



## **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”) 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		Nine months ended	
	30th September,		30th September,	
	2007	2006	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	<b>79,059</b>	76,327	<b>214,692</b>	208,614
Gross profit	<b>45,631</b>	39,808	<b>122,717</b>	106,516
EBITDA	<b>9,614</b>	(16,806)	<b>7,022</b>	(31,424)
Profit/(loss) attributable to equity holders of the Company	<b>556</b>	(24,542)	<b>(11,563)</b>	(60,678)

- Turnover of the Group for the nine months ended 30th September, 2007 was approximately RMB214.69 million as compared to approximately RMB208.61 million for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the nine months ended 30th September, 2007 was approximately 57.2% as compared to approximately 51.1% for the corresponding period in the previous financial year.
- EBITDA of the Group for the nine months ended 30th September, 2007 was approximately RMB7.02 million as compared to a loss of approximately RMB31.42 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, 2007 was approximately RMB11.56 million as compared to loss attributable to equity holders of approximately RMB60.68 million for the corresponding period in the previous financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial and Business Review

During the nine-month period ended 30th September, 2007, the Group recorded a turnover of approximately RMB214.69 million from the continuing operations (2006: RMB208.61 million). No turnover was recorded from the discontinued operations during the nine months ended 30th September, 2007, as all 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 RMB84.41 million from its direct on-line business segment, which contributed to about 39.3% of the Group's total revenue from the continuing operations, representing an increase of about 23.5% as compared to that in the corresponding period last year.

The gross profit margin of the Group's continuing operations increased by about 6.1 percentage points from approximately 51.1% last year to approximately 57.2% during the period under review. The gross profit margin of the trade catalogues and yellow page directories business segment of the Group increased by about 2.7 percentage points from approximately 46.4% last year to approximately 49.1% during the period under review, while the gross profit margin of the Group's search engine business segment remained relatively stable at about 75.2%.

During the nine-month period ended 30th September, 2007, a net loss attributable to equity holders of approximately RMB11.56 million was recorded by the Group.

The Group has devoted additional resources and efforts in order to enhance users' experience and improve user activity level through its on-line marketplace, "Mai-Mai-Tong – 買賣通". During the nine months ended 30th September, 2007, "Mai-Mai-Tong 4.0 – 買賣通4.0" was launched which has greatly improved the speed for obtaining accurate search results through hc360.com, and enhanced the functionality of the individual on-line storefronts operated by the customers. In addition, the Group has launched a new version of its instant messenger, "HC FAFA – 慧聰發發", enhancing the features of interactive information exchange between buyers and sellers.

“Mai-Mai-Tong – 買賣通” is an innovative and user-friendly e-commerce platform launched by hc360.com in October 2004. The platform allows users of the business-to-business community to access business information in a timely and reliable manner. With “Mai-Mai-Tong – 買賣通”, users can establish their own on-line storefronts with multiple functions such as product show, sales promotion, on-line negotiation, and identity certification etc. The product has been well recognised by users who perform their sourcing in China through the internet. The number of registered users of the product continued to grow during the reporting period and reached approximately 6.1 million as at 30th September, 2007. The Group has experienced strong growth in the sales of “Mai-Mai-Tong – 買賣通” during the period under review. The revenue generated from the sales of “Mai-Mai-Tong – 買賣通” increased by approximately 36.7% as compared to the corresponding period last year.

On 22nd October, 2007, Hong Kong Huicong International Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Madeinchina, Inc. and Mr. Zheng Min, pursuant to which the Group acquired a 19% equity interest in Madeinchina, Inc. with a call option which enables the Group to fully evaluate the growth and performance of this international on-line marketplace before increasing its investment to approximately 28.9% in Madeinchina, Inc. at the pre-fixed exercise price. Through the Group's investment in Madeinchina, Inc., the Group divested its business into the international e-commerce market to capture opportunities arising from enormous consumer demand as a result of the significant growth in both the import and export sectors in China.

On behalf of the board of Directors, I would like to take this opportunity to thank management and every member of the Group for their on-going dedication and hard work.

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30TH SEPTEMBER, 2007

	Note	Unaudited Three months ended 30th September,		Unaudited Nine months ended 30th September,	
		2007 RMB'000	2006 RMB'000 (As restated)	2007 RMB'000	2006 RMB'000 (As restated)
Continuing operations					
Sales		79,059	76,327	214,692	208,614
Cost of sales		(33,428)	(36,519)	(91,975)	(102,098)
Gross profit		45,631	39,808	122,717	106,516
Other income		566	410	1,513	1,150
Selling and marketing expenses		(20,002)	(25,287)	(66,930)	(72,999)
Administrative expenses		(23,844)	(25,864)	(68,122)	(73,413)
Gain on disposal and termination of subsidiaries and branches		-	592	-	196
Finance costs		(444)	-	(1,512)	(685)
Impairment of goodwill		-	-	-	(2,314)
Profit/(loss) before income tax		1,907	(10,341)	(12,334)	(41,549)
Income tax	4	(833)	982	(1,209)	3,181
Profit/(loss) for the period from continuing operations		1,074	(9,359)	(13,543)	(38,368)
Loss for the period from discontinued operations	3	-	(15,945)	-	(34,662)
Profit/(loss) for the period		1,074	(25,304)	(13,543)	(73,030)
Attributable to:					
Equity holders of the Company		556	(24,542)	(11,563)	(60,678)
Minority interest		518	(762)	(1,980)	(12,352)
		1,074	(25,304)	(13,543)	(73,030)

	Note	Unaudited Three months ended 30th September, 2007		Unaudited Nine months ended 30th September, 2007	
		RMB'000	2006 RMB'000 (As restated)	RMB'000	2006 RMB'000 (As restated)
Earnings/(loss) per share from continuing operations attributable to the equity holders of the Company during the period (expressed in RMB per share)					
Basic	5	<u>RMB0.0011</u>	<u>RMB(0.0407)</u>	<u>RMB(0.0237)</u>	<u>RMB(0.0894)</u>
Diluted	5	<u>RMB0.0011</u>	<u>RMB(0.0407)</u>	<u>RMB(0.0237)</u>	<u>RMB(0.0894)</u>
Loss per share from discontinued operations attributable to the equity holders of the Company during the period (expressed in RMB per share)					
Basic	5	<u>N/A</u>	<u>RMB(0.0106)</u>	<u>N/A</u>	<u>RMB(0.0376)</u>
Diluted	5	<u>N/A</u>	<u>RMB(0.0106)</u>	<u>N/A</u>	<u>RMB(0.0376)</u>
Dividends	6	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## NOTES TO THE ACCOUNTS

### 1. General information and basis of preparation

#### *General information*

HC International, Inc. (“the Company”) and its subsidiaries (collectively referred as the “Group”) organise 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 marketplace 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 generate 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.

The unaudited condensed consolidated third quarterly financial information are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The unaudited condensed consolidated third quarterly financial information have been approved for issue by the board of Directors on 14th November, 2007.

#### *Basis of preparation*

This unaudited condensed consolidated third quarterly financial information for the nine month ended 30th September, 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 condensed third quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December, 2006.

#### *Comparatives*

In its unaudited third quarterly financial information of year 2006, the Group presented separately the loss on disposal of discontinued operations and loss for the period from discontinued operations. To be consistent with the presentation of operating results as in the 2006 annual report of the Group, the loss on disposal of discontinued operations in the comparative figures for the three and nine months ended 30 September 2006 have been reclassified by combining with the loss for the period from discontinued operations.

### 2. Accounting policies

The accounting policies and methods of computations adopted in the preparation of this unaudited condensed consolidated third quarterly financial information are consistent with those of the annual financial statements for the year ended 31st December, 2006, as described in the annual report for the year ended 31st December, 2006.

This unaudited condensed consolidated third quarterly financial information has been prepared in accordance with those HKAS, HKFRS and interpretations of HKAS (together “HKFRSs”) issued and effective as at the time of preparing this unaudited condensed consolidated interim financial information.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31st December, 2007 and are relevant to the Group’s operations.



- HKFRS 7, 'Financial instruments: Disclosures', and the complementary Amendment to HKAS 1, 'Presentation of Financial Statements – Capital Disclosures' (effective for annual periods beginning on or after 1st January, 2007). HKFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments; and Amendment to HKAS 1 requires the disclosure of information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The Group has adopted the standards starting from 1st January, 2007, and the disclosures as required by these standards will be disclosed in the Group's 2007 annual report.
- HK(IFRIC)-Int 8, 'Scope of HKFRS 2' (effective for annual periods beginning on or after 1st May, 2006), requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. This interpretation has no material financial impact on the Group, and does not result in substantial changes to the Group's accounting policies, financial statement disclosures or presentation as compared to that used in the preparation of the financial statements as of and for the year ended 31st December, 2006.
- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment' (effective for annual periods beginning on or after 1st November, 2006), prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation has no material financial impact on the Group.

The following new standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1st January, 2009;
- HK (IFRIC)-Int 11, 'Group and treasury share transactions', effective for annual periods beginning on or after 1st March, 2007; and
- HK (IFRIC)-Int 12, 'Service concession arrangements', effective for HK (IFRIC) periods beginning on or after 1st January, 2008.

Management is assessing the impact of the above new standards and interpretations, which have been issued but are not effective for 2007, on the Group's operations.

This unaudited condensed consolidated third quarterly financial information has been prepared under the historical cost convention.

### 3. Non-current assets held for sale and 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:

	<b>Unaudited</b>	
	<b>Nine months ended</b>	
	<b>30th September,</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	<i>RMB'000</i>
		(As restated)
Revenue	–	18,075
Cost of sales	–	(21,864)
Interest income	–	94
Expenses	–	(18,871)
	<hr/>	<hr/>
Loss before income tax of discontinued operations	–	(22,566)
Income tax expense	–	(18)
	<hr/>	<hr/>
Loss after income tax from discontinued operations	–	(22,584)
Loss on disposal and termination of discontinued operations	–	(12,078)
	<hr/>	<hr/>
Loss for the period from discontinued operations	–	(34,662)
	<hr/>	<hr/>

#### 4. Income tax

The amount of tax charged to the condensed consolidated income statement represents:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30th September,</b>		<b>30th September,</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC Enterprise income tax (“EIT”) (ii)	<b>(539)</b>	(445)	<b>(1,623)</b>	(1,275)
Deferred income tax	<b>(294)</b>	1,427	<b>414</b>	4,456
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>(833)</b>	982	<b>(1,209)</b>	3,181
	<hr/>	<hr/>	<hr/>	<hr/>

- (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 7.5% to 15% during the period.

## 5. Earnings per share

The calculation of basic earnings/(loss) per share from continuing operations for the three months and nine months ended 30th September, 2007 is based on the respective unaudited continuing operation's profit/(loss) attributable to the equity holders of RMB556,000 and RMB(11,563,000) (2006: RMB(19,492,000) and RMB(42,716,000)) and the weighted average of 489,652,000 and 488,280,000 (2006: 478,565,000 and 477,637,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months ended 30th September, 2007 is based on the unaudited continuing operation's profit attributable to the equity holders of approximately RMB556,000 and the weighted average of approximately 498,858,000 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 and share options at exercise price HK\$1.24 under the Share Option Scheme had been exercised at the date of grant. Since the exercise price of the share options at HK\$1.49 and HK\$2.4 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 has not been taken into account in calculating diluted earnings per share (2006: anti-dilutive). Diluted loss per share from continuing operations for the nine months ended 30th September, 2007 and its comparative are the same as basic loss per share since all potential ordinary shares are anti-dilutive.

There was no basic or diluted earnings/(loss) per share for the three months and nine months ended 30th September, 2007 from discontinued operations since there were no discontinued operation during the period.

The calculation of basic loss per share from discontinued operations for the three months and nine months ended 30th September, 2006 is based on the respective unaudited discontinued operation's loss attributable to the equity holders of approximately RMB5,051,000 and RMB17,963,000 and the weighted average of approximately 478,565,000 and 477,637,000 ordinary shares in issue during the period. Diluted loss per share from discontinued operations for the three months and nine months ended 30th September, 2006 are the same as basic loss per share since all potential ordinary shares are anti-dilutive.

## 6. Dividends

No dividends was paid or declared by the Company during the period (2006: nil).

## 7. Other reserves

	Group					Total RMB'000
	Capital reserve RMB'000	Merger reserve RMB'000	Share-based compensation reserves RMB'000	Share premium RMB'000	Exchange reserve RMB'000	
Balance 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	-	-	2,399	-	-	2,399
At 30th September, 2006	<u>987</u>	<u>108,830</u>	<u>15,076</u>	<u>132,893</u>	<u>-</u>	<u>257,786</u>
Balance at 1st January, 2007	987	108,830	16,621	132,893	(4,322)	255,009
Exercise of share options	-	-	-	3,724	-	3,724
Currency translation difference	-	-	-	-	(885)	(885)
Share option scheme-value of employee services	-	-	345	-	-	345
At 30th September, 2007	<u>987</u>	<u>108,830</u>	<u>16,966</u>	<u>136,617</u>	<u>(5,207)</u>	<u>258,193</u>

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

As at 30th September, 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	Approximate	
						Total number of shares	percentage of share capital
Guo Fansheng	Beneficial owner	64,088,863	-	-	-	64,088,863	13.09%
Li Jianguang	Beneficial owner	-	-	40,000,384 (Note 1)	-	40,000,384 (Note 1)	8.17%
Guo Jiang	Beneficial owner	8,509,923 (Note 2)	-	-	-	8,509,923 (Note 2)	1.74%

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) 4,934,000 underlying shares derived from the share options granted under the share option scheme of the Company of which 734,000 underlying shares derived from the share options granted to Mr. Guo's spouse under the Share Option Scheme.

### (b) Directors' Short Positions

There was no Directors' short positions as at 30th September, 2007.

## 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, 2007, options to subscribe for an aggregate of 12,332,440 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 1st January 2007	Granted during the period	Exercised during the period (Note 3)	Lapsed during the period	As at 30th September 2007 (Note 1)
<i>Directors</i>							
GUO Jiang	2nd December, 2003	0.44	338,692	-	(338,692)	-	-
<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>							
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	11,788,441	-	(10,344,879)	-	1,443,562
Total			23,418,207	-	(11,085,767)	-	12,332,440

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 shares of the Company in respect of which the option has been previously exercised).
- As at 30th September, 2007, there were 5 employees who had been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 1,443,562 shares of the Company.
- During the nine months ended 30th September, 2007, 11,085,767 options granted to employees under the Pre-IPO Share Option Scheme were exercised. At the date before the options were exercised, the weighted average closing price per share of the Company was HK\$1.50.

**(b) Share Option Scheme**

As at 30th September, 2007, options to subscribe for an aggregate of 39,900,000 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, 2007 (Note 1)
			As at 1st January, 2007	Granted during the period	Exercised during the period	Lapsed during the period	
<i>Directors</i>							
GUO Jiang	18th February, 2004	2.40	1,000,000	-	-	-	1,000,000
	23rd June, 2006	1.49	1,000,000	-	-	-	1,000,000
	11th July, 2007	1.24	-	2,200,000	-	-	2,200,000
<i>Senior management</i>							
WU Hui	11th July 2007	1.24	-	800,000	-	-	800,000
YAO Jianjiang	23rd June, 2006	1.49	270,000	-	-	-	270,000
	11th July, 2007	1.24	-	900,000	-	-	900,000
LÜ Tong	23rd June 2006	1.49	166,000	-	-	-	166,000
	11th July 2007	1.24	-	1,400,000	-	-	1,400,000
ZHANG Chuanjun	18th February, 2004	2.40	50,000	-	-	-	50,000
	23rd June, 2006	1.49	200,000	-	-	-	200,000
	11th July, 2007	1.24	-	980,000	-	-	980,000
WANG Lijie	18th February, 2004	2.40	175,000	-	-	-	175,000
	23rd June, 2006	1.49	266,000	-	-	-	266,000
	11th July, 2007	1.24	-	1,460,000	-	-	1,460,000
SUN Wei	23rd June, 2006	1.49	332,000	-	-	-	332,000
	11th July, 2007	1.24	-	1,000,000	-	-	1,000,000

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th September, 2007 (Note 1)
			As at 1st January, 2007	Granted during the period	Exercised during the period	Lapsed during the period	
<i>Other employees</i>							
In aggregate (Note 2)	18th February, 2004	2.40	16,925,000	-	-	(9,350,000)	7,575,000
In aggregate (Note 3)	23rd June, 2006	1.49	7,766,000	-	-	(1,900,000)	5,866,000
In aggregate (Note 4)	11th July, 2007	1.24	-	14,260,000	-	-	14,260,000
Total			28,150,000	23,000,000	-	(11,250,000)	39,900,000

**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 grant of options.

For the options exercisable at HK\$2.40 granted on 18th February, 2004, the relevant grantees 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 date of the grant of options.

For the options exercisable at HK\$1.49 granted on 23rd June, 2006, the relevant grantees may exercise these options in a 10-year period starting from the expiry of twelve months from the date of the grant of options.

For the options exercisable at HK\$1.24 granted on 11th July, 2007, the relevant grantees may exercise options up to 50% 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 and second anniversaries of the date of the grant of options.

2. 103 employees have been granted options under the Share Option Scheme to acquire an aggregate of 7,575,000 shares of the Company at HK\$2.40 per share.
3. 72 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,866,000 shares of the Company at HK\$1.49 per share.
4. 88 employees have been granted options under the Share Option Scheme to acquire an aggregate of 14,260,000 shares of the Company at HK\$1.24 per share.
5. The fair value of options granted under the Share Option Scheme on 18th February, 2004, determined using the Binomial Model value model, was approximately 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.

6. The fair value of options granted under the Share Option Scheme on 23rd June, 2006, determined using the Binomial Model valuation model, was approximately RMB3,919,000. 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.
7. The fair value of options granted under the Share Option Scheme on 11th July, 2007, determined using the Binomial Model valuation model, was approximately RMB9,389,532. The significant inputs into the model were exercise price of HK\$1.24 standard deviation of expected share price returns of 49.0%, expected life of options ranging from 2.4 to 6.2 years expected dividend paid cut rate of 0% and annual risk-free interest rate 4.757%. 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 30th September, 2007, the interests of substantial shareholders (not being Directors and chief executives 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:

<b>Name of substantial shareholder</b>	<b>Long position</b>	<b>Short position</b>	<b>Nature of Interests/Holdings capacity</b>	<b>Approximate percentage of share capital</b>
McCARTHY Kent C.	124,823,850 (Note 1)	–	Interest in controlled corporation	25.49%
HINRICHS Merle Allan	62,652,000 (Note 2)	–	Interest in controlled corporation	12.80%
MCGOVERN Patrick J.	25,473,954 (Note 3)	–	Interest in controlled corporation	5.20%

Note:

1. Such interest in the Company comprises 66,323,850 shares, 49,598,192 shares, 5,779,000 shares and 3,122,808 shares owned by Jayhawk China Fund (Cayman), Ltd, Jayhawk Private Equity Fund, L.P., Buffalo Jayhawk China Fund and Jayhawk Private Equity Co-Invest Fund, L.P., respectively. The entire issued share capital of each of the abovementioned companies is owned by Mr. McCarthy.



2. Such interest in the Company comprises 5,916,000 shares and 56,736,000 shares owned 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.
3. Such interest in the Company is owned 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. Li Jianguang 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, 2007.

### **DIRECTORS INTERESTS IN COMPETING BUSINESS**

Mr. Pepples John Craig, 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 and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the nine months ended 30th September, 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 nine months ended 30th September, 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*)

Mr. Guo Jiang (*Executive Director*)

Mr. Wu Hui (*Executive Director*)

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

Mr. Pepples John Craig (*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, 2007