



HC International, Inc.  
慧聰國際資訊有限公司

HC International, Inc.



Third Quarterly Report 2005

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

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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**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30th September,</b>		<b>30th September,</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
		(As restated)		(As restated)
Turnover	<b>115,421</b>	122,156	<b>356,770</b>	322,223
Gross profit	<b>33,303</b>	47,022	<b>122,761</b>	122,438
EBITDA	<b>(19,541)</b>	20,475	<b>(14,682)</b>	47,639
(Loss)/profit for the period from continuing operations	<b>(7,007)</b>	10,856	<b>703</b>	22,907
(Loss)/profit for the period from discontinued operations	<b>(19,535)</b>	1,531	<b>(37,210)</b>	1,885
(Loss)/profit attributable to equity holders of the Company	<b>(20,536)</b>	9,469	<b>(25,532)</b>	20,616

- Turnover of the Group for the nine months ended 30th September, 2005 was approximately RMB356.8 million as compared to approximately RMB322.2 million for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the nine months ended 30th September, 2005 was approximately 34% as compared to approximately 38% for the corresponding period in the previous financial year.
- EBITDA of the Group for the nine months ended 30th September, 2005 was approximately RMB(14.7) million as compared to approximately RMB47.6 million for the corresponding period in the previous financial year.
- Loss attributable to equity holders of the Company for the nine months ended 30th September, 2005 was approximately RMB25.5 million as compared to profit attributable to equity holders of approximately RMB20.6 million for the corresponding period in the previous financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

To strengthen its position as the leading industry portal who provides comprehensive, professional, reliable and timely online business information to both buyers and sellers in the market, efforts and resources have been devoted by the Group in the research and development of its online marketplace Mai-Mai-Tong (買賣通). A new upgraded version of “Mai-Mai-Tong” (買賣通), “Mai-Mai-Tong” (買賣通) version 2.0 will be formally launched in November 2005 to cater customers' needs.

With the establishment of the “Buyer Center” (買家中心), recruitment of more highly-qualified editorial expertise, together with the better enhancement of the after-sales services, the Group's online marketplace Mai-Mai-Tong (買賣通) gained high recognition from the customers. As at 30th September, 2005, the total number of registered members of Mai-Mai-Tong (買賣通) exceeded 2 million and captured over 30,000 paid members.

To meet the imminent demand of both the buyers and sellers to meet each other face-to-face to facilitate the decision making process, the Group have introduced another value-added services, namely “Buyers-and-Sellers Meet” (供需見面會) in May 2005 with encouraging response from the customers. During the period, over 200 sections of “Buyer-and-Sellers Meet” cover more than 50 business sectors had been held by the Group in more than 20 different cities in the PRC which include those metropolitan cities, major industrial cities, coastal commercial cities and also those inland cities of China.

The Group had achieved another significant break-through during the period. Aimed to provide customers with comprehensive and integrated business information services, an separate team of IT expertise have been allocated by the Group on the research and development of a English industry portal. In September 2005, the Group has completed the critical technological development of this English website – “Made in China.com”. Through “Made in China.com”, worldwide purchasers can easily locate the potential suppliers in China and obtain reliable and timely online business information.

To further expand the Group's geographical market share in China's business-to-business market, feasibility study about the agency-sales system had been performed by the Group. During the period, the Group had introduced the agency-sales system to some of the inland cities of the PRC which the Group does not have presence. The Group considers the preliminary result of this new marketing strategy satisfactory and further resources will continue to be allocated.

## Financial Review

For the nine months ended 30th September, 2005, the Group achieved a turnover of approximately RMB356.8 million (2004: RMB322.2 million), representing an increase of approximately 11% over the corresponding period of last year.

The gross profit margin of the Group for the nine months ended 30th September 2005 was approximately 34%, compared to approximately 38% for the corresponding period last year. Faced with increasing competition in the television advertising sector, rather than sustaining moderate revenue growth, revenue generated from the television advertising sector decreased by around 5% to approximately RMB99.9 million (2004: RMB104.3 million) as compared with the corresponding period in 2004. Together with an increase in costs to RMB105.5 million (2004: RMB94.9 million), the television advertising sector recorded a negative gross profit margin of 11% for the nine months ended 30th September, 2005. Nevertheless, the gross profit margins from the other business sectors of the Group remained relatively stable.

The Group has made significant progress in expanding and exploring its online business information provision products. To continue strengthening the Group's position as the leading business-to-business internet portal in the PRC, more efforts and resources were devoted to enhance and widen the scope of business information provided through the Group's industry portal - hc360.com, and especially on further research and development of our on-line marketplace - "Mai-Mai-Tong" (買賣通) and sector search technology (行業搜索). For the nine months ended 30th September 2005, the Group recorded a total revenue of RMB82.3 million from direct online products which contributed nearly 23% of the Group's total revenue. As at 30th September, 2005, the total number of paid members of our on-line marketplace "Mai-Mai-Tong" (買賣通) exceed 30,000.

To further improve the functionality of this online marketplace in order to better satisfy the demands of our customers, teams of highly-skilled IT technicians have been working hard to upgrade our "Mai-Mai-Tong" (買賣通) to version 2.0, which will be formally launched in November 2005. Together with our other valued-added services, namely our "Buyers-and-Sellers Forum" (供需見面會) and "Buyer Center" (買家中心), we believe that the new version 2.0 "Mai-Mai Tong" (買賣通) will continue to gain popularity and high market recognition from our customers.

To allow the Group to focus on being a leading business information services provider in the PRC, the Group has taken active steps to re-organize its business structure and emphasis. In addition to the Sales and Purchase Agreement entered into by the Group on 27th May 2005 to partially transfer its equity interest in its television advertising business, on 19th August, 2005, the Group entered into a series of sale and purchase agreements with several investors to dispose of its public search engine business in the PRC. Leveraging on the global expertise and exposure in the web-site search industry of the investors, together with the new capital input, these investors should spur the growth and development of the public search business. The Group will still retain a 20% equity interest in the business upon the completion of the transaction to capture future potential growth of the public search business. The transaction will be completed following the passing of the resolution in the Extraordinary General Meeting to be held by the Group on 14th October, 2005. The Group will recognize a total gain of RMB32.1 million from the disposal upon completion which will then be reflected in the Group's Forth quarter result of year 2005.

For the nine months ended 30th September 2005, significant losses were recorded from the two discontinued operations mentioned above, The Group's television advertising business and public search engine business recorded losses of approximately RMB18.3 million and RMB8.7 million respectively.

### **Going Forward**

Despite suffering from the relatively weak performances of the television advertising and public search engine businesses, the Group has achieved a significant growth in revenue in other business sectors. To rectify and restructure its business focus, the Group has successfully engineered the disposal of both its television advertising and public search engine businesses during this period.

Going Forward, the Group will continue to focus on its core business, identify every business opportunities to further consolidate its position as the leading business-to-business internet portals in the PRC.

### **Guo Fansheng**

*Chief Executive Officer and Executive Director*

Beijing, PRC, 14th November, 2005

**UNAUDITED CONSOLIDATED RESULTS**

For the three months and nine months ended 30th September, 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 and nine months ended 30th September, 2005, together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

	Note	Three months ended 30th September,		Nine months ended 30th September,	
		2005 RMB'000	2004 RMB'000 (As restated)	2005 RMB'000	2004 RMB'000 (As restated)
Turnover		<b>115,421</b>	122,156	<b>356,770</b>	322,223
Cost of sales		<b>(82,118)</b>	(75,134)	<b>(234,009)</b>	(199,785)
Gross profit		<b>33,303</b>	47,022	<b>122,761</b>	122,438
Other revenues		<b>122</b>	207	<b>438</b>	564
Selling and distribution costs		<b>(30,550)</b>	(16,857)	<b>(79,234)</b>	(44,099)
Administrative expenses		<b>(25,998)</b>	(18,706)	<b>(73,951)</b>	(48,543)
Amortisation of deferred compensation expenses		<b>(1,299)</b>	(3,151)	<b>(3,898)</b>	(9,453)
Other operating income/(expenses), net		<b>(1,807)</b>	4,770	<b>(1,996)</b>	6,375
Finance costs		<b>(350)</b>	(421)	<b>(1,082)</b>	(1,048)
(Loss)/profit before taxation		<b>(26,579)</b>	12,864	<b>(36,962)</b>	26,234
Taxation	4	<b>37</b>	(477)	<b>455</b>	(1,442)
(Loss)/profit for the period from continuing operations		<b>(7,007)</b>	10,856	<b>703</b>	22,907
(Loss)/profit for the period from discontinued operations	3	<b>(19,535)</b>	1,531	<b>(37,210)</b>	1,885
(Loss)/profit for the period		<b>(26,542)</b>	12,387	<b>(36,507)</b>	24,792
Attributable to equity holders of the Company		<b>(20,536)</b>	9,469	<b>(25,532)</b>	20,616
Minority interests		<b>(6,006)</b>	2,918	<b>(10,975)</b>	4,176
		<b>(26,542)</b>	12,387	<b>(36,507)</b>	24,792
Dividends	5	-	-	-	-

		Three months ended 30th September, 2005		Nine months ended 30th September, 2005	
	Note	RMB'000	2004 RMB'000 (As restated)	RMB'000	2004 RMB'000 (As restated)
(Loss)/earnings per share for (loss)/profit from continuing operations attributable to the equity holders of the Company during the period					
Basic	6	<b>RMB(0.0116)</b>	RMB0.0199	<b>RMB0.0031</b>	RMB0.0407
Diluted	6	<b>RMB(0.0108)</b>	RMB0.0184	<b>RMB0.0029</b>	RMB0.0374
(Loss)/earnings per share for (loss)/profit from discontinued operations attributable to the equity holders of the Company during the period					
Basic	6	<b>RMB(0.0325)</b>	RMB0.0029	<b>RMB(0.0580)</b>	RMB0.0090
Diluted	6	<b>RMB(0.0303)</b>	RMB0.0027	<b>RMB(0.0549)</b>	RMB0.0083

Notes:

**1. Basis of preparation and accounting policies**

The accounts are prepared in accordance with Hong Kong Accounting Standards (“HKAS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong (the “GEM Listing Rules”).

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 that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1st January, 2005.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.



## 2. Changes in accounting policies

### (a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements. The major effects on the new HKFRSs, which have had impacts on the unaudited third quarterly results, are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets held for Sale and Discontinued Operation

HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December, 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January, 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7th November, 2002 and had not yet vested on 1st January, 2005 was expensed retrospectively in the profit and loss account of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December, 2004, goodwill was:

- Amortised on a straight line basis over a period ranging of 3 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January, 2005;
- Accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31st December, 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment. HKFRS 3 (if applied) prospectively after the adoption date.

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

The Group adopted HKFRS 5 from 1st January, 2005 prospectively in accordance with the standard's provisions. The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets held for sale. The non-current assets held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets held for sale or for continuing use.

The application of HKFRS 5 does not impact on the prior-year financial statements other than a change in the presentation of the results and cash flows of discontinued operations.

(i) The adoption of HKFRS 2 resulted in:

	<b>As at</b>	As at
	<b>30th September,</b>	31st December,
	<b>2005</b>	2004
Increase in share-based compensation reserves	<b>16,502</b>	12,604
Decrease in retained earnings	<b>16,502</b>	12,604
	<b>For the</b>	<b>For the</b>
	<b>ended</b>	<b>nine months ended</b>
	<b>31st December,</b>	<b>30th September,</b>
	<b>2004</b>	<b>2005</b>
Increase in administrative expenses	12,604	<b>3,898</b>
Decrease in basic earnings per share	0.0299	<b>0.0084</b>
Decrease in diluted earnings per share	0.0275	<b>0.0079</b>
		9,453
		0.0228
		0.0210

- (ii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	<b>As at 30th September, 2005</b>
Increase in intangible assets	1,225
Increase in retained earnings	1,225
	<b>For the nine months ended 30th September, 2005</b>
Decrease in administrative expenses	1,225
Increase in basic earnings per share	0.0026
Increase in diluted earnings per share	0.0025

### 3. Discontinued operation

- (i) On 27th May, 2005, the Company entered into a sale and purchase agreement, pursuant to which Hong Kong Huicong International Group Limited ("HKHC"), a wholly owned subsidiary of the Company, agreed to transfer to Metaphor Corp. (the "Acquiror") its entire interest in operations in relation to television advertising business in the PRC. Subject to the terms and conditions of the sale and purchase agreement, the Company has agreed to procure a restructuring in respect of its PRC domestic television advertising business, and the restructuring and transfers of relevant equity interests will take place on 30th August, 2005 or such later date when all the conditions have been fulfilled or waived. Upon completion of the disposal, the Group has discontinued the operations of its television advertising products and services.
- (ii) On 19th August, the Company, through HKHC, entered into a series of agreements to dispose of part of its interest in the public search engine business. HKHC entered into a share purchase agreement, pursuant to which, HKHC agreed to sell to Global Cyberlinks Holdings Inc., IDG Technology Venture Investments, LP ("IDGLP"), Fidelity Greater China Ventures Fund LP and LC Fund II, 30 million shares (approximately 37.5% equity interest) in China Search Inc. ("CSI"), a non-wholly owned subsidiary of the Company, at a consideration of US\$3.6 million (approximately HK\$28.1 million) in cash.

On the same day, HKHC and IDGLP entered into a share transfer agreement. Pursuant to this agreement, HKHC transferred, on a net basis, 4 million shares in CSI (approximately 5% equity interest) at a net consideration of US\$1.14 million (approximately HK\$8.89 million) in cash. Upon the completion of the above disposals, the Group has discontinued to manage the operations of its public search engine business.

The turnover and results of the discontinued operation were as follows:

	<b>Unaudited</b>	
	<b>Nine months ended</b>	
	<b>30th September,</b>	
	<b>2005</b>	<b>2004</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	<b>109,870</b>	119,577
Operating costs	<b>(146,886)</b>	(117,692)
Operating (loss)/profit	<b>(37,016)</b>	1,885
Taxation	<b>(194)</b>	-
(Loss)/profit for the period	<b>(37,210)</b>	1,885

#### 4. Taxation

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30th September,</b>		<b>30th September,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Hong Kong profits tax (i)	-	-	-	-
The PRC enterprise income tax ("EIT") (ii)	<b>(426)</b>	(352)	<b>(1,340)</b>	(954)
Deferred taxation	<b>463</b>	(125)	<b>1,795</b>	(488)
	<b>37</b>	(477)	<b>455</b>	(1,442)

- (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.

#### 5. Dividends

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2005 (2004: Nil).

#### 6. Earnings per share

The calculation of basic earnings per share from continuing operations for the three months and nine months ended 30th September, 2005 is based on the respective unaudited continuing operation's (loss)/profit attributable to the equity holders of RMB(5,404,000) and RMB1,439,000 (2004: restated RMB8,267,000 and RMB16,893,000) and the weighted average of 465,934,000 and 464,881,000 (2004: 415,000,000 and 414,778,000) ordinary shares in issue during the period.

The calculation of basic (loss)/earnings per share from discontinued operations attributable to the equity holders for the three months and nine months ended 30th September, 2005 is based on the respective unaudited Group's loss attributable to the equity holders of RMB(15,132,000) and RMB(26,971,000) (2004: unaudited Group's profit attributable to the equity holders of RMB1,202,000 and RMB3,723,000) and the denominators used are the same as those detailed above for basic earning per share.

The calculation of diluted earnings per share for the three months and nine months ended 30th September, 2005 is based on the unaudited continuing operation's (loss)/profit attributable to the equity holders of RMB(5,404,000) and RMB1,439,000 (2004: restated RMB8,267,000 and RMB16,893,000) and the weighted average of 500,022,000 and 491,435,000 (2004: 449,790,000 and 451,207,000) ordinary shares after adjusted for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company, under the Pre-IPO Share Option Scheme 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.

The calculation of diluted (loss)/earnings per share from discontinued operations attributable to the equity holders for the three months and nine months ended 30th September, 2005 is based on the unaudited Group's loss attributable to the equity holders of RMB(15,132,000) and RMB(26,971,000) (2004: unaudited Group's profit attributable to the equity holders of RMB1,202,000 and RMB3,723,000) and the denominators used are the same as those detailed above for diluted earning per share.

## 7. Movement of reserves

	Attributable to equity holders of the Company						Total RMB'000
	Capital reserve RMB'000	Merger reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Shares Issuance costs RMB'000	Share premium RMB'000	Share- based compensation reserves RMB'000	
Balance at 1st January, 2004	987	108,830	14,118	-	55,654	-	179,589
Issuance of shares	-	-	-	-	15,890	-	15,890
Profit for the period	-	-	30,069	-	-	-	30,069
Shares issue expenses	-	-	-	(7,204)	-	-	(7,204)
Offset of share issuance costs to share premium	-	-	-	7,204	(7,204)	-	-
Employees share option scheme-value of employee services	-	-	(9,453)	-	-	9,453	-
At 30th September, 2004, (as restated)	<u>987</u>	<u>108,830</u>	<u>34,734</u>	<u>-</u>	<u>64,340</u>	<u>9,453</u>	<u>218,344</u>
At 1st January, 2005	987	108,830	61,410	-	124,448	-	295,675
Employees share option scheme-value of employee services	-	-	(12,604)	-	-	12,604	-
Balance at 1st January, 2005, (as restated)	987	108,830	48,806	-	124,448	12,604	295,675
Issuance of shares	-	-	-	-	3,978	-	3,978
Loss for the period	-	-	(21,634)	-	-	-	(21,634)
Employees share option scheme-value of employee services	-	-	(3,898)	-	-	3,898	-
At 30th September, 2005	<u>987</u>	<u>108,830</u>	<u>23,274</u>	<u>-</u>	<u>128,426</u>	<u>16,502</u>	<u>278,019</u>

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

As at 30th September, 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%
Wu Ying	1,538,602	-	-	-	1,538,602	0.33%
Yang Fei	1,269,853	-	-	-	1,269,853	0.27%
Hugo Shong	1,269,853	-	-	-	1,269,853	0.27%
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 30th September, 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 30th September, 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 30th September, 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
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

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th September, 2005 (Note 1)
			As at 1st January, 2005	Granted during the period	Exercised during the period	Cancelled during the period	
<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			46,984,080	-	(10,934,345)	-	36,049,735

*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 of the Company comprised in his or her option (less any number of the shares of the Company 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 30th September, 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 30th September, 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)	-
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			26,000,000	-	-	(5,250,000)	20,750,000

*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 of the Company comprised in his or her option (less any number of the shares of the Company 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 30th September, 2005, the interest and the short position 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%
McCarthy Kent C.	39,400,000	Interest in controlled corporation	8.46%
Jayhawk China Fund (Cayman), Ltd.	39,400,000	Beneficial owner	8.46%

Notes:

1. IDG Technology Venture Investment, Inc 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, Mr. Zhang Ke and Mr. Xiang Bing. Mr. Zhang Ke is the chairman of the audit committee.

The audit committee has reviewed with the management, the accounting principles and practices adopted by the Group, and the third quarterly results of the Group for the nine months ended 30th September, 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 has 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 nine months ended 30th September, 2005.

### **ADVANCES TO AN ENTITY**

As at 30th September, 2005, the Group had not made any advance, which is of a non-trading nature, to any entity.

### **FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES**

As at 30th September, 2005, the Group had not provided any financial assistance to any of 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 is entitled to receive an annual fee for acting as the Company's retained sponsor up to 31st December, 2005.

As at 30th September, 2005, China Alpha Fund (a mutual fund managed by First Shanghai Fund Management Ltd.) and China Assets (Holdings) Limited, both being associates of the Sponsor, held 2,500,000 shares of the Company 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) has had any interests in the securities of the Company, including options or rights to subscribe for such securities.

**PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the nine months ended 30th September, 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, 14th November, 2005