THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **HC International, Inc.** (the "Company"), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HC INTERNATIONAL, INC.

慧聰國際資訊有限公司 *

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8292)

CONNECTED TRANSACTIONS RELATING TO A PROPOSED RESTRUCTURING AND MAJOR DISPOSAL OF A SUBSIDIARY

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

DBS

A letter from the board of directors of the Company is set out on pages 8 to 26 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on pages 27 to 28 of this circular. A letter from DBS Asia containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 35 of this circular.

The notice convening the extraordinary general meeting of the Company to be held at Tower B, Huaxing Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100088) at 4:00 p.m. on 20 July 2005 (the "**EGM**") is set out on pages 86 to 87 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the EGM.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting if you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

* *For identification purposes only*

28 June 2005

CHARACTERISTICS OF GEM

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. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"8 Holdings"	8 Holdings LLC, a limited liability company incorporated in Colorado, the United States of America and an Independent Third Party, the ultimate beneficial owners of which are also Independent Third Parties has recently acquired 97.5% of the Acquiror's Common Stock for the purpose of investing in growth companies in the PRC, which includes the investment represented by the Proposed CMN Share Transfer as contemplated under the Sale and Purchase Agreement
"Acquiror"	Metaphor Corp., a corporation incorporated in Nevada, the United States of America and an Independent Third Party, the common stock of which is quoted on the NASDAQ Bulletin Board
"Acquiror's Common Stock"	the Acquiror's common stock of US$0.0001 each
"Articles of Association"	the articles of association of the Company, adopted on 30 November 2003 and as amended from time to time
"associate(s)"	has the same meaning ascribed to it under the GEM Listing Rules
"Beijing HC Construction"	Beijing Huicong Construction Co., Ltd. (北京慧聰建設信息諮詢有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Mr. Guo and as to the remaining 20% by Wang Chong and Wang Yonghui, both of whom are founding employees of the Group
"Beijing HC Hulian"	Beijing Huicong Hulian Information Technology Co., Ltd. (北京慧聰互聯信息技術有限公司) (原北京慧翔信息技術有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Beijing HC International and as to 20% by Beijing Huixiang Network
"Beijing HC International"	Beijing Huicong International Information Co., Ltd (北京慧聰國際資訊有限公司), a Sino-foreign co-operative joint venture company established in the PRC, which is 82% owned by Hong Kong HC International and 18% owned by Beijing HC Construction

"Beijing HC Jinwang"	Beijing Huicong Jinwang Advertising Co., Ltd. (北京慧聰金網廣告有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Beijing Huixiang Network and as to 20% by Beijing HC Hulian
"Beijing Hehui"	Beijing Hehui Chuangshi Advertising Co., Ltd. (北京合匯創世廣告有限公司), a limited liability company established in the PRC, the entire registered capital of which is owned by the CMN Management
"Beijing Huixiang Network"	Beijing Huixiang Network Technology Co., Ltd. (北京慧翔網絡技術有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 85% by Beijing HC International and as to 15% by Wang Chong and Wang Yonghui, who hold their respective share of registered capital on behalf of Beijing HC International
"Board"	the board of Directors
"Closing"	the completion of the Proposed CMN Share Transfer pursuant to the Sale and Purchase Agreement
"Closing Date"	31 July 2005 or such later date as all of the conditions set forth in the Sale and Purchase Agreement have been satisfied or waived
"CMN Executive"	the selected members of the senior management of the Target Group Companies to whom Hong Kong HC International will transfer 8.68% of the Acquiror's Common Stock at such time after Closing as Hong Kong HC International shall deem desirable and appropriate, but in any event no later than 31 December 2006
"CMN Management"	the four existing directors of certain Target Company Subsidiaries, Wu Xian, Li Shuangqing, Shen Qizhi and Wang Li Hong, who are required to enter into the Service Contracts pursuant to the Sale and Purchase Agreement
"Company"	HC International, Inc., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM

"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"DBS Asia"	DBS Asia Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Directors"	the directors of the Company
"Domestic Company"	a limited liability company to be established in the PRC pursuant to the Proposed Restructuring, the registered capital of which will be owned up to 90-95% by Huamei Information and the remainder by CMN Management
"EGM"	the extraordinary general meeting of the Company proposed to be convened and held in respect of the approval of the Proposed Restructuring Share Transfers and the Proposed CMN Share Transfer
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong GAAP"	the general accepted accounting principles in Hong Kong
"Hong Kong HC International"	Hong Kong Huicong International Group Limited (香港慧聰國際集團有限公司), a company incorporated in the British Virgin Islands with limited liability, which is a wholly owned subsidiary of the Company
"Huamei Advertising"	Beijing Huamei Shengshi Advertising Co., Ltd. (北京華媒盛視廣告有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Beijing HC Hulian and as to 20% by CMN Management prior to completion of the Proposed Restructuring

"Huamei Advertising Equity Transfer"	the acquisition by the Domestic Company of the capital contribution of RMB4 million (approximately HK$3.8 million) in the registered capital of Huamei Advertising, representing 80% of its registered capital at par value, from Beijing HC Hulian pursuant to the Proposed Restructuring
"Huamei Information"	Beijing Huamei Shengshi Information Technology Co., Ltd. (北京華媒盛視信息技術有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Beijing HC Hulian and as to 20% by CMN Management prior to completion of the Proposed Restructuring
"Huamei Information Equity Transfer"	the acquisition by the Target Company of the capital contribution of RMB19.6 million (approximately HK$18.5 million) in the enlarged registered capital of Huamei Information, representing 98% of its registered capital at par value, from Beijing HC International pursuant to the Proposed Restructuring
"IDG"	International Data Group, Inc., a corporation incorporated on 12 February 1976 under the Laws of the Commonwealth of Massachusetts of the USA, which is majority owned by Mr. Patrick McGovern, the chairman and founder of the Company
"IDGVC"	IDG Technology Venture Investment, Inc., a corporation incorporated on 19 April 1994 under the Laws of the Commonwealth of Massachusetts of the USA, which is a wholly owned subsidiary of IDG
"Independent Board Committee"	a board committee, comprising the independent non-executive Directors who are not interested in the Proposed Restructuring Equity Transfers, established to advise the Independent Shareholders in respect of the terms of the Proposed Restructuring Equity Transfers
"Independent Shareholders"	the Shareholders other than Mr. Guo and his associates
"Independent Third Party(ies)"	party(ies) who is (are) independent from and not connected with any of the Directors, chief executive, substantial shareholders (as defined under the GEM Listing Rules) or management shareholders (as defined under the GEM Listing Rules) of the Company or any of their respective associates

"Lanzhou Huamei Advertising"	Lanzhou Huamei Advertising Broadcasting Co., Ltd. (蘭州華媒廣告傳播有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 51% by Beijing HC Jinwang and as to 49% by Lanzhou TV Station prior to completion of the Proposed Restructuring
"Lanzhou Huamei Shengshi"	Lanzhou Huamei Shengshi Advertising Broadcasting Co., Ltd., (蘭州華媒盛視廣告傳播有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 51% by Beijing Huixiang Network and as to 49% by Wu Xian and Li Guangyu prior to completion of the Proposed Restructuring
"Latest Practicable Date"	24 June 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"LIBOR"	the London Inter Bank Offering Rate
"Jinan Broadcasting"	Jinan Huamei Shengshi Broadcasting Co., Ltd. (濟南華媒盛視傳播有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Huamei Advertising and as to 20% by Huamei Information prior to completion of the Proposed Restructuring
"Mr. Guo"	Mr. Guo Fansheng, an executive Director, the chief executive officer, a substantial shareholder and an initial management shareholder of the Company. As at the Latest Practicable Date, Mr. Guo owns an approximate 13.75% equity interest in the Company
"NASDAQ Bulletin Board"	the Over-the-Counter Bulletin Board of the NASDAQ Stock Market of the United States of America, which is not an issuer listing service, market or exchange
"PRC"	the People's Republic of China
"Proceeding"	any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any governmental authority

"Proposed CMN Share Transfer"	the proposed disposal of the Target Shares by the Group to the Acquiror pursuant to the Sale and Purchase Agreement
"Proposed Disposal"	the Proposed Restructuring and the Proposed CMN Share Transfer
"Proposed Restructuring"	the proposed restructuring of the PRC domestic television advertising business being currently carried out by the Target Company Subsidiaries
"Proposed Restructuring Equity Transfers"	the Huamei Information Equity Transfer and the Huamei Advertising Equity Transfer
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement entered into amongst the Acquiror, Hong Kong HC International, 8 Holdings, the Target Company and CMN Management on 27 May 2005
"Service Contracts"	the service contracts, dated the Closing Date, by and between the Acquiror and each member of CMN Management
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	the ordinary share(s) of the Company
"Shareholders"	the shareholders of the Company
"Shareholders' Loan"	the shareholders' loan in the total amount of RMB30.0 million (approximately HK$28.3 million) owed by the Target Company Subsidiaries, which shall be assumed by the Acquiror upon Closing
"Shareholders' Loan Agreement"	the shareholders' loan agreement to be entered into between the Acquiror and Hong Kong HC International upon Closing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	China Media Network International Inc., a British Virgin Islands company incorporated solely for the purpose of the Proposed Disposal, the entire issued share capital of which is, prior to Closing, owned by Hong Kong HC International

"Target Company Subsidiaries"	all of the direct and indirect subsidiaries of the Target Company, including, without limitation, Huamei Information, Domestic Company, Huamei Advertising, Zhengzhou Advertising, Jinan Broadcasting, Urumqi Broadcasting, Lanzhou Huamei Advertising and Lanzhou Huamei Shengshi
"Target Group Companies"	the Target Company and the Target Company Subsidiaries
"Target Shares"	100% of the issued ordinary shares, US$1.00 nominal value per share, of the Target Company
"US$"	United States dollars, the lawful currency of the United States of America
"Urumqi Broadcasting"	Urumqi Huamei Shengshi Broadcasting Co., Ltd (烏魯木齊華媒盛視傳播有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 76% by Huamei Advertising and as to 24% by Li Guangyu
"Zhengzhou Advertising"	Zhengzhou Huamei Shengshi Advertising Broadcasting Co., Ltd. (鄭州華媒盛視廣告傳播有限公司), a limited liability company established in the PRC, the registered capital of which is owned as to 80% by Huamei Advertising and as to 20% by Huamei Information prior to completion of the Proposed Restructuring
"%"	per cent.

Unless otherwise specified in this circular and for the purpose of illustration only, US$ and RMB are translated to HK$ at the rates of US$1.00 = HK$7.80 and HK$1.00 = RMB1.06, respectively. No representation is made that any amounts in US$ or RMB have been or could be converted at the above rate or at any other rates or at all.

HC INTERNATIONAL, INC.
慧聰國際資訊有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8292)

Executive Directors:
Guo Fansheng *(Chief Executive Officer)*
Wu Ying
Lai Sau Kam, Connie

Non-executive Directors:
Hugo Shong *(Non-executive Chairman)*
Yang Fei

Independent Non-executive Directors:
Zhang Ke
Xiang Bing
Guo Wei

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

28 June 2005

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS RELATING TO A PROPOSED RESTRUCTURING AND MAJOR DISPOSAL OF A SUBSIDIARY

INTRODUCTION

On 27 May 2005, the Company entered into the Sale and Purchase Agreement, pursuant to which Hong Kong HC International agreed to transfer to the Acquiror, and the Acquiror agreed to acquire from Hong Kong HC International the Target Shares for a total consideration which comprises (i) 28.68% shares of the Acquiror's Common Stock to be issued to Hong Kong HC International upon Closing, and (ii) two payments in the aggregate amount of US$3.785 million (approximately HK$29.5 million) in cash to Hong Kong HC International upon and after Closing, respectively.

* *For identification purposes only*

It is the intention of Hong Kong HC International to transfer 8.68% of the Acquiror's Common Stock it receives under the Sale and Purchase Agreement at Closing to the CMN Executives in consideration of the CMN Executives entering into service contracts with the Target Group Companies and to provide incentive and reward to the CMN Executives for their contribution to the Target Group Companies, at such time after Closing as Hong Kong HC International shall deem desirable and appropriate, but in any event no later than 31 December 2006. The identities of the CMN Executives and the number of the Acquiror's Common Stock to be transferred to each selected individual will be determined at that time. The reason for Hong Kong HC International's intention to make such a transfer is to ensure that the 12-month lock-up period as provided in the Sale and Purchase Agreement, if applicable, will not apply to the transfer by Hong Kong HC International to the CMN Executives. The Acquiror has acknowledged under the Sale and Purchase Agreement the intention of Hong Kong HC International to transfer 8.68% of the Acquiror's Common Stocks to the CMN Executives and has agreed to waive the lock-up period restriction if Hong Kong HC International makes the transfer to the CMN Executives within the 12-month period immediately after Closing. Such transfer may constitute a discloseable and/or connected transaction which may require the approval of shareholders of the Company under Chapters 19 and 20 of the GEM Listing Rules. Such transfer will be effected under a separate share transfer agreement to be entered into between Hong Kong HC International and the CMN Executives and related disclosure will be made in compliance with relevant requirements under the GEM Listing Rules at the time of such transfer.

The Proposed Restructuring is required in preparation for the Proposed CMN Share Transfer to take place as envisaged by the Sale and Purchase Agreement. Subject to the terms and conditions of the Sale and Purchase Agreement, Hong Kong HC International has agreed to procure the completion of the Proposed Restructuring.

The purpose of this circular is to provide you with further details of the Proposed Disposal, the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Proposed Restructuring Equity Transfers and the advice from DBS Asia to the Independent Board Committee and the Independent Shareholders, and to seek your approval of the proposed resolutions set out in the notice convening the EGM.

THE PROPOSED RESTRUCTURING

Subject to the terms and conditions of the Sale and Purchase Agreement, Hong Kong HC International and the CMN Management have agreed to procure the Proposed Restructuring in respect of the PRC domestic television advertising business currently being conducted by the Target Company Subsidiaries. The Proposed Restructuring will comprise two parts, equity transfers and a capital increase.

Upon completion of the Proposed Restructuring:

(i) Huamei Information will become a Sino-foreign equity joint venture established in the PRC, 98% of the equity interest in which will be directly held by the Target Company; and

(ii) Huamei Information will become the holding company of all the PRC domestic television advertising business being carried out by the Group.

The key transactions as contemplated under the Proposed Restructuring and their respective implications under the GEM Listing Rules are summarised as below:

1. Capital Increase

(a) Equity transfers prior to the increase in the registered capital of Huamei Information

In order to achieve the purposes of the Proposed Restructuring as disclosed above:

(i) Beijing HC Hulian acquired, from Huamei Information, the capital contributions of RMB200,000 (approximately HK$189,000) and RMB100,000 (approximately HK$94,000) in the registered capital of Zhengzhou Advertising and Jinan Broadcasting, representing 20% of their registered capital at par value, respectively. After which Huamei Information ceased to be a shareholder of Zhengzhou Advertising and Jinan Broadcasting; and

(ii) Beijing HC Hulian and the CMN Management disposed of their 80% and 18% shareholding, respectively, in Huamei Information to Beijing HC International. After which, Beijing HC International and Beijing Hehui own as to 98% and 2% of the total capital contribution of Huamei Information, respectively.

The equity transfers from Huamei Information to Beijing HC Hulian prior to the increase in the registered capital of Huamei Information as contemplated under the Proposed Restructuring constitute connected transactions of the Company, which are subject to the reporting and announcement requirements, but are exempted from the independent shareholders' approval requirements pursuant to Rule 20.32 of the GEM Listing Rules.

The equity transfers from Beijing HC Hulian and CMN Management to Beijing HC International prior to the increase in the registered capital of Huamei Information as contemplated under the Proposed Restructuring constitute connected transactions of the Company, which are exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.31(2) of the GEM Listing Rules.

(b) Increase in the registered capital of Huamei Information

According to the Company Law of the PRC, if a company, other than an investment company or holding company as specified by the State Council of the PRC, invests in other limited liability companies or companies limited by shares, the aggregate amount of such investments may not exceed 50% of the investing company's net assets. As the original registered share capital of Huamei Information was RMB1.0 million (approximately HK$940,000), the registered share capital of Huamei Information has been increased to RMB20.0 million (approximately HK$18.9 million) in order to avoid breaching such regulation.

The RMB19.0 million (approximately HK$17.9 million) increase in the registered capital of Huamei Information was satisfied by way of a cash injection, which was funded from the Group's internal resources and the CMN Management, in proportion to their respective shareholding percentages in Huamei Information at the time of such increase. Such cash injection will be reimbursed by the Acquiror to Hong Kong HC International within 20 days after Closing pursuant to the Sale and Purchase Agreement.

The increase in registered capital of Huamei Information as contemplated under the Proposed Restructuring constitute connected transactions of the Company, which are exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.31(3) of the GEM Listing Rules.

2. Equity Transfers

(a) The Proposed Restructuring Equity Transfers

(i) The Huamei Information Equity Transfer

In order to achieve the purposes of the Proposed Restructuring as disclosed above, the Company will apply to the relevant PRC authorities for the conversion of Huamei Information from a domestic limited liability company into a Sino-foreign equity joint venture. Upon the approval of the conversion, the Target Company will acquire the capital contribution of RMB19.6 million (approximately HK$18.5 million) in the enlarged registered capital of Huamei Information, representing 98% of its registered capital, at par value from Beijing HC International.

Upon completion of the above transfers, the RMB20 million (approximately HK$18.9 million) registered capital of Huamei Information will be 98% and 2% owned by the Target Company and Beijing Hehui, respectively. The entire registered capital of Beijing Hehui is owned by the CMN Management. Beijing HC International will cease to hold any direct or indirect interest in Huamei Information.

(ii) The Huamei Advertising Equity Transfer

In order to achieve the purposes of the Proposed Restructuring as disclosed above, the Domestic Company will acquire the capital contribution of RMB4.0 million (approximately HK$3.8 million) in the registered capital of Huamei Advertising, representing 80% of its registered capital at par value, from Beijing HC Hulian.

Upon the completion of the above transfer, Beijing HC Hulian will cease to hold any equity interest in Huamei Advertising and the Domestic Company will own a 80% equity interest in Huamei Advertising.

As at 31 December 2004, the net asset value of Huamei Information and Huamei Advertising were RMB999,813 and RMB32,578,513, respectively, based on their respective management accounts. Such amounts need to be adjusted based on the Proposed Restructuring other than the Proposed Restructuring Equity Transfers for the purpose of comparison with the respective registered capital of these two companies. The Directors confirm that the net asset value (as adjusted) of each of Huamei Information and Huamei Advertising is not materially below the respective registered capital of such companies. Accordingly, the Directors believe that the respective registered capital of Huamei Information and Huamei Advertising is a fair and reasonable basis for determining the considerations for the Proposed Restructuring Equity Transfer, and the amounts of consideration for the Proposed Restructuring Equity Transfers are fair and reasonable as far as the Independent Shareholders are concerned.

Mr. Guo owns an 80% equity interest in Beijing HC Construction, which in turn holds an 18% equity interest in Beijing HC International. Accordingly, Beijing HC International and its subsidiaries are regarded as connected persons of the Company under Rules 20.11(5) and 20.11(6) of the GEM Listing Rules, respectively.

The applicable percentage ratios for determining disclosure and approval requirements under the GEM Listing Rules for the Proposed Restructuring Equity Transfers exceed 2.5%, but are below 25% and the total consideration for such transfers exceeds HK$10.0 million. Pursuant to Rule 20.13(1)(a) of the GEM Listing Rules, the Proposed Restructuring Equity Transfers will constitute connected transactions of the Company and are subject to the approval of Independent Shareholders at the EGM.

As at the Latest Practicable Date, Mr. Guo, who holds approximately 13.75% of the Shares, and his associates will abstain from voting on the resolution to approve the Proposed Restructuring Equity Transfers and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

An Independent Board Committee was established to advise the Independent Shareholders in respect of the terms of the Proposed Restructuring Equity Transfers and DBS Asia was appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

(b) Other Equity Transfers

In order to achieve the purposes of the Proposed Restructuring as disclosed above:

(i) Huamei Advertising will acquire the capital contribution of RMB510,000 (approximately HK$481,000) in the registered capital of Lanzhou Huamei Advertising, representing 51% of its registered capital at par value, from Beijing HC Jinwang. Upon the completion of the above transfer, Beijing HC Jinwang will cease to hold any equity interest in Lanzhou Huamei Advertising and Huamei Advertising will own a 51% equity interest in Lanzhou Huamei Advertising;

(ii) Huamei Advertising will acquire the capital contributions of RMB255,000 (approximately HK$241,000) and RMB125,000 (approximately HK$118,000) in the registered capital of Lanzhou Huamei Shengshi, representing 51% and 25% of its registered capital at par value, from Beijing Huixiang Network and Mr. Wu Xian, one of the members of the CMN Management, respectively. Upon the completion of the above transfers, Beijing Huixiang

Network and Mr. Wu Xian will cease to hold any equity interest in Lanzhou Huamei Shengshi and Huamei Advertising will own an aggregate of 76% equity interest in Lanzhou Huamei Shengshi; and

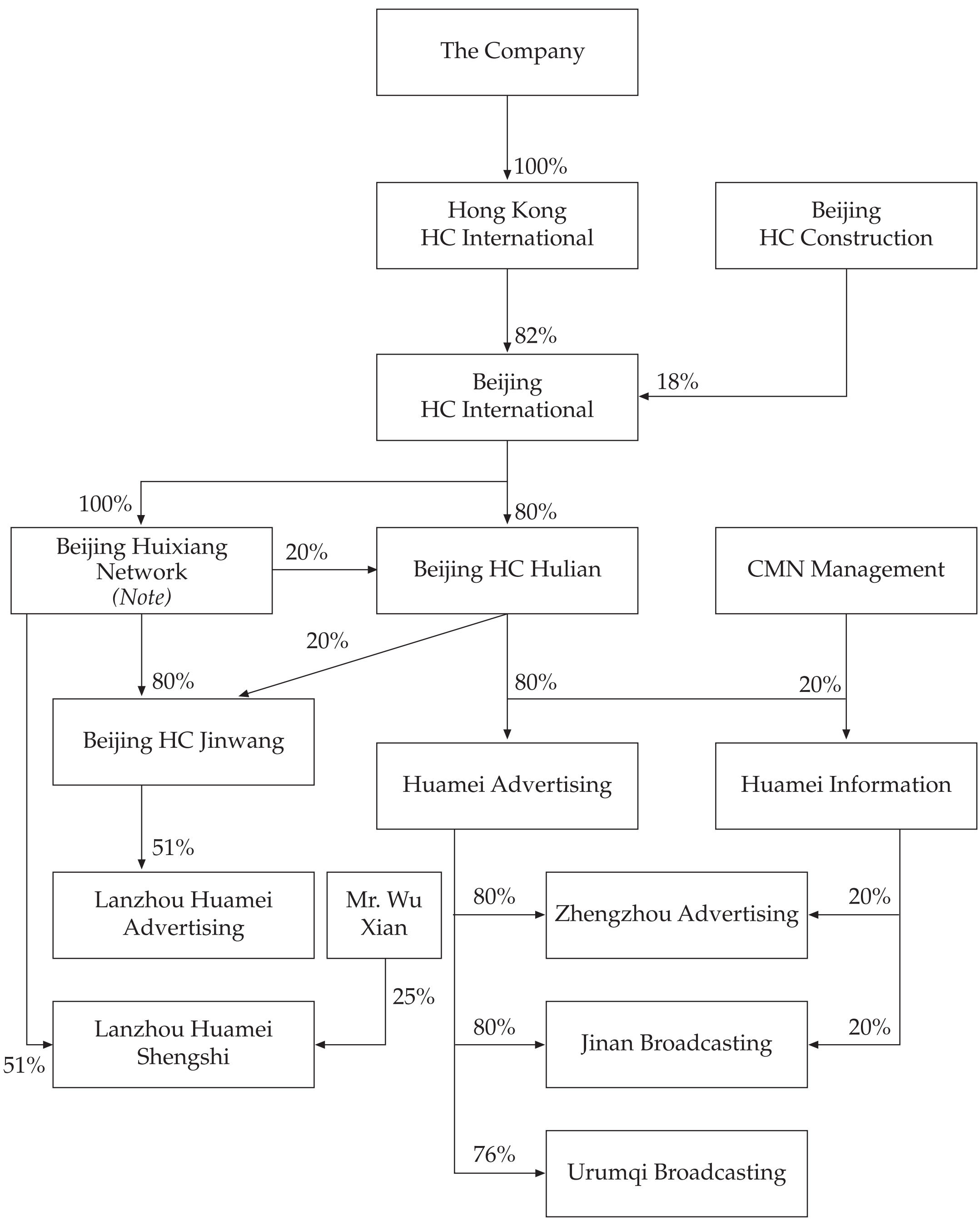
(iii) the Domestic Company will acquire the capital contributions of RMB200,000 (approximately HK$189,000) and RMB100,000 (approximately HK$94,000) in the registered capital of Zhengzhou Advertising and Jinan Broadcasting, representing 20% of their registered capital at par value, respectively, from Beijing HC Hulian. Upon the completion of the above transfers, Beijing HC Hulian will cease to hold any equity interest in each of Zhengzhou Advertising and Jinan Broadcasting and the Domestic Company will own a 20% equity interest in each of Zhengzhou Advertising and Jinan Broadcasting.

The equity transfers between (i) Huamei Advertising and Beijing HC Jinwang and (ii) Huamei Advertising and each of Beijing Huixiang Network and Mr. Wu Xian as contemplated under the Proposed Restructuring will constitute connected transactions of the Company, which are exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.31(2) of the GEM Listing Rules.

The equity transfer between the Domestic Company and Beijing HC Hulian as contemplated under the Proposed Restructuring will constitute a connected transaction of the Company, which is subject to the reporting and announcement requirements, but are exempted from the independent shareholders' approval requirements pursuant to Rule 20.32 of the GEM Listing Rules.

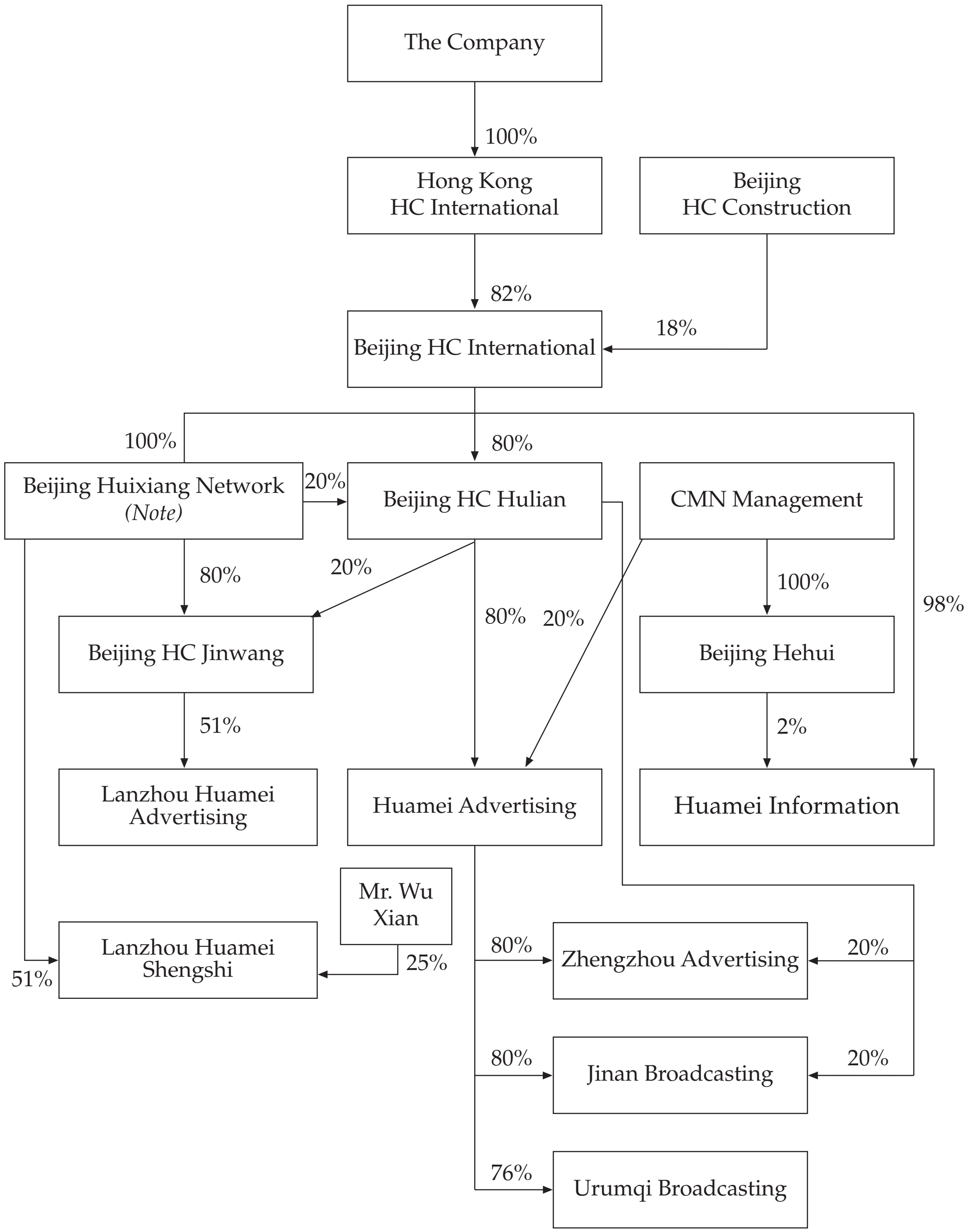
The simplified shareholding structures of the Group (i) immediately prior to the Proposed Restructuring, (ii) immediately prior to the increase in the registered share capital of Huamei Information and (iii) immediately upon completion of the Proposed Restructuring are set out as follows:

(i) Immediately prior to the Proposed Restructuring



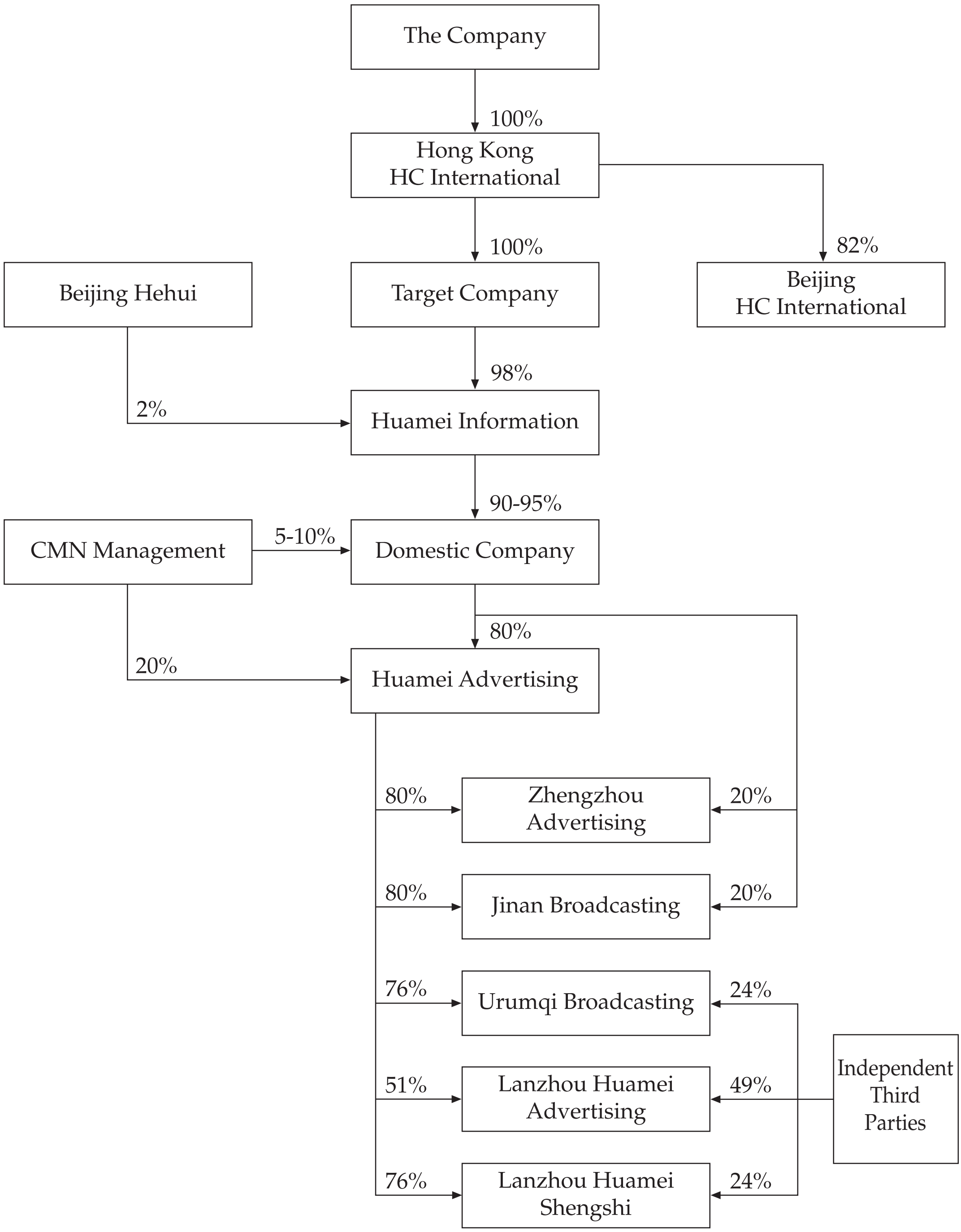
Note: Beijing HC International, Mr. Wang Chong and Ms. Wang Yonghui own as to 85%, 7.5% and 7.5% in the registered capital of Beijing Huixiang Network, respectively. Mr. Wang Chong and Ms. Wang Yonghui hold their respective share of registered capital on behalf of Beijing HC International.

(ii) Immediately prior to the increase in the registered share capital of Huamei Information



Note: Beijing HC International, Mr. Wang Chong and Ms. Wang Yonghui own as to 85%, 7.5% and 7.5% in the registered capital of Beijing Huixiang Network, respectively. Mr. Wang Chong and Ms. Wang Yonghui hold their respective share of registered capital on behalf of Beijing HC International.

(iii) Immediately upon completion of the Proposed Restructuring



THE PROPOSED CMN SHARE TRANSFER

The Sale and Purchase Agreement

Date

27 May 2005

Parties

1. The Acquiror (Purchaser)

2. Hong Kong HC International (Vendor)

3. 8 Holdings

4. Target Company

5. CMN Management

The Principal Business of the Group

The Group is one of the leading business information services providers in the PRC. The Group aims to provide business information through different means to facilitate buyers and sellers in the commercial world to disseminate and/or obtain such information to assist them in locating and matching their counterparties and to make business decisions.

Currently, the Group provides business information through four main types of communication channels: (i) industry portals, trade catalogues and yellow page directories, (ii) search engine services, (iii) television and print periodicals and (iv) market research and analysis.

Upon the completion of the proposed disposal of the Target Group Companies, which operate in the domestic broadcasting industry providing television advertising products and services, the Group will remain focused on carrying out its other existing principal businesses. The assets to be disposed form part of the Group's television and print periodicals business.

The Principal Business of the Acquiror

The Acquiror is a corporation quoted on the NASDAQ Bulletin Board, which has no operating activities prior to the Proposed CMN Share Transfer. It has been acquired by 8 Holdings for the purpose of investing in growth companies in the PRC, which includes the investment represented by the Proposed CMN Share Transfer as contemplated under the Sale and Purchase Agreement.

Assets to be Disposed

The assets to be disposed by the Group involve its entire equity interest in the Target Company, a British Virgin Islands company incorporated solely for the purpose of the Proposed Disposal. Upon Closing, the Target Group Companies, which operate in the domestic broadcasting industry providing television advertising products and services, will cease to be subsidiaries of the Company and will no longer be consolidated in the accounts of the Group.

Since the number of common customers of the Target Group Companies and the Group and the transactions between those customers and the Group are limited, the Directors believe that there will be minimal impact on the operations of the Group after the Proposed CMN Share Transfer. They also believe that the overall management of different operations of the Group after the Proposed CMN Share Transfer will not be affected because each of the business arms of the Group is managed and operated by separate management teams.

Consideration

The total consideration for the Proposed CMN Share Transfer was determined on an arm's-length basis with reference to the track records of the Target Company Subsidiaries for the two years ended 31 December 2003 and 2004 and the attributable net asset value of the Acquiror upon Closing. In view of the minimal trading volume of the Acquiror's Common Stocks on the NASDAQ Bulletin Board and the fact that the Acquiror, a shell company acquired by 8 Holdings for the purposes of investing in growth companies in the PRC, which includes the investment represented by the Proposed CMN Share Transfer as contemplated under the Sale and Purchase Agreement, carries no operating business prior to the Proposed CMN Share Transfer, the Directors consider that it is not applicable to use the market price of the Acquiror as a reference point for determining the consideration under the Sale and Purchase Agreement.

The total consideration, based on the unaudited net asset values of the Target Group Companies and the Acquiror as at 31 December 2004, amounts to approximately HK$57.8 million and comprises:

(i) a cash payment to Hong Kong HC International in the aggregate amount of US$3.785 million (approximately HK$29.5 million), of which US$3.5 million (approximately HK$27.3 million) shall be paid within five business days of the Closing Date and US$285,000 (approximately HK$2.2 million) shall be paid within 12 months of the Closing Date; and

(ii) shares representing 28.68% of the Acquiror's Common Stock, valued at approximately HK$28.3 million based on the net asset value of the Acquiror as at the Closing Date, to be issued to Hong Kong HC International upon Closing, subject to adjustment as provided under the Sale and Purchase

Agreement. Upon Closing, the Acquiror's net assets will comprise (i) 100% of the net asset value of the Target Group Companies, (ii) US$10.0 million (approximately HK$78.0 million) in cash and (iii) its net liabilities prior to the Proposed CMN Share Transfer.

The Board believes that the consideration of the Proposed CMN Share Transfer, which comprises a cash component and the Acquiror's Common Stock, will enable the Group to strengthen its cash position and at the same time, to invest in an investment management company focused on acquiring or merging with growth companies in the PRC.

Adjustments

If the Target Company's audited combined net profit after tax and net of all minority interests for the year ended 31 December 2004 prepared in accordance with Hong Kong GAAP is less than RMB10.0 million (approximately HK$9.4 million), the number of Acquiror's Common Stock to be issued to Hong Kong HC International upon Closing will be subject to adjustment under the Sale and Purchase Agreement.

There will be no adjustment to the number of Acquiror's Common Stocks to be issued to Hong Kong HC International upon Closing if the said net profit is not less than RMB9.0 million (approximately HK$8.5 million) under Hong Kong GAAP, but if less than RMB9.0 million (approximately HK$8.5 million) under Hong Kong GAAP, the number of Acquiror's Common Stocks to be issued to Hong Kong HC International upon Closing will be adjusted so that the aggregate percentage of the Acquiror's Common Stock to be issued to Hong Kong HC International will be reduced by the same percentage as the decrease in percentage from RMB10.0 million (approximately HK$9.4 million) to the actual net profit. However, the minimum number of Acquiror's Common Stock to be issued to Hong Kong HC International upon Closing will not fall below 18.68% in any event.

Restriction on Disposal of Acquiror's Common Stocks

For a period of 12 months after the Closing, Hong Kong HC International and 8 Holdings shall not, without the prior written consent of the board of directors of the Acquiror, directly or indirectly otherwise encumber or dispose of or pledge their respective holdings of the Acquiror's Common Stock.

The Acquiror acknowledges under the Sale and Purchase Agreement the intention of Hong Kong HC International to transfer 8.68% of the Acquiror's Common Stocks to the CMN Executives and has agreed to waive the lock-up period restriction if Hong Kong HC International is to make the transfer to the CMN Executives within the 12 months period after Closing.

Apart from the intention of Hong Kong HC International to transfer 8.68% of the Acquiror's Common Stock to the CMN Executives, it is the Group's current intention to hold its stake in the Acquiror as a passive long-term investment of the Group unless circumstances arise which would otherwise be in the best interests of the Shareholders. The Company does not have the intention to become the single largest shareholder of the Acquiror at any time after Closing.

Conditions

Closing is conditional upon, among others, the following conditions:

1. on the Closing Date, each member of the CMN Management having executed their respective Service Contracts with the Acquiror;

2. Target Company and the Acquiror having completed and reasonably satisfied themselves with the final results of their respective due diligence review of the legal and financial affairs and the corporate structure of the Acquiror and the Target Group Companies, respectively;

3. approval of the Proposed Restructuring Equity Transfers by the Independent Shareholders at the EGM;

4. approval of the Proposed CMN Share Transfer by the Shareholders at the EGM;

5. the Proposed Restructuring being duly approved by the competent PRC examination and approval authorities in accordance with applicable PRC laws and regulations and duly completed as envisaged under the Sale and Purchase Agreement;

6. after the payment of cash consideration in the amount of US$3.5 million (approximately HK$27.3 million), the Acquiror shall have not less than US$10.0 million (approximately HK$78.0 million) in cash contributed by its then shareholders prior to the Closing, which will be reflected in the unaudited balance sheet of the Acquiror prepared on an unconsolidated basis as at the sixth business day after the Closing Date;

7. an undertaking being delivered by the Acquiror on the Closing Date to Hong Kong HC International that within 20 days from the Closing Date the Acquiror will repay Hong Kong HC International in cash an amount in the equivalent of RMB19.0 million (approximately HK$17.9 million) being the sum that the Group will have injected into Huamei Information as capital contribution for carrying out the Proposed Restructuring; and

8. the Shareholders' Loan Agreement being entered into between the Acquiror and Hong Kong HC International on or before the Closing Date, pursuant to which the Acquiror agrees to repay to Hong Kong HC International the Shareholders' Loan in the total amount of RMB30.0 million (approximately HK$28.3 million), of which RMB10.0 million (approximately HK$9.4 million) is due on the third anniversary of Closing and the remaining RMB20.0 million (approximately HK$18.9 million) is due on the fifth anniversary of Closing, together with the total interest payable on the Shareholders' Loan based on an annual interest rate of 1% over LIBOR.

As at the Latest Practicable Date, none of the conditions has been satisfied or waived under the Sale and Purchase Agreement.

Board Composition

The board of directors of the Acquiror will comprise five members, three of which will be nominated by 8 Holdings, and the remaining two will be nominated by the Group and the CMN Management, respectively. Apart from the Company's single seat representation on the board of directors of the Acquiror, the Company will not have any influence over the future operation and plan of the Acquiror nor have effective control of the board of the Acquiror at any time after Closing.

Effect of Termination

A termination fee of up to US$500,000 (approximately HK$3.9 million) is payable by the Acquiror or Hong Kong HC International to the other if the relevant party breaches relevant provisions of the Sale and Purchase Agreement resulting in a termination of such agreement.

Closing

Subject to the fulfilment of the above conditions, closing will take place on 31 July 2005 or on such later date when all the conditions have been fulfilled or waived.

Financial Information of the Target Company Subsidiaries

The financial position and the results of the Target Company Subsidiaries for the two years ended 31 December 2004, as extracted from their unaudited financial statements prepared in accordance with Hong Kong GAAP, are summarised below:

	For the year ended 31 December 2004 *RMB'000*	**For the year ended 31 December 2003** *RMB'000*
Revenue	149,065	104,791
Profit before tax	10,699	3,474
Profit after tax	10,694	3,467

	As at 31 December 2004 *RMB'000*	As at 31 December 2003 *RMB'000*
Total assets	74,750	34,288
Total liabilities	52,686	29,679
Net asset value	22,064	4,609

Financial Information of the Acquiror

The financial position and the results of the Acquiror for the two years ended 31 December 2004, as extracted from their audited financial statements prepared in accordance with US GAAP, are summarised below:

	For the year ended 31 December 2004 *US$'000*	For the year ended 31 December 2003 *US$'000*
Revenue	–	–
Profit before tax	(76)	(119)
Profit after tax	(76)	(119)

	As at 31 December 2004 *US$'000*	As at 31 December 2003 *US$'000*
Total assets	–	–
Total liabilities	144	293
Net asset value	(144)	(293)

Reasons for and the Benefits of the Proposed Disposal

The Board considers the Proposed Disposal to be a part of the re-engineering of the Group's businesses, which will allow the Group to focus on being a leading business information services provider in the PRC through its expansion into other communication channels such as printed media and Internet. The Group intends to focus its resources on these business segments which have higher growth potential and higher margins when compared to those of the PRC domestic television advertising business operated by the Target Group Companies. Two of the segments in which the Company operated in, industry portals, trade catalogues and yellow page directories, and search engine and website construction services recorded a relatively higher growth in turnover in 2004, amounting to 32% and 438%, respectively and gross margins in 2004, amounting to 50% and 75%, respectively. The corresponding figures for the PRC domestic television advertising segment in 2004 were 16% and 12%, respectively. The Group will apply the net proceeds from the Proposed Disposal on these business lines whilst at the same time standing to benefit from the potential success in the business of the Target Group Companies as a minority shareholder. The Company does not have the intention to become the single largest shareholder of the Acquiror after Closing.

The Board believes that the Acquiror will provide high quality resources, global expertise and exposure in the broadcasting industry to facilitate the growth of the Target Group Companies, which will also be beneficial to the Group.

The Board also believes that the consideration for the Proposed CMN Share Transfer, which comprises a cash component and the Acquiror's Common Stock, will enable the Group to strengthen its cash position and at the same time, to hold an investment in an investment management company focused on acquiring or merging with growth companies in the PRC.

The Board believes that the terms of the Sale and Purchase Agreement, which were negotiated on an arm's-length basis, are fair and reasonable and in the interests of the Shareholders as a whole.

Implications under the GEM Listing Rules

As the applicable percentage ratios for determining disclosure and shareholder approval requirements under the GEM Listing Rules of the Proposed CMN Share Transfer is more than 25% but less than 75%, the Proposed CMN Share Transfer will constitute a major disposal of the Company pursuant to Chapter 19 of the GEM Listing Rules. The Proposed CMN Share Transfer is therefore subject to the approval by the Shareholders at the EGM. No Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Proposed CMN Share Transfer at the EGM.

Financial Effects of the Proposed Disposal on the Group

Upon Closing, the Group is expected to record a gain on the Proposed Disposal amounting to approximately RMB38.1 million (approximately HK$35.9 million) with reference to the unaudited net asset value of the Target Company Subsidiaries, which amounted to approximately RMB23.2 million (approximately HK$21.9 million) as at 31 December 2004. Such gain is subject to adjustment and review by PricewaterhouseCoopers, the auditors of the Company. The total assets of the Group are expected to be increased by approximately RMB851,000 (approximately HK$803,000) and total liabilities of the Group are expected to be decreased by approximately RMB37.2 million (approximately HK$35.1 million) resulting in an increase in the net assets of the Group by approximately RMB38.1 million (approximately HK$35.9 million) due to the cash inflow and the Group's indirect ownership in the assets of the Target Group Companies through its shareholding in the Acquiror upon and after Closing.

Proceeds from the Proposed Disposal

The net proceeds in the amount of approximately HK$25.7 million, being the cash consideration for the Proposed CMN Share Transfer in the amount of US$3.785 million (approximately HK$29.5 million) net of transaction expenses in the amount of approximately HK$3.8 million, are intended to be utilised as to approximately 60% on expanding the Group's existing fast-growing industry portal business by exploring overseas markets and pursuing mergers and acquisitions when opportunities arise, and enhancing its complimentary on-line products and services by increasing the Group's budget for products research and developments. Approximately 40% of the net proceeds will be used as general working capital of the Group. To the extent that the net proceeds received by Hong Kong HC International are not immediately applied for the above purposes, it is the present intention of the Board that the net proceeds will be deposited in an interest-bearing account with a licensed bank in Hong Kong.

EGM

The Proposed Restructuring Equity Transfer will constitute connected transactions of the Company and are subject to the approval of the Independent Shareholders at the EGM. Mr. Guo, who holds approximately 13.75% of the Shares as at the Latest Practicable Date, and his associates will abstain from voting on the resolution to approve the Proposed Restructuring Equity Transfers and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

The Proposed CMN Share Transfer will constitute a major disposal of the Company and is subject to the approval of the Shareholders at the EGM. No Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Proposed CMN Share Transfer at the EGM.

Set out on pages 86 to 87 is a notice convening the EGM to be held at Tower B, Huaxing Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100088) at 4:00 p.m. on 20 July 2005 for the purpose of considering and, if thought fit, passing the resolutions in respect of the Proposed Restructuring Equity Transfers and the Proposed CMN Share Transfer.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting if you so wish.

RECOMMENDATION

The Board is of the opinion that the terms of the Proposed Disposal are fair and reasonable and the Proposed Disposal is in the best interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders and the Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Proposed Restructuring Equity Transfers and the Proposed CMN Share Transfer, respectively. The Proposed Restructuring is required in preparation for the Proposed CMN Share Transfer to take place as envisaged by the Sale and Purchase Agreement.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee and the letter from DBS Asia contained in this circular and the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Guo Fansheng
Chief Executive Officer and Executive Director

HC INTERNATIONAL, INC.

慧聰國際資訊有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8292)

Independent Non-executive Directors:
Zhang Ke
Xiang Bing
Guo Wei

28 June 2005

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS

INTRODUCTION

We refer to the circular dated 28 June 2005 (the "Circular") of HC International, Inc. (the "Company") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Under the GEM Listing Rules, the Proposed Restructuring Equity Transfers are required to be approved by the Independent Shareholders at the EGM. We being the independent non-executive Directors have been appointed to form the Independent Board Committee to advise you as to whether the terms of the Proposed Restructuring Equity Transfers are fair and reasonable and whether the Proposed Restructuring Equity Transfers are in the interests of the Company and the Shareholders as a whole.

DBS Asia has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of Proposed Restructuring Equity Transfers.

We wish to draw your attention to the letter from the Board as set out on pages 8 to 26 of the Circular and the letter from DBS Asia as set out on pages 29 to 35 of the Circular which contains, inter alia, its advice and recommendations to us and the Independent Shareholders regarding the terms of the Proposed Restructuring Equity Transfers and the principal factors and reasons taken into consideration for its advice and recommendations.

RECOMMENDATION

Having taken into account the advice and recommendations of DBS Asia, we consider that the terms of the Proposed Restructuring Equity Transfers are fair and reasonable so far as the Shareholders are concerned and the Proposed Restructuring Equity Transfers are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Restructuring Equity Transfers.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Zhang Ke
Independent Non-Executive Director

28 June, 2005

To the independent board committee
and the independent shareholders of
HC International, Inc

Dear Sirs,

CONNECTED TRANSACTIONS RELATING TO
A PROPOSED RESTRUCTURING

We refer to our engagement as the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in relation to the Proposed Restructuring Equity Transfers, details of which are contained in a circular (the "Circular") to the Shareholders dated 28 June, 2005, of which this letter forms part. Expressions used in this letter shall have the same meanings as defined in the Circular.

Pursuant to the Proposed Restructuring Equity Transfers, the Target Company will acquire a 98% equity interest from Beijing HC International in Huamei Information while the Domestic Company will acquire a 80% equity interest from Beijing HC Hulian in Huamei Advertising. As Mr. Guo, an executive Director, owns an 80% equity interest in Beijing HC Construction, which in turn holds a 18% equity interest in Beijing HC International, Beijing HC International is a connected person of the Company under Rule 20.11(5) of the GEM Listing Rules. Beijing HC Hulian is also a connected person of the Company by virtue of it being a non-wholly owned subsidiary of Beijing HC International under Rule 20.11(6) of the GEM Listing Rules. Accordingly, the Proposed Restructuring Equity Transfers will constitute connected transactions of the Company under the GEM Listing Rules.

Our scope of work under this engagement is to assess the fairness and reasonableness of the terms of the Proposed Restructuring Equity Transfers insofar as the Independent Shareholders are concerned and whether, from this perspective, the Proposed Restructuring Equity Transfers are in the interest of the Company and the Shareholders as a whole. It is not within our scope of work to opine on any other aspects of the Proposed Restructuring. In particular, our opinion does not cover any aspects of the Proposed CMN Share Transfer.

In arriving at our opinion, we have relied on the information, opinions and facts supplied, and representations made to us, by the Directors, advisers and representatives of the Company (including those contained or referred to in the Circular). We have also assumed that the information and representations contained or referred to in the Circular were true and accurate in all material respects at the time they were made and continue to be so on the date of dispatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, advisers and representatives of the Company (including those contained or referred to in the Circular). We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, Huamei Information or Huamei Advertising or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with regard to the terms of the Proposed Restructuring Equity Transfers, we have considered the principal factors and reasons set out below.

1. Background of and reasons for the Proposed Restructuring Equity Transfers

1.1 Business and strategy of the Company

The Group is principally engaged in the provision of business information services in the PRC. The Group's principal activities are broadly classified into four main categories: (i) provision of trade information through industry portals, trade catalogues and yellow page directories operated/published by the Group; (ii) provision of website construction and search engine services; (iii) provision of television and printed media advertising products and services; and (iv) provision of business information and analysis services.

As noted from the Letter from the Board in the Circular, it is the business strategy of the Company to be a leading business information services provider in the PRC through expansion into other communication channels such as printed media and Internet.

1.2 Background of Huamei Information and Huamei Advertising

Huamei Information is a limited liability company established in the PRC in June 2004 and is principally engaged in the provision of business information in the PRC. Immediately prior to the Proposed Restructuring, Huamei Information owned a 20% equity interest in Zhengzhou Advertising and a 20% equity interest in Jinan Broadcasting which are engaged in the PRC domestic television advertising business. Immediately after the increase in the registered capital (the "Capital Increase") of Huamei Information but before completion of the Proposed Restructuring Equity Transfers, Huamei Information will be owned as to 98% by Beijing HC International, a non-wholly owned subsidiary of the Company, and as to 2% by Beijing Hehui.

Huamei Advertising is a limited liability company established in the PRC in February 2004 and currently owns an 80% equity interest in Zhengzhou Advertising, an 80% equity interest in Jinan Broadcasting and a 76% equity interest in Urumqi Broadcasting. Huamei Advertising and its non-wholly owned subsidiaries are principally engaged in the provision of television advertising products and services in the PRC. Immediately after the Capital Increase but before completion of the Proposed Restructuring Equity Transfers, Huamei Advertising will be owned as to 80% by Beijing HC Hulian, a non-wholly owned subsidiary of Beijing HC International, and as to 20% by CMN Management.

1.3 Reasons for the Proposed Restructuring Equity Transfers

With its stated business strategy, the Group has entered into the Sale and Purchase Agreement to dispose of the PRC domestic television advertising business carried on by the Target Group Companies by way of the Proposed CMN Share Transfer. The Directors believe that the Proposed CMN Share Transfer will enable the Group to focus its resources to develop printed media and Internet related businesses which have higher growth potential and would yield higher margins as compared to the PRC television advertising business operated by the Target Group Companies. As noted from the Letter from the Board, upon completion of the Proposed CMN Share Transfer, the Group is expected to record a gain of approximately RMB38.1 million (approximately HK$35.9 million), which would have a positive impact on the Group's financial position. Such gain is subject to adjustment and review by PricewaterhouseCoopers, the auditors of the Company. While it is not within our scope to opine on the Proposed CMN Transfer, we note and concur with the Directors that the Proposed CMN Transfer is in line with the stated business strategy of the Group and that the Proposed CMN Transfer is expected to have a positive impact on the Group's financial position.

Pursuant to the Sale and Purchase Agreement, completion of the Proposed CMN Share Transfer is conditional upon, inter alia, approval of the Proposed Restructuring Equity Transfers by the Independent Shareholders. The Proposed CMN Share Transfer will not proceed if the Proposed Restructuring Equity Transfers are not completed. On the other hand, if the Proposed CMN Share Transfer is not approved by the Shareholders or it is not completed, the Proposed Restructuring Equity Transfers might still have been completed. Accordingly, while the Proposed CMN Share Transfer is a factor to consider in the assessment of the terms of the Proposed Restructuring Equity Transfers, the principal consideration in our assessment is the terms of the Proposed Restructuring Equity Transfers themselves.

1.4 Principal terms of the Proposed Restructuring Equity Transfers

The Proposed Restructuring Equity Transfers will involve:–

(i) the Huamei Information Equity Transfer, whereby upon obtaining of the approval of the conversion of Huamei Information from a PRC limited liability company into a Sino-foreign equity joint venture, the Target Company will acquire 98% of the enlarged registered capital of Huamei Information after taking into account the Capital Increase at par value from Beijing HC International; and

(ii) the Huamei Advertising Equity Transfer, whereby the Domestic Company will acquire 80% of the registered capital of Huamei Advertising at par value from Beijing HC Hulian.

As a result of the Proposed Restructuring Equity Transfers, together with other transactions as contemplated under the Proposed Restructuring, the Company will own an indirect 98% interest in Huamei Information which will, through the Domestic Company and Huamei Advertising, hold all the PRC domestic television advertising businesses-carried on by the Target Company Subsidiaries. In overall terms, the Proposed Restructuring Equity Transfers would result in the increase in the Company's effective interest in Huamei Information and Huamei Advertising. Table 1 below sets out the Company's effective interest in Huamei Information and Huamei Advertising immediately before and after completion of the Proposed Restructuring Equity Transfers (the "Completion") and assuming completion of other transactions as contemplated under the Proposed Restructuring.

Table 1: The Company's effective interest in Huamei Information and Huamei Advertising immediately before and after Completion and completion of other transactions as contemplated under the Proposed Restructuring

	The Company's effective interest immediately before Completion	The Company's effective interest immediately after Completion	Increase
	%	%	%
Huamei Information	80.4	98.0	17.6
Huamei Advertising	65.6	70.6 - 74.5	5.0 - 8.9

The Directors consider that the Proposed Restructuring Equity Transfers, as part of the Proposed Restructuring, would streamline the group structure of the Target Company Subsidiaries which will, in turn, enable the Group to effect the Proposed CMN Share Transfer efficiently and effectively. We note the rationale for the Proposed Restructuring Equity Transfers and concur with the Directors that the Proposed Restructuring Equity Transfers will facilitate the effecting of the Proposed CMN Share Transfer. We consider that the increases in the Company's effective equity interests in Huamei Information and Huamei Advertising would not be prejudicial to the interest of the Independent Shareholders given that the Company continues to hold controlling stakes in such companies pursuant to the Proposed Restructuring Equity Transfers and the basis of consideration for the equity increases is reasonable as analysed below.

2. The Consideration

2.1 Basis of determination

The consideration for the Proposed Restructuring Equity Transfers comprises:–

(i) the consideration for the Huamei Information Equity Transfer (the "HI Transfer Consideration") of RMB19.6 million (approximately HK$18.5 million), which was determined with reference to the Target Company's 98% attributable interest in the enlarged registered share capital of Huamei Information of RMB20.0 million (approximately HK$18.9 million) after taking into account the Capital Increase; and

(ii) the consideration for the Huamei Advertising Equity Transfer (the "HA Transfer Consideration") of RMB4.0 million (approximately HK$3.8 million) which was determined with reference to the Domestic Company's 80% attributable interest in the registered share capital of Huamei Advertising of RMB5.0 million (approximately HK$4.7 million).

We were provided with and have reviewed certain financial information of each of Huamei Information and Huamei Advertising for the financial year ended 31 December, 2004 ("Financial Information"). As at 31 December 2004, the net asset value ("NAV") of Huamei Information and Huamei Advertising were approximately RMB999,813 and approximately RMB32,578,513 respectively based on their respective management accounts. Such amounts need to be adjusted based on the Proposed Restructuring other than the Proposed Restructuring Equity Transfers for the purpose of a comparison with the respective registered capital of these two companies. The Directors confirmed to us that the NAV (as adjusted) of each of Huamei Information and Huamei Advertising is not materially below the respective registered capital of such companies. Accordingly, the Directors believe that the respective registered capital of Huamei Information and Huamei Advertising is a fair and reasonable basis for determining the consideration for the Proposed Restructuring Equity Transfers, and the HI Transfer Consideration and the HA Transfer Consideration are fair and reasonable as far as the Independent Shareholders are concerned.

In assessing the reasonableness of the HI Transfer Consideration and the HA Transfer Consideration, we have reviewed the information on four listed companies (the "Market Comparables") on the Stock Exchange which principally operate in the same industry sector of the Group in the PRC and the principal businesses of which, in our opinion, are most similar to that of Huamei Information and Huamei Advertising among the companies listed on the Stock Exchange. Table 2 below sets out a summary of the price to earnings ratios ("PER") of the Market Comparables based on their respective closing prices as at 27 May 2005, being the date of the Sale and Purchase Agreement and their respective latest published audited full year financial statements.

Table 2: PER of the Market Comparables

	Latest financial year end	PER *(times)*
Phoenix Satellite Television Holdings Limited	31 December 2004	44.74
DVN (Holdings) Limited	31 December 2004	*N/A
Qin Jia Yuan Media Services Company Limited	30 September 2004	10.67
Tidetime Sun (Group) Limited	31 March 2004	*N/A
Average		27.70

* *Such companies were loss making in their latest full financial year.*

2.2 PER

It is noted from Table 2 that the PER of the Market Comparables differs substantially, ranging from approximately 10.67 times to approximately 44.74 times, with an average of 27.70 times. We consider that this is due to, inter alia, the fact that the business models and financial performance of the Market Comparables differ to a great extent and there are different ratings in terms of their share price performances.

As advised by the Directors, Huamei Information was loss-making for the year ended 31 December 2004. In this circumstance, we consider the NAV of Huamei Information is a reasonable basis for assessing the HI Transfer Consideration. With respect to the HA Transfer Consideration, the implied PER based on the Financial Information is much lower than that of the Market Comparables.

Given the above analysis, we consider that the basis for determining the HI Transfer Consideration and the HA Transfer Consideration is reasonable so far as the interest of the Independent Shareholders are concerned.

3. Working capital

We understand from the Directors that both the HI Transfer Consideration and the HA Transfer Consideration will be settled entirely by cash, which will be funded by the internal resources of the Group. According to the Company's annual report for the financial year ended 31 December 2004, the Group had bank and cash balances of approximately RMB154.2 million (approximately HK$145.5 million) as at 31 December 2004. The Directors have confirmed that with the operating cashflow generated from the Group's business, the Group's working capital position would not be adversely affected as a result of the Proposed Restructuring Equity Transfers.

OPINION

Having considered the principal factors and reasons referred to the above, we are of the opinion that the terms of the Proposed Restructuring Equity Transfers are fair and reasonable so far as the Independent Shareholders are concerned and from this perspective, the Proposed Restructuring Equity Transfers are in the interest of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the special resolution to be proposed at the EGM to approve the Proposed Restructuring Equity Transfers.

Yours faithfully,
For and on behalf of
DBS ASIA CAPITAL LIMITED
Kelvin S.K. Lau
Managing Director

The following audited consolidated financial statements of the Group are extracted from the annual report of the Company for the year ended 31 December 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December

	Note	2004 RMB'000	2003 RMB'000
Turnover	2 and 4	462,563	322,511
Cost of sales	3	(276,823)	(204,915)
Gross profit		185,740	117,596
Other revenues	2	739	2,095
Selling and distribution costs		(64,471)	(29,623)
Administrative expenses		(68,958)	(44,110)
Other operating income, net		5,514	595
Operating profit	5	58,564	46,553
Finance costs	6	(1,371)	(2,400)
Share of (loss)/profit of a jointly controlled entity		(265)	447
Profit before taxation		56,928	44,600
Taxation	7	(2,569)	(3,159)
Profit after taxation		54,359	41,441
Minority interests		(7,067)	(8,363)
Profit attributable to shareholders	8 and 26	47,292	33,078
Dividends	9	–	–
Earnings per share			
Basic	10	RMB0.112	RMB0.109
Diluted	10	RMB0.103	RMB0.108

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Intangible assets	14	41,023	27,989
Fixed assets	15	115,702	76,201
Investments in a jointly controlled entity	17	–	2,193
Deferred tax assets	27	4,924	5,253
		161,649	111,636
Current assets			
Interests in a jointly controlled entity	17	1,682	–
Trade receivables	18	97,965	58,986
Deposits, prepayments and other receivables	30(h)	58,571	37,248
Amounts due from related parties	22	7,058	–
Bank balances and cash	19	154,156	133,977
		319,432	230,211
Current liabilities			
Trade payables	20	5,231	4,892
Deferred revenue		27,500	16,540
Accrued expenses and other payables		8,787	4,974
Accruals for statutory benefit funds	21	7,794	15,222
Amount due to a related party	22	–	699
Short-term loans	23	23,000	25,000
Other taxes payable	24	15,206	12,616
Income tax payable	24	4,806	6,329
		92,324	86,272
Net current assets		227,108	143,939
Total assets less current liabilities		388,757	255,575

	Note	2004 RMB'000	2003 RMB'000
Financed by:			
Share capital	25	48,669	42,784
Reserves	26	295,675	179,589
Shareholders' funds		344,344	222,373
Minority interests		41,692	30,578
Non-current liabilities			
Deferred tax liabilities	27	2,721	2,624
		388,757	255,575

BALANCE SHEET
As at 31 December

	Note	2004 RMB'000	2003 RMB'000
Interests in subsidiaries	16	170,078	82,831
Current assets			
Other receivables		1,964	15,603
Bank balances and cash		5	5
		1,969	15,608
Current liabilities			
Other payables and accruals		–	700
		–	700
Net current assets		1,969	14,908
Total assets less current liabilities		172,047	97,739
Financed by:			
Share capital	25	48,669	42,784
Reserves	26	123,378	54,955
		172,047	97,739

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December

	Note	**2004** *RMB'000*	**2003** *RMB'000*
Total equity at 1 January		222,373	85,436
Profit for the year	*26*	47,292	33,078
Issue of shares (including share premium)	*25 and 26*	87,259	116,630
Share issue costs during the year	*26*	(12,580)	(12,771)
Total equity at 31 December		344,344	222,373

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December

	Note	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Net cash inflow generated from operations	28(a)	15,955	44,580
Interest received		739	2,095
Interest paid		(1,371)	(2,400)
PRC enterprise income tax paid		(3,394)	(1,193)
Net cash inflow from operating activities		11,929	43,082
Cash flows from investing activities			
Purchase of fixed assets		(51,890)	(11,356)
Acquisition of a subsidiary, net of cash acquired	28(d)	(4,410)	–
Proceed from disposal of fixed assets		814	114
Payment for software development costs		(12,474)	(4,132)
Advances to a minority shareholder		–	(8,634)
Decrease/(increase) in amount due from a jointly controlled entity		246	(246)
Disposal of subsidiaries	28(e)	(229)	(232)
Net cash outflow from investing activities		(67,943)	(24,486)
Net cash (outflow)/inflow before financing		(56,014)	18,596
Cash flows from financing activities	28(b)		
Short-term loans raised		23,000	7,000
Repayment of short-term loans		(25,000)	(8,280)
Capital contribution from minority shareholders		3,514	–
Issue of ordinary shares		87,259	101,027
Shares issue costs		(12,580)	(12,771)
Net cash inflow from financing		76,193	86,976
Increase in cash and cash equivalents		20,179	105,572
Cash and cash equivalents at 1 January		133,977	28,405
Cash and cash equivalents at 31 December		154,156	133,977
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		154,156	133,977

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 Institute of Certified Public Accountants ("HKICPA").

(b) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(c) Consolidation

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

(d) 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.

(e) 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.

(f) Fixed assets

(i) Fixed assets

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

(ii) Depreciation

Fixed assets 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 or 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.

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.

(g) 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 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Goodwill on acquisitions raising on or after 1 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 1 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 1 January 2001, negative goodwill was taken directly to reserves on acquisition.

(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 sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of 3 to 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(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 a liability to sell or to use the assets that will generate probable future economic benefits. Such acquisition cost is recognised as an asset and amortised on a straight-line basis over a period of 10 years to reflect the pattern in which the related economic benefits are recognised.

(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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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 difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) 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.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the date of exchange ruling at the balance sheet date while the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(n) Borrowing costs

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

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefit costs

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

(p) 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 outflow is probable, they will then be recognised as a provision.

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

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

(q) Revenue recognition

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

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

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

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

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

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

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

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

(r) 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 based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

2. Turnover and revenues

The Group is principally engaged in provision of trade information, advertising platforms and valued added business information services and products. Revenues recognised during the year are as follows:

	2004	**2003**
	RMB'000	*RMB'000*
Turnover, invoiced amount net of discounts and business tax		
Industry portals, trade catalogues and yellow page directories		
– Advertising income	160,746	125,581
– Subscription fee income	18,449	9,861
Television advertising income	142,972	123,177
Print periodicals	25,880	27,648
Search engine and website construction services income	82,373	15,305
Market research and analysis services income	28,565	16,565
Exhibition, seminars and PR services income	3,578	4,374
	462,563	322,511
Other revenues		
Interest income from a minority shareholder	–	1,940
Bank interest income	739	155
	739	2,095
Total revenues	463,302	324,606

3. Cost of sales

	2004	2003
	RMB'000	*RMB'000*
Printing costs	48,453	42,622
Cost of advertising resources	154,118	125,334
Staff costs	74,252	36,959
	276,823	204,915

4 Segment information

(a) Primary reporting format – business segments

The Group is organised into the following business segments:

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

(ii) Television advertising – wholesaling of advertisement air-time on television stations.

(iii) Print periodicals – wholesaling of advertisement space in newspapers and magazines.

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

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

(vi) Exhibition, seminars and PR services – provision of arrangement, assistance and PR services for hosting of exhibitions and seminars.

Inter-segment sales are conducted principally at normal commercial price in 2004. There were no sales or other transactions between the business segments in 2003.

	Year ended 31 December 2004						
	Industry portals, trade catalogues and yellow page directories	Television advertising	Print periodicals	Search engine and website construction services	Market research and analysis	Exhibition, seminars and PR services	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
Turnover	179,195	144,271	25,880	82,373	28,565	3,578	463,862
Less: Inter-segment sales	–	(1,299)	–	–	–	–	(1,299)
Total turnover	179,195	142,972	25,880	82,373	28,565	3,578	462,563
Segment results	89,608	17,712	1,702	62,125	14,384	209	185,740
Interest income							739
Unallocated costs							(127,915)
Operating profit							58,564
Finance costs							(1,371)
Share of loss of a jointly controlled entity							(265)
Taxation							(2,569)
Profit after taxation							54,359
Minority interests ("MI")							(7,067)
Profit attributable to the shareholders							47,292
Segment assets	23,518	45,638	6,538	27,438	9,654	2,886	115,672
Unallocated assets *(a)*							365,409
Total assets							481,081
Segment liabilities	21,913	3,012	1,026	6,490	–	290	32,731
Unallocated liabilities and MI *(b)*							104,006
Total liabilities and MI							136,737
Capital expenditure	–	–	–	12,474	–	–	12,474
Unallocated capital expenditure *(c)*							59,095
							71,569
Amortisation charges	–	–	–	(2,027)	–	–	(2,027)
Unallocated amortisation charges							(2,350)
							(4,377)
(Provision for)/ write back of doubtful debts	(169)	(2,091)	908	–	–	–	(1,352)
Unallocated provision for doubtful debts							(3,622)
							(4,974)

Notes:

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

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

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

	Year ended 31 December 2003						
	Industry portals, trade catalogues and yellow page directories *RMB'000*	Television advertising *RMB'000*	Print periodicals *RMB'000*	Search engine and website construction services *RMB'000*	Market research and analysis *RMB'000*	Exhibition, seminars and PR services *RMB'000*	Total *RMB'000*
Turnover	135,442	123,177	27,648	15,305	16,565	4,374	322,511
Segment results	67,563	27,126	1,354	12,273	7,425	1,855	117,596
Interest income							2,095
Unallocated costs							(73,138)
Operating profit							46,553
Finance costs							(2,400)
Share of profit of a jointly controlled entity							447
Taxation							(3,159)
Profit after taxation							41,441
Minority interests ("MI")							(8,363)
Profit attributable to the shareholders							33,078
Segment assets	10,374	36,317	6,588	7,553	1,371	4,046	66,249
Unallocated assets *(a)*							275,598
Total assets							341,847
Segment liabilities	14,298	3,996	1,672	–	–	1,000	20,966
Unallocated liabilities and MI *(b)*							98,508
Total liabilities and MI							119,474
Capital expenditure	–	–	–	26,118	–	–	26,118
Unallocated capital expenditure *(c)*							64,373
							90,491
Amortisation charges	–	–	–	(2,281)	–	–	(2,281)
Write back of doubtful debts provision	537	–	–	–	–	–	537
Unallocated provision for doubtful debts							(637)
							(100)

Notes:

(a) 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.

(b) Unallocated liabilities and MI 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.

(c) 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.

(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 31 December 2004, individually. Accordingly, no segmental information analysed by geographical segment is presented.

5. Operating profit

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

	2004	**2003**
	RMB'000	*RMB'000*
Auditors' remuneration	1,060	737
Staff costs, including directors' emoluments *(note 11)*	127,860	74,953
Depreciation of fixed assets	12,768	7,814
Provision for bad and doubtful debts	4,974	100
(Gain)/loss on disposal of subsidiaries *(note 28(e))*	(1,248)	357
Loss on disposal of fixed assets	260	95
Operating lease payments in respect of land and buildings	18,502	10,982
Amortisation of software development costs	4,226	2,281
Amortisation of goodwill	151	(209)
Recognised negative goodwill *(note 31(b))*	(332)	(814)
Research and development costs *(note (a))*	15,123	7,449
Less: costs capitalised *(note 14)*	(12,474)	(4,132)
	2,649	3,317

Note:

(a) Included in the research and development cost were staff costs, depreciation of fixed assets, operating lease payments in respect of land and buildings and other research and development costs which had also been included in respective expenses set out in the consolidated profit and loss account.

6. Finance costs

	2004	**2003**
	RMB'000	*RMB'000*
Interest on short-term bank loans	1,371	1,955
Interest on other loans wholly repayable within five years	–	445
	1,371	2,400

7. Taxation

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

	2004	**2003**
	RMB'000	*RMB'000*
Hong Kong profits tax *(a)*	–	–
The PRC enterprise income tax ("EIT") *(b)*	2,143	1,894
Deferred taxation *(note 27)*	426	1,265
	2,569	3,159

(a) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the year (2003: Nil).

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

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

The 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:

	2004	**2003**
	RMB'000	*RMB'000*
Profit before taxation	56,928	44,600
Calculated at a taxation rate of 33%	18,786	14,718
Effect of different taxation rates in other cities	(6,378)	(6,136)
Income not subject to taxation	(19,246)	(8,390)
Expenses not deductible for taxation purposes	1,095	1,347
Effect on unutilised tax losses	8,324	2,182
Others	(12)	(562)
Tax charges	2,569	3,159

8. Profit attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of RMB371,000 (2003: RMB699,000 loss).

9. Dividends

No dividend was paid or declared by the Company.

10. Earnings per share

	2004	2003
	RMB'000	*RMB'000*
Profit attributable to shareholders	47,292	33,078
	No. of shares	**No. of shares**
	'000	*'000*
Weighted average number of shares in issue	421,521	304,098
Incremental shares from assumed exercise of share options granted	36,182	2,994
Diluted weighted average number of shares	457,703	307,092
Basic earnings per share	RMB0.112	RMB0.109
Diluted earnings per share	RMB0.103	RMB0.108

The calculation of basic earnings per share is based on the Group's profit attributable to the shareholders of approximately RMB47,292,000 (2003: RMB33,078,000) for the year ended 31 December 2004 and the weighted average of approximately 421,521,000 (2003: 304,098,000) ordinary shares in issue during the year, on the assumption that the share capitalisation issue has taken place on 1 January 2003.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the profit attributable to the shareholders of RMB47,292,000 (2003: RMB33,078,000) and the diluted weighted average of 457,703,000 (2003: 307,092,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company under the Pre-IPO Share Option Scheme had been exercised at the date of grant. The effect of anti-dilutive potential ordinary shares arising from Share Option Scheme has not been taken into account in calculating diluted earnings per share. (Details of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 25(c) to the accounts).

11. Staff costs (including directors' Emoluments)

	2004	2003
	RMB'000	*RMB'000*
Wages and salaries	122,236	69,074
Retirement benefits costs *(note 13)*	7,394	5,519
Other benefits	7,197	3,530
	136,827	78,123
Less: capitalised staff costs	(8,967)	(3,170)
	127,860	74,953

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:

	2004	**2003**
	RMB'000	*RMB'000*
Fees	240	220
Basic salaries and allowances	1,900	2,396
Retirement plan contributions	93	92
	2,233	2,708

No Directors waived any emoluments during the year (2003: Nil).

The three (2003: three) executive directors of the Company received individual emoluments for the year ended 31 December 2004 of approximately RMB600,000 (2003: RMB480,000), RMB500,000 (2003: RMB360,000), and RMB800,000 (2003: RMB740,000) respectively.

For the year ended 31 December 2003, an executive director resigned from the board, who received RMB816,000 in last year.

Directors' fees disclosed above include RMB240,000 (2003: RMB220,000) paid to three independent non-executive directors.

During the year, 3,000,000 (2003: 2,539,680) share options were granted to the directors of the Company under the Share Option Scheme approved by the shareholders pursuant to a written resolution dated 18 February 2004. No director exercised the options during the year. Share options were also granted to senior management of the Company. Details of the Share Option Scheme are set out in Note 25(c) to the accounts.

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

	Number of individuals	
	2004	**2003**
Executive directors	3	4
Non-directors	2	1
	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:

	2004	**2003**
	RMB'000	*RMB'000*
Basic salaries and allowances	1,300	369
Retirement plan contributions	90	–
	1,390	369

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

	Number of individuals	
	2004	**2003**
Nil to RMB1,065,000 (equivalent to HK$1,000,000)	2	1

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

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

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

	2004	**2003**
	RMB'000	*RMB'000*
Contributions paid and payable to the state retirement plans	7,394	5,519

As at 31 December 2004, the Group has outstanding contribution payable of approximately RMB6,304,000 (2003: RMB9,503,000) to the retirement plans participated by the Group, and there was no forfeited contributions available to offset future retirement benefit obligations of the Group.

14. Intangible assets

			Group		
	Software Development costs (a)	**Data library**	**Positive goodwill (b)**	**Negative goodwill**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 1 January 2004	9,137	21,986	–	(628)	30,495
Additions	12,474	–	4,900	–	17,374
Disposal	–	–	–	260	260
At 31 December 2004	21,611	21,986	4,900	(368)	48,129
Accumulated amortisation					
At 1 January 2004	(1,877)	(1,099)	–	470	(2,506)
Charge for the year	(2,027)	(2,199)	(272)	121	(4,377)
Disposal	–	–	–	(223)	(223)
At 31 December 2004	(3,904)	(3,298)	(272)	368	(7,106)
Net book value					
At 31 December 2004	17,707	18,688	4,628	–	41,023
At 31 December 2003	7,260	20,887	–	(158)	27,989

(a) 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.

(b) This represents the excess of the purchase cost of an acquisition over the fair value of the Group's share of the net assets of newly acquired subsidiary at the date of acquisition. It is amortised using the straight-line method over its estimated useful life of 3 years *(note 28(d))*.

15. Fixed assets

				Group			
	Land use rights	**Properties**	**Computer and telecom-munications equipment**	**Fixtures, fittings and office equipment**	**Leasehold improvements**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2004	19,319	32,035	36,356	6,651	1,002	5,604	100,967
Additions	2,006	5,322	34,481	7,154	3,822	1,410	54,195
Disposals	–	(811)	(871)	(28)	–	(429)	(2,139)
Disposals of subsidiaries *(note 28(e))*	–	–	(651)	(515)	–	(418)	(1,584)
At 31 December 2004	21,325	36,546	69,315	13,262	4,824	6,167	151,439
Accumulated depreciation:							
At 1 January 2004	193	1,578	17,380	3,563	64	1,988	24,766
Charge for the year	417	1,591	8,071	1,619	411	659	12,768
Disposals	–	(270)	(505)	(12)	–	(278)	(1,065)
Disposals of subsidiaries *(note 28(e))*	–	–	(321)	(334)	–	(77)	(732)
At 31 December 2004	610	2,899	24,625	4,836	475	2,292	35,737
Net book value:							
At 31 December 2004	20,715	33,647	44,690	8,426	4,349	3,875	115,702
At 31 December 2003	19,126	30,457	18,976	3,088	938	3,616	76,201

(a) As at 31 December 2004, a property and the associated land use rights carried at RMB52,824,000 (2003: RMB48,347,000) is pledged to secure the Group's bank loan.

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

	Group 2004	Group 2003
	RMB'000	RMB'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	54,362	49,583

16. Interests in subsidiaries

	Company 2004	Company 2003
	RMB'000	RMB'000
Investments at cost:		
Unlisted shares	1,956	1,956
Amount due from a subsidiary	168,122	80,875
	170,078	82,831

Amount due from a subsidiary is unsecured, non-interest bearing and not repayable within twelve months of the balance sheet date. The particulars of subsidiaries are set out in Note 31 to the accounts.

17. Interests in a jointly controlled entity

	Group 2004	Group 2003
	RMB'000	RMB'000
Share of net assets	1,682	1,947
Amount due from a jointly controlled entity	–	246
	1,682	2,193

At 31 December 2004, the Group had equity interest in the following jointly controlled entity:

Name	Country of establishment	Principal activities and place of operations	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%

Pursuant to a resolution passed on 28 January 2004, the Company will discontinue the joint interest with Sina.com in the jointly controlled entity, the deregistration process is still in progress at the balance sheet date.

18. 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 31 December 2004 is as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Current to 90 days	61,793	34,613
91 to 180 days	24,653	13,400
181 to 365 days	11,969	10,737
Over 1 year	3,908	2,931
	102,323	61,681
General provision for doubtful debts	(4,358)	(2,695)
	97,965	58,986

19. Bank balances and cash – Group

As at 31 December 2004, bank and cash balances of approximately RMB83,681,000 (2003: RMB37,037,000) 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.

20. Trade payables

The aging analysis of the trade payables as at 31 December 2004 is as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Current to 90 days	3,538	3,887
91 to 180 days	1,006	551
181 to 365 days	531	339
Over 1 year	156	115
	5,231	4,892

21. Accruals for statutory benefit funds

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Accrual for retirement benefit	6,304	9,503
Accrual for medical benefit	–	815
Accrual for housing benefit	1,490	4,904
	7,794	15,222

In accordance with the PRC regulations, 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 20%, 10% and 8% of the basic salaries of the employees, respectively.

22. Amounts due from/(to) related parties – Group

		Group	
		2004	**2003**
		RMB'000	*RMB'000*
Amounts due from/(to) related companies:			
北京慧聰建設信息諮詢有限公司	*(a)*	299	–
北京慧美印刷有限公司	*(a)*	2,125	(699)
		2,424	(699)
Officers of the Group	*(b)*	4,634	–
		7,058	(699)

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

(b) Included in amounts due from related parties are loans due from officers as follows:

Name	**Maximum amount outstanding during the year**	**Amount outstanding at 31 December 2004**	**Amount outstanding at 31 December 2003**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Wong Chong (Vice President and Director of subsidiaries)	1,000	1,000	–
Mr. Wong Yong Hui (Vice President of a subsidiary)	1,000	1,000	–
Mr. Yao Lin (Vice President of the Group)	1,000	1,000	–
Mr. Wu Xian (Vice President of the Group)	450	450	–
Mr. Shen Qizhi (Director of subsidiaries)	202	202	–
Global Cyberlinks Holdings Inc. (a company controlled by Mr. Chen Pei and Mr. Chen Bo, Vice President and Senior Management of the Company, respectively)	800	800	–
Mr. Li Shuang Qin (Director of subsidiaries)	182	182	–
		4,634	–

Amounts due from officers and the company controlled by officers are unsecured, interest-bearing at prevailing interest rate and repayable within one year.

23. Short-term loans

	Group 2004	Group 2003
	RMB'000	*RMB'000*
Bank loans, secured *(a)*	23,000	25,000
	23,000	25,000

Note:

(a) The bank loans of RMB23,000,000 were secured by a property and the associated land use rights owned by the Group (note 15(a)).

24. Income tax payable and other taxes payable

	Group 2004	Group 2003
	RMB'000	*RMB'000*
Income taxes payable:		
EIT	4,806	6,329
Other taxes payable:		
Business tax	10,327	8,200
Cultural and development tax	2,484	2,391
Other taxes	2,395	2,025
	15,206	12,616

25. Share capital

	As at 31 December 2004		As at 31 December 2003	
	Number of shares	*HK$'000*	**Number of shares**	*HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	1,000,000,000	100,000	1,000,000,000	100,000
		RMB'000		*RMB'000*
Equivalent to:		107,000		107,000
	Number of shares	*RMB'000*	**Number of shares**	*RMB'000*
Issued and fully paid:				
At 1 January	400,000,000	42,784	18,427,323	1,956
Placing of shares	–	–	100,000,000	10,700
Issue of shares pursuant to capitalisation issue	–	–	281,572,677	30,128
Issue of shares pursuant to over-allotment issue *((a))*	15,000,000	1,605	–	–
Issue of new shares *((b))*	40,000,000	4,280	–	–
At 31 December	455,000,000	48,669	400,000,000	42,784

(a) On 5 January 2004, First Shanghai Securities Limited exercised an over-allotment option in respect of 15,000,000 additional new shares of the Company at HK$1.09 (equivalent to RMB1.17) per share. The total issued share capital comprised 415,000,000 shares upon the exercise of such over-allotment option.

RMB15,889,500, being the excess of the issue price over par value of the shares issued upon the over-allotment option of HK$1,500,000 (equivalent to RMB1,605,000), were credited to the share premium account of the Company.

(b) Pursuant to a placing and subscription agreement dated 1 November 2004, 40,000,000 ordinary shares of HK$0.10 each of the Company were issued by way of placing at the price of HK$1.63 (equivalent to RMB1.74) per share for cash.

RMB65,484,000, being the excess of the issue price over the par value of the shares issued upon the Placing of HK$4,000,000 (equivalent to RMB4,280,000), were credited to the share premium account of the Company.

(c) Share option schemes

Details of options outstanding as at 31 December 2004 are as follows:

	Number of share options	
	Pre-IPO Share Option Scheme *(i)*	**Share Option Scheme *(ii)***
Exercise price per share (HK$)	0.44	2.40
Outstanding as at 1 January 2004	46,984,080	–
Granted during the year	–	26,000,000
Outstanding as at 31 December 2004	46,984,080	26,000,000

(i) Pursuant to a written resolution of the shareholders of the Company dated 30 November 2003, a Pre-IPO Share Option Scheme was adopted. Pursuant to the Pre-IPO Share Option Scheme, the board of directors is authorised to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the board in accordance with the terms of the Pre-IPO Share Option Scheme. No additional share options were granted pursuant to the Pre-IPO Share Option Scheme during the year.

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

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

26. Reserves

	Group					
	Capital reserve	Merger reserve	(Accumulated losses)/ retained earnings	Share Issuance costs	Share premium	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 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
Share issue expenses	–	–	–	(12,771)	–	(12,771)
Offset of share issuance costs to share premium	–	–	–	20,148	(20,148)	–
At 31 December 2003	987	108,830	14,118	–	55,654	179,589
At 1 January 2004	987	108,830	14,118	–	55,654	179,589
Issuance of shares	–	–	–	–	81,374	81,374
Profit for the year	–	–	47,292	–	–	47,292
Share issue expenses	–	–	–	(12,580)	–	(12,580)
Offset of share issuance costs to share premium	–	–	–	12,580	(12,580)	–
At 31 December 2004	987	108,830	61,410	–	124,448	295,675

	Company		
	Accumulated losses	**Share premium**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004	(699)	55,654	54,955
Loss for the year	(371)	–	(371)
Issuance of shares	–	81,374	81,374
Share issue expenses	–	(12,580)	(12,580)
At 31 December 2004	(1,070)	124,448	123,378

27. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 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	
	2004	**2003**
	RMB'000	*RMB'000*
Deferred tax assets (to be recovered after more than 12 months)	4,924	5,253
Deferred tax liabilities (to be settled after more than 12 months)	(2,721)	(2,624)
	2,203	2,629

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

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

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
At 1 January	2,629	3,894
Deferred taxation transferred to profit and loss account *(note 7)*	(426)	(1,265)
At 31 December	2,203	2,629

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**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	5,891	5,891	–	308	5,891	6,199
Transfer from/(to) profit and loss account	359	–	–	(308)	359	(308)
At 31 December	6,250	5,891	–	–	6,250	5,891

Deferred tax liabilities	**Deferred development assets**		**Accrued staff welfare benefits**		**Total**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	(292)	(209)	(2,970)	(2,096)	(3,262)	(2,305)
Transfer from profit and loss account	(64)	(83)	(721)	(874)	(785)	(957)
At 31 December	(356)	(292)	(3,691)	(2,970)	(4,047)	(3,262)

28. Notes to the consolidated cash flow statement

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

	2004	**2003**
	RMB'000	*RMB'000*
Profit before taxation	56,928	44,600
Depreciation of fixed assets	12,768	7,814
Amortisation of software development costs and goodwill	4,377	2,072
Interest income	(739)	(2,095)
Interest expenses	1,371	2,400
Loss on disposal of fixed assets	260	95
Compensation receipt from a legal claim *(note (c)(i))*	(800)	–
(Gain)/loss on disposal of subsidiaries *(note (e))*	(1,248)	357
Share of loss/(profit) of a jointly controlled entity	265	(447)
Operating profit before working capital changes	73,182	54,796
Decrease in amount due to a director	–	(139)
Increase in trade receivables, deposits, prepayments, and other receivables	(61,895)	(11,317)
Increase in trade payables, accrued expenses, deposits received, other payables, other taxes payable and amounts due (from) to related parties *(note (c)(ii))*	4,668	1,240
Net cash inflow generated from operations	15,955	44,580

(b) *Analysis of changes in financing during the year*

	Share capital *RMB'000*	Share premium *RMB'000*	Shares Issue cost *RMB'000*	Minority interests *RMB'000*	Short-term loans *RMB'000*
At 1 January 2003	1,956	–	(7,377)	22,140	26,280
Cash (outflow)/inflow 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	–
Capital contributions from minority shareholders	–	–	–	(129)	–
Disposal of subsidiaries *(note (e))*	–	–	–	204	–
At 31 December 2003	42,784	55,654	–	30,578	25,000
Cash (outflow)/inflow from share issuance	5,885	81,374	(12,580)	–	–
Offset share issue costs against share premium	–	(12,580)	12,580	–	–
Draw down of loans	–	–	–	–	23,000
Repayment of loans	–	–	–	–	(25,000)
Share of net profit by minority shareholders	–	–	–	7,067	–
Capital contribution from minority shareholders	–	–	–	3,514	–
Acquisition of a subsidiary *(note (d))*	–	–	–	490	–
Disposal of subsidiaries *(note (e))*	–	–	–	43	–
At 31 December 2004	48,669	124,448	–	41,692	23,000

(c) *Major non-cash transactions*

(i) During the year, the Group received a property with value of RMB800,000 as a compensation of a legal claim. Details of the claims are set out in note 33 to the accounts.

(ii) During the year, the Group was required to pay additional RMB2,005,000 land use fee on its existing land use rights. As at 31 December 2004, the Group paid RMB500,000 and the remaining RMB1,505,000 will be paid in 2005 and was included in other payables in the balance sheet as at 31 December 2004.

(d) Acquisition of a subsidiary

	2004	2003
	RMB'000	*RMB'000*
Net assets acquired		
Cash and bank balances	1,000	–
Minority shareholders' interests *(note (b))*	(490)	–
	510	–
Goodwill	4,900	–
Cash consideration	5,410	–
Satisfied by		
Cash	5,410	–

Analysis of net outflow in respect of the purchase of a subsidiary:

	2004	2003
	RMB'000	*RMB'000*
Cash consideration	5,410	–
Bank balances acquired	(1,000)	–
Net cash outflow in respect of the acquisition of a subsidiary	4,410	–

(e) Disposal of subsidiaries

	2004	2003
	RMB'000	*RMB'000*
Net (liabilities)/assets disposed		
Fixed assets	852	561
Trade and other receivables	1,593	1,132
Cash and bank balances	417	662
Trade and other payables	(3,656)	(2,038)
Income tax (payable)/receivable	(272)	266
Unamortised goodwill	(37)	–
Minority shareholders' interests *(note (b))*	43	204
	(1,060)	787
Gain/(loss) on disposal of subsidiaries *(note (a))*	1,248	(357)
Cash proceeds	188	430
Cash and cash equivalents disposed of	(417)	(662)
Net cash outflow on disposal of subsidiaries	(229)	(232)

29. Commitments

(a) Commitments under operating leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings which expire as follows:

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Within one year	8,857	8,344
In the second to fifth year inclusive	31,615	21,039
	40,472	29,383

(b) Other commitments

The Group entered into 5 (2003: 3) long-term sole and exclusive management agreements with Zhengzhou Television Station, Jinan Television Station, Urumqi Television Station and Lanzhou 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 15% subject to the mutual agreement between the parties. The Group adopted the minimum increment rate for calculating the future aggregate minimum payments.

	Group	
	2004	**2003**
	RMB'000	*RMB'000*
Within one year	132,706	103,885
In the second to fifth year inclusive	245,325	111,756
Later than five years	66,745	–
	444,776	215,641

30. Related party transactions

The Group entered into the following significant related party transactions during the year based on terms mutually agreed by the parties:

		2004	**2003**
	Note	*RMB'000*	*RMB'000*
Interest income received from a minority shareholder of the Company	*(a)*	–	1,940
Interest expense paid to a shareholder	*(b)*	–	445
Service income received from a minority shareholder of the Company	*(c)*	211	211
Distribution costs paid to a minority shareholder of the Company	*(d)*	240	240
Licence income received from a minority shareholder of the Company	*(e)*	240	240
Publication costs paid to a minority shareholder of the Company	*(f)*	100	100
Service costs paid to a minority shareholder of the Company	*(g)*	–	250
Printing costs paid to a related company	*(h)*	21,958	15,190
Rental income received from a related company	*(i)*	646	600

(a) On 10 December 2003, the minority shareholder had fully repaid the advances to the Group, and no more interest was required to be paid to the Group after 10 December 2003.

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

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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 30 June 2003.

(h) On 1 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 18 November 2003, the parties have entered into a supplemental agreement which extended the term of the Printing Agreement to 31 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.

As at 31 December 2004, the Group prepaid printing costs for year 2005 amounting RMB2,100,000 to Huimei, which recorded as prepayment included in the current assets as at 31 December 2004.

(i) Rental income of RMB646,000 were received from Huimei for the year ended 31 December 2004 (2003: RMB 600,000), and the fee was payable at market price no less favorable than as charged by independent third parties on a monthly basis.

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) & (g), will continue in future.

31. Particulars of subsidiaries

The following is a list of the subsidiaries at 31 December 2004:

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest [a]	Principal activities and place of operations
Shares held directly:				
Hong Kong Huicong International Group Limited	The British Virgin Islands 26 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 8 April 1999	RMB110,000,000	82%	Provision of business information, market research services, search engine services, software licensing and system integration – The PRC
北京慧翔網絡技術有限公司	The PRC 5 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 25 June 1996	RMB2,000,000	82%	Advertising – The PRC
北京慧聰金網廣告有限公司	The PRC 8 September 1999	RMB1,000,000	82%	Advertising – The PRC
深圳市京慧聰廣告有限公司	The PRC 21 May 1998	RMB2,000,000	82%	Advertising – The PRC
廣州市京慧聰廣告有限公司	The PRC 6 November 1998	RMB1,000,000	82%	Advertising, market research services – The PRC
浙江慧聰網絡信息有限公司	The PRC 4 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 19 January 1995	RMB1,010,000	82% [b]	Advertising and market research services – The PRC
南京慧聰廣告信息有限公司	The PRC 15 January 1993	RMB635,000	78.7%	Advertising software licensing and system integration – The PRC

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest [a]	Principal activities and place of operations
濟南金慧聰廣告有限公司	The PRC 13 April 2000	RMB500,000	82%	Advertising, exhibition and seminar services – The PRC
石家莊金慧聰廣告信息諮詢有限公司	The PRC 21 October 2001	RMB500,000	82%	Advertising – The PRC
福州京慧聰廣告有限公司	The PRC 11 September 2000	RMB1,000,000	82%	Advertising – The PRC
蘭州華媒盛視廣告傳播有限公司	The PRC 3 April 2003	RMB500,000	41.8%	Advertising – The PRC
烏魯木齊華媒盛視傳播有限公司	The PRC 7 April 2003	RMB1,000,000	62.3%	Advertising – The PRC
鄭州華媒盛視廣告傳播有限公司	The PRC 11 March 2003	RMB1,000,000	82%	Advertising – The PRC
濟南華盛視傳播有限公司	The PRC 27 January 2003	RMB500,000	82%	Advertising – The PRC
廈門市京慧聰廣告有限公司	The PRC 17 April 2003	RMB500,000	82%	Advertising – The PRC
北京京慧聰廣告有限公司	The PRC 27 January 2003	RMB500,000	82%	Advertising – The PRC
上海慧龍廣告有限公司	The PRC 31 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 14 March 2001	RMB1,000,000	82%	Provision of business information services – The PRC
廣州市慧穎廣告有限公司	The PRC 21 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 27 October 2003	RMB1,000,000	82%	Provision of business information, market research services, software licensing and system integration – The PRC
北京中搜在線軟件有限公司[c]	The PRC 28 May 2003	RMB7,500,000	57.6%	Provision of search engine services, software licensing and system integration – The PRC

Name	Country/place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital	Attributable profit/loss sharing interest [a]	Principal activities and place of operations
北京慧翔信息技術有限公司	The PRC 4 February 2004	RMB10,000,000	82%	Provision of business information – The PRC
北京華媒盛視廣告有限公司	The PRC 29 April 2004	RMB5,000,000	65.6%	Advertising – The PRC
北京華媒盛視信息技術有限公司	The PRC 24 June 2004	RMB1,000,000	65.6%	Provision of business information – The PRC
北京慧聰網網絡技術有限公司	The PRC 21 June 2004	RMB1,000,000	41.8%	Provision of technical services – The PRC
北京慧聰再創科技有限公司	The PRC 17 September 2004	RMB5,000,000	82%	Provision of business information – The PRC
北京慧聰互動信息諮詢有限公司[d]	The PRC 10 October 2004	RMB1,000,000	41.8%	Provision of business information – The PRC
蘭州華媒廣告傳播有限公司	The PRC 19 February 2004	RMB1,000,000	41.8%	Advertising – The PRC
杭州慧聰廣告有限公司	The PRC 31 March 2004	RMB1,000,000	82%	Advertising – The PRC
南京慧聰網廣告信息有限公司	The PRC 31 March 2004	RMB500,000	82%	Advertising – The PRC
上海新慧聰網廣告有限公司	The PRC 30 July 2004	RMB1,000,000	82%	Advertising – The PRC
蘇州京慧聰廣告信息有限公司	The PRC 11 August 2004	RMB500,000	82%	Advertising – The PRC

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

(b) In May 2004, the Company acquired further interests from minority shareholders of 武漢慧聰廣告信息諮詢有限責任公司. The attributable interest of profit/loss sharing increased from 52% to 82%. The total consideration for the acquisition amounted to RMB900,000 and resulted in a negative goodwill of RMB332,000, which was recognised in the consolidated profit and loss account during the year.

(c) Pursuant to an agreement dated 9 February 2004, Beijing Huicong International Information Co., Ltd. (Beijing HC International), a subsidiary of the Company, transferred its capital contributions of RMB576,000, RMB144,000 and RMB80,000 in the registered capital of Beijing Zhongsou Zaixian Software Co., Ltd. (Zhongsou Zaixian) to Hong Kong HC International Group Limited ("Hong Kong Huicong"); Global Cyberlinks Holding Inc.; and IDG Technology Venture Investment, LP ("IDG LP") respectively. Hong Kong Huicong and IDG LP is a subsidiary and a shareholder of the Company respectively.

Upon completion of the transfers, the attributable interest in Zhongsou Zaixian of the Company reduced from approximately 65.5% to 57.6%.

(d) On 22 October 2004, the Group acquired 51% interests in 北京慧聰互動信息諮詢有限公司, and the attributable interest of profit/loss sharing is 41.8%. The total consideration for the acquisition amounted to RMB5,410,000, and resulted in a goodwill of RMB4,900,000, which represents the excess of the purchase cost of the acquisition over the fair value of the Group's share of net assets at the date of acquisition.

32. Contingent liabilities

At 31 December 2004, there were no material contingent liabilities to the Group (2003: Nil).

33. Contingent assets

On 17 June 2003, Beijing HC International as plaintiff filed a statement of claim against a property developer (the "defendant") as defendant before Beijing No. 1 Intermediate Court, in which the claims are to demand the defendant to refund a total amount of RMB8,865,000 being the sum of money Beijing HC International has paid for the property; and to demand the defendant to compensate Beijing HC International for its loss arising from various matters, which has amounted to no less than RMB5,500,000. The total amount involved in the above claim is approximately RMB14,365,000.

Beijing HC International and the defendant entered into a settlement agreement, under the mediation of Beijing No. 1 Intermediate Court, in which the defendant refunded an amount of approximately RMB7,875,000 and compensated a property with value of RMB800,000 to Beijing HC International for settlement. As a result, an amount of RMB8,675,000 is included in other operating income set out in the consolidated profit and loss account.

Under the settlement agreement, the defendant will compensate a final settlement of approximately RMB2,000,000 to HC International in 2005. As the Group considers that an inflow of economic benefits is probable, but the receivable amount is not virtually certain, hence no income is recognised by the Group for the final settlement of approximately RMB2,000,000 in the current year's accounts.

34. Subsequent events

On 27 January 2005, certain grantees under the Pre-IPO Share Option Scheme exercised their options in respect of 10,934,345 shares of the Company at HK$0.44 (equivalent to RMB0.47) per share. The total issued share capital comprised 465,934,345 shares upon the exercise of such Pre-IPO Share Options.

35. Approval of accounts

The accounts were approved by the board of directors on 21 March 2005.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

As at the Latest Practicable Date, the interests of the Directors and the chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

(a) Directors' Long Positions in the Shares of the Company

Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Guo Fansheng	64,088,863	–	–	–	64,088,863	13.75%
Yang Fei	1,269,853	–	–	–	1,269,853	0.27%
Hugo Shong	1,269,853	–	–	–	1,269,853	0.27%
Wu Ying	1,538,602	–	–	–	1,538,602	0.33%
Lai Sau Kam, Connie	507,885	–	–	–	507,885	0.11%

(b) Directors' Short Positions in the Shares of the Company

None of the Directors had short positions in the shares of the Company.

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

			Number of share options				
Name of grantee	Date of grant	Exercise price per share *HK$*	As at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	As at Latest Practicable Date
WU Ying	2 December 2003	0.44	1,015,872	–	(338,590)	–	677,282
WU Ying	18 February 2004	2.40	1,500,000	–	–	–	1,500,000
LAI Sau Kam, Connie	2 December 2003	0.44	1,523,808	–	(507,885)	–	1,015,923
LAI Sau Kam, Connie	18 February 2004	2.40	1,500,000	–	–	–	1,500,000

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

As at the Latest Practicable Date, the interest 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	Nature of Interests/Holding capacity	Percentage of shareholding
IDG Technology Venture Investment, Inc. *(note 1)*	73,331,954	Beneficial owner	15.74%
International Data Group, Inc. *(note 1)*	73,331,954	Interest in controlled corporation	15.74%
Callister Trading Limited *(note 2)*	40,000,384	Beneficial owner	8.58%
Li Jianguang *(note 2)*	40,000,384	Interest in controlled corporation	8.58%

Notes:

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

2. Callister Trading Limited is beneficially owned by Mr. Li Jianguang.

4. SHARE OPTION SCHEMES

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

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at the Latest Practicable Date, options to subscribe for an aggregate of 36,049,735 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

			Number of share options				
Name of grantee	Date of grant	Exercise price per share *HK$*	As at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	As at Latest Practicable Date *(Note 1)*
Directors							
WU Ying	2 December 2003	0.44	1,015,872	–	(338,590)	–	677,282
LAI Sau Kam, Connie	2 December 2003	0.44	1,523,808	–	(507,885)	–	1,015,923
Senior management							
LEE Wee Ong, Alex	2 December 2003	0.44	2,666,664	–	(888,799)	–	1,777,865
CHEN Bo	2 December 2003	0.44	1,269,840	–	(423,238)	–	846,602
CHEN Pei	2 December 2003	0.44	3,174,600	–	–	–	3,174,600
GUO Jiang	2 December 2003	0.44	1,015,872	–	(338,590)	–	677,282
YAO Lin	2 December 2003	0.44	317,460	–	(105,809)	–	211,651
WU Xian	2 December 2003	0.44	698,412	–	(232,781)	–	465,631
WANG Chong	2 December 2003	0.44	6,298,406	–	(2,099,256)	–	4,199,150
WANG Yonghui	2 December 2003	0.44	5,917,454	–	(1,972,288)	–	3,945,166

Name of grantee	Date of grant	Exercise price per share *HK$*	Number of share options As at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	As at Latest Practicable Date *(Note 1)*
Ex-employees							
FAN Qimiao	2 December 2003	0.44	7,111,104	–	–	–	7,111,104
GU Yuanchao	2 December 2003	0.44	3,777,774	–	–	–	3,777,774
Consultant							
Earl Ching-Hwa YEN	2 December 2003	0.44	1,206,348	–	(402,076)	–	804,272
Other employees							
In aggregate *(Note 2)*	2 December 2003	0.44	10,990,466	–	(3,625,033)	–	7,365,433
Total			46,984,080	–	(10,934,345)	–	36,049,735

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of 12 months from the date on which trading in the shares of the Company first commenced on GEM (the "Listing Date"), being 17 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 43 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 10,990,466 shares.

(b) Share Option Scheme

As at the Latest Practicable Date, options to subscribe for an aggregate of 20,750,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

			Number of share options				
Name of grantee	Date of grant	Exercise price per share *HK$*	As at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	As at Latest Practicable Date *(Note 1)*
Directors							
WU Ying	18 February 2004	2.40	1,500,000	–	–	–	1,500,000
LAI Sau Kam, Connie	18 February 2004	2.40	1,500,000	–	–	–	1,500,000
Senior management							
LEE Wee Ong, Alex	18 February 2004	2.40	1,500,000	–	–	–	1,500,000
CHEN Bo	18 February 2004	2.40	200,000	–	–	(200,000)	–
CHEN Pei	18 February 2004	2.40	200,000	–	–	(200,000)	–
GUO Jiang	18 February 2004	2.40	1,000,000	–	–	–	1,000,000
WU Xian	18 February 2004	2.40	240,000	–	–	(240,000)	–
WANG Chong	18 February 2004	2.40	3,400,000	–	–	–	3,400,000
Other employees							
In aggregate *(Note 2)*	18 February 2004	2.40	16,460,000	–	–	(4,610,000)	11,850,000
Total			26,000,000	–	–	(5,250,000)	20,750,000

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of 12 months from the date of the granting of options (the "Offer Date"), being 18 February 2004. Commencing from the first, second and third anniversaries of the Offer Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).

2. 329 employees have been granted options under the Share Option Scheme to acquire an aggregate of 16,460,000 shares.

5. DIRECTORS INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance in the context of the Group as a whole and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. DIRECTORS' INTERESTS IN CONTRACTS

(a) (i) 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 30 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; and

(ii) 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 1 January 2004 while Mr. Zhang Ke has accepted the appointment for a term of one year from 28 March 2004, and the service contracts shall be renewed automatically at the end of the term. Either party may terminate the service contracts at any time by giving one month's prior written notice or in accordance with the term of the service contract.

(b) As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors has any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

(c) As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

8. INDEBTEDNESS

As at 31 May 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings in respect of a secured bank loan of approximately RMB23.0 million (approximately HK$21.7 million).

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any material outstanding debt securities, term loans, borrowings or indebtedness (including bank overdrafts and liabilities under acceptances or acceptance credits or hire purchase commitments), mortgages, charges, contingent liabilities or guarantees as at 31 May 2005.

9. WORKING CAPITAL

The Directors are of the opinion that the Group has sufficient working capital for its present requirements.

10. FINANCIAL POSITION

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest audited financial statements of the Company were made up.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the Latest Practicable Date and are or may be material:

(1) the assets transfer agreement ("數據中心相關資產轉讓協議") dated 25 June 2003 entered into between Beijing HC Construction and Beijing HC International, relating to the acquisition of the fixed assets and information database by Beijing HC International for a consideration of RMB25,712,768;

(2) an agreement dated 30 June 2003 ("關於房地產交付及費用結算補充協議") entered into between Beijing HC Construction and Beijing HC International, relating to the acquisition of a substantial portion of the properties located at No. 530, Qiliqunancun, Changping District, Beijing, PRC ("Changping Properties") by Beijing HC International for a consideration of RMB49,289,848.80 pursuant to an agreement dated 30 September 2000 ("房地產轉讓協議") entered into by the same parties relating to the sale and purchase of the Changping Properties;

(3) a deed of tax indemnity ("稅務賠償契據") dated 8 December 2003 given by Mr. Guo and IDGVC in favour of the Company as disclosed in the section headed "Summary of Material Contracts" in Appendix V (Statutory and General Information) of the prospectus of the Company dated 8 December 2003 (the "Prospectus");

(4) a deed of other indemnities ("其他賠償契據") dated 8 December 2003 given by Mr. Guo and IDGVC in favor of the Company as disclosed in the section headed "Summary of Material Contracts" in Appendix V (Statutory and General Information) of the Prospectus;

(5) a non-competition agreement ("非競爭協議") dated 8 December 2003 entered into between the Company and IDGVC as disclosed in the section headed "Summary of Material Contracts" in Appendix V (Statutory and General Information) of the Prospectus;

(6) a sponsor's agreement dated 8 December 2003 ("保薦人協議") entered into between the Company and First Shanghai Capital Limited appointing First Shanghai Capital Limited as the sponsor of the Company for a term from the date on which trading in the Shares commenced on GEM to 31 December 2005;

(7) an underwriting agreement dated 8 December 2003 entered into between, among others, the Company, First Shanghai Capital Limited and the executive Directors, as disclosed in the section headed "Underwriting" in Appendix V (Statutory and General Information) of the Prospectus;

(8) a share purchase agreement dated 22 October 2004 entered into amongst Beijing HC Hulian, Sun Miao, Chen Chi, Zhao Gang and Li Jingshan, pursuant to which Beijing HC Hulian agreed to acquire an aggregate of 51% equity interest in Beijing Huicong Hudong Information Consultancy Co., Ltd. (北京慧聰互動資訊諮詢有限公司) from Sun Miao, Chen Chi, Zhao Gang and Li Jingshan;

(9) the Placing and Subscription Agreement dated 1 November 2004 entered into among Mr. Guo Fansheng (the "Vendor"), First Shanghai Capital Limited (the "Placing Agent") and the Company, pursuant to which, (i) the Placing Agent has agreed to procure the placees to subscribe for 40,000,000 placing shares held by the Vendor to not less than six independent placees at HK$1.63 per

share; and (ii) the Vendor has agreed to subscribe for and the Company has agreed to allot and issue to the Vendor a maximum of 40,000,000 new Shares at a cash price of HK$1.63 per share; and

(10) the Sale and Purchase Agreement.

12. EXPERT AND CONSENT

The following is the qualification of the accountant who has given its opinions in this circular:

Name	Qualification
DBS Asia	A licensed corporation for Types 1, 4 and 6 regulated activities under the SFO

As at the Latest Practicable Date, DBS Asia did not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

As at the Latest Practicable Date, DBS Asia did not have any direct or indirect interest in any assets which have been since 31 December 2004, the date to which the latest published audited account of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any member of the Group.

DBS Asia has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter dated 28 June 2005 and the references to its name included herein in the form and context in which they respectively appear.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of Messr. Herbert Smith, at 23/F, Gloucester Tower, 11 Pedder Street, Central, Hong Kong on weekdays other than public holidays up to and including 13 July 2005.

(a) memorandum and articles of association of the Company;

(b) the 2003 and 2004 annual reports of the Company for the two financial years ended 31 December 2003 and 2004, respectively;

(c) the letter from the Independent Board Committee, set out on pages 27 to 28 of this circular;

(d) the letter from DBS Asia dated 28 June 2005, set out on pages 29 to 35 of this circular;

(e) the letter of consent from DBS Asia referred to in the section headed "Expert and Consent" in this Appendix;

(f) the service contracts referred to in the section headed "Directors' Interests in Contracts" in this Appendix;

(g) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(h) the equity transfer agreements entered into between Beijing HC Hulian and Huamei Information relating to the equity transfers of 20% of the registered capital in each of Zhengzhou Advertising and Jinan Broadcasting to Beijing HC Hulian pursuant to the Proposed Restructuring; and

(i) the equity transfer agreements entered into between Beijing HC International and each of Beijing HC Hualian and the CMN Management relating to the disposal of their 80% and 18% shareholding, respectively, in Huamei Information to Beijing HC International pursuant to the Proposed Restructuring.

14. OTHER INFORMATION

(a) The registered office of the Company is situated at 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The principal place of business of the Company is situated at Tower B, Huaxing Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100088).

(c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Ms. Lai Sau Kam, Connie, who is an associate member of The Association of Chartered Certified Accountants.

(e) The compliance officer of the Company is Mr. Guo Fansheng, an executive director and the chief executive office of the Company.

(f) The Company established an audit committee on 24 July 2003 (the "Audit Committee") and has formulated its written terms of reference based on the guidelines set out in "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises a non-executive director, Mr. Yang Fei and two independent non- executive directors, Mr. Zhang Ke and Mr. Xiang Bing. Mr. Zhang Ke is the chairman of the Audit Committee. Further details of the members of the Audit Committee are set out below:

Mr. Yang Fei, aged 46, 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.

Mr. Zhang Ke, aged 51, 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.

Mr. Xiang Bing, aged 42, 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.

(g) Pursuant to Article 66 of the Articles of Association, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(i) the chairman of such meeting;

(ii) at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting;

(iii) a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(iv) a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

(h) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

HC INTERNATIONAL, INC.
慧聰國際資訊有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8292)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting of the members of HC International, Inc. (the "Company") will be held at Tower B, Huaxing Building, 42 North Street, Xizhimen, Haidian District, Beijing, the PRC (100088) on 20 July 2005 at 4:00 p.m. the ("EGM") for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as special resolutions of the Company:–

SPECIAL RESOLUTIONS

1. "**THAT** the Proposed Restructuring Equity Transfers as contemplated under the Proposed Restructuring (all capitalised terms are defined in this circular) be and are hereby approved and the Directors be and are hereby authorized to do all acts and things considered by them to be necessary, desirable or expedient to effect and implement the Proposed Restructuring Equity Transfers for the purpose of giving effect to the Proposed CMN Share Transfer."

2. "**THAT** the Proposed CMN Share Transfer as contemplated under the Sale and Purchase Agreement dated 27 May 2005 entered into among the Acquiror, Hong Kong HC International, the CMN Management, the Target Company and 8 Holdings (all capitalised terms are defined in this circular) be and is hereby approved, ratified and confirmed and the Directors be and are hereby authorized to do all acts and things considered by them to be necessary, desirable or expedient to effect and implement the terms of the Sale and Purchase Agreement and all transactions contemplated thereunder."

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

Beijing, 28 June 2005

* *For identification purposes only*

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:

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

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

3. A form of proxy for use at the EGM is enclosed.

4. In accordance with Chapter 20 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, Mr. Guo Fansheng and his associates are required to abstain from voting on special resolution no. 1.

5. As special resolution no. 1 is subject to the approval of the independent shareholders of the Company, such special resolution will be determined by way of a poll.

6. The share register of the Company will be closed from 18 July 2005 to 20 July 2005 (both dates inclusive). Shareholders on the share register as at 18 July 2005 will be entitled to attend and vote at the meeting.