

# Third Quarterly Report 2009

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慧聪网有限公司  
HC INTERNATIONAL, INC.

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.**

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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.*

The board of the Directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30th September, 2009, together with the comparative figures for the corresponding period in 2008.

## FINANCIAL HIGHLIGHTS

	Three months ended 30th September,		Nine months ended 30th September,	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	82,235	74,925	226,740	223,518
Gross profit	42,218	39,744	121,881	120,826
EBITDA	8,097	8,159	18,968	27,306
Profit/(loss) attributable to equity holders	1,205	3,490	(3,557)	6,492

- Turnover of the Group for the nine months ended 30th September, 2009 was approximately RMB226.74 million as compared to approximately RMB223.52 million for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the nine months ended 30th September, 2009 was approximately 53.8% as compared to approximately 54.1% for the corresponding period in the previous financial year.
- EBITDA of the Group for the nine months ended 30th September, 2009 was a profit of approximately RMB18.97 million as compared to a profit of approximately RMB27.31 million for the corresponding period in the previous financial year. EBITDA represents earning before interest, income tax, depreciation, amortisation of intangible assets, land use rights and share base payments.
- (Loss)/profit attributable to equity holders of the Group for the nine months ended 30th September, 2009 was approximately RMB(3.56) million as compared to approximately RMB6.49 million for the corresponding period in the previous financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial and Business Review

During the nine months period ended 30th September, 2009, the Group recorded a turnover of approximately RMB226.74 million from the operations (2008: RMB223.52 million).

During the reporting period, the Group achieved a turnover of approximately RMB82.72 million (2008: RMB100.65 million) from its trade catalogues and yellow page directories business segment, which amounted to about 36.5% of the Group's total revenue during the period under review. The Group achieved a turnover of approximately RMB97.44 million (2008: RMB84.97 million) from its On-line services business segment, which amounted to about 43.0% of the Group's total revenue during the period under review. The Group achieved a turnover of approximately RMB28.97 million (2008: RMB34.16 million) from its Market research and analysis business segment, which amounted to about 12.8% of the Group's total revenue during the period under review. The Group's Market research and analysis revenue is a price charged at 66.7% on the net annual revenue of Beijing D&B HuiCong Market Research Co., Ltd. ("Sales JV Co"), a joint venture company of the Group.

During the nine months period ended 30th September, 2009, a net loss attributable to equity holders of approximately RMB3.56 million was recorded by the Group (2008: profit of RMB6.49 million).

The Group continued to enhance the features of its on-line marketplace, "Mai-Mai-Tong – 買賣通". In September, 2008, a new version of "Mai-Mai-Tong – 買賣通" was released which has greatly improved the users' experience on the on-line shops and search engine.

"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.

In addition, the agency sales and the tele-sales teams have demonstrated their ability to support the industry direct sales team, and as a result, they have strengthened the Group's sales forces in both the industrial sectors and the fast moving consumer goods sectors.

On behalf of the Board, 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 STATEMENT OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS AND NINE MONTHS ENDED 30TH SEPTEMBER, 2009**

	Note	Unaudited three months ended 30th September,		Unaudited nine months ended 30th September,	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Sales		82,235	74,925	226,740	223,518
Cost of sales		(40,017)	(35,181)	(104,859)	(102,692)
<b>Gross profit</b>		<b>42,218</b>	<b>39,744</b>	<b>121,881</b>	<b>120,826</b>
Other income		315	678	1,738	10,333
Selling and marketing expenses		(23,103)	(21,921)	(65,750)	(63,343)
Administrative expenses		(18,531)	(15,914)	(60,056)	(61,260)
Share of profit of an associated company		445	–	532	–
<b>Profit/(Loss) before income tax</b>		<b>1,344</b>	<b>2,587</b>	<b>(1,655)</b>	<b>6,556</b>
Income tax (expense)/credit	2	(103)	520	(1,429)	780
<b>Profit/(Loss) for the year</b>		<b>1,241</b>	<b>3,107</b>	<b>(3,084)</b>	<b>7,336</b>
<b>Other comprehensive profit/(loss)</b>					
Currency translation difference		(10)	(353)	(18)	(1,760)
<b>Total comprehensive profit/(loss) for the period</b>		<b>1,231</b>	<b>2,754</b>	<b>(3,102)</b>	<b>5,576</b>
<b>Profit/(loss) attributable to:</b>					
– equity holders of the Company		1,205	3,490	(3,557)	6,492
– minority interest		36	(383)	473	844
		1,241	3,107	(3,084)	7,336
<b>Total comprehensive profit/(loss) attributable to:</b>					
– equity holders of the Company		1,195	3,137	(3,575)	4,732
– minority interest		36	(383)	473	844
		1,231	2,754	(3,102)	5,576
<b>Earnings/(Loss) per share attributable to the equity holders of the Company during the period (expressed in RMB per share)</b>					
Basic	3	RMB0.0025	RMB0.0071	RMB(0.0073)	RMB0.0132
Diluted	3	RMB0.0025	RMB0.0071	RMB(0.0073)	RMB0.0131
Dividends	4	–	–	–	–

## NOTES TO THE ACCOUNTS

### 1. General information and basis of preparation

#### *General information*

HC International, Inc. ("the Company") and its subsidiaries (together 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 registered office is situated at 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.

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 on 11th November, 2009.

#### *Basis of preparation*

This unaudited condensed consolidated third quarterly financial information for the nine month ended 30th September, 2009 has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of 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, 2008.

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

### 2. Income tax (expense)/credit

	Three months ended 30th September,		Nine months ended 30th September,	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax ("CIT") (ii)	(999)	51	(2,592)	(2,690)
Deferred income tax	896	469	1,163	3,470
	(103)	520	(1,429)	780

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2008: Nil).
- (ii) The PRC corporate 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 15% to 20% during the period.

### 3. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 30th September, 2009 is based on the respective unaudited profit/(loss) attributable to the equity holders of approximately RMB1,205 thousand and RMB(3,557) thousand (2008: RMB3,490 thousand and RMB6,492 thousand) and the weighted average of approximately 488,179 thousand and 488,179 thousand (2008: 491,722 thousand and 492,465 thousand) ordinary shares in issue during the period.

The calculation of diluted earnings/(loss) per share is based on the Group's unaudited profit attributable to the equity holders of approximately RMB1,205 thousand for the three months ended 30th September, 2009 and the diluted weighted average of approximately 488,987 thousand 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, HK\$0.604 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 (2008: anti-dilutive).

Diluted loss per share for the nine months ended 30th September, 2009 was the same as basic loss per share since all potential ordinary shares are anti-dilutive (2008: anti-dilutive).

### 4. Dividends

No dividends was paid or declared by the Company during the period (2008: nil).

### 5. Other reserves

	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Share redemption reserve RMB'000	Share-based compensation reserves RMB'000	Exchange reserve RMB'000	Total RMB'000
As at 1st January, 2008	137,647	987	108,830	-	20,399	(5,978)	261,885
Currency translation difference	-	-	-	-	-	(1,760)	(1,760)
Share option scheme-value of employee services	-	-	-	-	2,585	-	2,585
As at 30th September, 2008	137,647	987	108,830	-	22,984	(7,738)	262,710
As at 1st January, 2009	132,734	987	108,830	496	23,733	(6,812)	259,968
Currency translation difference	-	-	-	-	-	(18)	(18)
Share option scheme-value of employee services	-	-	-	-	5,380	-	5,380
As at 30th September, 2009	132,734	987	108,830	496	29,113	(6,830)	265,330

### 6. Events after the balance sheet date

On 9th November, 2009, Beijing Huicong International Information Co. Ltd, a non-wholly owned subsidiary of the Company, entered into two construction contracts with two independent contractors in relation to the construction of two training centres and a research and development office building at an aggregate consideration of RMB19,500,000.

Details of the two construction contracts are disclosed in the announcement of the Company dated 9th November, 2009.

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

As at 30th September, 2009, the interests and short positions of the Directors and the chief executives 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) or 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	Approximate	
						Total number of shares	percentage of shareholding
Guo Fansheng	Beneficial owner	39,447,015	-	-	-	39,447,015	8.08%
Li Janguang	Interest in controlled corporation	-	-	40,000,384 (Note 1)	-	40,000,384 (Note 1)	8.19%
Guo Jiang	Beneficial owner/ Family interests	34,349,146 (Note 2)	2,808,625 (Note 2)	-	-	37,157,771 (Note 2)	7.61%

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:
  - 29,223,771 shares of the Company of which 1,074,625 shares of the Company are held by Ms. Geng Yi, Mr. Guo's spouse; and
  - 7,934,000 underlying shares derived from the share options granted under the Share Option Scheme of which 1,734,000 underlying shares derived from the share options granted to Ms. Geng Yi under the Share Option Scheme (as defined below).

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

There was no Directors' short position as at 30th September, 2009.



## 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, 2009, 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 30th September, 2009 (Note 1)
			As at 1st January, 2009	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 in full, 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, 2009, 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 30th September, 2009, options to subscribe for an aggregate of 38,298,000 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, 2009 (Note 1)
			As at 1st January, 2009	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
	29th September, 2008	0.604	2,000,000	-	-	-	2,000,000
<i>Senior management</i>							
GENG Yi	18th February, 2004	2.40	300,000	-	-	-	300,000
	23rd June, 2006	1.49	434,000	-	-	-	434,000
	29th September, 2008	0.604	1,000,000	-	-	-	1,000,000
Guo Bingbing	29th September, 2008	0.604	800,000	-	-	-	800,000
Hong Guangzhi	29th September, 2008	0.604	1,000,000	-	-	-	1,000,000
Zhao Long	18th February, 2004	2.40	30,000	-	-	-	30,000
	23rd June, 2006	1.49	66,000	-	-	-	66,000
	11th July, 2007	1.24	145,000	-	-	-	145,000
	29th September, 2008	0.604	800,000	-	-	-	800,000
Wu Xiaorong	29th September, 2008	0.604	1,000,000	-	-	-	1,000,000
Gao Xin	29th September, 2008	0.604	1,000,000	-	-	-	1,000,000
<i>Other employees</i>							
In aggregate (Note 2)	18th February, 2004	2.40	6,390,000	-	-	(261,000)	6,129,000
In aggregate (Note 3)	23rd June, 2006	1.49	3,132,000	-	-	(180,000)	2,952,000
In aggregate (Note 4)	11th July, 2007	1.24	10,388,000	-	-	(546,000)	9,842,000
In aggregate (Note 5)	29th September, 2008	0.604	7,000,000	-	-	(400,000)	6,600,000
Total			39,685,000	-	-	(1,387,000)	38,298,000

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 in full, 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 in full, 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.

For the options exercisable at HK\$0.604 granted on 29th September, 2008, 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.

2. 57 employees have been granted options under the Share Option Scheme to acquire an aggregate of 6,129,000 shares of the Company at HK\$2.40 per share.
3. 38 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,952,000 shares of the Company at HK\$1.49 per share.
4. 47 employees have been granted options under the Share Option Scheme to acquire an aggregate of 9,842,000 shares of the Company at HK\$1.24 per share.
5. 30 employees have been granted options under the Share Option Scheme to acquire an aggregate of 6,600,000 shares of the Company at HK\$0.604 per share.
6. 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.
7. 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 out rate of 0% and annual risk free interest rate of 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.

8. 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 of 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.
9. The fair value of options granted under the Share Option Scheme on 29th September, 2008, determined using the Binomial Model valuation model, was approximately RMB2,756,000. The significant inputs into the model were exercise price of HK\$0.604 standard deviation of expected share price returns of 72.2%, expected life of options ranging from 3.8 to 4.8 years expected dividend paid cut rate of 0% and annual risk-free interest rate of 3.133%. 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.
10. In the extraordinary general meeting of the Company held on 20th June, 2008, an ordinary resolution was passed by the shareholders of the Company to refresh the scheme mandate limit under the Share Option Scheme. For details, Please refer to the Company's circular and announcement dated 5th June, 2008 and 20th June, 2008 respectively.

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

As at 30th September, 2009, the interest of persons (not being Directors and the chief executive officer of the Company) in the shares and underlying shares of the Company 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 shareholder	Class of shares	Long position	Nature of short position	Approximate interests/ Holding capacity	Approximate percentage of share capital
<i>Substantial shareholders</i>					
McCarthy Kent C.	Ordinary	117,350,000 (Note 1)	–	Interest in controlled corporation	24.04%
McGovern Patrick J	Ordinary	104,790,697 (Note 2)	–	Interest in controlled corporation	21.47%
Zhou Quan	Ordinary	79,316,743 (Note 3)	–	Interest in controlled corporation	16.25%
<i>Other person</i>					
Geng Yi	Ordinary	37,157,771 (Note 4)	–	Beneficial owner/ Family interests	7.61%

*Notes:*

1. Such interest in the Company comprises 110,507,531 shares, and 6,842,469 shares owned by Jayhawk Private Equity Fund, L.P. 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 Kent.
2. 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.
3. 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.
4. Such interest in the Company comprises:
  - (a) 29,223,771 shares of the Company of which 28,149,146 shares of the Company are held by Mr. Guo Jiang, Ms. Geng's spouse; and
  - (b) 7,934,000 underlying shares derived from the share options granted under the Share Option Scheme of which 6,200,000 underlying shares derived from the share options granted to Mr. Guo Jiang, Ms. Geng's spouse, under the Share Option Scheme.

Save as disclosed above, as at 30th September, 2009, the Company had not been notified of any interests or short positions of substantial shareholders or other persons in the shares and underlying shares of the Company which are required to be kept under Section 336 of the SFO.

## **AUDIT COMMITTEE**

Pursuant to Rule 5.28 of the GEM Listing Rules, 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 Effective 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. As at the date of this report, the audit committee comprises two independent non-executive Directors, Mr. Zhang Ke and Mr. Xiang Bing and a non-executive Director, Mr. Li Jianguang. 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, 2009.

## **DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS**

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 nine months ended 30th September, 2009.

## **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.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE**

The Board had reviewed the Company's corporate governance practices and was satisfied that the Company had been in compliance with the provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the nine months ended 30th September 2009.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company during the nine months period ended 30th September, 2009.

By order of the Board  
**HC International, Inc.**  
**Guo Jiang**  
*Chief Executive Officer and Executive Director*

As at the date of this report, the Board comprises:

Mr. Guo Fansheng (*Executive Director*)

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

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, 11th November, 2009