



慧聰網有限公司

HC INTERNATIONAL, INC.

股票代碼:HK8292

Stock code:HK8292

A stylized world map where the continents are formed by various symbols such as dollar signs, yen signs, and Euro signs. The map is centered on the Atlantic Ocean and is tilted slightly to the right.

First
Quarterly
Report

2011

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim 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 (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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The board of the Directors (the "Board") hereby announce the unaudited financial results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31st March 2011, together with the comparative figures for the corresponding period in 2010.

Financial Highlights

| | Three months ended 31st March | |
|-------------------------------------|----------------------------------|-----------------|
| | 2011 RMB'000 | 2010 RMB'000 |
| Revenue | 98,285 | 70,931 |
| Gross profit | 75,364 | 50,876 |
| Adjusted EBITDA/(LBITDA) | 2,768 | (9,373) |
| Loss attributable to equity holders | (1,946) | (8,998) |

Key Financial Figures for the First Three Months of 2011

- Revenue of the Group for the three months ended 31st March 2011 was approximately RMB98.29 million, which represented an increase of approximately 38.6%, as compared to approximately RMB70.93 million (including approximately RMB70.45 million from continuing operations and approximately RMB481 thousand from discontinued operation) for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the three months ended 31st March 2011 was approximately 76.7% as compared to approximately 71.7% for the corresponding period in the previous financial year.
- The Group incurred an adjusted profit before interest, income tax, depreciation, amortization of intangible assets, land use rights and share based payment (EBITDA) of approximately RMB2.77 million for the three months ended 31st March 2011 as compared to LBITDA of approximately RMB9.37 million (including LBITDA of approximately RMB8.77 million from continuing operations and LBITDA of approximately RMB0.6 million from discontinued operation) for the corresponding period in the previous financial year.
- Loss attributable to equity holders of the Group for the three months ended 31st March 2011 was approximately RMB1.95 million as compared to approximately RMB9.00 million for the corresponding period in the previous financial year.

Financial and Business Review

For the three months ended 31st March 2011, the Group recorded a revenue of approximately RMB98.29 million from the operations (2010: RMB70.93 million, including approximately RMB70.45 million from continuing operations and approximately RMB481 thousand from discontinued operation). This represented an increase of approximately 38.6% in revenue as compared to that in the corresponding period in the previous financial year.

During the reporting period, the Group achieved a revenue of approximately RMB19.27 million (2010: RMB20.53 million) from its trade catalogues and yellow page directories business segment. The Group achieved a revenue of approximately RMB52.22 million (2010: RMB28.82 million) from its on-line services business segment. The Group achieved a revenue of approximately RMB15.91 million (2010: RMB12.07 million) from its market research and analysis business segment. The Group achieved a revenue of approximately RMB10.89 million (2010: RMB9.51 million) from other business segment.

The loss before income tax of the Group for the three months period ended 31st March 2011 was approximately RMB3.06 million (2010: loss of RMB14.18 million), including loss of approximately RMB12.35 million from continuing operations and loss of approximately RMB1.83 million from discontinued operation.

As one of the core e-commerce operators, the Group has been upgrading e-commerce products in 2010 and launched new value-added services with an aim to enhance quality of service, which has optimized the marketing performance of SMEs e-commerce business, procured completion of transactions and expanded the brand effect of the enterprise.

The Group has formed a multi-facet matrix of products and resources, comprising both on-line and off-line products, which successfully build up a unique B2B marketing pattern named “on-line + yellow + Top 10”, which provide the best product or commercial solution for customers in full scale.

To maximize the revenue, the Group established three key sales teams, namely the Industry Direct Sales, the Agency Sales and the Telemarketing Sales Teams since 2006, to market its on-line and off-line products and services to different target market segments.

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, 11th May 2011

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months Ended 31st March 2011

| | Note | Three months ended 31st March | |
|---|------|----------------------------------|-----------------|
| | | 2011 RMB'000 | 2010 RMB'000 |
| Continuing operations | | | |
| Revenue | | 98,285 | 70,450 |
| Cost of revenue | | (22,921) | (20,055) |
| Gross profit | | 75,364 | 50,395 |
| Other income | | 520 | 597 |
| Selling and marketing expenses | | (58,801) | (42,914) |
| Administrative expenses | | (20,724) | (20,313) |
| Share of profit/(loss) of an associated company | | 579 | (116) |
| Loss before income tax | | (3,062) | (12,351) |
| Income tax | 2 | 1,032 | 2,892 |
| Loss for the period from continuing operations | | (2,030) | (9,459) |
| Discontinued operation | | | |
| Loss from discontinued operation | 3 | - | (1,686) |
| Loss for the period | | (2,030) | (11,145) |
| Other comprehensive loss | | | |
| Currency translation difference | | (177) | (32) |
| Total comprehensive loss for the period | | (2,207) | (11,177) |
| Loss attributable to: | | | |
| – equity holders of the Company | | (1,946) | (8,998) |
| – non-controlling interests | | (84) | (2,147) |
| | | (2,030) | (11,145) |

| | Note | Three months ended 31st March | |
|--|------|----------------------------------|-----------------|
| | | 2011 RMB'000 | 2010 RMB'000 |
| Total comprehensive loss attributable to: | | | |
| – equity holders of the Company | | (2,123) | (9,030) |
| – non-controlling interests | | (84) | (2,147) |
| | | (2,207) | (11,177) |
| Loss per share attributable to the equity holders of the Company (expressed in RMB per share) | | | |
| Basic loss per share | 4 | | |
| From continuing operations | | (0.0040) | (0.0150) |
| From discontinued operation | | – | (0.0034) |
| Diluted loss per share | 4 | | |
| From continuing operations | | (0.0040) | (0.0150) |
| From discontinued operation | | – | (0.0034) |
| Dividends | 5 | – | – |

NOTES TO THE ACCOUNTS

1 General information and basis of preparation

(a) *General information*

HC International, Inc. (the "Company") and its subsidiaries (collectively referred as the "Group") organize 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 generates market research reports in China.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, the 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 has been approved for issue by the board of Directors on 11th May 2011.

(b) *Basis of preparation*

This unaudited condensed consolidated first quarterly financial information for the three month ended 31st March 2011 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 Limited (the "GEM Listing Rules"). The unaudited condensed consolidated first quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December 2010.

The classification of certain items on the consolidated statement of comprehensive income for the year ended 31st December 2010 has been changed, and it is applied in the condensed consolidated statement of comprehensive income for the period ended 31st March 2011, and hence, the comparative figures in the condensed consolidated statement of comprehensive income for the period ended 31st March 2010 are restated. The following is the effect of the reclassification:

| | Three months ended 31st March 2010 |
|--|---|
| | <i>RMB'000</i> |
| Increase in selling and marketing expenses | 15,857 |
| Increase in administrative expenses | 323 |
| Decrease in cost of sales | (16,180) |

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

2 Income tax

| | Three months ended 31st March | |
|--|--|-----------------|
| | 2011 RMB'000 | 2010 RMB'000 |
| Current income tax | | |
| – Hong Kong profits tax (i) | – | – |
| – The PRC enterprise income tax ("EIT") (ii) | (81) | (754) |
| Deferred income tax | 1,113 | 3,646 |
| | 1,032 | 2,892 |

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2010: 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% during the period.

3 Discontinued operation

On 27th August 2010, 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 31st March | |
|----------------------------------|--|-----------------|
| | 2011 RMB'000 | 2010 RMB'000 |
| Revenue | – | 481 |
| Expenses | – | (2,307) |
| Loss before income tax | – | (1,826) |
| Tax | – | 140 |
| Loss after income tax | – | (1,686) |
| Loss from discontinued operation | – | (1,686) |

4 Loss per share

The calculation of basic loss per share for the three months ended 31st March 2011 is based on the respective unaudited loss attributable to the equity holders of approximately RMB1,946 thousand (2010: RMB8,998 thousand) and the weighted average of approximately 489,102 thousand (2010: 488,179 thousand) ordinary shares in issue during the period.

Diluted 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 Dividend

No dividend was paid or declared by the Company during the period (2010: Nil).

6 Other reserves

| | Group | | | | | | | |
|--|--------------------------|----------------------------|---------------------------|--|-------------------------------------|-----------------------------|--------------------------|------------------|
| | Share premium RMB'000 | Capital reserve RMB'000 | Merger reserve RMB'000 | Share-based compensation reserves RMB'000 | Share redemption reserve RMB'000 | Exchange reserve RMB'000 | Other reserve RMB'000 | Total RMB'000 |
| Balance at 1st January 2010 | 132,734 | 987 | 108,830 | 29,071 | 496 | (6,845) | - | 265,273 |
| Share option scheme-value of employee services | - | - | - | 1,080 | - | - | - | 1,080 |
| Currency translation difference | - | - | - | - | - | (32) | - | (32) |
| At 31st March 2010 | 132,734 | 987 | 108,830 | 30,151 | 496 | (6,877) | - | 266,321 |
| Balance at 1st January 2011 | 133,044 | 987 | 108,830 | 37,002 | 496 | (7,490) | (48,474) | 224,395 |
| Exercise of share options | 128 | - | - | - | - | - | - | 128 |
| Share option scheme-value of employee services | - | - | - | 2,262 | - | - | - | 2,262 |
| Currency translation difference | - | - | - | - | - | (177) | - | (177) |
| At 31st March 2011 | 133,172 | 987 | 108,830 | 39,264 | 496 | (7,667) | (48,474) | 226,808 |

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

As at 31st March 2011, the interests and short positions of the Directors and the chief executives of the Company 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 (Chapter 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 Rule 5.46 of the GEM Listing Rules, were as follows:

Directors' long positions in the shares of the Company

| Name of Director | Class of shares | Capacity | Personal interests | Family interests | Corporate interests | Other interests | Total number of shares | Approximate percentage of shareholding |
|------------------|-----------------|------------------------------------|------------------------|-----------------------|------------------------|-----------------|------------------------|--|
| Guo Fansheng | Ordinary | Beneficial owner | 69,647,015 | - | - | - | 69,647,015 | 14.24% |
| Guo Jiang | Ordinary | Beneficial owner/family interest | 60,179,146 (Note 1) | 7,008,625 (Note 1) | - | - | 67,187,771 (Note 1) | 13.73% |
| Li Jianguang | Ordinary | Interest of controlled corporation | - | - | 40,000,384 (Note 2) | - | 40,000,384 (Note 2) | 8.18% |
| Guo Bingbing | Ordinary | Beneficial owner | 4,000,000 (Note 3) | - | - | - | 4,000,000 (Note 3) | 0.82% |

Notes:

1. Such interest in the Company comprises:
 - (a) 50,253,771 shares of the Company of which 1,074,625 shares of the Company are held by Ms. Geng Yi, Mr. Guo's spouse; and
 - (b) 16,934,000 underlying shares of the Company derived from the share options granted under the Share Option Scheme of which 5,934,000 underlying shares of the Company derived from the share options granted to Ms. Geng Yi, Mr. Guo's spouse, under the Share Option Scheme.
2. 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.
3. Such interest in the Company comprises 4,000,000 underlying shares of the Company derived from the share options granted to Ms. Guo Bingbing under the Share Option Scheme.

Save as disclosed above, none of the Directors and chief executives 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 provision 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 Rule 5.46 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 31st March 2011, 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 2011 (Note 1) |
|-----------------------|-------------------|----------------------------------|-------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------------|
| | | | As at 1st January 2011 | 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 (Note 2) | 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 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 2011, 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 2011, options to subscribe for an aggregate of 67,121,000 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 2011 | Granted during the period | Exercised during the period | Lapsed during the period | As at 31st March 2011 (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 |
| Guo Bingbing | 29th September 2008 | 0.604 | 800,000 | - | - | - | 800,000 |
| | 7th April 2010 | 0.82 | 3,200,000 | - | - | - | 3,200,000 |
| <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 |
| 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 |
| Gao Xin | 7th April 2010 | 0.82 | 3,200,000 | - | - | - | 3,200,000 |
| | 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 | 5,544,000 | - | - | (50,000) | 5,494,000 |
| In aggregate (Note 3) | 23rd June 2006 | 1.49 | 2,142,000 | - | - | (84,000) | 2,058,000 |
| In aggregate (Note 4) | 11th July 2007 | 1.24 | 6,950,000 | - | - | (176,000) | 6,774,000 |
| In aggregate (Note 5) | 29th September 2008 | 0.604 | 5,620,000 | - | (300,000) | - | 5,320,000 |
| In aggregate (Note 6) | 7th April 2010 | 0.82 | 11,300,000 | - | - | (400,000) | 10,900,000 |
| In aggregate (Note 7) | 28th March 2011 | 1.108 | - | 3,000,000 | - | - | 3,000,000 |
| Total | | | 65,131,000 | 3,000,000 | (300,000) | (710,000) | 67,121,000 |

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.

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.

For the options exercisable at HK\$0.82 granted on 7th April 2010, 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.

For the options exercisable at HK\$1.108 granted on 28th March 2011, 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. 49 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,494,000 shares of the Company at HK\$2.40 per share.
3. 26 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,058,000 shares of the Company at HK\$1.49 per share.
4. 34 employees have been granted options under the Share Option Scheme to acquire an aggregate of 6,774,000 shares of the Company at HK\$1.24 per share.
5. 25 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,320,000 shares of the Company at HK\$0.604 per share.
6. 13 employees have been granted options under the Share Option Scheme to acquire an aggregate of 10,900,000 shares of the Company at HK\$0.82 per share.
7. 22 employees have been granted options under the Share Option Scheme to acquire an aggregate of 3,000,000 shares of the Company at HK\$1.108 per share.

8. 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.
9. 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 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.
10. 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 out 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.
11. 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 out rate of 0% and annual risk-free interest rate 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.
12. The fair value of options granted under the Share Option Scheme on 7th April 2010, determined using the Binomial Model valuation model, was approximately RMB12,527,000. 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 out rate of 0% and annual risk-free interest rate 2.865%. 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.
13. The fair value of options granted under the Share Option Scheme on 28th March 2011, determined using the Binomial Model valuation model, was approximately RMB1,377,000. The significant inputs into the model were exercise price of HK\$1.108 standard deviation of expected share price returns of 77.4%, expected life of options ranging from 3.8 to 4.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 2.82%. 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.
14. 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 of the Company dated 5th June 2008 and 20th June 2008, respectively.

15. The valuation of share options is subject to a number of assumptions and with regard to the subjectivity and uncertainty of the model.
16. The Company has proposed to refresh the scheme mandate limit under the Share Option Scheme, subject to the passing of an ordinary resolution by the shareholders of the Company in the extraordinary general meeting of the Company to be convened and held by the Company on 13th May 2011 (or any adjournment thereof). For details, please refer to the circular of the Company dated 26th April 2011.

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

As at 31st March 2011, the interests and short positions of every person (not being Directors or chief executives 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 | Capacity | Approximate percentage of shareholding |
|---------------------------------|-----------------|------------------------|--------------------------|---------------------------------------|--|
| <i>Substantial shareholders</i> | | | | | |
| McCarthy Kent C. | Ordinary | 93,648,000 (Note 1) | – | Interest in controlled corporations | 19.14% |
| McGovern Patrick J. | Ordinary | 78,730,697 (Note 2) | – | Interest in controlled corporations | 16.09% |
| Geng Yi | Ordinary | 67,187,771 (Note 3) | – | Beneficial owner/ Family interests | 13.73% |
| Zhou Quan | Ordinary | 53,256,743 (Note 4) | – | Interest in controlled corporations | 10.89% |

Notes:

1. Such interest in the Company comprises 88,209,568 shares of the Company held by Jayhawk Private Equity Fund, L.P. and 5,438,432 shares of the Company held by Jayhawk Private Equity Co-Invest Fund, L.P., respectively. The entire issued share capital of each of the abovementioned entities is owned by Mr. Kent C. McCarthy.
2. 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 36,592,000 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.

3. Such interest in the Company comprises:
 - (a) 50,253,771 shares of the Company of which 49,179,146 shares of the Company are held by Mr. Guo Jiang, Ms. Geng's spouse; and
 - (b) 16,934,000 underlying shares of the Company 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.
4. Such interest in the Company comprises 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 36,592,000 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.

Save as disclosed above, as at 31st March 2011, 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 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.

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. The audit committee comprises two independent non-executive Directors, namely Mr. Zhang Ke and Mr. Xiang Bing, and a non-executive Director, namely 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 unaudited first quarterly results of the Group for the period ended 31st March 2011.

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 three months ended 31st March 2011.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the 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 securities during the three months ended 31st March 2011.

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

Beijing, PRC, 11th May 2011

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 and Chief Financial 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*)