position			
Net current assets	16,224	11,458	143,939
Total assets	146,578	196,810	341,847
Shareholders' funds	73,745	85,436	222,373

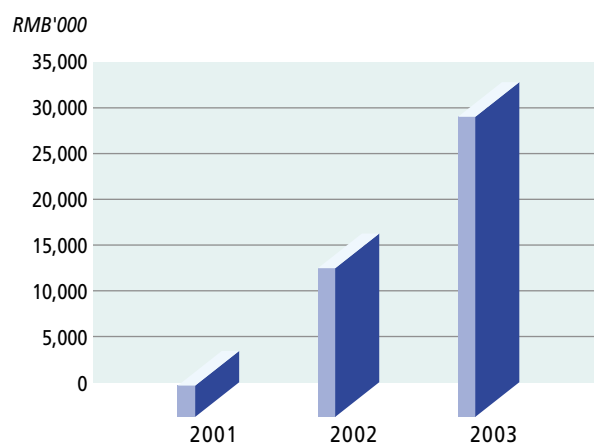
Turnover



EBITDA



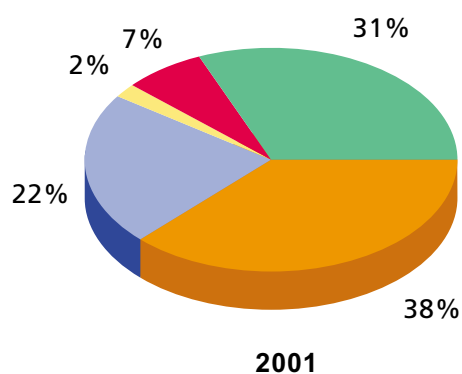
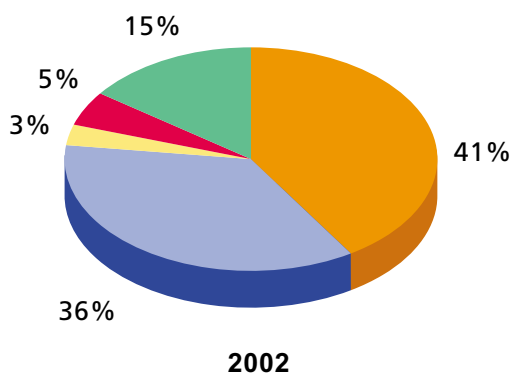
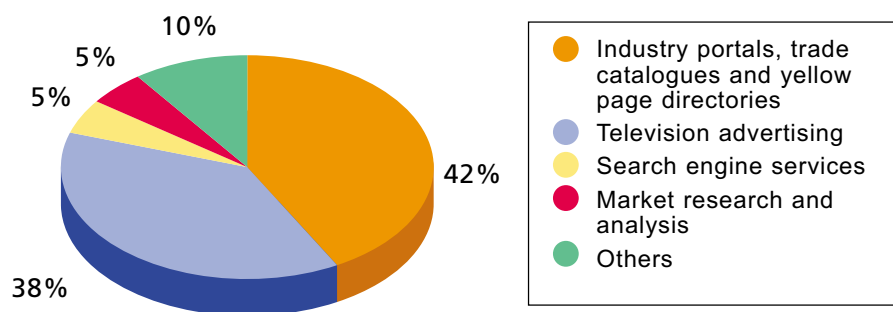
Profit attributable to shareholders



Financial Highlights

Turnover analysis

	Industry portals, trade catalogues and yellow page directories <i>RMB'000</i>	Search engine services <i>RMB'000</i>	Television advertising <i>RMB'000</i>	Market research and analysis <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
2003	135,442	15,305	123,177	16,565	32,022	322,511
2002	113,273	7,503	100,237	14,334	42,682	278,029
2001	88,166	5,473	52,869	16,553	73,094	236,155



Chairman's Statement

2003 was a fruitful year.

The Group's profit amounted to RMB33 million, representing an increase of 106% when compared to RMB16 million achieved the year before. Basic earnings per share was RMB0.109.

Demand from both local and multinational corporations for high-quality business information services grew significantly in China during 2003. The growth generally corresponded to the expanding underlying economic activities and increased personal consumption patterns in the economy. In addition, China's accession to the WTO and the significant increase in number of Internet users has provided the Chinese economy with further growth stimuli.



Through over 10 years of operations in collecting business information from various online and offline sources, the Group has accumulated a comprehensive data library on products, market, enterprises' information and statistics on advertising and other business information in over 50 different industries in the PRC. Supported by its four main business lines, (i) industry portals, trade catalogues and yellow page directories, (ii) search engine services, (iii) television advertising and (iv) market research and analysis, the Group has continued to establish itself as an authoritative business information services provider in the PRC and to provide returns for its shareholders.

The listing on the GEM Board of The Stock Exchange of Hong Kong Limited on 17th December, 2003 (the "Listing Date") has not only created a new milestone for the Group, but also strengthened the financial position of the Group for future expansion.

The progress in operating performance of the Group's core businesses in 2003 can be attributable to the dedication and quality of different business unit management teams and their staff. To capture market opportunities, management will clearly be the differentiating factor for the Group's success. On behalf of our shareholders and my fellow board members, I would like to express my most sincere and heartfelt thanks to the management teams and the staff of all business units.

Hugo Shong

Non-executive Chairman

Beijing, 22nd March, 2004

Management's Statement

I am pleased to present the shareholders my report on the operation of the Group for the year ended 31st December, 2003.

FINANCIAL REVIEW

For the fiscal year ended 31st December, 2003, the Group recorded a turnover of approximately RMB322,511,000 (2002: RMB278,029,000), representing a 16% increase when compared to the turnover in 2002. The increase was mainly attributable to the expansion of range and improvement of quality of the Group's services and products, which in turn led to an increase of market share in the industry.

While turnover of the Group for the year 2003 increased by 16% as compared to the previous year, management remained conservative on controlling the Group's selling and administrative expenses. Consequently, selling and administrative expenses stood at approximately RMB73,733,000 when compared to RMB70,305,000 in 2002.

As a result of the increase in the Group's total revenue and the relatively steady operating and administrative expenses in 2003, the Group's profit attributable to shareholders increased significantly to RMB33,078,000 (2002: RMB15,985,000), 106% higher than last year. Basic earnings per share was RMB0.109 (2002: RMB0.053), representing an increase of 106% over last year.

Your board of Directors does not recommend the payment of a dividend for the year.

BUSINESS REVIEW

As one of the leading cross-media business information services providers in the PRC, the Group continued its efforts to expand its market share in the industry and in improving the coverage, capability and functionality of its services and products in 2003.

Realising that information digitalisation will drive the future market, more on-line trade catalogues were posted on the Group's website during this year. In addition, the Group published additional yellow page directories in new industry sectors in respect of engineering machinery, paint and coatings, electronic components, printing and packaging, heating and air-conditioning equipment, automobiles, hotel supplies and home appliances and others during the year.

With the completion of the development of "Huicong Internet Search Engine System" (慧聰搜索引擎系統) in 2002, the Group devoted significant resources in 2003 to upgrade its search engine software. This self-developed software technology is perceived as the most powerful Chinese search engine currently available in the market with its advanced Chinese semantics based content analysis, leading classification and operation methodology, which are used by the top portals in the PRC, including sina.com, sohu.com, netease.com, china.com and tom.com. In May 2003, the Group launched the search results prioritising service to generate new sources of income. Customers, after paying a fixed fee, can secure a certain position in search results, generated from specific searches conducted by users of the websites of the members of the China Search Alliance, which was founded in September 2002 together with the China Internet Information Centre, an organisation managed by the State Council Information Office of the PRC, to promote awareness of customers' services and products.

Management's Statement

The Group continued to extend its agency income generated from the management agreements signed with the four provincial capital city-based television stations in the PRC, Zhengzhou, Jinan, Urumqi and Lanzhou Television Stations. At the same time, the Group also strengthened its efforts in initiating new clients to disseminate business information through television broadcasting and in maintaining closer relationships with existing clients.

More resources were devoted to expand the Group's market research and analysis services. Over 1,400 research reports were published in 2003 as compared to 1,292 in 2002. Besides, the Group also lined up various multinational corporations, including Sony, Panasonic, and Toyota, to subscribe for the Group's research reports.

The successful listing of the Group on GEM has further enhanced the Group's financial position for better development and expansion of the Group's products and services.

GOING FORWARD

The Group will continue to build on its vision to further strengthen its position as the PRC's leading cross-media business information services provider. It will go on to expand the range of its products and to improve the quality of its services to the business community, with a focus on major lines of business: (i) industry portals, trade catalogues and yellow page directories, (ii) search engine services, (iii) television and print periodicals and (iv) market research and analysis.

The Group will extend the industry coverage of its business information products and services by broadening its trade catalogues and yellow page directories to other industry sectors under its brand name, Huicong (慧聪), which has gained wide recognition in the PRC. The Group will also seek to improve income from its search engine services by expanding the scale and scope of the China Search Alliance and continue to upgrade the Group's proprietary search engine software technology.

Besides, being aware of the increasing popularity of the Internet after the PRC's accession to the WTO, the Group will devote more resources on providing its online products and positioning itself as the top industry portal in the PRC. While trade catalogues and yellow page directories and research reports will continue to be provided online, additional business information products and services will also be developed online to increase revenue and market share of the Group. In addition, the Group will strive to improve online functionality and to strengthen supporting software so as to enhance the technological capability of the Group's online services and products.

In the longer run, the Group will further enrich the content and enhance the data management system of its data library to maintain its competitive edge in the market. Moreover, the Group will expand its television media sales business by entering into long-term management agreements in form of joint venture with more provincial capital city-based television stations to capitalise on the growing demand for television advertising.

Management's Statement

For now, the Group will continue to seek to introduce innovative business information products and services that will complement and enhance its existing services and products, which will in turn lead to an increase in return on shareholders' funds.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our customers, strategic partners and shareholders for their support and all our staff members for their hard work and dedicated service.

Guo Fansheng

Chief Executive Officer and Executive Director

Beijing, 22nd March, 2004

Management's Statement



Mr. GUO Fansheng
*Chief Executive Officer and
Executive Director*



Ms. WU Ying
*Chief Operating Officer and
Executive Director*



Ms. LAI Sau Kam, Connie
*Financial Controller and
Executive Director*



Mr. LEE Wei Ong, Alex
Chief Financial Officer

Management's Statement

INDUSTRY PORTALS, TRADE CATALOGUES AND YELLOW PAGE DIRECTORIES



Mr. GUO Jiang (2nd left), Vice President, and his management team

- The industry portal (www.hc360.com) provides timely, accurate and diversified business information covering 57 business sectors;
- Over 55 regional and nationwide trade catalogues published monthly cover 21 industries in the PRC;
- 13 yellow page directories covering 13 specific industries published in 2003.

Management's Statement

SEARCH ENGINE SERVICES



Mr. CHEN Pei (1st left), Vice President, and **Mr. CHEN Bo** (1st right), Vice President, and their management team



- Powerful Chinese search engine (www.zhongsou.com) used by the top portals in the PRC – sina.com, sohu.com, netease.com, china.com, and tom.com;
- China Search Alliance (中國搜索聯盟), a strategic alliance with China Internet Information Centre (CIIC) (中國互聯網新聞中心), an organisation managed by the State Council Information Office of the PRC (中國國務院新聞辦公室);
- Over 800 members of the China Search Alliance.

Management's Statement

TELEVISION ADVERTISING



Mr. WU Xian (2nd right), Vice President, and his management team

- Exclusive agent to manage advertising time-slots for 4 TV stations in Zhengzhou, Jinan, Urumqi, and Lanzhou;
- Involving in and providing advice on program management, operation management and quality management to the TV stations.
- Forming joint venture operation with Lanzhou television station.



Management's Statement

MARKET RESEARCH AND ANALYSIS



Mr. YAO Lin (right), Vice President, and **Mr. CHEN Nai Hui** (left), Chief Research Officer

- Providing general and customised market research reports to renowned multinational corporations and large enterprises in the PRC;
- Providing professional research reports on advertisement, media, products, market, price and sales channels studies;
- A sizeable and comprehensive data library operated by over 300 analysts and data-processors with business information sourced from more than 1,400 national and regional newspapers and periodicals in the PRC as well as other on-line media sources.

Biographic Details of Directors and Senior Management

DIRECTORS

Executive Directors



GUO Fansheng

Aged 48, is an executive director and the chief executive officer of the Company. Mr. Guo founded the Group in October 1992 and is responsible for the overall strategic development and policy of the Group. From 1990 to 1992, Mr. Guo worked as a manager in a State-owned business information company in Beijing. From 1987 to 1990, Mr. Guo served as a director of the Liaison Office and General Office of the Economic System Reform Institute under the State Commission for Economic Restructuring, and as the deputy director of the Western China Development Research Centre. Prior to working at the State Commission for Economic Restructuring, Mr. Guo served from 1982 to 1987 as a senior official in the government of the Inner Mongolia Autonomous Region. Mr. Guo obtained a bachelor degree in industrial economics from Renmin University of China in 1982.



WU Ying

Aged 36, is an executive director and the chief operating officer of the Company. Ms. Wu joined the Group in 1993 and became a vice president in 1997. She is responsible for the overall management of the daily operations of the Group. Ms. Wu graduated from Shaanxi Institute of Industry and Commerce with a bachelor degree in economic information management in 1988 and obtained a master of business administration degree from Guanghua School of Management of Peking University in 1999.



LAI Sau Kam, Connie

Aged 30, is an executive director, company secretary and qualified accountant of the Company. Ms. Lai joined the Group in October 2000 as financial controller and is responsible for the management of the finance and accounting activities of the Group. Prior to that, she spent over four years in PricewaterhouseCoopers. She is a qualified accountant with over seven years' experience in the fields of accounting, auditing and financial management. Ms. Lai graduated from the Chinese University of Hong Kong in 1996 with a bachelor degree in professional accountancy and is an associate member of the Association of Chartered Certified Accountants.

Biographic Details of Directors and Senior Management

Non-executive Directors



SHONG Hugo

Aged 47, is a non-executive director, senior vice president of International Data Group, Inc. (“IDG”), president of IDG Asia, Inc., and a director of IDG Technology Venture Investment, Inc. (“IDGVC”). Mr. Shong has headed IDG’s operations in information technology publishing, market research, tradeshow and venture investment in the Asia Pacific region. He obtained his master degree in communications from Boston University majoring in journalism in 1987 and he graduated from Hunan University in 1982 majoring in English.



YANG Fei

Aged 45, is a non-executive director, a vice president of in IDGVC, and a director of Guangdong Pacific Technology Co., Ltd. Mr. Yang worked as the Head of Listing Department of the Guangdong Securities Regulatory Commission, before joining IDGVC in 1997. He graduated from Guangzhou Zhongshan University where he obtained his bachelor of science degree in natural geography in 1982 and his master degree in environmental geography in 1989. Mr. Yang is one of the main researchers in the State’s key research project – China Regional Development Strategic Research and is experienced in regional economic development research. He has been working in the regulation of the securities business for many years and is familiar with the evolution and operation of the domestic securities market. He has extensive experience in capital operations, mergers and acquisitions, and financing through listings.

Biographic Details of Directors and Senior Management

Independent Non-executive Directors



ZHANG Ke

Aged 50, is an independent non-executive director. Mr. Zhang is a certified public accountant in the PRC and is currently the chairman and managing partner of ShineWing Certified Public Accountants. He graduated from Renmin University of China in 1982 with a bachelor degree in economics majoring in industry economics. He has over 20 years of experience in the fields of economics, accounting and finance. Mr. Zhang is currently a director of the Chinese Institute of Certified Public Accountants, a committee member of the Certified Public Accountants Examination Committee of the Ministry of Finance, a part-time professor of the department of accounting of Renmin University of China and a part-time professor of the management school of the China Science Academy.



XIANG Bing

Aged 41, is an independent non-executive director. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business and a professor of the Guanghua School of Management of Peking University. He graduated from the University of Alberta with a master of business administration degree and subsequently obtained a doctorate degree. Dr. Xiang previously taught in the Hong Kong University of Science and Technology.



GUO Wei

Aged 40, is an independent non-executive director. Mr. Guo has been the president and chief executive officer of Digital China Holdings Limited since 2001. Mr. Guo obtained a bachelor degree in engineering management from Northeastern University, PRC in 1985 and subsequently graduated from the China University of Science and Technology in 1988 with a master of science degree in management. He joined Legend Group in 1988 and has held different senior positions in Lenovo Group, including assistant president of Legend Group, deputy general manager of Legend Hong Kong and executive director of Legend Group.

Biographic Details of Directors and Senior Management

SENIOR STAFF

LEE Wei Ong Alex

Aged 34, is the chief financial officer of the Company and he joined the Group in April 2000. Prior to joining the Group, Mr. Lee spent six years with Colonial First State Investments Group and Hambros Australia as a fund manager and was seconded to CMG CH China Funds Management. During that period, Mr. Lee managed a publicly listed closed-ended fund which invested in Greater China's equity market. Mr. Lee graduated with a bachelor degree in accounting from Northern University of Malaysia. He was an executive director of the Company and is a director of Sina Huicong Advertising (Beijing) Ltd.

GUO Jiang

Aged 30, joined the Group in 1996 as manager and become a vice president of the Group in 2002 and is responsible for the Group's service regarding the provision of business information. 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 enterprise conducted by Guanghua Business School of Peking University in 2002.

CHEN Pei

Aged 41, is a vice president of the Company. Mr. Chen has served the Group as vice president and the chief technology officer since January 2000. He is responsible for technology-related matters and is in charge of the Group's software business. Mr. Chen previously worked at CHINET Information Technology Co. Ltd., a leading Internet access company in China, from 1997 to 1999 and was subsequently appointed as its president. Prior to that, Mr. Chen spent one year at the Orient Longma Information Centre as deputy general manager and chief engineer and one year at Huaruan Electronics Technology Co. Ltd. as general manager. From 1989 to 1995, Mr. Chen worked at the computing centre of the general staff of the People's Liberation Army. He graduated from Zhejiang University in 1982 with a bachelor degree in mathematics.

CHEN Bo

Aged 35, has been a vice president of the Company since April 2003. He is responsible for the research and development of software products of the Group. Mr. Chen previously worked at Hyperion Solutions Corporation, USA as a product manager. Before joining Hyperion Solutions Corporation in 1998, Mr. Chen spent nine months at Eastman Kodak Company, USA as senior research officer and two years as manager and deputy chief executive officer of Hangzhou Maikang Software Development Company Limited. Mr. Chen graduated from Purdue University, USA in 1998 with a doctorate degree in industrial engineering and a master of business administration degree from Connecticut University, USA in 2003. He is the brother of Mr. Chen Pei.

Biographic Details of Directors and Senior Management

SENIOR STAFF *(Continued)*

WU Xian

Aged 35, joined the Group in 1998 as general manager of Beijing Huicong Advertising Co., Ltd. and become vice president of the Group in 2002 and is responsible for the Group's television advertising service. Mr. Wu has over seven years' experience in media advertising. He spent one year at Cleverlion Advertising (Beijing) Co., Ltd. and another year at FCB-Magecom Advertising Corporation as media manager. Mr. Wu graduated from the Dongbei University of Finance and Economics in 1992 with a bachelor degree in investment.

YAO Lin

Aged 53, is a vice president of the Group. Mr. Yao joined the Group in October 1998 as the chief research officer. He was instrumental in establishing and is responsible of the management of the Group's data library. Mr. Yao is also responsible for the operations of the market research and analysis service of the Group. Mr. Yao served as deputy director of the Economics Department of the Nankai University in China and a visiting professor at Hitotubashi University of Japan. He obtained a bachelor degree in economics from Lanzhou University in 1987 and a master degree in economics from Nankai University in 1983.

HUANG Haixin

Aged 36, joined the Group in 1997 and became vice president of the Group in 2002 and is responsible for the Group's trade catalogues service regarding the paint and coatings and medicine sectors. Prior to that, Mr. Huang spent seven years at the Information Branch of the China National Chemicals and Light Industry Material Corporation of the Ministry of Commerce as deputy general manager. Mr. Huang graduated from the Dongbei University of Finance and Economics in 1990 with a bachelor degree in economics. He attended the MBA program at Renmin University of China in 2001 and the Business Administration Course for senior management of modern enterprise conducted by Guanghua Business School of Peking University in 2002.

WANG Xiaoyu

Aged 46, joined the Group in 1993. She was the general manager of the Wuhan Huicong Advertising Information Consultants Co., Ltd. and became president of the southern region and vice president of the Group in 2001. Ms. Wang is responsible for the management of the branch offices of the Group outside Beijing. She has over twenty-one years' of working experience. Ms. Wang graduated from Central Radio and Television University in 1985 with a major in electronics. She also attended the Business Administration Course for senior management of modern enterprise conducted by Guanghua Business School of Peking University in 2002.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2003, the Group's cash and bank balances increased by RMB105,572,000 to RMB133,977,000 as compared to RMB28,405,000 as at the end of the previous financial year.

Short-term loans amounted to RMB25,000,000 as at 31st December, 2003, representing a decrease of 4.87% from that at 31st December, 2002. Gearing ratio of the Group decreased significantly to 11.24% as at 31st December, 2003 from 30.76% as at 31st December, 2002, calculated with reference to the short-term loans of RMB25,000,000 (2002: RMB26,280,000) and shareholders' funds of RMB222,373,000 (2002: RMB85,436,000).

The Group's net current assets totaled RMB143,939,000 as at 31st December, 2003, against RMB11,458,000 as at the end of the previous financial year. Its current ratio improved significantly to 2.67 as compared to 1.13 on 31st December, 2002.

The Group's trade receivables turnover has improved from 78.8 days in 2002 to 66.8 days in 2003.

The Group's shareholders' funds increased by RMB136,937,000 to RMB222,373,000 as at 31st December, 2003 as compared to RMB85,436,000 as at the end of the previous financial year.

SIGNIFICANT INVESTMENT

The Group had no significant investment held in the year ended 31st December, 2003.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

In November and December 2003, the Group acquired further interests from minority shareholders of 烏魯木齊華媒盛視傳播有限公司, 鄭州華媒盛視廣告傳播有限公司 and 濟南華媒盛視傳播有限公司. The attributable interest of profit/loss sharing increased to 62.3%, 82%, and 82% respectively. The total consideration for the acquisitions amounted to RMB550,000 and resulted in a negative goodwill of RMB814,000, which was recognised in the consolidated profit and loss account during the year.

STAFF

The continued success of HC International Inc. Group relies on the skills, motivation and commitment of our staff. At the year end 31st December, 2003, Group employees numbered 2,385. Of these, 879 were employed in our Sales and Marketing Division and 665 were employed in the Research, Data Analysis and Information Technology Divisions.

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

We remain confident that our employees will continue to provide a firm foundation for the success of the Group and will maintain the high standards of service for which we are known.

Management Discussion and Analysis

OUTSTANDING TAX LIABILITIES AS AT 30TH JUNE, 2003

As at 30th June, 2003, the Group had a tax provision of approximately RMB24.9 million in its consolidated balance sheet. This tax provision comprised approximately RMB5.7 million for PRC enterprise income tax (“EIT”), RMB16.9 million for business tax (“BT”) and other taxes, and RMB2.3 million for individual income tax (“IIT”) payable under the relevant PRC tax laws and regulations. The Company has undertaken to the Stock Exchange that it will procure its relevant subsidiaries to actively approach the relevant tax authorities within 3 to 6 months from the Listing Date to settle the relevant taxes.

For EIT, the Company has actively approached and reported the current status of each subsidiary to the relevant tax authorities. The Company was instructed by the relevant tax authority to wait for their further instructions after filing of the tax submission for year 2003, which is expected to be completed before 30th April, 2004.

Regarding BT and other related taxes, after further discussion with the relevant tax authorities, the Group has paid and settled the sum of approximately RMB6.5 million in full to the tax authorities.

RMB1.2 million of the provision for BT was considered to be over provided, and was confirmed by the relevant tax authorities that the sum was not to be payable as one of the subsidiaries is a Sino-foreign co-operation joint venture company and is exempted from paying other taxes on certain revenue.

The Company has informed the relevant tax authorities about the additional provision for business tax of RMB5.6 million arose from the adoption of the accrual basis. The relevant tax authority has agreed and confirmed the view of our PRC legal advisers that the cash basis adopted by the Group for filing tax returns does not violate the relevant PRC tax laws and regulations as it considers the business tax obligations of a company should only arise either when the company has received the income or on the date of obtaining the documents evidencing the right to collect the income (e.g. issue of invoices). Accordingly, such balances are the BT and other tax payable to the relevant tax authorities and will be settled when the invoices are issued or cash received.

For the remaining RMB3.6 million of BT, the Company will continue to take an active approach to contact the relevant tax authorities with a view to settle all the required tax obligations.

For the IIT, the Group has paid the IIT of RMB1 million in December 2003 and the remaining payable is under negotiation with the relevant authorities.

Management Discussion and Analysis

CONTRIBUTIONS TO THE RETIREMENT BENEFIT FUND, MEDICAL BENEFIT FUND AND HOUSING BENEFIT FUND

As at 30th June, 2003, as a result of the Group's failure to make timely contributions to the retirement benefit fund, medical benefit fund and housing benefit fund, the Group had an outstanding balance of approximately RMB9.1 million, RMB869,000 and RMB5.6 million payable to the respective funds. The Company has undertaken to the Stock Exchange that it will comply with the necessary filing requirements for its employees and settle all the outstanding contributions to the relevant authorities within 3 to 6 months from the Listing Date.

The Company has taken an active approach to obtain the required information and particulars from its employees for registration with the relevant authorities in relation to each of the above funds. The Company is currently in the process of collection of such information, and will continue to take an active approach to ensure due registration with the relevant authorities as soon as possible.

CHARGES ON GROUP ASSETS

As at 31st December, 2003, a property and the associated land use rights carried at RMB48,347,000 were pledged to secure the Group's bank loan amounting to RMB25,000,000.

EXCHANGE RISK

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

CONTINGENT LIABILITIES

As at 31st December, 2003, the Group had no contingent liabilities (2002: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the Company's Prospectus dated 8th December, 2003 to the actual business progress from 2nd December, 2003 to 31st December, 2003:

Business Objectives

Actual Business Progress

Broaden industry coverage

- | | |
|---|---|
| <ul style="list-style-type: none">• Conduct feasibility studies to expand the Group's trade catalogues to cover 4 new industry sectors, including forgery prevention, paper manufacturing, smart transportation and electrical equipment. | <ul style="list-style-type: none">• Ongoing feasibility studies have been carrying out by the Group during the year and the Group will continue to utilise its expertise in the field and the valuable market indicators derived from its data library to broaden its trade catalogues to other industry sectors. |
|---|---|

Management Discussion and Analysis

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business Objectives

Actual Business Progress

Broaden industry coverage (Continued)

- Based on the results of the feasibility studies, the Group will consider commencing the publication of these trade catalogues through the Group's website
- Ongoing. With the more extensive use of internet as a channel of business information dissemination in the PRC, the Group will continue to place efforts in meeting the objective of publishing all its trade catalogues online.

Increase market share within an existing industry sector

- Conduct feasibility studies on the provision of website construction services
- The website construction services have been fully launched at the end of the year. The Group will continue to put resources in promoting and improving the quality of this services.

Utilise the Internet to support its operations

- Enrich the business information provided on the Group's websites and thereby improve the content coverage of the Group's trade catalogues
- Aiming at being the leading "Industry Portal" in the PRC, more business information likes technical articles, authority release, research report, etc have been provided through the Group's website "www.hc360.com" with industry coverage spread over 57 business sectors.

Expand and strengthen the Group's data library

- Commence upgrading the system of the data library so that it can automatically receive the business information obtained from the Group's search engine software
- Ongoing research and development have been carrying out by the Group on how to utilise the Group's search engine software to extract business information which including technical articles, corporations' information, softcore advertisements, etc automatically from the internet.

Management Discussion and Analysis

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(Continued)*

Business Objectives

Actual Business Progress

Expand and strengthen the Group's data library (Continued)

- | | |
|---|--|
| <ul style="list-style-type: none">• Continue to improve the data management system of the data library
• Continue to expand the information sources for the data library | <ul style="list-style-type: none">• Effective tools and policies have been adopted by the Group to improve the data classification and sorting system, data accuracy control system as well as the data security control system over the business information processed by the data library.
• The number of newspaper and magazines in the PRC covered by the data library has increased by 211 to 1,449 in year 2003.• Business information is extracted from the online media sources and further processed in the data library.• More regular and ad hoc surveys have been carried out by the Group to enrich the quantity and quality of the business information processed by the data library. |
|---|--|

Expand search engine services

- | | |
|--|---|
| <ul style="list-style-type: none">• Promote the China Search Alliance to recruit more alliance members | <ul style="list-style-type: none">• Since the founding of the China Search Alliance in September 2002 by the Group and China Internet Information Centre, the number of alliance members continue to increase significantly. As at 31st December, 2003, members of the China Search Alliance were over 800. |
|--|---|

Expand television advertising service

- | | |
|--|---|
| <ul style="list-style-type: none">• Conduct site visits and feasibility studies on the provision of management services to new television stations | <ul style="list-style-type: none">• To capitalise upon the growing demand for television advertising, ongoing site visits and feasibility studies have been carrying out by the Group and base on the results of the feasibility studies, the Group will consider entering into management agreement with new television stations in year 2004. |
|--|---|

Management Discussion and Analysis

USE OF NET PROCEEDS OF PLACING

On 17th December, 2003, the Company raised net proceeds of approximately RMB87 million through the placing of 100 million new shares in the Company and their listing on GEM. The proceeds have been used as follows up to 31st December, 2003.

	Proposed <i>RMB million</i>	Actual <i>RMB million</i>
Broaden industry coverage	1.0	0.2
• Conduct feasibility studies	1.0	0.2
Increase market share within an existing industry sector	1.0	0.5
• Set up, operate and promote website construction services	1.0	0.5
Utilise the Internet to support its operations	0.5	0.3
• Enrich the contents on the Group's websites	0.5	0.3
Expand and strengthen the Group's data library	0.5	0.4
• Upgrade the software/hardware of the data library	0.2	0.2
• Expand the information source for the data library	0.3	0.2
Expand television advertising service	0.5	0.3
• Conduct site visits and feasibility studies	0.5	0.3
Working capital	1.0	1.0
	4.5	2.7

Directors' Report

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entity are set out in notes 16 and 17 to the accounts, respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 36. The directors do not recommend the payment of a dividend.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 28 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 15 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 27 to the accounts.

DISTRIBUTABLE RESERVES

The Company had reserves available for distribution calculated under the Company Law of Cayman Islands of approximately RMB54,955,000 as at 31st December, 2003 (2002: Nil).

Directors' Report

DIRECTORS

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

Mr. Hugo Shong* (<i>Non-executive Chairman</i>)	(appointed on 5th December, 2000)
Mr. Guo Fansheng (<i>Chief Executive Officer</i>)	(appointed on 21st March, 2000)
Ms. Wu Ying	(appointed on 30th September, 2002)
Ms. Lai Sau Kam, Connie	(appointed on 28th March, 2003)
Mr. Yang Fei*	(appointed on 5th December, 2000)
Mr. Zhang Ke#	(appointed on 28th March, 2003)
Mr. Xiang Bing#	(appointed on 8th March, 2002)
Mr. Guo Wei#	(appointed on 8th March, 2002)

* *non-executive directors*

independent non-executive directors

In accordance with Article 87 of the Company's Articles of Association, Ms. Wu Ying and Mr. Yang Fei 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 15 to 17.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, Mr. Guo Fansheng, Ms. Wu Ying and Ms. Lai Sau Kam, Connie, has entered into a director's service contract with the Company, whereby each of them has accepted the appointment as executive director of the Company for a term of three years from 30th November, 2003 which may be terminated by either party giving three months' prior written notice or otherwise in accordance with the terms of the service contract.

Each of the independent non-executive directors, Mr. Guo Wei, Mr. Xiang Bing and Mr. Zhang Ke, has entered into a director's service contract with the Company, whereby Mr. Guo Wei and Mr. Xiang Bing have accepted the appointment as independent non-executive director of the Company for a term of one year from 1st January, 2003 while Mr. Zhang Ke has accepted the appointment for a term of one year from 28th March, 2003, and the service contract shall be renewed automatically at the end of the term. Either party may terminate the service contract at any time by giving one month's prior written notice or in accordance with the term of the service contract.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and in note 18, note 25(b) and note 32 to the accounts, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party subsisted at the end of the year or at any time during the year.

Directors' Report

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December, 2003, the interests and the short positions of the Directors and chief executive in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited (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 5.40 to 5.58 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by Directors, were as follows:

(a) Long Positions in the Shares of the Company

Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Guo Fansheng	62,588,863	–	–	–	62,588,863	15.65%
Yang Fei	1,269,853	–	–	–	1,269,853	0.32%
Hugo Shong	1,269,853	–	–	–	1,269,853	0.32%

(b) Short Positions in the Shares of the Company

Nil.

(c) Long Positions in the rights to acquire Shares of the Company

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st December, 2003
			As at 1st January, 2003	Granted during the year	Exercised during the year	Cancelled during the year	
WU Ying	2nd December, 2003	0.44	–	1,015,872	–	–	1,015,872
LAI Sau Kam, Connie	2nd December, 2003	0.44	–	1,523,808	–	–	1,523,808

SHARE OPTION SCHEMES

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

Directors' Report

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 31st December, 2003, options to subscribe for an aggregate of 46,984,080 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st December, 2003 (Note 1)
			As at 1st January, 2003	Granted during the year	Exercised during the year	Cancelled during the year	
<i>Directors</i>							
WU Ying	2nd December, 2003	0.44	–	1,015,872	–	–	1,015,872
LAI Sau Kam, Connie	2nd December, 2003	0.44	–	1,523,808	–	–	1,523,808
<i>Senior management</i>							
LEE Wei Ong Alex	2nd December, 2003	0.44	–	2,666,664	–	–	2,666,664
CHEN Bo	2nd December, 2003	0.44	–	1,269,840	–	–	1,269,840
CHEN Pei	2nd December, 2003	0.44	–	3,174,600	–	–	3,174,600
GUO Jiang	2nd December, 2003	0.44	–	1,015,872	–	–	1,015,872
WANG Xiaoyu	2nd December, 2003	0.44	–	507,936	–	–	507,936
HUANG Haixin	2nd December, 2003	0.44	–	380,952	–	–	380,952
YAO Lin	2nd December, 2003	0.44	–	317,460	–	–	317,460
WU Xian	2nd December, 2003	0.44	–	698,412	–	–	698,412
WANG Chong	2nd December, 2003	0.44	–	6,298,407	–	–	6,298,407
WANG Yonghui	2nd December, 2003	0.44	–	5,917,454	–	–	5,917,454
<i>Ex-employees</i>							
FAN Qimiao	2nd December, 2003	0.44	–	7,111,104	–	–	7,111,104
GU Yuanchao	2nd December, 2003	0.44	–	3,777,774	–	–	3,777,774
<i>Consultant</i>							
Earl Ching-Hwa YEN	2nd December, 2003	0.44	–	1,206,348	–	–	1,206,348
<i>Other employees</i>							
In aggregate (note 2)	2nd December, 2003	0.44	–	10,101,577	–	–	10,101,577
Total			–	46,984,080	–	–	46,984,080

Directors' Report

OUTSTANDING SHARE OPTIONS *(Continued)*

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

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM (the "Listing Date"), being 17th December, 2003. Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).
2. There are 41 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 10,101,577 shares.

(b) Share option Scheme

As at 31st December, 2003, no option has been granted under the Share Option Scheme.

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

As at 31st December, 2003, the interests and the short positions of substantial shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Number of ordinary shares	Percentage of shareholding
International Data Group, Inc. <i>(note 1)</i>	89,996,697	22.50%
IDG Technology Venture Investment, Inc. <i>(note 1)</i>	89,996,697	22.50%
Lynwood Assets Inc. <i>(note 2)</i>	53,333,846	13.33%
Zhang Xiaohua	53,333,846	13.33%
Wisite Ltd	47,540,465	11.89%
Callister Trading Limited <i>(note 3)</i>	40,000,384	10.00%
Li Jianguang	40,000,384	10.00%

Directors' Report

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Notes:

1. Efland Holdings Ltd. ("Efland") is wholly-owned by Mr. Yin Xiaobing on trust for IDG Technology Venture Investments, LP ("IDG LP"). IDG LP is a limited partnership established by IDG Technology Venture Investment, Inc. ("IDGVC") and IDG Technology Venture Investments, LLC ("IDG LLC"), and each has a capital commitment to IDG LP as to US\$100,000,000 and US\$500,000 respectively. IDGVC is beneficially owned by International Data Group, Inc..

By virtue of the SFO, both International Data Group, Inc. and IDGVC are deemed to be interested in the 16,664,743 shares of the Company owned by Efland.

2. Lynwood Assets Inc. is beneficially owned by Zhang Xiaohua.
3. Callister Trading Limited is beneficially owned by Li Jianguang.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December, 2003, which also constitute connected transactions under the GEM Listing Rules, are disclosed in note 18 and note 32 to the accounts.

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 (the "Transactions") as defined under the GEM Listing Rules and on 8th December, 2003, waiver was granted by the Stock Exchange from strict compliance with the requirements of Rules 20.35 and 20.36 of the GEM Listing Rules.

On 1st September, 2002, Beijing Huimei Printing Co., Ltd. ("Huimei") and Beijing Huicong Advertising Co., Ltd. ("HC Advertising"), a subsidiary of the Company, entered into a printing agreement (the "Printing Agreement") for a term of three years, and on 18th November, 2003, the parties have entered into a supplemental agreement which extended the term of the Printing Agreement to 31st December, 2005. Huimei is owned as to 65% by Huicong Construction Limited, a company owned as to 80% by Mr. Guo Fansheng, the chief executive officer and an executive director of the Company, 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.

Pursuant to the waiver granted by the Stock Exchange, the annual amount payable to Huimei by HC Advertising has been capped at RMB18 million for the year ended 31st December, 2003. During the year ended 31st December, 2003, RMB15,190,000 was paid by HC Advertising to Huimei.

Directors' Report

CONNECTED TRANSACTIONS *(Continued)*

Pursuant to the waiver granted by the Stock Exchange, the Transactions have been reviewed by the independent non-executive directors of the Company. 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; (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; and (d) have not exceeded the relevant cap referred to above.

The auditors of the Company have also confirmed that the Transactions (a) have received the approval of the Company's board of directors; (b) have been entered into in accordance with the relevant agreements governing the transactions; and (c) have not exceeded the cap.

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.

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

The Company established an audit committee on 24th July, 2003 with written terms of reference which describe the authority and duties of audit committee based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The audit committee provides a link between the Board of Directors and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The audit committee comprises a non-executive director, Mr. Yang Fei and two independent non-executive directors, namely Mr. Zhang Ke and Mr. Xiang Bing.

DIRECTORS INTERESTS IN COMPETING BUSINESS

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

Directors' Report

ADVANCES TO AN ENTITY

As at 31st December, 2003 the Group had no advances to any entity which are of non-trading nature.

FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

As at 31st December, 2003, the Group had not provided any financial assistance to its affiliated companies.

PRE-EMPTIVE RIGHTS

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

SUBSEQUENT EVENTS

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

SPONSOR'S INTERESTS

As at 31st December, 2003, neither First Shanghai Capital Limited (the "Sponsor") nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the sponsorship agreement dated 8th December, 2003 entered into between the Company and the Sponsor, the Sponsor received and shall receive an annual fee for acting as the Company's retained sponsor for the period from 8th December, 2003 to 31st December, 2005.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

Directors' Report

AUDITORS

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

By order of the Board

HC International, Inc.

Guo Fansheng

Chief Executive Officer and Executive Director

Beijing, 22nd March, 2004

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF HC INTERNATIONAL, INC.

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 36 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22nd March, 2004

Consolidated Profit and Loss Account

For the Year ended 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	2 and 4	322,511	278,029
Cost of sales	3	<u>(204,915)</u>	<u>(184,598)</u>
Gross profit		117,596	93,431
Other revenues	2	2,095	2,853
Selling and distribution costs		(29,623)	(33,774)
Administrative expenses		(44,110)	(36,531)
Other operating income/(expenses), net		<u>595</u>	<u>(339)</u>
Operating profit	5	46,553	25,640
Finance costs	6	(2,400)	(1,310)
Share of profits of a jointly controlled entity		<u>447</u>	<u>–</u>
Profit before taxation		44,600	24,330
Taxation	7	<u>(3,159)</u>	<u>(4,550)</u>
Profit after taxation		41,441	19,780
Minority interests		<u>(8,363)</u>	<u>(3,795)</u>
Profit attributable to shareholders	8 and 28	<u>33,078</u>	<u>15,985</u>
Dividends	9	<u>–</u>	<u>–</u>
Earnings per share			
Basic	10	<u>RMB0.109</u>	<u>RMB0.053</u>
Diluted	10	<u>RMB0.108</u>	<u>N/A</u>

Consolidated Balance Sheet

As at 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Intangible assets	14	27,989	3,943
Fixed assets	15	76,201	20,412
Interests in a jointly controlled entity	17	2,193	1,500
Advances to a minority shareholder	18	—	66,369
Deferred tax assets	29	5,253	5,735
		<u>111,636</u>	<u>97,959</u>
Current assets			
Trade receivables	19	58,986	59,985
Deposits, prepayments and other receivables		37,248	10,461
Bank balances and cash	20	133,977	28,405
		<u>230,211</u>	<u>98,851</u>
Current liabilities			
Trade payables	21	4,892	8,548
Accrued expenses, deposits received and other payables		21,514	15,145
Accruals for statutory benefit funds	22	15,222	13,215
Amount due to a related company	23	699	1,106
Amount due to a director	24	—	139
Short-term loans	25	25,000	26,280
Other taxes payable	26	12,616	17,598
Income tax payable	26	6,329	5,362
		<u>86,272</u>	<u>87,393</u>
Net current assets		<u>143,939</u>	<u>11,458</u>
Total assets less current liabilities		<u>255,575</u>	<u>109,417</u>
Financed by:			
Share capital	27	42,784	1,956
Reserves	28	179,589	83,480
Shareholders' funds		<u>222,373</u>	<u>85,436</u>
Minority interests		<u>30,578</u>	<u>22,140</u>
Non-current liability			
Deferred tax liabilities	29	2,624	1,841
		<u>255,575</u>	<u>109,417</u>

On behalf of the board

GUO Fansheng
Director

LAI Sau Kam, Connie
Director

Balance Sheet

As at 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Interests in subsidiaries	16	82,831	1,956
Current assets			
Other receivables		15,603	–
Bank balances and cash		5	1
		<u>15,608</u>	<u>1</u>
Current liabilities			
Other payables and accruals		700	1
		<u>700</u>	<u>1</u>
Net current assets		<u>14,908</u>	<u>–</u>
Total assets less current liabilities		<u>97,739</u>	<u>1,956</u>
Financed by:			
Share capital	27	42,784	1,956
Reserves	28	54,955	–
		<u>97,739</u>	<u>1,956</u>

On behalf of the board

GUO Fansheng
Director

LAI Sau Kam, Connie
Director

Consolidated Statement of Changes in Equity

For the Year ended 31st December, 2003

	<i>Note</i>	2003 RMB'000	2002 <i>RMB'000</i>
Total equity at 1st January		85,436	73,745
Profit for the year	28	33,078	15,985
Issue of shares (including share premium)		116,630	–
Share issue costs during the year	28	<u>(12,771)</u>	<u>(4,294)</u>
Total equity at 31st December		<u>222,373</u>	<u>85,436</u>

Consolidated Cash Flow Statement

For the Year ended 31st December, 2003

	Note	2003 RMB'000	2002 RMB'000
Cash flows from operating activities			
Net cash inflow generated from operations	30(a)	44,580	18,926
Interest received		2,095	71
Interest paid		(2,400)	(1,310)
PRC enterprise income tax paid		(1,193)	(430)
		<u>43,082</u>	<u>17,257</u>
Cash flows from investing activities			
Purchase of fixed assets		(11,356)	(4,426)
Sale of fixed assets		114	–
Payment for software development costs		(4,132)	(3,338)
Advances to a minority shareholder		(8,634)	(17,374)
Increase in amount due from/purchase of a jointly controlled entity		(246)	(1,500)
Disposal of subsidiaries	30(d)	(232)	205
		<u>(24,486)</u>	<u>(26,433)</u>
Net cash outflow from investing activities			
		<u>(24,486)</u>	<u>(26,433)</u>
Net cash inflow/(outflow) before financing			
		<u>18,596</u>	<u>(9,176)</u>
Cash flows from financing activities			
Short-term loans raised	30(b)	7,000	22,140
Repayment of short-term loans		(8,280)	(2,286)
Issue of ordinary shares		101,027	–
Shares issue costs		(12,771)	(4,294)
		<u>86,976</u>	<u>15,560</u>
Net cash inflow from financing			
		<u>86,976</u>	<u>15,560</u>
Increase in cash and cash equivalents			
		105,572	6,384
Cash and cash equivalents at 1st January			
		28,405	22,021
Cash and cash equivalents at 31st December			
		<u>133,977</u>	<u>28,405</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		<u>133,977</u>	<u>28,405</u>

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

(b) Consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

(e) Fixed assets

(i) Fixed assets

Fixed assets, comprising land use rights, properties, computer and telecommunications equipment, fixtures, fittings and office equipment, leasehold improvements and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(ii) Depreciation

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land use rights	Over the period of the rights of 50 years
Properties	5%
Computer and telecommunications equipment	20%
Fixtures, fittings and office equipment	20%
Leasehold improvements	Over the lease terms from 2 to 5 years
Motor vehicles	10%

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

(iii) Impairment and gain/loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Fixed assets *(Continued)*

(iii) Impairment and gain/loss on sale *(Continued)*

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Goodwill on acquisitions arising on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 3 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets up to a maximum period of 3 years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Intangible assets *(Continued)*

(ii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved computer software are recognised as intangible assets in the balance sheet where technical feasibility and intention of completion has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to use the asset that will generate probable future economic benefits. Such development costs are 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.

(iii) *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 an ability to sell or to use the assets that will generate probable future economic benefits. Such acquisition costs are 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.

(iv) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(h) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Deferred taxation

Deferred taxation 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 accounts. The principal temporary differences arise from depreciation on fixed assets, provisions for staff welfare benefits and doubtful debts, capitalised development costs and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entity, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Translation of foreign currencies

The Group maintains its accounting records in Renminbi as it considers Renminbi to be its functional currency. Transactions in foreign currencies are translated into Renminbi at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies other than Renminbi at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefit costs*

The full-time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. 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.

(o) Contingent liabilities and contingent assets

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) **Contingent liabilities and contingent assets** *(Continued)*

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

(p) **Revenue recognition**

Advertising income from trade catalogues (including yellow page directories) ("TCC") and print periodicals is recognised on the date of publication.

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

Subscription fee income from TCC 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 is recognised upon rendering of services.

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

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(q) **Segment reporting**

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

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

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

Notes to the Accounts

2. TURNOVER AND REVENUES

The Group was principally engaged in provision of trade information and advertising platforms through different communication channels and provision of value-added business information services and products during the year. Revenues recognised during the year are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover, invoiced amount net of discounts and business tax		
Provision of trade information and advertising platform:		
TCC		
– Advertising income	125,581	100,103
– Subscription fee income	9,861	13,170
Television	123,177	100,237
Print periodicals	27,648	38,665
Search engine services	15,305	7,503
Provision of value-added business information services and products:		
Market research and analysis services income	16,565	14,334
Exhibition, seminars and PR services income	4,374	4,017
	322,511	278,029
Other revenues		
Interest income from a minority shareholder	1,940	2,782
Bank interest income	155	71
	2,095	2,853
Total revenues	324,606	280,882

3. COST OF SALES

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Printing costs	42,622	38,444
Cost of advertising resources	125,334	119,017
Staff costs	36,959	27,137
	204,915	184,598

Notes to the Accounts

4. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into the following business segments:

(a) *Provision of trade information and advertising platform*

- (i) Trade information provision – provision of trade information through trade catalogues and yellow page directories published by the Group.
- (ii) Television – provision of advertisement air-time on television stations.
- (iii) Print periodicals – provision of advertisement space in newspapers and magazines.
- (iv) Search engine services – provision of search engine services to customers which allows a customer to register its own business website on the search engine platform.

(b) *Provision of value-added business information services and products*

- (i) Market research and analysis – provision of business information and analysis services.
- (ii) Exhibition, seminars and PR services – provision of arrangement, assistance and PR services for hosting of exhibitions and seminars.

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

Notes to the Accounts

4. SEGMENT INFORMATION (Continued)

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

Year ended 31st December, 2003

	Trade information and advertising platform				Value-added business information services and products		Total RMB'000
	TCC RMB'000	Television RMB'000	Print periodicals RMB'000	Search engine services RMB'000	Market research and analysis RMB'000	Exhibition, seminars and PR services RMB'000	
Turnover	<u>135,442</u>	<u>123,177</u>	<u>27,648</u>	<u>15,305</u>	<u>16,565</u>	<u>4,374</u>	<u>322,511</u>
Segment results	<u>67,563</u>	<u>27,126</u>	<u>1,354</u>	<u>12,273</u>	<u>7,425</u>	<u>1,855</u>	<u>117,596</u>
Interest income							2,095
Unallocated costs							(73,138)
Operating profit							46,553
Finance costs							(2,400)
Share of profits of a jointly controlled entity							447
Taxation							(3,159)
Profit after taxation							41,441
Minority interests ("MI")							(8,363)
Profit attributable to shareholders							<u>33,078</u>
Segment assets	<u>10,374</u>	<u>36,317</u>	<u>6,588</u>	<u>7,553</u>	<u>1,371</u>	<u>4,046</u>	<u>66,249</u>
Unallocated assets (note a)							275,598
Total assets							<u>341,847</u>
Segment liabilities	<u>14,298</u>	<u>3,996</u>	<u>1,672</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>20,966</u>
Unallocated liabilities and MI (note b)							98,508
Total liabilities							<u>119,474</u>
Capital expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,118</u>	<u>-</u>	<u>-</u>	<u>26,118</u>
Unallocated capital expenditure (note c)							64,373
							<u>90,491</u>
Amortisation charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,281)</u>	<u>-</u>	<u>-</u>	<u>(2,281)</u>
Write back of doubtful debts provision	<u>537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>537</u>
Unallocated provision for doubtful debt							(637)
							<u>(100)</u>

Notes:

- Unallocated assets mainly represent intangible assets, fixed assets, deferred tax assets, deposits, prepayments and other receivables and cash and bank balances, which are shared among the companies of the Group and which cannot be allocated to specific segments.
- Unallocated liabilities mainly represent accrued expenses, amount due to a related company and short-term loans, which are shared among the companies of the Group, and which cannot be allocated to specific segments.
- Unallocated capital expenditure mainly represent the purchase of fixed assets which are shared among the companies of the Group and which cannot be allocated to specific segments.

Notes to the Accounts

4. SEGMENT INFORMATION (Continued)

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

Year ended 31st December, 2002

	Trade information and advertising platform				Value-added business information services and products		Total RMB'000
	TCC RMB'000	Television RMB'000	Print periodicals RMB'000	Search engine services RMB'000	Market research and analysis RMB'000	Exhibition, seminars and PR services RMB'000	
Turnover	<u>113,273</u>	<u>100,237</u>	<u>38,665</u>	<u>7,503</u>	<u>14,334</u>	<u>4,017</u>	<u>278,029</u>
Segment results	<u>54,569</u>	<u>20,474</u>	<u>4,371</u>	<u>5,244</u>	<u>6,954</u>	<u>1,819</u>	<u>93,431</u>
Interest income							2,853
Unallocated costs							<u>(70,644)</u>
Operating profit							25,640
Finance costs							(1,310)
Taxation							<u>(4,550)</u>
Profit after taxation							19,780
MI							<u>(3,795)</u>
Profit attributable to the shareholders							<u>15,985</u>
Segment assets	<u>15,557</u>	<u>31,596</u>	<u>8,319</u>	<u>–</u>	<u>3,071</u>	<u>8,540</u>	<u>67,083</u>
Unallocated assets (note a)							<u>129,727</u>
Total assets							<u>196,810</u>
Segment liabilities	<u>13,840</u>	<u>1,276</u>	<u>1,756</u>	<u>–</u>	<u>–</u>	<u>2,109</u>	<u>18,981</u>
Unallocated liabilities and MI (note b)							<u>92,393</u>
Total liabilities							<u>111,374</u>
Capital expenditure	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,338</u>	<u>–</u>	<u>–</u>	<u>3,338</u>
Unallocated capital expenditure (note c)							<u>4,426</u>
							<u>7,764</u>
Amortisation charges	<u>–</u>	<u>–</u>	<u>–</u>	<u>(556)</u>	<u>–</u>	<u>–</u>	<u>(556)</u>
(Provision for)/write back of doubtful debts	<u>(1,048)</u>	<u>441</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(607)</u>
Unallocated provision for doubtful debts							<u>(237)</u>
							<u>(844)</u>

Notes:

- Unallocated assets mainly represent intangible assets, fixed assets, deferred tax assets, deposits, prepayments and other receivables and cash and bank balances, which are shared among the companies of the Group and which cannot be allocated to specific segments.
- Unallocated liabilities mainly represent accrued expenses, amount due to a related company and short-term loans, which are shared among the companies of the Group, and which cannot be allocated to specific segments.
- Unallocated capital expenditure mainly represent the purchase of fixed assets which are shared among the companies of the Group and which cannot be allocated to specific segments.

Notes to the Accounts

4. SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format – geographical segments

The principal market of the Group is primarily in the People's Republic of China (the "PRC"), excluding the Hong Kong Special Administrative Region, and the turnover and operating profit attributable to other markets are both less than 10% of the Group's total turnover and operating profit for the year ended 31st December, 2003 individually. Accordingly, no segmental information analysed by geographical segment is presented.

5. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Auditors' remuneration	737	66
Staff costs, including directors' emoluments <i>(note 11)</i>	74,953	59,955
Depreciation of fixed assets	7,814	6,081
Provision for doubtful debts	100	844
Loss/(gain) on disposal of subsidiaries	357	(296)
Loss on disposal of fixed assets	95	602
Operating lease payments in respect of land and buildings	10,982	10,627
Amortisation of software development costs	2,281	556
Amortisation of negative goodwill	(209)	(209)
Recognition of negative goodwill <i>(note 16)</i>	(814)	–
Research and development costs	7,449	6,254
Less: development costs capitalised <i>(note 14)</i>	(4,132)	(3,338)
	3,317	2,916

6. FINANCE COSTS

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Interest on short-term bank loans	1,955	880
Interest on other loans wholly repayable within five years	445	430
	2,400	1,310

Notes to the Accounts

7. TAXATION

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

	2003	2002
	RMB'000	RMB'000
Hong Kong profits tax (i)	–	–
The PRC enterprise income tax (“EIT”) (ii)	1,894	2,729
Deferred taxation (<i>note 29</i>)	1,265	1,821
	<u>3,159</u>	<u>4,550</u>

(i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the year (2002: Nil).

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

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

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

	2003	2002
	RMB'000	RMB'000
Profit before taxation	44,600	24,330
Calculated at a taxation rate of 33%	14,718	8,029
Effect of different taxation rates in other cities	(14,526)	(8,521)
Expenses not deductible for taxation purposes	1,347	2,792
Effect on unutilised tax losses	2,182	1,666
Others	(562)	584
	<u>3,159</u>	<u>4,550</u>
Tax charges	<u>3,159</u>	<u>4,550</u>

Notes to the Accounts

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB699,000 (2002: Nil).

9. DIVIDENDS

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

10. EARNINGS PER SHARE

	2003 RMB'000	2002 RMB'000
Profit attributable to shareholders	33,078	15,985
	No. of shares '000	No. of shares '000
Weighted average number of shares in issue	304,098	300,000
Incremental shares from assumed exercise of share options granted	2,994	–
Diluted weighted average number of shares	307,092	300,000
Basic earnings per share	RMB0.109	RMB0.053
Diluted earnings per share	RMB0.108	N/A

The calculation of basic earnings per share is based on the Group's profit attributable to the shareholders of RMB33,078,000 and RMB15,985,000 for the year ended 31st December, 2003 and 2002, respectively, and the weighted average of 304,098,000 (2002: 300,000,000) ordinary shares in issue during the year, on the assumption that the share capitalisation issue has taken place on 1st January, 2002.

The calculation of diluted earnings per share for the year ended 31st December, 2003 is based on the profit attributable to the shareholders of RMB33,078,000 and the weighted average of 307,092,000 ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company had been exercised at the date of grant.

Notes to the Accounts

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	RMB'000	RMB'000
Wages and salaries	69,074	55,920
Retirement benefits costs (note 13)	5,519	4,816
Other benefits	3,530	1,938
	78,123	62,674
Less: capitalised staff costs	(3,170)	(2,719)
	74,953	59,955

12. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

- (i) Details of the emoluments paid and payable to the directors of the Company during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Fees	220	–
Basic salaries and allowances	2,396	2,070
Retirement plan contributions	92	75
	2,708	2,145

No directors waived any emoluments during the year (2002: Nil).

The three (2002: four) executive directors of the Company received individual emoluments for the year ended 31st December, 2003 of approximately RMB480,000 (2002: RMB300,000), RMB360,000 (2002: RMB300,000), and RMB740,000 (2002: Nil) respectively.

During the year, an executive director resigned from the board, and received RMB816,000 (2002: RMB704,000) for the period of his employment in 2003.

In 2002, an executive director resigned from the board, and received no emoluments for the year ended 31st December, 2003 (2002: RMB766,000).

Directors' fees disclosed above include RMB220,000 (2002: Nil) paid to three independent non-executive directors.

Notes to the Accounts

12. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

During the year, 2,539,680 (2002: Nil) share options were granted to the directors of the Company under the Pre-IPO Share Option Scheme approved by the shareholders pursuant to a written resolution dated 30th November, 2003. Share options were also granted to senior management of the Company. No director nor senior management exercised options during the year. Details of the Pre-IPO Share Option Scheme are disclosed in note 27(g) to the accounts.

- (ii) The five individuals whose emoluments were the highest in the Group for the year are as follows:

	Number of individuals	
	2003	2002
Executive directors (include 1 executive director resigned during the year)	4	3
Non-directors	1	2
	5	5

The emoluments of the executive directors are reflected in the analysis presented above.

Details of the emoluments of non-directors during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Basic salaries and allowances	369	1,785
Retirement plan contributions	–	60
	369	1,845

The emoluments of non-directors fell within the following band:

	Number of individuals	
	2003	2002
Nil to RMB1,065,000 (equivalent to HK\$1,000,000)	1	2

- (iii) During the year, no emoluments were 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.

Notes to the Accounts

13. RETIREMENT BENEFIT COSTS

In accordance with the PRC regulations, the Group is required to make annual contribution to the state retirement plans calculated at 19% of the basic salaries of the employees, and employees are required to contribute 7% of their basic salary to the plans. The Group has no obligations for further pension payments or any post-retirement benefits beyond these annual contributions. The retirement benefits are paid directly from the plan assets to the retired employees and are calculated by reference to their monthly basic salaries at the date of retirement and periods of service rendered.

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

	2003 RMB'000	2002 <i>RMB'000</i>
Contributions paid and payable to the state retirement plans	<u>5,519</u>	<u>4,816</u>

As at 31st December, 2003, the Group has outstanding contributions payable of approximately RMB9,503,000 (2002: RMB7,640,000) to the retirement plans participated by the Group, and there was no forfeited contributions available to offset future retirement benefit obligations of the Group.

Notes to the Accounts

14. INTANGIBLE ASSETS

	Group			
	Software development costs (i) <i>RMB'000</i>	Data library (ii) <i>RMB'000</i>	Negative goodwill <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1st January, 2003	5,005	–	(628)	4,377
Development costs recognised as assets during the year	4,132	–	–	4,132
Acquisition from a minority shareholder	–	21,986	–	21,986
At 31st December, 2003	<u>9,137</u>	<u>21,986</u>	<u>(628)</u>	<u>30,495</u>
Accumulated amortisation				
At 1st January, 2003	(695)	–	261	(434)
Charge for the year	(1,182)	(1,099)	209	(2,072)
At 31st December, 2003	<u>(1,877)</u>	<u>(1,099)</u>	<u>470</u>	<u>(2,506)</u>
Net book value				
At 31st December, 2003	<u>7,260</u>	<u>20,887</u>	<u>(158)</u>	<u>27,989</u>
At 31st December, 2002	<u>4,310</u>	<u>–</u>	<u>(367)</u>	<u>3,943</u>

- (i) This represented development costs incurred by the Group for certain computer software held for licensing or provision of search engine services to its customers. The cost of each software is amortised over a period of 3 to 5 years on a straight-line basis when it is available for use.
- (ii) On 30th June, 2003, the Group acquired from a minority shareholder of the Company, HC Construction Limited, a data library at a consideration of RMB21,986,000. Details of this arrangement are disclosed in note 18.

Notes to the Accounts

15. FIXED ASSETS

	Group						Total RMB'000
	Land use rights RMB'000	Properties RMB'000	Computer and telecom- munications equipment RMB'000	Fixtures, fittings and office equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	
Cost:							
At 1st January, 2003	–	2,064	25,797	5,465	304	5,267	38,897
Additions (i)	19,319	29,971	11,729	1,434	1,002	918	64,373
Disposals	–	–	(550)	(73)	(304)	(152)	(1,079)
Disposals of subsidiaries (note 30(d))	–	–	(620)	(175)	–	(429)	(1,224)
At 31st December, 2003	<u>19,319</u>	<u>32,035</u>	<u>36,356</u>	<u>6,651</u>	<u>1,002</u>	<u>5,604</u>	<u>100,967</u>
Accumulated depreciation:							
At 1st January, 2003	–	725	13,299	2,724	75	1,662	18,485
Charge for the year	193	853	5,011	950	293	514	7,814
Disposals	–	–	(496)	(15)	(304)	(55)	(870)
Disposals of subsidiaries (note 30(d))	–	–	(434)	(96)	–	(133)	(663)
At 31st December, 2003	<u>193</u>	<u>1,578</u>	<u>17,380</u>	<u>3,563</u>	<u>64</u>	<u>1,988</u>	<u>24,766</u>
Net book value:							
At 31st December, 2003	<u>19,126</u>	<u>30,457</u>	<u>18,976</u>	<u>3,088</u>	<u>938</u>	<u>3,616</u>	<u>76,201</u>
At 31st December, 2002	<u>–</u>	<u>1,339</u>	<u>12,498</u>	<u>2,741</u>	<u>229</u>	<u>3,605</u>	<u>20,412</u>

- (i) On 30th June, 2003, the Group purchased the land use rights, properties, computer and telecommunications equipment, fixtures, fittings and office equipment and motor vehicles from a minority shareholder of the Company, HC Construction Limited, at an aggregate amount of RMB53,017,000. Details of the arrangements are disclosed in note 18.
- (ii) As at 31st December, 2003, a property and the associated land use rights carried at RMB48,347,000 is pledged to secure the Group's bank loans.

The Group's interests in land use rights and properties at their net book values are analysed as follows:

	Group	
	2003 RMB'000	2002 RMB'000
Outside Hong Kong, held on: Leases between 10 to 50 years	<u>49,583</u>	<u>1,339</u>

Notes to the Accounts

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	<i>RMB'000</i>
Investments at cost:		
Unlisted shares	1,956	1,956
Amount due from a subsidiary	80,875	–
	82,831	1,956

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

The following is a list of the subsidiaries at 31st December, 2003:

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable interest of profit/loss sharing ¹	Principal activities and place of operations
Shares held directly:				
Hong Kong Huicong International Group Limited	The British Virgin Islands 26th February, 1999	21,000,000 ordinary shares of US\$0.01 each	100%	Investment holding – Hong Kong
Shares held indirectly:				
北京慧聰國際資訊有限公司	The PRC 8th April, 1999	RMB110,000,000	82%	Provision of business information, market research services, software licensing and system integration – The PRC
北京慧翔網絡技術有限公司	The PRC 5th May, 1993	RMB10,000,000	82%	Provision of business information – The PRC
北京市慧聰廣告有限公司	The PRC 25th June, 1996	RMB1,000,000	82%	Advertising – The PRC

Notes to the Accounts

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable interest of profit/loss sharing ¹	Principal activities and place of operations
北京慧聰金網廣告有限公司	The PRC 8th September, 1999	RMB1,000,000	82%	Advertising – The PRC
深圳市京慧聰廣告有限公司	The PRC 21st May, 1998	RMB2,000,000	82%	Advertising and publication of TCC – The PRC
廣州市京慧聰廣告有限公司	The PRC 6th November, 1998	RMB1,000,000	82%	Advertising, market research services and publication of TCC – The PRC
浙江慧聰網絡信息有限公司	The PRC 4th November, 1998	RMB500,000	77.9%	Advertising – The PRC
武漢慧聰廣告信息諮詢有限責任公司	The PRC 19th January, 1995	RMB300,000	57.4%	Advertising, market research services and publication of TCC – The PRC
蘭州慧聰廣告有限公司	The PRC 26th April, 2000	RMB500,000	77.9%	Dormant – The PRC
天津市慧聰廣告有限公司	The PRC 12th August, 1997	RMB520,000	82%	Advertising, exhibition services – The PRC
南京慧聰廣告信息有限公司	The PRC 15th January, 1993	RMB635,000	78.7%	Advertising software licensing, system integration and publication of TCC – The PRC
青島慧聰廣告信息諮詢有限公司	The PRC 9th June, 1998	RMB500,000	61.5%	Dormant – The PRC
天津市慧翔信息廣告有限公司	The PRC 4th December, 1998	RMB500,000	82%	Advertising and publication of TCC – The PRC

Notes to the Accounts

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Notes to the Accounts

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable interest of profit/loss sharing ¹	Principal activities and place of operations
北京京慧聰廣告有限公司	The PRC 27th January, 2003	RMB500,000	82%	Advertising – The PRC
上海慧龍廣告有限公司	The PRC 31st May, 2001	RMB1,000,000	82%	Advertising and market research services – The PRC
上海慧網網絡信息資訊有限公司	The PRC 14th March, 2001	RMB1,000,000	82%	Market research services – The PRC
廣州市慧穎廣告有限公司	The PRC 21st October, 2003	RMB1,000,000	82%	Provision of business information, market research services, software licensing and system integration – The PRC
武漢慧聰網絡信息技術有限公司	The PRC 27th October, 2003	RMB1,000,000	82%	Provision of business information, market research services, software licensing and system integration – The PRC

1. The attributable interest of profit/loss sharing and voting power in certain subsidiaries held directly or indirectly 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.
2. In November and December 2003, the Company acquired further interests from minority shareholders of 烏魯木齊華媒盛視傳播有限公司, 鄭州華媒盛視廣告傳播有限公司, and 濟南華媒盛視傳播有限公司. The attributable interest of profit/loss sharing increased to 62.3%, 82%, and 82% respectively. The total consideration for the acquisitions amounted to RMB550,000 and resulted in a negative goodwill of RMB814,000, which was recognised in the consolidated profit and loss account during the year.

Notes to the Accounts

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Share of net assets	1,947	1,500
Amount due from a jointly controlled entity	246	–
	2,193	1,500

At 31st December, 2003, the Group had equity interest in the following jointly controlled entity:

Name	Country of establishment	Principal activities and place of operation	Particulars of issued and fully paid up capital	Percentage of interest in ownership/ voting power/ profit sharing
北京新浪慧聰廣告有限公司	The PRC	Provision of web advertising and advertising services in the PRC	RMB3,000,000	50%

18. ADVANCES TO A MINORITY SHAREHOLDER – GROUP

The advances to a minority shareholder of the Company, HC Construction Limited, which is beneficially owned by the major shareholder of the Company as to 80%, were unsecured and interest bearing at 5% per annum.

The advances to the minority shareholder represented funds loaned to the minority shareholder in connection with the construction costs and other direct costs incurred for the establishment of a data library and the construction of other properties used by the Group for its operations.

On 30th June, 2003, the Group acquired from the minority shareholder the data library, land use rights and properties on which the data library is located and operated and other fixed assets for a total consideration of RMB75,003,000, which was based on an independent valuation and settled through offsetting the advances. The remaining balance of the advance was settled before the year end.

Notes to the Accounts

19. TRADE RECEIVABLES

The majority of the Group's turnover is on credit terms ranging from 30 to 120 days. The aging analysis of the trade receivables as at 31st December, 2003 is as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 90 days	34,613	32,165
91 to 180 days	13,400	12,612
181 to 365 days	10,737	14,592
Over 1 year	2,931	2,674
	61,681	62,043
Provision for doubtful debts	(2,695)	(2,058)
	58,986	59,985

20. BANK BALANCES AND CASH – GROUP

As at 31st December, 2003, cash and bank balances of approximately RMB37,037,000 (2002: RMB21,681,000) of the Group were denominated in Renminbi and deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21. TRADE PAYABLES

The aging analysis of the trade payables as at 31st December, 2003 is as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 90 days	3,887	5,081
91 to 180 days	551	794
181 to 365 days	339	898
Over 1 year	115	1,775
	4,892	8,548

Notes to the Accounts

22. ACCRUALS FOR STATUTORY BENEFIT FUNDS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Accrual for retirement benefit (<i>note a</i>)	9,503	7,640
Accrual for medical benefit (<i>note a</i>)	815	429
Accrual for housing benefit (<i>note a</i>)	4,904	5,146
	<u>15,222</u>	<u>13,215</u>

- (a) In accordance with the PRC regulation, the Group is required to make contributions to the retirement benefit fund (for details of the retirement benefit fund, please refer to note 13), medical benefit fund and housing benefit fund, calculated at 19%, 7% and 10% of the basic salaries of the employees, respectively.

23. AMOUNT DUE TO A RELATED COMPANY – GROUP

Amount due to a related company represents printing costs payable to 北京慧美印刷有限公司 by the Group, which is unsecured, interest-free and with a credit period of approximately 30 days.

24. AMOUNT DUE TO A DIRECTOR – GROUP

Amount due to a director in 2002 was unsecured, interest free and had no fixed terms of repayment.

Notes to the Accounts

25. SHORT-TERM LOANS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans, secured (<i>note (a)</i>)	25,000	18,000
Loans from related parties (<i>note (b)</i>) – unsecured	–	8,280
	<u>25,000</u>	<u>26,280</u>

Notes:

- (a) The bank loans of RMB25,000,000 were secured by a property and the associated land use rights owned by the Group (*note 15(ii)*).
- (b) The loans were advanced by IDG Technology Venture Investments, LP, in which 2 non-executive directors of the Company have beneficial interests indirectly, which is also a subsidiary of IDG Technology Venture Investment, Inc.. The loans were unsecured, interest bearing from 5.25% to 6.5% per annum and were fully repaid on 30th November, 2003.

26. INCOME TAXES PAYABLE AND OTHER TAXES PAYABLE

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Income taxes payable:		
PRC enterprise income tax	6,329	5,362
Other taxes payable:		
Business tax	8,200	10,660
Cultural and development tax	2,391	4,242
Other taxes	2,025	2,696
	<u>12,616</u>	<u>17,598</u>

Notes to the Accounts

27. SHARE CAPITAL

	Authorised				
	Series A Preference shares of US\$0.01 each		Ordinary shares of US\$0.01 each		Total
	No. of Shares	US\$'000	No. of shares	US\$'000	US\$'000
At 31st December, 2002	10,000,000	100	40,000,000	400	500
Redesignation of share capital (<i>note (a) & (b)</i>)	(10,000,000)	(100)	10,000,000	100	–
	<u>–</u>	<u>–</u>	<u>50,000,000</u>	<u>500</u>	<u>500</u>
			Ordinary shares of HK\$0.078 each		Total
			No. of shares	HK\$'000	HK\$'000
Change of currency denomination (<i>note (c)</i>)			<u>50,000,000</u>	<u>3,900</u>	<u>3,900</u>
			Ordinary shares of HK\$0.1 each		Total
			No. of shares	HK\$'000	HK\$'000
Subdivision and consolidation of share capital (<i>note (d)</i>)			39,000,000	3,900	3,900
Increased in authorised share capital (<i>note (e)(i)</i>)			<u>961,000,000</u>	<u>96,100</u>	<u>96,100</u>
At 31st December, 2003			<u>1,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
				<i>RMB'000</i>	<i>RMB'000</i>
Equivalent to:				<u>107,000</u>	<u>107,000</u>

Notes to the Accounts

27. SHARE CAPITAL (Continued)

	Issued and fully paid								
	Series A		Ordinary shares		Ordinary shares		Ordinary shares		Total
	Preference shares		of US\$0.01 each		of HK\$0.078 each		of HK\$0.1 each		
	of US\$0.01 each		of US\$0.01 each		(Upon currency		subdivision and		
No. of	RMB'000	No. of	RMB'000	redemption	(note c)	consolidation	(note d)		
Shares		shares		No. of	RMB'000	No. of	RMB'000	RMB'000	
At 31st December, 2002	2,624,672	217	21,000,100	1,739	-	-	-	-	1,956
Redesignation of share capital (note (b))	(2,624,672)	(217)	2,624,672	217	-	-	-	-	-
	-	-	23,624,772	1,956	-	-	-	-	1,956
Change of currency denomination (note (c))					23,624,772	1,956	-	-	1,956
Subdivision and consolidation of share capital (note (d))					(23,624,772)	(1,956)	18,427,323	1,956	-
					-	-	18,427,323	1,956	1,956
Placing of shares (note (e)(iii))							100,000,000	10,700	10,700
Issue of shares pursuant to the Capitalisation Issue (note (e)(iii))							281,572,677	30,128	30,128
At 31st December, 2003							400,000,000	42,784	42,784

- (a) In accordance with the Articles of Association of the Company, holders of Series A Preference shares are entitled to substantially the same rights to dividend and voting as those entitled by ordinary shareholders, they may convert the whole or part of their holding of Series A Preference shares to ordinary shares at par value of US\$0.01 each and the shareholders shall have all the rights and restrictions attached to and rank pari passu in all respects with the ordinary share outstanding pursuant to the Articles of Association of the Company.
- (b) Pursuant to the resolution passed by the shareholders of the Company on 15th July, 2003, the Articles of Association was amended, that each Series A Preference share of par value US\$0.01 which is subject to conversion shall be convertible into one ordinary share of par value of US\$0.01. On conversion, each Series A Preference Share of par value US\$0.01 shall automatically be redesignated as an ordinary share of par value US\$0.01 each.
- (c) Pursuant to the ordinary resolution passed on 15th July, 2003, the authorised and issued share capital of the Company of US\$500,000 and US\$236,248 respectively will be re-denominated (at the rate of US\$1.00 to HK\$7.80) to HK\$3,900,000 and HK\$1,842,732 respectively such that the par value of each ordinary share will be changed from US\$ 0.01 to HK\$0.078.

Notes to the Accounts

27. SHARE CAPITAL (Continued)

- (d) Pursuant to the same resolution dated 15th July, 2003, every issued and unissued share capital of the Company of HK\$0.078 be subdivided into 78 shares of HK\$0.001 each (the "Subdivided Shares") and every 100 subdivided shares in the authorised and issued share capital of the Company be consolidated into one ordinary share of HK\$0.10 each; and the Company will have an authorised share capital of HK\$3,900,000 divided into 39,000,000 ordinary shares of HK\$0.10 each and an issued share capital of 18,427,323 ordinary shares of HK\$0.10 each.
- (e) (i) Pursuant to the written resolution of the shareholders of the Company passed on 30th November, 2003, the authorised share capital of the Company was increased from HK\$3,900,000 to HK\$100,000,000 by the creation of additional 961,000,000 new ordinary shares of HK\$0.10 each which rank pari passu with the existing shares.
- (ii) On 17th December, 2003, 100,000,000 ordinary shares of HK\$0.10 each were issued by way of placing at the price of HK\$1.09 (equivalent to RMB1.17) per share for cash (the "Placing").
- (iii) On 17th December, 2003, immediately after the Placing, 281,572,677 ordinary shares of HK\$0.10 each were allotted and issued at par, credited as fully paid, to the shareholders in proportion to their respective shareholdings on the register of members of the Company at the close of business on 30th November, 2003 by way of the capitalisation of the share premium available.
- (f) RMB75,802,000, being the proceed of the issue price over the par value of the shares issued upon the Placing totaling of HK\$109,000,000 (equivalent to RMB116,630,000), after deducting the nominal value of shares issued from placing and capitalisation issue of HK\$38,157,268 (equivalent to RMB40,828,000), were credited to the share premium account of the Company. The related share issue expenses from the Placing of HK\$18,830,000 (equivalent to RMB20,148,000) were charged to the share premium account of the Company.

(g) Share option schemes

Pursuant to a written resolution of the shareholders of the Company dated 30th November, 2003, a Pre-IPO Share Option Scheme ("Scheme") was adopted. Pursuant to the 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 in accordance with the terms of the Scheme.

During the year ended 31st December, 2003, a total of 46,984,080 share options were granted to two executive directors and certain employees pursuant to the Scheme. The grantees can exercise these options at an exercise price of HK\$0.44 per share in ten years period starting from the expiry of twelve months from the listing date of the Company. The total number of share options outstanding as at 31st December, 2003 was 46,984,080.

Exercise price per share (HK\$)	0.44
Granted on 2nd December, 2003	46,984,080
Exercised during the year	—
	<hr/>
Number of share options outstanding at 31st December, 2003	<u>46,984,080</u>

Pursuant to the same resolution, a Share Option Scheme was adopted. Similarly 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 in accordance with the terms of the Scheme. During the year ended 31st December, 2003, no option has been granted under this Share Option Scheme.

Notes to the Accounts

28. RESERVES

	Group					
	Capital reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	(Accumulated losses)/ retained earnings <i>RMB'000</i>	Shares issue costs <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2002	987	108,830	(34,945)	(3,083)	–	71,789
Profit for the year	–	–	15,985	–	–	15,985
Shares issue costs	–	–	–	(4,294)	–	(4,294)
At 31st December, 2002	987	108,830	(18,960)	(7,377)	–	83,480
At 1st January, 2003	987	108,830	(18,960)	(7,377)	–	83,480
Issuance of shares	–	–	–	–	75,802	75,802
Profit for the year	–	–	33,078	–	–	33,078
Shares issue expenses	–	–	–	(12,771)	–	(12,771)
Offset of share issue costs to share premium	–	–	–	20,148	(20,148)	–
At 31st December, 2003	987	108,830	14,118	–	55,654	179,589

	Company		
	Accumulated losses <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2003	–	–	–
Loss for the year	(699)	–	(699)
Issuance of shares	–	75,802	75,802
Share issue expenses	–	(20,148)	(20,148)
At 31st December, 2003	(699)	55,654	54,955

Notes to the Accounts

29. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002:33%). Deferred income tax assets and liabilities are offset when there is a legally enforceable right of set off of current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2003	2002
	RMB'000	RMB'000
Deferred tax assets (to be recovered after more than 12 months)	5,253	5,735
Deferred tax liabilities (to be settled after more than 12 months)	(2,624)	(1,841)
	<u>2,629</u>	<u>3,894</u>

The movement on the deferred tax assets/(liabilities) account is as follows:

	Group	
	2003	2002
	RMB'000	RMB'000
At 1st January	3,894	5,715
Deferred taxation transferred to profit and loss account (<i>note 7</i>)	(1,265)	(1,821)
At 31st December	<u>2,629</u>	<u>3,894</u>

Notes to the Accounts

29. DEFERRED TAXATION (Continued)

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax assets	Provisions for doubtful debts		Tax losses		Total	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	5,891	6,229	308	1,075	6,199	7,304
Transfer to profit and loss account	–	(338)	(308)	(767)	(308)	(1,105)
At 31st December	<u>5,891</u>	<u>5,891</u>	<u>–</u>	<u>308</u>	<u>5,891</u>	<u>6,199</u>

Deferred tax liabilities	Deferred development assets		Accrued staff welfare benefits		Total	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	(209)	–	(2,096)	(1,589)	(2,305)	(1,589)
Transfer from profit and loss account	(83)	(209)	(874)	(507)	(957)	(716)
At 31st December	<u>(292)</u>	<u>(209)</u>	<u>(2,970)</u>	<u>(2,096)</u>	<u>(3,262)</u>	<u>(2,305)</u>

Notes to the Accounts

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Profit before taxation	44,600	24,330
Depreciation of fixed assets	7,814	6,081
Amortisation of software development costs and negative goodwill	2,072	347
Interest income	(2,095)	(2,853)
Interest expenses	2,400	1,310
Loss on disposal of fixed assets	95	602
Loss/(gain) on disposal of subsidiaries (<i>note (d)</i>)	357	(296)
Share of profits of a jointly controlled entity	(447)	–
	<hr/>	<hr/>
Operating profit before working capital changes	54,796	29,521
Decrease in amount due to a director	(139)	–
Increase in trade receivables, deposits, prepayments and other receivables	(11,317)	(23,786)
Increase in trade payables, accrued expenses, deposits received and other payables, other taxes payable and amount due to a related company	1,240	13,191
	<hr/>	<hr/>
Net cash inflow generated from operations	44,580	18,926

Notes to the Accounts

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Shares issue costs <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Short-term loans <i>RMB'000</i>
At 1st January, 2002	1,956	–	(3,083)	18,285	6,426
Cash (outflow)/inflow from financing	–	–	(4,294)	–	19,854
Share of net profit by minority shareholders	–	–	–	3,795	–
Disposal of subsidiaries (note (d))	–	–	–	60	–
At 31st December, 2002	1,956	–	(7,377)	22,140	26,280
Cash inflow/(outflow) from share issuance	40,828	75,802	(12,771)	–	–
Offset share issue costs against share premium	–	(20,148)	20,148	–	–
Draw down of loans	–	–	–	–	7,000
Repayment of loans	–	–	–	–	(8,280)
Share of net profit by minority shareholders	–	–	–	8,363	–
Acquisitions of further equity interests of subsidiaries	–	–	–	(1,364)	–
Incorporation of subsidiaries	–	–	–	1,235	–
Disposal of subsidiaries (note (d))	–	–	–	204	–
At 31st December, 2003	42,784	55,654	–	30,578	25,000

(c) Major non-cash transaction

On 30th June, 2003, the Group acquired the data library, land use rights and properties on which the data library is located and operated and other fixed assets from a minority shareholder of the Company, HC Construction Limited, with a consideration of RMB75,003,000, which was settled through offsetting the advances to the minority shareholder.

Notes to the Accounts

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries

	2003	2002
	RMB'000	RMB'000
Net (liabilities)/assets disposed		
Fixed assets	561	257
Trade and other receivables	1,132	1,291
Cash and bank balances	662	346
Trade and other payables	(2,038)	(1,669)
Income tax receivable/(payable)	266	(30)
Minority shareholders' interests	204	60
	787	255
(Loss)/gain on disposal of subsidiaries (note (a))	(357)	296
Cash consideration	430	551
Cash and cash equivalents disposed of	(662)	(346)
Net cash (outflow)/inflow on disposal of subsidiaries	(232)	205

31. COMMITMENTS

(a) Capital commitments for property, plant and equipment are as follows:

	Group	
	2003	2002
	RMB'000	RMB'000
Contracted but not provided for	–	257

Notes to the Accounts

31. COMMITMENTS (Continued)

(b) Commitments under operating leases

At 31st December, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003	2002
	RMB'000	RMB'000
Within one year	8,344	7,541
In the second to fifth year inclusive	21,039	24,711
	<u>29,383</u>	<u>32,252</u>

(c) Other commitments

The Group entered into 3 (2002: 3) long-term sole and exclusive management agreements with Zhengzhou Television Station, Jinan Television Station and Urumqi Television Station for the exclusive management of advertising time slots. Pursuant to the agreements, the Group pays monthly charge for the time slots.

Pursuant to the agreements, the annual charges will be increased with increment rate ranging from 5% to 10% subject to the mutual agreement between the parties. The Group adopted the minimum increment rate for calculating the future aggregate minimum payments.

As at 31st December, 2003, the Group had future aggregate minimum payments under these agreements of approximately RMB103,885,000 (2002: RMB101,046,000), RMB111,756,000 (2002: RMB168,097,000) and Nil (2002: RMB17,796,000) within one year, in the second to fifth years inclusive and later than five years, respectively.

Notes to the Accounts

32. RELATED PARTY TRANSACTIONS

Save as disclosed in notes 14,15, and 18, the Group entered into the following significant related party transactions during the year based on terms mutually agreed by the parties:

	<i>Note</i>	2003 RMB'000	2002 RMB'000
Interest income received from a minority shareholder of the Company	<i>(a)</i>	1,940	2,782
Interest expense paid to a shareholder	<i>(b)</i>	445	430
Advertising costs paid to certain group companies of a shareholder	<i>(c)</i>	–	3,087
Service income received from a minority shareholder of the Company	<i>(d)</i>	211	211
Distribution costs paid to a minority shareholder of the Company	<i>(e)</i>	240	240
Licence income received from a minority shareholder of the Company	<i>(f)</i>	240	240
Publication costs paid to a minority shareholder of the Company	<i>(g)</i>	100	100
Service costs paid to a minority shareholder of the Company	<i>(h)</i>	250	500
Printing costs paid to a related company	<i>(i)</i>	15,190	4,245
Rental income received from a related company	<i>(j)</i>	600	–

- (a) The Group received interest income of RMB1,940,000 from HC Construction Limited, a minority shareholder of the Company, for the year ended 31st December, 2003 on the advances made by the Group (see note 18).

On 10th December, 2003, the minority shareholder has repaid the advances to the Group, and no more interest was required to be paid to the Group after 10th December, 2003.

- (b) The Group paid interest expenses to IDG Technology Venture Investments, LP., on loans advanced to the Group during the year ended 31st December, 2003 (note 25 (b)).

On 30th November, 2003, the Group has fully repaid the loans advanced from the shareholder, and no more interest was required to be paid by the Group after 30th November, 2003.

- (c) The Group has acted as a wholesale agent and incurred advertising charges in 2002 for certain publications beneficially owned by certain group companies of International Data Technology Venture Investment, Inc..

- (d) HC Construction Limited entered into a three-year Technology Services Agreement with the Group in 2002. Pursuant to the agreement, the Group received technical service income from HC Construction Limited based on the working hours devoted to the service and support.

Notes to the Accounts

32. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) HC Construction Limited entered into a three-year Online Information Distribution Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited received distribution income from the Group at a fixed fee. It disseminated the Group's business information and research reports on its web-site and on those as stipulated by the Group.
- (f) HC Construction Limited entered into a three-year Domain Names and Trademark Licence Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited was granted the right to use the domain names and trademark owned or attained by the Group during the agreement period for a fixed fee.
- (g) HC Construction Limited entered into a three-year Online Advertisement Publication Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited received publication income from the Group at a fixed fee. It published the Group's advertisements on its website and on those as stipulated by the Group.
- (h) HC Construction Limited entered into a three-year Business Information Supply Agreement with the Group in 2002. Pursuant to the agreement, HC Construction Limited received service income from the Group for the business information provided at a fixed fee.

The agreement was terminated upon the Group acquired a data library from the minority shareholder on 30th June, 2003.

- (i) Printing costs were charged by 北京慧美印刷有限公司, a vendor of printing services of the Group in which HC Construction Limited holds 65% equity interest.
- (j) Rental income of RMB600,000 were received from 北京慧美印刷有限公司 for the year ended 31st December, 2003 (2002: RMB Nil).

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

33. CONTINGENT LIABILITIES

At 31st December, 2003, there were no material contingent liabilities to the Group (2002:Nil).

Notes to the Accounts

34. SUBSEQUENT EVENTS

- (a) On 5th January, 2004, First Shanghai Securities executed the Over-allotment Option in respect of 15,000,000 additional new shares (“Over-allotment”) at HK\$1.09 per share. The Over-allotment Shares represents 3.75% of the existing issued share capital of the Company. The total number of issued share capital was 415,000,000 shares upon the exercise of the Over-allotment Option.
- (b) Pursuant to a resolution passed on 28th January, 2004, the Company will discontinue the joint interest with Sina.com in 北京新浪慧聰廣告有限公司, the jointly controlled entity. The deregistration process will be completed by May 2004.
- (c) On 9th February, 2004,北京慧聰國際資訊有限公司 disposed of 57.6%, 14.4% and 8% of its respective interest in 北京中搜在線軟件有限公司 to Hong Kong Huicong International Group Limited, Global Cyberlinks (a company incorporated in the B.V.I. with limited liability) and IDG Technology Venture Investments, LP. (a limited partnership established under the Laws of the State of Delaware of the United States of America) at the respective par value of RMB576,000, RMB144,000 and RMB80,000.
- (d) On 18th February, 2004, options to subscribe for an aggregate of 26,000,000 shares of the Company (representing about 6.27% of the share capital of the Company) were granted to the directors and employees under the Share Option Scheme.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March, 2004.

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 Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 22nd April, 2004 at 3:30 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, 2003.
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. As special business, to consider and, if thought fit, pass the following resolutions with or without amendment(s) as ordinary resolutions:

(A) **“THAT:**

- (i) subject to paragraph (iii) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) 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 share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) above 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 to make or grant offers, agreements and options which would or might require shares to be issued, allotted or disposed of either during or after the end of the Relevant Period;
- (iii) the aggregate nominal amount of the share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) above otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); or (b) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to the eligible persons prescribed thereunder 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, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution, and the authority pursuant to paragraph (i) above shall be limited accordingly; and

Notice of Annual General Meeting

- (iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of passing 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 passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

“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 in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion 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 jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange 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 on GEM or any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange in the Hong Kong Special Administrative Region of the People’s Republic of China for such purpose, subject to and in accordance with all applicable laws and requirements of the Securities and Futures Commission, the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of the shares of the Company which are authorised to be repurchased by the directors of the Company pursuant to the approval in paragraph (i) above during the Relevant Period shall not exceed 10 per cent. 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

Notice of Annual General Meeting

(iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of passing 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 passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors by this resolution.”

(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 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

5. As special business, to consider, and if thought fit, to pass the following resolutions with or without amendment(s) as special resolutions:

(A) **THAT** Article 2 of the Articles of Association of the Company be amended by inserting the following new definition:

““associate” shall have the meaning attributed to it in the rules of the Designated Stock Exchange.”

(B) **THAT** Article 76 of the Articles of Association of the Company be amended as follows:

(A) By re-numbering existing Article 76 as Article 76(1)

Notice of Annual General Meeting

(B) By inserting the following as new Article 76(2):

“(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

(C) **THAT** Article 88 of the Articles of Association of the Company be amended as follows:

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgement of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

(D) **THAT** existing Article 103 be deleted in its entirety and replaced with the following new Article 103:

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its Subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

Notice of Annual General Meeting

- (iii) any contract or arrangement concerning, an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company,
 - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares, or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
 - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.”

Notice of Annual General Meeting

- To transact any other ordinary business of the Company.

By Order of the Board
HC INTERNATIONAL, INC.

Guo Fansheng

Chief Executive Officer and Executive Director

Beijing, 31st March, 2004

Registered office:

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

Head office and principal place of business:

Tower B, Huaxing Building
42 North Street, Xizhimen
Haidian District
Beijing, the PRC

Notes:

- 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.
- In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrar, Hong Kong Registrars Limited, at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the meeting or any adjournment thereof should he so wishes.
- Explanatory statements containing further details regarding resolutions numbered 4(B) and 5, inclusive, above as required by the GEM Listing Rules will be made available to the members of the Company on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from its posting.
- The share register of the Company will be closed from 20th April, 2004 to 22nd April, 2004 (both dates inclusive). Shareholders on the share register as at 22nd April, 2004 will be entitled to attend and vote at the meeting.