

FINANCIAL HIGHLIGHTS

	Three months ended	
	31st March,	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Sales	57,355	57,563
Gross profit	30,405	26,405
EBITDA	(7,420)	(13,094)
Loss attributable to equity holders	(12,515)	(20,305)

- For the first quarter ended 31st March, 2007, the Group recorded a turnover of approximately RMB57.36 million from continuing operations (2006: RMB57.56 million). No turnover was recorded from the discontinued operations during the period under review as all of the business entities related to the Group's television advertising business ceased operations in year 2006.
- Gross profit ratio of the Group's continuing operations for the three months ended 31st March, 2007 was approximately 53.0% as compared to approximately 45.9% for the corresponding period in the previous financial year.
- EBITDA of the Group for the three months ended 31st March, 2007 was a loss of approximately RMB7.42 million as compared to a loss of approximately RMB13.09 million for the corresponding period in the previous financial year.
- Loss attributable to equity holders of the Group for the three months ended 31st March, 2007 was approximately RMB12.52 million as compared to approximately RMB20.31 million for the corresponding period in the previous financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

For the first quarter ended 31st March, 2007, the Group recorded a turnover of approximately RMB57.36 million from continuing operations (2006: RMB57.56 million). No turnover was recorded from the discontinued operations during the period under review as all of the business entities related to the Group's television advertising business ceased operations in year 2006.

During the reporting period, the Group achieved a turnover of approximately RMB21.81 million (2006: RMB19.62 million) from its direct on-line business segment, which amounted to approximately 38% of the Group's total revenue from continuing operations during the period under review, representing an increase of about 11.2% when compared to the corresponding period last year.

The gross profit margin of the Group's continuing operations increased by about 7.1 percentage points from approximately 45.9% last year to approximately 53.0% during the period under review. The gross profit margin of the Group's search engine business segment increased by about 1.8 percentage points from approximately 72.2% last year to approximately 74.0%, and the gross profit margin of the trade catalogues and yellow page directories business segment of the Group increased by about 2.0 percentage points from approximately 40.6% last year to approximately 42.6% during the period under review.

During the three months ended 31st March, 2007, a net loss attributable to equity holders of approximately RMB12.52 million was recorded by the Group (2006: RMB20.31 million).

The Member Care Scheme, which aimed at enhancing members' activity level, satisfaction and loyalty, gradually gained its recognition by the market. The number of registered members of "Mai-Mai-Tong – 買賣通" reached approximately 3.8 million as at 31st March, 2007.

In addition, by adding the agency sales team and the telemarketing sales team to supplement the industry direct sales team, the Group has strengthened its sales forces in both the professional and fast moving consumer goods industry sectors. As a result, the Group has recorded a strong growth in the sales of its on-line marketplace, "Mai-Mai-Tong – 買賣通". As compared to corresponding period in the previous financial year, the sales of "Mai-Mai-Tong – 買賣通" increased by approximately 32.8%.

Going forward, the Group will continue to improve its competitiveness by strengthening the synergy between its on-line business and traditional trade catalogue business with the aim to offer better solutions to business users.

UNAUDITED CONSOLIDATED RESULTS

FOR THE THREE MONTHS ENDED 31ST MARCH, 2007

	Note	Three months ended 31st March,	
		2007 RMB'000	2006 RMB'000
Continuing operations			
Sales		57,355	57,563
Cost of sales		(26,950)	(31,158)
Gross profit		30,405	26,405
Other income		425	342
Selling and marketing expenses		(21,583)	(22,443)
Administrative expenses		(23,768)	(23,224)
Finance costs		(531)	(363)
Loss before income tax		(15,052)	(19,283)
Income tax	2	164	1,266
Loss for the period from continuing operations		(14,888)	(18,017)
Loss for the period from discontinued operations	3	–	(8,906)
Loss for the period		(14,888)	(26,923)
Attributable to:			
Equity holders of the Company		(12,515)	(20,305)
Minority interests		(2,373)	(6,618)
		(14,888)	(26,923)
Loss per share from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic	4	(0.0257)	(0.0314)
Diluted	4	(0.0252)	(0.0304)
Loss per share from discontinued operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic	4	–	(0.0112)
Diluted	4	–	(0.0109)
Dividends	5	–	–

Notes:

1. General information and basis of preparation

General information

HC International, Inc. and its subsidiaries organises a business-to-business community across China by providing business information through both on-line and off-line channels. The Group operates an on-line market place and provides industrial search result prioritising services through its business-to-business website "hc360.com". The Group also publishes its own trade catalogues and yellow page directories and generates market research reports in China.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company has its primary listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

These unaudited consolidated financial statements are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The unaudited consolidated financial statements have been approved for issue by the Board of Directors on 14th May, 2007.

Basis of preparation

This unaudited condensed consolidated first quarterly financial information for the three months ended 31st March, 2007 has been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong (the "GEM Listing Rules"). The unaudited consolidated financial statements of the Group should be read in conjunction with the annual financial statements of the Group for the year ended 31st December, 2006.

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the annual financial statements for the year ended 31st December, 2006.

2. Income tax

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

	Three months ended 31st March,	
	2007	2006
	RMB'000	RMB'000
Hong Kong profits tax (i)	—	—
The PRC enterprise income tax ("EIT") (ii)	(461)	(505)
Deferred income tax	625	1,771
	<u>164</u>	<u>1,266</u>

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2006: 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. Discontinued operations

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 dispose its entire interest in operations in relation to television advertising business in the PRC. Subject to the terms and conditions of the sales 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 conditions have fulfilled or waived.

Pursuant to the Company's announcement dated 27th July, 2006, the above said sales and purchase agreement was terminated. As at 31st December, 2006, all of the business entities related to the TV advertising business ceased operations.

The discontinued operation is related to TV advertising business, which formerly presented as a business segment of the Group.

An analysis of the results of discontinued operations is as follows:

	Unaudited	
	Three months ended	
	31st March,	
	2007	2006
	RMB'000	RMB'000
Revenue	–	14,845
Cost of sales	–	(16,310)
Interest income	–	30
Expenses	–	(7,471)
	<hr/>	<hr/>
Loss before income tax of discontinued operations	–	(8,906)
Income tax expense	–	–
	<hr/>	<hr/>
Loss for the period from discontinued operations	–	(8,906)

4. Loss per share

The calculation of basic loss per share from continuing operations is based on the Group's unaudited loss attributable to the equity holders of approximately RMB12,515,000 (2006: RMB14,959,000) for the three months ended 31st March, 2007 and the weighted average of approximately 486,599,000 (2006: 475,727,000) ordinary shares in issue during the period.

The calculation of diluted loss per share from continuing operations is based on the Group's unaudited loss attributable to the equity holders of RMB12,515,000 (2006: RMB14,959,000) for the three months ended 31st March, 2007 and the diluted weighted average of 496,504,000 (2006: 492,203,000) 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 loss per share.

The calculation of basic loss per share from discontinued operations is based on the Group's unaudited loss attributable to the equity holders of approximately RMB0 (2006: RMB5,346,000) for the three months ended 31st March, 2007 and the weighted average of approximately 486,599,000 (2006: 475,727,000) ordinary shares in issue during the period.

The calculation of diluted loss per share from discontinued operations is based on the Group's unaudited loss attributable to the shareholders of RMB0 (2006: RMB5,346,000) for the three months ended 31st March, 2007 and the diluted weighted average of 496,504,000 (2006: 492,203,000) 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 loss per share.

5. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2007 (2006: Nil).

6. Movement of reserves

	Group					Total RMB'000
	Capital reserve RMB'000	Merger reserve RMB'000	Shares-based compensation reserves RMB'000	Share premium RMB'000	Exchange reserve RMB'000	
At 1st January, 2006	987	108,830	12,677	128,426	–	250,920
Exercise of share options	–	–	–	4,467	–	4,467
Share option scheme-value of employee services	–	–	470	–	–	470
	–	–	470	4,467	–	4,937
At 31st March, 2006	<u>987</u>	<u>108,830</u>	<u>13,147</u>	<u>132,893</u>	<u>–</u>	<u>255,857</u>
At 1st January, 2007	987	108,830	16,621	132,893	(4,322)	255,009
Exercise of share options (i)	–	–	–	3,119	–	3,119
Share option scheme-value of employee services	–	–	1,139	–	–	1,139
Currency translation difference	–	–	–	–	(936)	(936)
	–	–	1,139	3,119	(936)	3,322
At 31st March, 2007	<u>987</u>	<u>108,830</u>	<u>17,760</u>	<u>136,012</u>	<u>(5,258)</u>	<u>258,331</u>

The Company had reserves available for distribution calculated under the Companies Law of the Cayman Islands of approximately RMB115,654,000 as at 31st March, 2007 (2006: RMB117,534,000).

- (i) On 12th January, 2007, certain grantees under the Pre-IPO Share Option Scheme exercised their options in respect of 9,269,533 shares of the Company at HK\$0.44 (equivalent to RMB0.44) per share. The total issued share capital comprised 487,835,406 shares upon the exercise of such Pre-IPO Share Options.

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

As at 31st March, 2007, 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

Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Guo Fansheng	Beneficial owner	64,088,863	-	-	-	64,088,863	13.14%
Li Jianguang	Beneficial owner	-	-	40,000,384 (Note 1)	-	40,000,384 (Note 1)	8.20%
Guo Jiang	Beneficial owner	6,309,923 (Note 2)	-	-	-	6,309,923 (Note 2)	1.29%
Lai Sau Kam, Connie	Beneficial owner	3,023,808 (Note 3)	-	-	-	3,023,808 (Note 3)	0.62%

(b) Directors' Short Positions

Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Percentage of shareholding
Guo Fansheng	Beneficial owner	64,088,863	-	-	-	64,088,863	13.14%
Li Jianguang	Beneficial owner	-	-	40,000,384 (Note 1)	-	40,000,384 (Note 1)	8.20%
Guo Jiang	Beneficial owner	2,027,200	-	-	-	2,027,200	0.42%
Lai Sau Kam, Connie	Beneficial owner	3,023,808 (Note 3)	-	-	-	3,023,808 (Note 3)	0.62%

Notes:

1. The references to 40,000,384 shares of the Company relate to the same block of shares of the Company held by Callister Trading Limited, the entire share capital of which is owned by Mr. Li.
2. Such interest in the Company comprises:
 - (a) 3,575,923 shares of the Company of which 1,074,625 shares of the Company are held by Mr. Guo's spouse; and
 - (b) 2,734,000 underlying shares derived from the share options granted under the Share Option Scheme of which 734,000 underlying shares derived from the share options granted to Mr. Guo's spouse under the share option scheme.
3. Such interest in the Company comprises:
 - (a) 1,015,770 shares of the Company; and
 - (b) 2,008,038 underlying shares derived from the share options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

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, 2007, options to subscribe for an aggregate of 14,148,674 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, 2007 (Note 1)
			As at 1st January, 2007	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
LAI Sau Kam, Connie	2nd December, 2003	0.44	508,038	-	-	-	508,038
GUO Jiang	2nd December, 2003	0.44	338,692	-	(338,692)	-	-
<i>Senior management</i>							
WANG Chong	2nd December, 2003	0.44	2,099,894	-	(2,099,894)	-	-
<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

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at
			As at 1st January, 2007	Granted during the period	Exercised during the period	Cancelled during the period	31st March, 2007 (Note 1)
<i>Consultant</i>							
YEN Earl Ching-Hwa	2nd December, 2003	0.44	402,196	-	(402,196)	-	-
<i>Other employees</i>							
In aggregate (Note 2)	2nd December, 2003	0.44	9,180,509	-	(6,428,751)	-	2,751,758
Total			<u>23,418,207</u>	<u>-</u>	<u>(9,269,533)</u>	<u>-</u>	<u>14,148,674</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 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).
- As at 31st March, 2007, there are 9 employees who have been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 2,751,758 shares of the Company.

(b) Share Option Scheme

As at 31st March, 2007, options to subscribe for an aggregate of 28,150,000 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, 2007 (Note 1)
			As at 1st January, 2007	Granted during the period	Exercised during the period	Cancelled during the period	
<i>Directors</i>							
LAI Sau Kam, Connie	18th February, 2004	2.40	1,500,000	-	-	-	1,500,000
GUO Jiang	18th February, 2004	2.40	1,000,000	-	-	-	1,000,000
GUO Jiang	23rd June, 2006	1.49	1,000,000	-	-	-	1,000,000
<i>Senior management</i>							
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	12,250,000	-	-	-	12,250,000
In aggregate (Note 3)	23rd June, 2006	1.49	9,000,000	-	-	-	9,000,000
Total			28,150,000	-	-	-	28,150,000

Notes:

1. 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").

For the options exercisable at HK\$2.40 granted on 18th February, 2004, 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 shares of the Company in respect of which the option has been previously exercised), commencing from the first, second and third anniversaries of the Offer Date.

For the options exercisable at HK\$1.49, the relevant grantees may exercise these options in ten years period starting from the expiry of twelve months from the date of the granting of options, being 23rd June, 2006.

2. 272 employees have been granted options under the Share Option Scheme to acquire an aggregate of 12,250,000 shares of the Company at HK\$2.40 per share.
3. 100 employees have been granted options under the Share Option Scheme to acquire an aggregate of 9,000,000 shares of the Company at HK\$1.49 per share.
4. The fair value of options granted under the Share Option Scheme on 18th February, 2004, determined using the Binomial Model value model, was RMB20,193,000. The significant inputs into the model were the exercise price, standard deviation of expected share price returns of 32%, expected life of options ranging from 5.4 to 6.6 years, expected dividend paid out rate of 0% and annual risk-free interest rate ranging from 1.34% to 4.43%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
5. The fair value of options granted under the Share Option Scheme on 23rd June, 2006, determined using the Binomial Model valuation model, was RMB3,919,003. The significant inputs into the model were exercise price of HK\$1.49, standard deviation of expected share price returns of 34.8%, expected life of options ranging from 3.2 to 5.5 years expected dividend paid cut rate of 0% and annual risk free interest rate 4.911%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

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

As at 31st March, 2007, 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	Long position	Short position	Nature of Interests/Holding capacity	Approximate percentage of share capital
Hinrichs Merle Allan	234,560,134 (Note 1)	–	Interest in controlled corporation	48.08%
McCarthy Kent C.	120,505,850 (Note 2)	–	Interest in controlled corporation	24.70%
McGovern Patrick J.	25,473,954 (Note 3)	25,473,954 (Note 3)	Interest in controlled corporation	5.22%
PMA Capital Management Ltd.	24,540,000	–	Investment manager	5.03%

Notes:

- Such interests in the Company comprises: (i) 62,652,000 shares of the Company of which 5,916,000 shares and 56,736,000 shares were held by Global Sources Ltd., which is owned as to approximately 61% by Mr. Hinrichs, and Trade Media Holdings Limited, which is a wholly-owned subsidiary of Global Sources Ltd., respectively; and (ii) 171,908,134 underlying shares of the Company derived from certain call options granted to Trade Media Holdings Limited, a wholly-owned subsidiary of Global Sources Ltd., which is owned as to approximately 61% by Mr. Hinrichs.
- 94,691,850 and 24,233,226 shares of the Company were held by Jayhawk China Fund (Cayman), Ltd. and Jayhawk Private Equity Fund, L.P., respectively, the entire issued share capital of both are owned by Mr. McCarthy.
- The references to 25,473,954 shares of the Company relate to the same block of shares of the Company held by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., which is owned as to approximately 33% by Mr. McGovern.

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. John Craig Pepples 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 management of the Company the accounting principles and practices adopted by the Group, and the first quarterly results of the Group for the period ended 31st March, 2007.

DIRECTORS INTERESTS IN COMPETING BUSINESS

Mr. John Craig Pepples, a non-executive Director, is a director of Trade Media Limited and a shareholder of Global Sources Limited. Trade Media Limited is an indirect wholly-owned subsidiary of Global Sources Limited, which is a substantial shareholder of the Company. Global Sources Limited and its associates (as defined in the GEM Listing Rules) are engaged in business-to-business media businesses which provide global two-way trade services.

Save as disclosed above, each of the Directors or 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 during the year ended 31st March, 2007.

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.

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, 2007.

By order of the board of Directors

HC International, Inc.

Guo Fansheng

Chief Executive Officer and Executive Director

As at the date of this report, the board of Directors comprises:

Mr. Guo Fansheng (*Executive Director and Chief Executive Officer*)

Ms. Lai Sau Kam, Connie (*Executive Director*)

Mr. Guo Jiang (*Executive Director*)

Mr. Li Jianguang (*Non-executive Director*)

Mr. John Craig Pepples (*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 May, 2007