



HC International, Inc.
慧聰國際資訊有限公司

search engine

information service

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中國搜索

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First Quarterly Report 2004

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

	Three months ended 31st March,	
	2004 RMB'000	2003 RMB'000
Turnover	82,501	62,419
Gross profit	31,341	20,424
EBITDA	11,167	8,045
Profit attributable to shareholders	6,042	4,046

- 32% growth in turnover from RMB62 million to RMB83 million
- Gross profit ratio improved from 33% to 38%
- 39% growth in EBITDA from RMB8 million to RMB11 million
- 49% growth in profit attributable to shareholders from RMB4 million to RMB6 million

BUSINESS HIGHLIGHTS

- Rebranding the Group's industry portal from "sinobnet.com" to "hc360.com"
- Launching of 2 new online products, namely, "Information Center – 資訊通" and "Transaction Center – 買賣通" for industry portal
- Rebranding the Group's proprietary Chinese Search Engine from "Huicong Search" to "China Search"
- Launching of the brand-new desktop search software "Net Personal Information Gateway" ("Net PIG – 網絡豬")
- Forming joint venture operation with Lanzhou television station
- Enlarge the Group's data library coverage of national and regional newspapers and periodicals in the PRC from 1,400 to over 1,600

MANAGEMENT DISCUSSION AND ANALYSIS

Overview and Business Prospects

For the first quarter ended 31st March, 2004, the Group recorded a turnover of approximately RMB83 million (2003: RMB62 million), representing an increase of approximately 32% over the corresponding period last year.

The gross profit margin increased by 5.3% from 32.7% to 38% as compared with the corresponding period last year.

The Group also achieved a strong growth of approximately 49% in net profit amounting to approximately RMB6 million (2003: RMB4 million).

To strengthen the Group's position as the PRC's leading industry portal under its widely recognised brand name of "Huicong – 慧聰", the Group rebranded its industry portal from "sinobnet.com" to "hc360.com". The new website name implies a mission – "We "Huicong – 慧聰" are aiming to provide 360° business information services covering 360 different industrial sectors in the business world."

Aware of the increasing popularity of the Internet usage in the PRC, particularly after its entry into the WTO, the Group continues to devote significant resources to provide various online products to its customers. In March 2004, the Group launched 2 new online application tools, namely, "Information Center – 資訊通" and "Transaction Center – 買賣通" to the market. With the "Information Center – 資訊通", users can customise their "personal newspaper" by choosing and setting its unique information, news, webpages, products and articles search online while "Transaction Center – 買賣通" provides customers with the most accurate, update and complete business transactions information and online trade business opportunities.

In the first quarter of year 2004, the Group also rebranded its proprietary Chinese Search Engine, which has been widely recognised as one of the world's leading example of third generation intellectual search engines from "Huicong Search – 慧聰搜索" to "China Search – 中國搜索", aiming at developing this Chinese company innovated search engine as "the top search destination in the world for the Chinese internet users".

Besides, the Group also launched a brand-new desktop search software "Net Personal Information Gateway" ("Net PIG – 網絡豬") to the market. Net PIG is the first desktop search software in the PRC which allows every user to own a personalised, convenient and practical search and news portal. With this innovative software, internet users no longer need to memorise complicated website locations, open internet browsers and perform the traditional searches.

In order to secure a long-term supply of television advertising time slots, the Group had established a 15-year joint venture with Lanzhou television station.

In 2004, the Group continued to devote resources to expand and strengthen the Group's data library. The number of newspapers and magazines in the PRC covered by the data library has increased to over 1,600 in the first quarter of year 2004.

The Group will continue to consolidate its position as the PRC's leading cross-media business information provider. To support and complement the Group's four major lines of business: (i) industry portals, trade catalogues and yellow page directories, (ii) search engine services, (iii) television and print periodicals and (iv) market research and analysis, the Group will continue to introduce innovative business information products and services that will complement and improve its existing business services and products so as to capture all those exciting business opportunities in the PRC business world.

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UNAUDITED CONSOLIDATED RESULTS

For the three months ended 31st March, 2004

The board of Directors (the "Board") of HC International, Inc. (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred as the "Group") for the three months ended 31st March, 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

		Three months ended 31st March,	
		2004	2003
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Turnover		82,501	62,419
Cost of sales		(51,160)	(41,995)
Gross profit		31,341	20,424
Other revenues		179	909
Selling and distribution costs		(12,158)	(6,149)
Administrative expenses		(12,430)	(8,623)
Other operating income/(expenses), net		964	(376)
Operating profit		7,896	6,185
Finance costs		(434)	(557)
Share of profits of a jointly controlled entity		-	278
Profit before taxation		7,462	5,906
Taxation	2	(561)	(783)
Profit after taxation		6,901	5,123
Minority interests		(859)	(1,077)
Profit attributable to shareholders		6,042	4,046
Dividends	3	-	-
Earnings per share	4		
Basic		RMB0.015	RMB0.014
Diluted		RMB0.013	N/A

Notes:

1. Group reorganisation and basis of preparation

Group reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 3rd March, 2000 in the name of "Sinobnet.com Inc.". The Company changed its name to "Sinobnet Inc." on 8th September, 2000 and further changed it to its present name "HC International, Inc." on 3rd August, 2001.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on GEM, the Company acquired the entire share capital of Hong Kong Huicong International Group Limited and became the holding company of its subsidiaries.

Further details of the Reorganisation are set out in the Company's prospectus dated 8th December, 2003 (the "Prospectus") issued in respect of the listing of the Company's shares on GEM.

Basis of preparation

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

2. Taxation

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

	Three months ended 31st March,	
	2004	2003
	RMB'000	RMB'000
Hong Kong profits tax (i)	–	–
The PRC enterprise income tax ("EIT") (ii)	322	629
Deferred taxation	239	154
	561	783

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2003: Nil).
- (ii) The PRC enterprise income tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

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

3. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2004 (2003: Nil).

4. Earnings per share

The calculation of basic earnings per share is based on the unaudited Group's profit attributable to shareholders of RMB6,042,000 and RMB4,046,000 for the periods ended 31st March, 2004 and 2003 respectively, and the weighted average of 414,341,000 (2003: 300,000,000) ordinary shares in issue during the period, on the assumption that the share capitalisation issue took place on 1st January, 2003.

The calculation of diluted earnings per share for the period ended 31st March, 2004 is based on the unaudited Group's profit attributable to the shareholders of RMB6,042,000 and the weighted average of 451,639,000 ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company had been exercised at the date of grant.

5. Movement of reserves

	Group					
	Capital reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	(Accumulated losses)/ retained earnings <i>RMB'000</i>	Shares issue costs <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2003	987	108,830	(18,960)	(7,377)	-	83,480
Profit for the period	-	-	4,046	-	-	4,046
Shares issue costs	-	-	-	(1,343)	-	(1,343)
At 31st March, 2003	<u>987</u>	<u>108,830</u>	<u>(14,914)</u>	<u>(8,720)</u>	<u>-</u>	<u>86,183</u>
At 1st January, 2004	987	108,830	14,118	-	55,654	179,589
Issuance of shares (i)	-	-	-	-	15,890	15,890
Profit for the period	-	-	6,042	-	-	6,042
Shares issue costs	-	-	-	(7,204)	-	(7,204)
Offset of share issue costs to share premium	-	-	-	7,204	(7,204)	-
At 31st March, 2004	<u>987</u>	<u>108,830</u>	<u>20,160</u>	<u>-</u>	<u>64,340</u>	<u>194,317</u>

The Company had reserves available for distribution calculated under the Companies Law of the Cayman Islands of approximately RMB63,641,000 as at 31st March, 2004 (2003: Nil).

- (i) On 5th January, 2004, First Shanghai Securities exercised an over-allotment option in respect of 15,000,000 additional new shares at HK\$1.09 per share. The over-allotment shares represented 3.75% of the then existing issued share capital of the Company. The total issued share capital comprised 415,000,000 shares upon the exercise of the such over-allotment option.

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

As at 31st March, 2004, the interests of the Directors and the chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 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	15.44%
Yang Fei	1,269,853	-	-	-	1,269,853	0.31%
Hugo Shong	1,269,853	-	-	-	1,269,853	0.31%

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

NIL.

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

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2004
			As at 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	
WU Ying	2nd December, 2003	0.44	1,015,872	-	-	-	1,015,872
WU Ying	18th February, 2004	2.40	-	1,500,000	-	-	1,500,000
LAI Sau Kam, Connie	2nd December, 2003	0.44	1,523,808	-	-	-	1,523,808
LAI Sau Kam, Connie	18th February, 2004	2.40	-	1,500,000	-	-	1,500,000

SHARE OPTION SCHEMES

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

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 31st March, 2004, options to subscribe for an aggregate of 46,984,080 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2004 (Note 1)
			As at 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
WU Ying	2nd December, 2003	0.44	1,015,872	-	-	-	1,015,872
LAI Sau Kam, Connie	2nd December, 2003	0.44	1,523,808	-	-	-	1,523,808
<i>Senior management</i>							
LEE Wee Ong, Alex	2nd December, 2003	0.44	2,666,664	-	-	-	2,666,664
CHEN Bo	2nd December, 2003	0.44	1,269,840	-	-	-	1,269,840
CHEN Pei	2nd December, 2003	0.44	3,174,600	-	-	-	3,174,600
GUO Jiang	2nd December, 2003	0.44	1,015,872	-	-	-	1,015,872
WANG Xiaoyu	2nd December, 2003	0.44	507,936	-	-	-	507,936

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2004 (Note 1)
			As at 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	
HUANG Haixin	2nd December, 2003	0.44	380,952	-	-	-	380,952
YAO Lin	2nd December, 2003	0.44	317,460	-	-	-	317,460
WU Xian	2nd December, 2003	0.44	698,412	-	-	-	698,412
WANG Chong	2nd December, 2003	0.44	6,298,407	-	-	-	6,298,407
WANG Yonghui	2nd December, 2003	0.44	5,917,454	-	-	-	5,917,454
<i>Ex-employees</i>							
FAN Qimiao	2nd December, 2003	0.44	7,111,104	-	-	-	7,111,104
GU Yuanchao	2nd December, 2003	0.44	3,777,774	-	-	-	3,777,774
<i>Consultant</i>							
Earl Ching-Hwa YEN	2nd December, 2003	0.44	1,206,348	-	-	-	1,206,348
<i>Other employees</i>							
In aggregate (Note 2)	2nd December, 2003	0.44	10,101,577	-	-	-	10,101,577
Total			46,984,080	-	-	-	46,984,080

Notes:

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

(b) Share Option Scheme

As at 31st March, 2004, options to subscribe for an aggregate of 26,000,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2004 (Note 1)
			As at 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
WU Ying	18th February, 2004	2.40	-	1,500,000	-	-	1,500,000
LAI Sau Kam, Connie	18th February, 2004	2.40	-	1,500,000	-	-	1,500,000
<i>Senior management</i>							
LEE Wee Ong, Alex	18th February, 2004	2.40	-	1,500,000	-	-	1,500,000
CHEN Bo	18th February, 2004	2.40	-	200,000	-	-	200,000
CHEN Pei	18th February, 2004	2.40	-	200,000	-	-	200,000

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2004 (Note 1)
			As at 1st January, 2004	Granted during the period	Exercised during the period	Cancelled during the period	
GUO Jiang	18th February, 2004	2.40	-	1,000,000	-	-	1,000,000
WANG Xiaoyu	18th February, 2004	2.40	-	700,000	-	-	700,000
HUANG Haixin	18th February, 2004	2.40	-	700,000	-	-	700,000
WU Xian	18th February, 2004	2.40	-	240,000	-	-	240,000
WANG Chong	18th February, 2004	2.40	-	3,400,000	-	-	3,400,000
<i>Other employees</i>							
In aggregate (Note 2)	18th February, 2004	2.40	-	15,060,000	-	-	15,060,000
Total			-	26,000,000	-	-	26,000,000

Notes:

- Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the granting of options (the "Offer Date"), being 18th February, 2004. Commencing from the first, second and third anniversaries of the Offer Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively of the Shares comprised in his or her option (less any number of Shares in respect of which the option has been previously exercised).
- 327 employees have been granted options under the Share Option Scheme to acquire an aggregate of 15,060,000 shares.

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

As at 31st March, 2004, 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	Percentage of shareholding
International Data Group, Inc. (<i>note 1</i>)	89,996,697	21.69%
IDG Technology Venture Investment, Inc. (<i>note 1</i>)	89,996,697	21.69%
Lynwood Assets Inc. (<i>note 2</i>)	53,333,846	12.85%
Zhang Xiaohua	53,333,846	12.85%
Wisite Ltd	47,540,465	11.46%
Callister Trading Limited (<i>note 3</i>)	40,000,384	9.60%
Li Jianguang	40,000,384	9.60%

Notes:

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

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

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

AUDIT COMMITTEE

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

DIRECTORS INTERESTS IN COMPETING BUSINESS

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

ADVANCES TO AN ENTITY

As at 31st March, 2004 the Group had no advances to any entity which are of non-trading nature.

FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

As at 31st March, 2004, the Group had not provided any financial assistance to its affiliated companies.

PRE-EMPTIVE RIGHTS

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

SPONSOR'S INTERESTS

Pursuant to the sponsorship agreement dated 8th December, 2003 entered into between the Company and First Shanghai Capital Limited (the "Sponsor"), the Sponsor receives an annual fee for acting as the Company's retained sponsor for the period from 8th December, 2003 to 31st December, 2005.

As at 31st March, 2004, China Alpha Fund, a mutual fund managed by First Shanghai Fund Management Ltd which is an associate of the Sponsor, held 2,500,000 shares of the Company.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such securities.

BOARD PRACTICES AND PROCEDURES

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the 3 months ended 31st March, 2004. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.

By order of the Board
HC International, Inc.
Guo Fansheng

Chief Executive Officer and Executive Director

The Board comprises:

Mr. Guo Fansheng (*Executive Director and Chief Executive Officer*)
Ms. Wu Ying (*Executive Director*)
Ms. Lai Sau Kam, Connie (*Executive Director*)
Mr. Hugo Shong (*Non-executive Director*)
Mr. Yang Fei (*Non-executive Director*)
Mr. Zhang Ke (*Independent non-executive Director*)
Mr. Xiang Bing (*Independent non-executive Director*)
Mr. Guo Wei (*Independent non-executive Director*)

Beijing, 12th May, 2004