



# First Quarterly Report

## 2008



慧聪网有限公司  
HC INTERNATIONAL, INC.

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

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

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

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

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

*This report, for which the directors (the “Directors”) of HC International, Inc. (the “Company”) 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>31st March,</b>	
	<b>2008</b>	2007
	<b>RMB'000</b>	<i>RMB'000</i>
Sales	<b>63,308</b>	57,355
Gross profit	<b>33,746</b>	30,405
EBITDA	<b>8,168</b>	(7,420)
Profit/(loss) attributable to equity holders	<b>3,077</b>	(12,515)

- Turnover of the Group for the three months ended 31st March, 2008 was approximately RMB63.31 million as compared to approximately RMB57.36 million for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the three months ended 31st March, 2008 was approximately 53.3% as compared to approximately 53.0% for the corresponding period in the previous financial year.
- EBITDA of the Group for the three months ended 31st March, 2008 was a profit of approximately RMB8.17 million as compared to a loss of approximately RMB7.42 million for the corresponding period in the previous financial year.
- Profit/(loss) attributable to equity holders of the Group for the three months ended 31st March, 2008 was approximately RMB3.08 million as compared to approximately RMB(12.52) 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, 2008, the Group recorded a turnover of approximately RMB63.31 million from the operations (2007: RMB57.36 million).

During the reporting period, the Group achieved a turnover of approximately RMB22.62 million (2007: RMB21.81 million) from its on-line business segment, which amounted to approximately 35.7% of the Group's total revenue during the period under review, representing an increase of about 3.7% when compared to the corresponding period last year.

The gross profit margin of the Group increased by about 0.3 percentage points from approximately 53.0% last year to approximately 53.3% during the period under review. The gross profit margin of the Group's on-line business segment increased by about 1.4 percentage points from approximately 74.0% last year to approximately 75.4%, and the gross profit margin of the trade catalogues and yellow page directories business segment of the Group increased by about 2.4 percentage points from approximately 42.6% last year to approximately 45.0% during the period under review.

During the three months ended 31st March, 2008, a net profit attributable to equity holders of approximately RMB3.08 million was recorded by the Group (2007: loss of RMB12.52 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 8 million as at 31st March, 2008.

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 CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE THREE MONTHS ENDED 31ST MARCH, 2008**

		Three months ended 31st March,	
		2008	2007
	Note	<b>RMB'000</b>	<i>RMB'000</i>
Sales		<b>63,308</b>	57,355
Cost of sales		<b>(29,562)</b>	(26,950)
Gross profit		<b>33,746</b>	30,405
Other income		<b>2,772</b>	425
Other gains-net		<b>5,954</b>	-
Selling and marketing expenses		<b>(18,973)</b>	(21,583)
Administrative expenses		<b>(23,082)</b>	(23,768)
Finance costs		<b>-</b>	(531)
Profit/(loss) before income tax		<b>417</b>	(15,052)
Income tax	2	<b>2,253</b>	164
Profit/(loss) for the period		<b>2,670</b>	(14,888)
Attributable to:			
Equity holders of the Company		<b>3,077</b>	(12,515)
Minority interest		<b>(407)</b>	(2,373)
		<b>2,670</b>	(14,888)
Earnings/(loss) per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic	3	<b>0.0062</b>	(0.0257)
Diluted	3	<b>0.0062</b>	(0.0257)
Dividends	4	<b>-</b>	-

## 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 first quarterly financial information are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The unaudited condensed consolidated first quarterly financial information have been approved for issue by the board of Directors on 12th May, 2008.

#### *Basis of preparation*

This unaudited condensed consolidated first quarterly financial information for the three month ended 31st March, 2008 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 first quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December, 2007.

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

## 2. Income tax

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

	Three months ended 31st March,	
	2008	2007
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– The PRC enterprise income tax (“EIT”) (ii)	(79)	(461)
Deferred income tax	2,332	625
	<u>2,253</u>	<u>164</u>

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2007: 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 25%. Certain subsidiaries enjoy tax preferential rights and subject to a tax rate of 7.5% to 18% during the period.

## 3. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's unaudited profit/(loss) attributable to the equity holders of approximately RMB3,077,000 (2007: RMB(12,515,000)) for the three months ended 31st March, 2008 and the weighted average of approximately 492,837,000 (2007: 486,599,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the Group's unaudited profit attributable to the equity holders of approximately RMB3,077,000 for the three months ended 31st March, 2008 and the diluted weighted average of approximately 496,138,000 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. Since the exercise price of the share options at HK\$1.24, 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 (2007: anti-dilutive).

#### 4. Dividends

No dividends was paid or declared by the Company during the period (2007: Nil).

#### 5. Other reserves

	Group					Total <i>RMB'000</i>
	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Share-based compensation reserves <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	
Balance at 1st January, 2007	132,893	987	108,830	16,621	(4,322)	255,009
Exercise of share options	3,119	-	-	-	-	3,119
Share option scheme-value of employee services	-	-	-	1,139	-	1,139
Currency translation difference	-	-	-	-	(936)	(936)
	3,119	-	-	1,139	(936)	3,322
At 31st March, 2007	<u>136,012</u>	<u>987</u>	<u>108,830</u>	<u>17,760</u>	<u>(5,258)</u>	<u>258,331</u>
Balance at 1st January, 2008	137,647	987	108,830	20,399	(5,978)	261,885
Exercise of share options	-	-	-	-	-	-
Share option scheme-value of employee services	-	-	-	1,686	-	1,686
Currency translation difference	-	-	-	-	(752)	(752)
	-	-	-	1,686	(752)	934
At 31st March, 2008	<u>137,647</u>	<u>987</u>	<u>108,830</u>	<u>22,085</u>	<u>(6,730)</u>	<u>262,819</u>



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

As at 31st March, 2008, the interests of the Directors and the chief executive in the shares, underlying shares and debentures 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 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	13.00%
Li Jianguang	Beneficial owner	-	-	40,000,384 (Note 1)	-	40,000,384 (Note 1)	8.12%
Guo Jiang	Beneficial owner	8,509,923 (Note 2)	-	-	-	8,509,923 (Note 2)	1.73%
Wu Hui	Beneficial owner	800,000 (Note 3)	-	-	-	800,000 (Note 3)	0.16%

Notes:

- 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.
- Such interest in the Company comprises:
  - 3,575,923 shares of the Company of which 1,074,625 shares of the Company are held by Mr. Guo's spouse; and
  - 4,934,000 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.
- The references to 800,000 underlying shares are derived from the share options granted under the Share Option Scheme.

### (b) Directors' Short Positions in the shares of the Company

There was no Directors' short position as at 31st March, 2008.

## 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, 2008, options to subscribe for an aggregate of 9,147,120 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 2008 (Note 1)
			As at 1st January 2008	Granted during the period	Exercised during the period	Lapsed during the period	
<i>Ex-employees</i>							
FAN Qimiao	2nd December 2003	0.44	5,111,104	-	-	-	5,111,104
GU Yuanchao	2nd December 2003	0.44	3,777,774	-	-	-	3,777,774
<i>Other employees</i>							
In aggregate (Note 2)	2nd December 2003	0.44	258,242	-	-	-	258,242
<b>Total</b>			<b>9,147,120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,147,120</b>

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 31st March, 2008, there were 3 employees who had been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 258,242 shares of the Company.

**(b) Share Option Scheme**

As at 31st March, 2008, options to subscribe for an aggregate of 36,004,000 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 2008 (Note 1)
			As at 1st January 2008	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
WU Hui	11th July 2007	1.24	800,000	-	-	-	800,000
<i>Senior management</i>							
GENG Yi	18th February 2004	2.40	300,000	-	-	-	300,000
	23rd June 2006	1.49	434,000	-	-	-	434,000
ZHANG Chuanjun	18th February 2004	2.40	50,000	-	-	-	50,000
	23rd June 2006	1.49	200,000	-	-	-	200,000
WANG Lijie	11th July 2007	1.24	980,000	-	-	-	980,000
	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
<i>Other employees</i>							
In aggregate (Note 2)	18th February 2004	2.40	7,275,000	-	-	-	7,275,000
In aggregate (Note 3)	23rd June 2006	1.49	5,640,000	-	-	(236,000)	5,404,000
In aggregate (Note 4)	11th July 2007	1.24	17,560,000	-	-	(3,100,000)	14,460,000
Total			39,340,000	-	-	(3,336,000)	36,004,000

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. 87 employees have been granted options under the Share Option Scheme to acquire an aggregate of 7,275,000 shares of the Company at HK\$2.40 per share.
3. 65 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,404,000 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 14,460,000 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 of HK\$2.4, 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 RMB9,390,000. 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 31st March, 2008, the interest of substantial shareholders (not being Directors and the chief executive officer 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	Class of shares	Long position	Short position	Approximate Interests/Holding capacity	Percentage of share capital
McGovern Patrick J.	Ordinary	104,790,697 <i>(Note 1)</i>	–	Interest in controlled corporation	21.26%
McCarthy Kent C.	Ordinary	103,210,000 <i>(Note 2)</i>	–	Interest in controlled corporation	20.94%
Zhou Quan	Ordinary	79,316,743 <i>(Note 3)</i>	–	Interest in controlled corporation	16.09%

*Notes:*

- Such interest in the Company comprises 25,473,954 shares, 16,664,743 shares and 62,652,000 shares owned by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., the majority shareholder of which is Mr. Patrick McGovern, IDG Technology Venture Investments, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investments, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, and IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, respectively.
- Such interest in the Company comprises 772,000 shares, 88,026,659 shares, 8,869,000 shares and 5,542,341 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.
- Such interest in the Company comprises 16,664,743 shares and 62,652,000 shares owned by IDG Technology Venture Investments, L.P., a limited partnership controlled by IDG Technology Venture Investments, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, and IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is in turn jointly controlled by Mr. Patrick McGovern and Mr. Quan Zhou, respectively.

## **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 two independent non-executive Directors Mr. Zhang Ke and Mr. Xiang Bing and an non-executive Director, Mr. Li Jianguang. 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, 2008.

## **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, 2008.

By order of the board of Directors

**HC International, Inc.**

**Guo Jiang**

*Chief Executive Officer and Executive Director*

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

Mr. Guo Fansheng (*Executive Director*)

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

Mr. Wu Hui (*Executive Director*)

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

Mr. Zhang Ke (*Independent non-executive Director*)

Mr. Xiang Bing (*Independent non-executive Director*)

Mr. Guo Wei (*Independent non-executive Director*)

Beijing, PRC, 12th May, 2008