



慧聪网有限公司

HC INTERNATIONAL, INC.

Stock code: HK8292

A large, stylized red logo consisting of a central white circle with three flame-like shapes extending outwards, resembling a stylized '3' or a flame.

**2010**  
Third Quarterly  
Report

## **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 or deceptive; (2) there are no other matters the omission of which would make any statement in this report misleading or deceptive; 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.*

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The board of the Directors (the "Board") hereby announce the unaudited financial results of the Company and all its subsidiaries (collectively, the "Group") for the three months and the nine months ended 30th September 2010, respectively, together with the comparative figures for the corresponding periods ended 30th September 2009 to the shareholders of the Company.

### Financial Highlights

	Three months ended 30th September		Nine months ended 30th September	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Turnover	100,435	82,088	267,635	226,575
Gross Profit	47,258	42,114	124,742	121,760
EBITDA	6,475	8,894	631	21,403
Profit/(loss) attributable to equity holders	9,282	1,205	(1,889)	(3,557)

#### Key Financial Figures for the First Nine Months of 2010

- Turnover of the Group from continuing operations for the nine months ended 30th September 2010 was approximately RMB267.64 million as compared to approximately RMB226.58 million for the corresponding period in the previous financial year.
- Gross profit ratio of the Group from continuing operations for the nine months ended 30th September 2010 was approximately 46.6% as compared to approximately 53.7% for the corresponding period in the previous financial year.
- The Group incurred a profit before interest, income tax, depreciation, amortization of intangible assets, land use rights and share based payments EBITDA from continuing operations of approximately RMB631 thousand for the nine months ended 30th September 2010 as compared to EBITDA of approximately RMB21.4 million for the corresponding period in the previous financial year.
- Loss attributable to equity holders of the Group for the nine months ended 30th September 2010 was approximately RMB1.89 million as compared to approximately RMB3.56 million for the corresponding period in the previous financial year.

## Financial and Business Review

During the nine months period ended 30th September 2010, the Group recorded a turnover of approximately RMB267.64 million from the continuing operations (2009: RMB226.58 million).

During the reporting period, the Group achieved a turnover from continuing operations of approximately RMB66.93 million (2009: RMB82.72 million) from its trade catalogues and yellow page directories business segment. The Group achieved a turnover of approximately RMB114.7 million (2009: RMB97.44 million) from its on-line services business segment. The Group achieved a turnover of approximately RMB47.11 million (2009: RMB28.97 million) from its market research and analysis business segment. The Group achieved a turnover of approximately RMB38.9 million (2009: RMB17.45 million) from seminars and other services business segment.

The loss before income tax of the Group from continuing operations for the nine months period ended 30th September 2010 is approximately RMB13.17 million (2009: profit of RMB3.22 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. This new version improved the users’ experience on the on-line shops and search engines.

“Mai-Mai-Tong – 買賣通” is an innovative and user-friendly e-commerce platform launched by hc360.com in October 2004. It 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. and obtain real time and interactive information between buyers and sellers. The product has been well recognised by users who engage in the e-commerce industry in the People’s Republic of China (“PRC”). Also “Mai-Mai-Tong – 買賣通”, huge amount of enterprises have released important information in supply, purchase, tender invitation and agency etc., and many of them have also completed the initial stage of the transaction preparations on-line, and obtained long-term orders from purchasers.

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 the management and every member of the Group for their on-going dedication and hard work.

**Guo Jiang**

*Executive Director and Chief Executive Officer*

Beijing, PRC, 10th November 2010

## MANAGEMENT DISCUSSION AND ANALYSIS

### Material acquisitions and disposals

On 27th April 2010, Hong Kong Huicong International Group Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the “Agreement”) with Beijing Huicong Construction Information Consulting Co., Ltd. (北京慧聰建設信息諮詢有限公司). Pursuant to the Agreement, Huicong Construction Information Consulting Co., Ltd. agreed to sell its 18% equity interest in Beijing Huicong International Information Co., Ltd. to Hong Kong Huicong International Group Limited at a consideration of RMB54,800,000 (equivalent to approximately HK\$62,273,000). The transactions contemplated under the Agreement has been completed as at the date of this report. Please refer to the announcement and circular of the Company dated 27th April 2010 and 28th June 2010, respectively, for details of the Agreement.

On 9th July 2010, Beijing Huicong Zaichuang Technology Co., Ltd. (北京慧聰再創科技有限公司), a non-wholly owned subsidiary of the Company, entered into the five sale and purchase agreements with Guangzhou Junming Investment Co., Ltd. (廣州君茗投資有限公司), pursuant to which Beijing Huicong Zaichuang Technology Co., Ltd. agreed to purchase certain properties (“the Properties”) in Guangzhou at an aggregate consideration of RMB24,171,833 (equivalent to approximately HK\$27,468,000). The Properties are for commercial use and are intended for the Group’s own use. The entering into of the above transactions by Beijing Huicong Zaichuang Technology Co., Ltd. constitutes a disloseable transaction of the Company under the Listing Rules. Please refer to the announcement of the Company dated 9 July 2010 for details of the aforesaid transaction.

On 27th August 2010, the Company, entered into an equity transfer agreement for the disposal of its 60% equity interest in 北京花開富貴信息技術有限公司, a company established in the People’s Republic of China (“PRC”) which engages in business-to-business e-commerce involving foreign trade and related business in the PRC, for a consideration of RMB16,033,472 (equivalent to approximately HK\$18,568,005) (the “Disposal”). The Disposal has been completed as at the date of this report. Please refer to the announcement of the Company dated 27th August 2010 for the details of the aforesaid transaction.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30th September 2010

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
<b>Continuing operations</b>					
Revenue		100,435	82,088	267,635	226,575
Cost of revenue		(53,177)	(39,974)	(142,893)	(104,815)
<b>Gross profit</b>		<b>47,258</b>	42,114	<b>124,742</b>	121,760
Other income		732	315	1,936	1,738
Selling and marketing expenses		(24,650)	(22,484)	(79,232)	(64,218)
Administrative expenses		(22,355)	(16,817)	(61,329)	(56,591)
Share of profit of an associated company		226	445	715	532
<b>Profit/(loss) before income tax</b>		<b>1,211</b>	3,573	<b>(13,168)</b>	3,221
Income tax (expense)/credit	2	(123)	(339)	2,938	(2,055)
<b>Profit/(loss) for the period from continuing operations</b>		<b>1,088</b>	3,234	<b>(10,230)</b>	1,166
<b>Discontinued operation</b>					
Profit from discontinued operation	3	10,477	(1,993)	8,276	(4,250)
<b>Profit from the period</b>		<b>11,565</b>	1,241	<b>(1,954)</b>	(3,084)
<b>Other comprehensive profit/(loss)</b>					
Currency translation difference		(183)	(10)	(379)	(18)
<b>Total comprehensive profit/(loss) for the period</b>		<b>11,382</b>	1,231	<b>(2,333)</b>	(3,102)
<b>Profit/(loss) attributable to:</b>					
– equity holders of the Company		9,282	1,205	(1,889)	(3,557)
– non-controlling interests		2,283	36	(65)	473
		11,565	1,241	(1,954)	(3,084)
<b>Total comprehensive profit/(loss) attributable to:</b>					
– equity holders of the Company		9,099	1,195	(2,268)	(3,575)
– non-controlling interests		2,283	36	(65)	473
		11,382	1,231	(2,333)	(3,102)

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2010 RMB	2009 RMB	2010 RMB	2009 RMB
<b>Earnings/(loss) per share attributable to the equity holders of the Company during the periods</b>	4				
From continuing operations and discontinued operation					
– Basic		0.0190	0.0025	(0.0039)	(0.0073)
– Diluted		0.0187	0.0025	(0.0039)	(0.0073)
From continuing operations					
– Basic		(0.0024)	0.0066	(0.0208)	0.0014
– Diluted		(0.0024)	0.0066	(0.0208)	0.0014
From discontinued operation					
– Basic		0.0214	(0.0041)	0.0169	(0.0087)
– Diluted		0.0211	(0.0041)	0.0167	(0.0087)
Dividends	5	–	–	–	–

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1 General information and basis of preparation

(a) *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 and domiciled in the PRC. 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 of Hong Kong Limited (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 has been approved for issue by the Board on 10th November 2010.

(b) *Basis of preparation*

This unaudited condensed consolidated third quarterly financial information for the nine month ended 30th September 2010 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 2009.

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax ("CIT") (ii)	38	(999)	(1,683)	(2,592)
Deferred income tax	(161)	660	4,621	537
	(123)	(339)	2,938	(2,055)



- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2009: 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 Discontinued operation

During the period, the Group disposed its 60% equity interest in 北京花開富貴信息技術有限公司. An analysis of the results of the discontinued operation is as follows:

	Three months ended 30th September		Nine months ended 30th September	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Revenue	755	147	2,005	165
Expenses	(1,309)	(2,376)	(4,835)	(5,041)
Profit before income tax	(554)	(2,229)	(2,830)	(4,876)
Tax	-	236	-	626
Profit after income tax	(554)	(1,993)	(2,830)	(4,250)
Post tax profit on disposal of discontinued operation	11,031	-	11,106	-
Profit from discontinued operation	10,477	(1,993)	8,276	(4,250)

### 4 Earnings/ (loss) per share

The calculation of basic earnings/ (loss) per share for the three months and nine months ended 30th September 2010 is based on the respective unaudited profit/ (loss) attributable to the equity holders of approximately RMB9,282 thousand and RMB(1,889) thousand (2009: RMB1,205 thousand and RMB(3,557)thousand) and the weighted average of approximately 488,805 thousand and 488,583 thousand (2009: 488,179 thousand and 488,179 thousand) ordinary shares in issue during the period.

Diluted earning/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share options, the dilutive potential ordinary shares of the Company. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares over the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the loss per share. As a result, the basic loss per share and diluted loss per share are the same.

## 5 Dividends

No dividends was paid or declared by the Company during the period (2009: nil).

## 6 Other reserves

	Share premium <i>RMB'000</i>	Capita reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Share redemption reserve <i>RMB'000</i>	Share-based compensation reserves <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Total <i>RMB'000</i>
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
As at 1st January, 2010	132,734	987	108,830	496	29,071	(6,845)	265,273
Currency translation difference	-	-	-	-	-	(379)	(379)
Share option scheme-value of employee services	-	-	-	-	5,678	-	5,678
Exercise of share options	310	-	-	-	-	-	310
As at 30th September 2010	133,044	987	108,830	496	34,749	(7,224)	270,882

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th September 2010, 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 the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, 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	Approximate percentage of shareholding
Guo Fansheng	Beneficial owner	39,447,015	-	-	-	39,447,015	8.07%
Li Jianguang	Interest in controlled corporation	-	-	40,000,384 (Note 1)	-	40,000,384 (Note 1)	8.18%
Guo Jiang	Beneficial owner/ Family interests	39,149,146 (Note 2)	7,008,625 (Note 2)	-	-	46,157,771 (Note 2)	9.44%

#### 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 Jianguang. Accordingly, Mr. Li Jianguang is deemed, or taken to be, interested in the said 40,000,384 shares of the Company pursuant to the SFO.
- 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
  - 16,934,000 underlying shares derived from the share options granted under the Share Option Scheme, of which 5,934,000 underlying shares derived from the share options granted to Ms. Geng Yi under the Share Option Scheme.

Mr. Guo is deemed, or taken to be, interested in the shares and underlying shares held by Ms. Geng Yi pursuant to the SFO.

Save as disclosed above, none of the Directors and chief executive of the Company has any interest or short position in the shares, underlying shares and debentures 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 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 the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

## 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 2010, 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	Number of share options				As at 30th September 2010 <i>(Note 1)</i>
			As at 1st January 2010	Granted during the period	Exercised during the period	Lapsed during the period	
Ex-employees							
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
Other employees							
In aggregate <i>(Note 2)</i>	2nd December 2003	0.44	258,242	-	-	-	258,242
Total			9,147,120	-	-	-	9,147,120

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 2010, 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 2010, options to subscribe for an aggregate of 66,387,000 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\$	As at 1st January 2010	Granted during the period	Exercised during the period	Lapsed during the period	As at 30th September 2010 (Note 1)
<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
	7th April 2010	0.82	-	4,800,000	-	-	4,800,000
<i>Senior management</i>							
Geng Yi	18th February 2004	2.40	300,000	-	-	-	300,000
	23rd June 2006	1.49	434,000	-	-	-	434,000
	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	-	4,200,000	-	-	4,200,000
Guo Bingbing	29th September 2008	0.604	800,000	-	-	-	800,000
	7th April 2010	0.82	-	3,200,000	-	-	3,200,000
John Hong	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	-	3,200,000	-	-	3,200,000
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
	7th April 2010	0.82	-	3,200,000	-	-	3,200,000
Gao Xin	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	-	3,200,000	-	-	3,200,000
<i>Other employees</i>							
In aggregate (Note 2)	18th February 2004	2.40	5,809,000	-	-	(245,000)	5,564,000
In aggregate (Note 3)	23rd June 2006	1.49	2,786,000	-	-	(524,000)	2,262,000
In aggregate (Note 4)	11th July 2007	1.24	9,353,000	-	-	(2,167,000)	7,186,000
In aggregate (Note 5)	29th September 2008	0.604	7,500,000	-	(700,000)	(1,000,000)	5,800,000
In aggregate (Note 6)	7th April 2010	0.82	-	12,000,000	-	-	12,000,000
Total			37,223,000	33,800,000	(700,000)	(3,936,000)	66,387,000

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. 51 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,564,000 shares of the Company at HK\$2.40 per share.
3. 30 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,262,000 shares of the Company at HK\$1.49 per share.
4. 37 employees have been granted options under the Share Option Scheme to acquire an aggregate of 7,186,000 shares of the Company at HK\$1.24 per share.
5. 28 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,800,000 shares of the Company at HK\$0.604 per share.
6. 15 employees have been granted options under the Share Option Scheme to acquire an aggregate of 12,000,000 shares of the Company at HK\$0.82 per share.
7. 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.

8. 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 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.
9. 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.
10. 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.
11. The fair value of options granted under the Share Option Scheme on 7th April 2010, determined using the Binomial Model valuation model, was approximately RMB14,825,000. The significant inputs into the model were exercise price of HK\$0.82 standard deviation of expected share price returns of 79.8%, expected life of options ranging from 3.4 to 5.9 years expected dividend paid cut rate of 0% and annual risk-free interest rate of 2.825%. 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.
12. 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 2010, the interest of persons (not being a Director or chief executive 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 or 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 shareholding
<i>Substantial shareholders</i>					
McCarthy Kent C.	Ordinary	117,790,000 <i>(Note 1)</i>	–	Interest in controlled corporation	24.09%
McGovern Patrick J.	Ordinary	104,790,697 <i>(Note 2)</i>	–	Interest in controlled corporation	21.43%
Zhou Quan	Ordinary	79,316,743 <i>(Note 3)</i>	–	Interest in controlled corporation	16.22%
<i>Other person</i>					
Geng Yi	Ordinary	46,157,771 <i>(Note 4)</i>	–	Beneficial owner/Family interests	9.44%

*Notes:*

- Such interest in the Company comprises 110,921,628 shares of the Company owned by Jayhawk Private Equity Fund, L.P. and 6,868,372 shares of the Company owned by Jayhawk Private Equity Co-Invest Fund, L.P.. The entire issued share capital of each of the abovementioned companies is owned by Mr. McCarthy Kent C..
- Such interest in the Company comprises 25,473,954 shares of the Company owned by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., whose majority of shares is held by Mr. Patrick J. McGovern, 16,664,743 shares of the Company owned by 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 J. McGovern and Mr. Zhou Quan, and 62,652,000 shares of the Company owned by IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is jointly controlled by Mr. Patrick J. McGovern and Mr. Zhou Quan.
- Such interest in the Company comprises 16,664,743 shares of the Company 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 J. McGovern and Mr. Zhou Quan, and 62,652,000 shares of the Company owned by 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 J. McGovern and Mr. Zhou Quan, 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) 16,934,000 underlying shares derived from the share options granted under the Share Option Scheme, of which 11,000,000 underlying shares derived from the share options granted to Mr. Guo Jiang, Ms. Geng's spouse, under the Share Option Scheme,

Ms. Geng is deemed, or taken to be, interested in the shares and underlying shares held by Mr. Guo Jiang pursuant to the SFO.

Save as disclosed above, as at 30th September 2010, 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 were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to 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 Committees" 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 of the Company the accounting principles and practices adopted by the Group, this report and the third quarterly results of the Group for the nine months ended 30th September 2010.

#### **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 2010.

## 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 of the Company.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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 2010.

## 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 2010.

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 and Chairman*)

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

Ms. Guo Bingbing (*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, 10th November, 2010