



HC International, Inc.  
慧聰國際資訊有限公司

HC International



First Quarterly Report 2005

## **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.

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*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,	
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover	<b>110,873</b>	82,501
Gross profit	<b>40,140</b>	31,341
EBITDA	<b>(282)</b>	11,167
(Loss)/profit attributable to shareholders	<b>(2,880)</b>	6,042

- Turnover of the Group for the three months ended 31st March, 2005 was approximately RMB110.9 million as compared to approximately RMB82.5 million for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the three months ended 31st March, 2005 was approximately 36% as compared to approximately 38% for the corresponding period in the previous financial year.
- EBITDA of the Group for the three months ended 31st March, 2005 was approximately RMB(0.28) million as compared to approximately RMB11.17 million for the corresponding period in the previous financial year.
- Loss attributable to shareholders of the Group for the three months ended 31st March, 2005 was approximately RMB2.88 million as compared to profit attributable to shareholders approximately RMB6.04 million for the corresponding period in the previous financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview and Business Prospects

For the first quarter ended 31st March, 2005, the Group recorded a turnover of approximately RMB110.9 million (2004: RMB82.5 million), representing an increase of approximately 34% over the corresponding period last year. The increase was mainly attributable to the rapid expansion of the Group's market share in two business segments. The revenue generated from the Group's industry portal, trade catalogues and yellow page directories segment and search engine and website construction segment increased by about 13% to approximately RMB38.5 million (2004: RMB34.1 million) and about 257% to approximately RMB28.2 million (2004: RMB7.9 million), respectively.

By capturing business opportunities and potential in the fast growing on-line industry, the Group achieved a turnover of approximately RMB28.2 million from its direct on-line business information provision services which contributed about 25% of the Group's total revenue during the period under review.

The gross profit margin of the Group for the three months ended 31st March, 2005 was approximately 36% as compared to approximately 38% for the corresponding period in last year. Due to the increased costs and moderate revenue growth in the television advertising sector, the gross profit margin of the Group's television advertising business for the three months ended 31st March, 2005 declined from that of the corresponding period in 2004. The gross profit margins for other business segments of the Group were relatively stable.

Leveraging the synergies arising from the interaction between the Group's printed trade catalogues and its industry portal lead to remarkable financial performances by the Group's industry portal, trade catalogues and yellow page directories during the three months ended 31st March, 2005. The Group's complimentary on-line products, "Mai-Mai-Tong" (買賣通) and "Sector Search" (行業搜索), were gained popularity and higher market recognition. By the end of the period, the total number of registered members of the on-line marketplace "Mai-Mai-Tong" (買賣通) has reached 1.2 million, which contributed approximately RMB17 million to the Group's revenue for the first quarter ended 31st March, 2005. The result of "hc360.com", which mainly embodies our industry portal, trade catalogues and yellow page directories, and sector search and website construction businesses, increased from approximately RMB4.5 million to approximately RMB6.1 million, which represented an increase of about 36% over the corresponding period last year.

For the three months ended 31st March, 2005, the Group's television advertising segment recorded a loss of approximately RMB2.8 million as compared with a profit of approximately RMB4 million for the corresponding period last year. The loss for the period was primarily due to the increase in costs associated with television management contracts and the moderate revenue growth resulting from a change in industry regulations on television advertising which limits advertising time slots. As the television advertising business requires substantial working capital, the Group has been actively seeking for strategic investors in this segment.

In order to strengthen the Group's leading position in the development of internet public search technology under the brand name "China Search – zhongsou.com" (中國搜索) and to increase the functionality and market share of its desktop search software "Net PIG – 網絡豬", the Group devoted more resources on research and developments and marketing to the segment. For the quarter ended 31st March, 2005, this particular segment recorded a loss of approximately RMB3.6 million as compared with a loss of approximately RMB1.3 million in the corresponding period last year.

As a result of various factors stated above, loss attributable to shareholders of the Group for the three months ended 31st March, 2005 was approximately RMB2.88 million.

Looking forward, the Group will continue to consolidate its position as the leading business-to-business internet portals in the PRC. We will focus on identifying new business opportunities, forming strategic alliances with business partners, expanding the Group's operation in those business segments having higher growth potential and yield higher margins.

**UNAUDITED CONSOLIDATED RESULTS**

*For the three months ended 31st March, 2005*

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, 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

	Note	Three months ended 31st March,	
		2005 RMB'000	2004 RMB'000
Turnover		<b>110,873</b>	82,501
Cost of sales		<b>(70,733)</b>	(51,160)
Gross profit		<b>40,140</b>	31,341
Other revenues		<b>117</b>	179
Selling and distribution costs		<b>(24,065)</b>	(12,158)
Administrative expenses		<b>(24,315)</b>	(12,430)
Other operating income/(expenses), net		<b>2,033</b>	964
Operating (loss)/profit		<b>(6,090)</b>	7,896
Finance costs		<b>(406)</b>	(434)
(Loss)/profit before taxation		<b>(6,496)</b>	7,462
Taxation	2	<b>(116)</b>	(561)
(Loss)/profit after taxation		<b>(6,612)</b>	6,901
Minority interests		<b>3,732</b>	(859)
(Loss)/profit attributable to shareholders		<b>(2,880)</b>	6,042
Dividends	3	<b>-</b>	-
(Loss)/earnings per share	4		
Basic		<b>RMB(0.0062)</b>	RMB0.015
Diluted		<b>RMB(0.0059)</b>	RMB0.013

Notes:

## 1. 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”). The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st December, 2004, except for those mentioned below.

In the Quarterly Period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for the accounting periods beginning on or after 1st January, 2005.

The major effects of the new HKFRSs, which have had impacts on the unaudited quarterly results, are set out below:

Under HKFRS 2 “Share-based payment”, the Group is required to determine the fair value of all share-based payments to employees as remuneration and recognise an expense in the profit and loss account. This treatment results in a reduction in profit as such items have not been recognised as expenses under the previous accounting policy. Under the specific transitional provisions of HKFRS 2, this treatment applies to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7th November, 2002 and had not yet vested on 1st January, 2005 and to liabilities arising from share-based payment transactions existing on 1st January, 2005.

The valuation of options granted under the Company’s share option schemes are not recognised in the first quarterly report. Based on the Group’s latest assessment, the Directors consider that there are limitations in obtaining the basis for those key assumptions in the application of valuation model for determination of the fair value of such options and it may have impacts on the financial statements of the Group. The Company will take steps to consult professionals for the determination of a reasonable valuation model for the Company and resulted impacts on the financial statement will be reflected on the Group’s coming interim report.

Under HKFRS 3 “Business Combinations”, goodwill is no longer amortised but instead will be subject to rigorous annual impairment testing. This has resulted in a change to the Group’s accounting policy under which goodwill is amortised using the straight-line method over its estimated useful life of 3 years and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortisation is no longer charged, but goodwill is tested annually for impairment, as well as when there are indications of impairment. According to HKFRS 3, this new HKFRS is applied prospectively.

Except for the adoption of HKFRS 2 and HKFRS 3, the adoption of New HKFRSs did not result in substantial changes to the Group’s accounting policies.

## 2. Taxation

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

	<b>Three months ended</b>	
	<b>31st March,</b>	
	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Hong Kong profits tax (i)	–	–
The PRC enterprise income tax ("EIT") (ii)	<b>(444)</b>	(322)
Deferred taxation	<b>328</b>	(239)
	<b>(116)</b>	(561)

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2004: 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, 2005 (2004: Nil).

## 4. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's unaudited (loss)/profit attributable to shareholders of RMB(2,880,000) (2004: RMB6,042,000) for the three months ended 31st March, 2005 and the weighted average of 462,617,000 (2004: 414,341,000) ordinary shares in issue during the period.

The calculation of diluted (loss)/earnings per share for the period ended 31st March, 2005 is based on the Group's unaudited (loss)/profit attributable to the shareholders of RMB(2,880,000) (2004: RMB6,042,000) and the weighted average of 489,275,000 (2004: 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. Since the exercise price of the Share Options granted by the Company under Share Option Scheme is higher than the average market price of the Company, the effect of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.



## 5. Movement of reserves

	Group					Total RMB'000
	Capital reserve RMB'000	Merger reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Shares issue costs RMB'000	Share premium RMB'000	
At 1st January, 2004	987	108,830	14,118	-	55,654	179,589
Issuance of shares	-	-	-	-	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)	-
	<u>987</u>	<u>108,830</u>	<u>20,160</u>	<u>-</u>	<u>64,340</u>	<u>194,317</u>
At 31st March, 2004						
At 1st January, 2005	987	108,830	61,410	-	124,448	295,675
Issuance of shares (i)	-	-	-	-	3,978	3,978
Profit for the period	-	-	(2,880)	-	-	(2,880)
Shares issue costs	-	-	-	-	-	-
Offset of share issue costs to share premium	-	-	-	-	-	-
	<u>987</u>	<u>108,830</u>	<u>58,530</u>	<u>-</u>	<u>128,426</u>	<u>296,773</u>
At 31st March, 2005						

The Company had reserves available for distribution calculated under the Companies Law of the Cayman Islands of approximately RMB127,356,000 as at 31st March, 2005 (2004: RMB63,641,000).

- (i) On 27th 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.

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

As at 31st March, 2005, the interests of the Directors and the chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

### (a) Directors' Long Positions 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

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2005
			As at 1st January, 2005	Granted during the period	Exercised during the period	Cancelled during the period	
WU Ying	2nd December, 2003	0.44	1,015,872	-	(338,590)	-	677,282
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	-	(507,885)	-	1,015,923
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 of the Company dated 8th December, 2003.

## OUTSTANDING SHARE OPTIONS

### (a) Pre-IPO Share Option Scheme

As at 31st March, 2005, 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:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2005 (Note 1)
			As at 1st January, 2005	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	-	(338,590)	-	677,282
LAI Sau Kam, Connie	2nd December, 2003	0.44	1,523,808	-	(507,885)	-	1,015,923
<i>Senior management</i>							
LEE Wee Ong, Alex	2nd December, 2003	0.44	2,666,664	-	(888,799)	-	1,777,865
CHEN Bo	2nd December, 2003	0.44	1,269,840	-	(423,238)	-	846,602
CHEN Pei	2nd December, 2003	0.44	3,174,600	-	-	-	3,174,600
GUO Jiang	2nd December, 2003	0.44	1,015,872	-	(338,590)	-	677,282

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2005 (Note 1)
			As at 1st January, 2005	Granted during the period	Exercised during the period	Cancelled during the period	
YAO Lin	2nd December, 2003	0.44	317,460	-	(105,809)	-	211,651
WU Xian	2nd December, 2003	0.44	698,412	-	(232,781)	-	465,631
WANG Chong	2nd December, 2003	0.44	6,298,406	-	(2,099,256)	-	4,199,150
WANG Yonghui	2nd December, 2003	0.44	5,917,454	-	(1,972,288)	-	3,945,166
<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	-	(402,076)	-	804,272
<i>Other employees</i>							
In aggregate (Note 2)	2nd December, 2003	0.44	10,990,466	-	(3,625,033)	-	7,365,433
Total			<u>46,984,080</u>	<u>-</u>	<u>(10,934,345)</u>	<u>-</u>	<u>36,049,735</u>

## Notes:

- 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).
- 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 31st March, 2005, 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:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March, 2005 (Note 1)
			As at 1st January, 2005	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, 2005 (Note 1)
			As at 1st January, 2005	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
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	16,460,000	-	-	(4,610,000)	11,850,000
Total			<u>26,000,000</u>	<u>-</u>	<u>-</u>	<u>(5,250,000)</u>	<u>20,750,000</u>

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

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

As at 31st March, 2005, 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. <i>(note 1)</i>	73,331,954	Beneficial owner	15.74%
International Data Group, Inc. <i>(note 1)</i>	73,331,954	Interest in controlled corporation	15.74%
Callister Trading Limited <i>(note 2)</i>	40,000,384	Beneficial owner	8.58%
Li Jianguang <i>(note 2)</i>	40,000,384	Interest in controlled corporation	8.58%
Indus Capital Partners, LLC	25,978,000	Investment Manager	5.58%
Kasowitz Sheldon Fenton	25,978,000	Interest in controlled corporation	5.58%
Kowitz David Nathan	25,978,000	Interest in controlled corporation	5.58%

### 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.

## AUDIT COMMITTEE

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

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises a non-executive director, Mr. Yang Fei and two independent non-executive directors, namely Mr. Zhang Ke and Mr. Xiang Bing. Mr. Zhang Ke is the Chairman of the Audit Committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and the quarterly results of the Group for the three months ended 31st March, 2005.

## 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 during the three months ended 31st March, 2005.

## ADVANCES TO AN ENTITY

As at 31st March, 2005 the Group has not provided any advance which is of a non-trading nature, to any entity.

## FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

As at 31st March, 2005, the Group has 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, 2005, China Alpha Fund (a mutual fund managed by First Shanghai Fund Management Ltd) and China Assets (Holdings) Limited, both are associates of the Sponsor, held 2,500,000 shares and 534,000 shares of the Company, respectively. First Shanghai Investments Limited, the holding company of the Sponsor, held 6,000,000 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 5.34 to 5.45 of the GEM Listing Rules since its listing on 17th December, 2003, 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**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the three months ended 31st March, 2005.

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, PRC, 12th May, 2005