



慧聰網有限公司

HC INTERNATIONAL, INC.

股票代碼:HK8292

Stock code:HK8292

An abstract graphic of a globe where the continents are formed by various symbols such as dollar signs, yen signs, and Chinese characters. The globe is tilted and occupies the lower two-thirds of the page.

Third  
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.**

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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 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 in this report misleading.*

## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The board of the Directors (the “Board”) hereby announces 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 2011, respectively, together with the comparative figures for the corresponding periods ended 30th September 2010 to the shareholders of the Company.

### Financial Highlights

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2011 RMB'000	2010 (Restated) RMB'000	2011 RMB'000	2010 (Restated) RMB'000
<b>Continuing operations</b>				
Revenue	114,081	83,620	307,484	228,019
Gross Profit	96,104	69,642	260,089	182,482
Adjusted EBITDA	14,140	8,260	24,182	5,064
<b>Profit/(loss) attributable to equity holders from continuing and discontinued operations</b>	<b>13,259</b>	9,282	<b>15,662</b>	(1,889)

#### Key Financial Figures for the First Nine Months of 2011

- Revenue of the Group from continuing operations for the nine months ended 30th September 2011 was approximately RMB307.48 million as compared to approximately RMB228.02 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 2011 was approximately 85% as compared to approximately 80% for the corresponding period in the previous financial year.
- The Group incurred an adjusted earning before interest, income tax, depreciation, amortisation of intangible assets, land use rights and share based payments (“EBITDA”) of approximately RMB24.18 million for the nine months ended 30th September 2011 as compared to EBITDA of approximately RMB5.06 million for the corresponding period in the previous financial year.
- Profit attributable to equity holders of the Group from continuing and discontinued operations for the nine months ended 30th September 2011 was approximately RMB15.66 million as compared to a loss of approximately RMB1.89 million for the corresponding period in the previous financial year.

## **Financial and Business Review**

During the nine months period ended 30th September 2011, the Group recorded a revenue of approximately RMB307.48 million from the continuing operations (2010: RMB228.02 million).

During the nine months period ended 30th September 2011, the Group achieved a revenue from (a) continuing operations of approximately RMB53.82 million (2010: RMB66.93 million) from its trade catalogues and yellow page directories business segment; (b) continuing operations of approximately RMB196.47 million (2010: RMB114.7 million) from its on-line services business segment; and (c) continuing operations of approximately RMB57.19 million (2010: RMB46.39 million) from seminars and other services business segment.

The profit before income tax of the Group from continuing operations for the nine months period ended 30th September 2011 was approximately RMB9.32 million (2010: loss of RMB9.03 million).

As one of the core e-commerce operators, the Group has been upgrading e-commerce products in 2011 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 product 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”, and provides the best product or commercial solution for its customers in full scale.

To maximise 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 employee of the Group for their on-going dedication and hard work.

**Guo Jiang**

*Executive Director and Chief Executive Officer*

Beijing, PRC, 10th November 2011

## MANAGEMENT DISCUSSION AND ANALYSIS

### Material Acquisitions and Disposals

On 30th May 2011, 北京慧聰國際資訊有限公司 (“HC PRC”), an indirect wholly-owned subsidiary of the Company, entered into two disposal agreements (the “Disposal Agreements”) with 慧聰投資管理(北京)有限公司 (Huicong Investment Management (Beijing) Co., Ltd.) (“the Purchaser”). Pursuant to the Disposal Agreements, HC PRC has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to acquire, in aggregate 70% of the equity interests in 北京慧聰博信信息諮詢有限公司 (“Fulfilment JV Co”) at a consideration of RMB7,979,000 and 40% of the equity interest in 北京鄧白氏慧聰市場信息諮詢有限公司 (“Sales JV Co”) at a consideration of RMB13,569,000. As the relevant applicable ratios calculated pursuant to the GEM Listing Rules in respect of above disposal transactions (“Disposals”), in aggregate, are less than 25%, the Disposals constitute discloseable transactions of the Company under Chapter 19 of the GEM Listing Rules.

As the Purchaser is owned as to 50% by Mr. Guo Fansheng, an executive Director and the chairman of the Company and as to 50% by Mr. Guo Jiang, an executive Director and Chief Executive Officer of the Company, the Purchaser is an associate of each of Mr. Guo Fansheng and Mr. Guo Jiang, and thus a connected person of the Company. Accordingly, the Disposals constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules. The Disposals have been completed as at the end of September 2011. Further details of the Disposals are set out in the announcements of the Company dated 30th May 2011, 6th July 2011 and the circular of the Company dated 20th June 2011 respectively.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months and Nine Months Ended 30th September 2011

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2011 RMB'000	2010 (Restated) RMB'000	2011 RMB'000	2010 (Restated) RMB'000
<b>Continuing operations</b>					
Revenue		114,081	83,620	307,484	228,019
Cost of revenue		(17,977)	(13,978)	(47,395)	(45,537)
<b>Gross profit</b>		<b>96,104</b>	69,642	<b>260,089</b>	182,482
Other income		732	732	2,070	1,936
Selling and marketing expenses		(65,294)	(46,531)	(186,769)	(131,527)
Administrative expenses		(22,023)	(20,974)	(66,070)	(61,924)
<b>Profit/(loss) before income tax</b>		<b>9,519</b>	2,869	<b>9,320</b>	(9,033)
Income tax (expense)/credit	2	(1,619)	(123)	(1,233)	2,938
<b>Profit/(loss) for the period from continuing operations</b>		<b>7,900</b>	2,746	<b>8,087</b>	(6,095)
<b>Discontinued operations</b>					
Profit from discontinued operations	3	5,159	8,819	7,815	4,141
<b>Profit/(loss) for the period</b>		<b>13,059</b>	11,565	<b>15,902</b>	(1,954)
<b>Other comprehensive loss</b>					
Currency translation difference		(1,796)	(183)	(2,144)	(379)
<b>Total comprehensive profit/(loss) for the period</b>		<b>11,263</b>	11,382	<b>13,758</b>	(2,333)
<b>Profit/(loss) attributable to:</b>					
– equity holders of the Company		13,259	9,282	15,662	(1,889)
– non-controlling interests		(200)	2,283	240	(65)
		<b>13,059</b>	11,565	<b>15,902</b>	(1,954)
<b>Total comprehensive profit/ (loss) attributable to:</b>					
– equity holders of the Company		11,463	9,099	13,518	(2,268)
– non-controlling interests		(200)	2,283	240	(65)
		<b>11,263</b>	11,382	<b>13,758</b>	(2,333)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months and Nine Months Ended 30th September 2011

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2011 RMB	2010 (Restated) RMB	2011 RMB	2010 (Restated) RMB
<b>Earnings/(loss) per share from continuing and discontinued operations attributable to the equity holders of the Company during the periods (expressed in RMB per share)</b>	4				
Basic earnings/(loss) per share:					
From continuing operations		0.0146	(0.0000)	0.0160	(0.0151)
From discontinued operations		0.0097	0.0190	0.0148	0.0112
Diluted earnings/(loss) per share:					
From continuing operations		0.0138	(0.0000)	0.0151	(0.0151)
From discontinued operations		0.0092	0.0190	0.0140	0.0112
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 generates 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 publication by the Board of Directors on 10th November 2011.

(b) *Basis of preparation*

This unaudited condensed consolidated third quarterly financial information for the nine months ended 30th September 2011 has been prepared in accordance with the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated third 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 unaudited condensed consolidated statement of comprehensive income for the period ended 30th September 2011, and hence, the comparative figures in the unaudited condensed consolidated statement of comprehensive income for the three months and nine months ended 30th September 2010 are restated.

### 2 Income tax (expense)/credit

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2011 RMB’000	2010 RMB’000	2011 RMB’000	2010 RMB’000
<b>Continuing operations</b>				
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax (“CIT”) (ii)	(480)	38	(527)	(1,683)
Deferred income tax	(1,139)	(161)	(706)	4,621
	<b>(1,619)</b>	(123)	<b>(1,233)</b>	2,938

(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% to less than 25% during the period.

### 3 Discontinued operations

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.

On 30th May 2011, the Group and Huicong Investment Management (Beijing) Co., Ltd. ("the Purchaser") entered into the Disposal Agreements, pursuant to which the Group has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to acquire, in aggregate 70% of the equity interests in Fulfilment JV Co, a subsidiary of the Group at a consideration of RMB7,979,000 and 40% of the equity interest in Sales JV Co, an associate of the Group, at a consideration of RMB13,569,000. The transaction has been completed at the end of September 2011.

Financial information relating to Fulfilment JV Co and Sales JV Co for the period ended 30th September 2011 is set out below. The statement of comprehensive income distinguishes discontinued operations from continuing operations. Comparative figures have been restated.

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Revenue	18,334	17,570	46,361	41,621
Share of profit of an associated company	876	226	2,390	715
Expenses	(18,865)	(19,943)	(45,750)	(49,301)
Profit/(loss) before income tax	345	(2,147)	3,001	(6,965)
Income tax	–	(140)	–	–
Profit/(loss) after income tax	345	(2,287)	3,001	(6,965)
Pre-tax gain on disposal of discontinued operations	7,891	12,585	7,891	12,585
Income tax on disposal of discontinued operations	(3,077)	(1,479)	(3,077)	(1,479)
Profit from discontinued operations	5,159	8,819	7,815	4,141
Profit from discontinued operations attributable to:				
Owners of the Company	5,303	9,297	7,519	5,465
Non-controlling interests	(144)	(478)	296	(1,324)

#### 4 Earnings/(loss) per share

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Profit/(loss) from continuing operations attributable to equity holders	7,956	(15)	8,143	(7,354)
Profit from discontinued operations attributable to equity holders	5,303	9,297	7,519	5,465
	13,259	9,282	15,662	(1,889)

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2011 Number of shares '000	2010 Number of shares '000	2011 Number of shares '000	2010 Number of shares '000
Weighted average number of shares in issue	544,123	488,805	509,069	488,583
Incremental shares from assumed exercise of share options granted	33,097	–	29,102	–
Diluted weighted average number of shares	577,220	488,805	538,171	488,583

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2011 RMB	2010 RMB	2011 RMB	2010 RMB
Basic earnings/(loss) per share from continuing operations (in RMB)	0.0146	(0.0000)	0.0160	(0.0151)
Basic earnings per share from discontinued operations (in RMB)	0.0097	0.0190	0.0148	0.0112
Diluted earnings/(loss) per share from continuing operations (in RMB)	0.0138	(0.0000)	0.0151	(0.0151)
Diluted earnings per share from discontinued operations (in RMB)	0.0092	0.0190	0.0140	0.0112

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 either an anti-dilutive effect or no dilutive effect on the loss per share for the periods ended 30th September 2010. As a result, the basic loss per share and diluted loss per share are the same for the period ended 30th September 2010.

## 5 Dividends

No dividends was paid or declared by the Company during the period (2010: nil).

## 6 Other reserves

	Share premium	Capital reserve	Merger reserve	Share redemption reserve	Share-based compensation reserves	Exchange reserve	Others reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
As at 1st January, 2011	133,044	987	108,830	496	37,002	(7,490)	(48,474)	224,395
Currency translation difference						(2,144)		(2,144)
Share option scheme-value of employee services					4,270			4,270
Proceeds from shares issued	62,475							62,475
Exercise of share options	1,156							1,156
As at 30th September 2011	196,675	987	108,830	496	41,272	(9,634)	(48,474)	280,152

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

As at 30th September 2011, the interests and short positions of the Directors and the chief executive 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 (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 and Underlying Shares of the Company

Name of Director	Class of Shares	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares/ underlying shares	Approximate percentage of shareholding
Guo Jiang	Ordinary	Beneficial owner/family interests	61,065,146 (Note 1)	10,784,625 (Note 1)	-	-	71,849,771 (Note 1)	13.18%
Guo Fansheng	Ordinary	Beneficial owner	69,749,015	-	-	-	69,749,015	12.80%
Li Jianguang	Ordinary	Interest in controlled corporation	-	-	40,000,384 (Note 2)	-	40,000,384 (Note 2)	7.34%
Guo Bingbing	Ordinary	Beneficial owner	4,000,000 (Note 3)	-	-	-	4,000,000 (Note 3)	0.73%
Lee Wee Ong	Ordinary	Beneficial owner	100,672	-	-	-	100,672	0.02%

#### Notes:

- Such interest in the Company comprises:
  - 54,915,771 shares of the Company of which 4,850,625 shares of the Company are held by Ms. Geng Yi, Mr. Guo Jiang'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 have, interested in the shares and underlying shares held by Ms. Geng Yi pursuant to the SFO.
- 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 have, interested in the said 40,000,384 shares of the Company pursuant to the SFO.
- Such interests in the Company comprised 4,000,000 underlying Shares 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 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 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 30th September 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 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 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 30th September 2011, options to subscribe for an aggregate of 64,981,000 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 30th September 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
	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
John Hong	7th April 2010	0.82	3,200,000	-	-	-	3,200,000
	29th September 2008	0.604	800,000	-	-	-	800,000
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

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 30th September 2011 (Note 1)
<i>Other employees</i>							
In aggregate (Note 2)	18th February 2004	2.40	5,544,000	-	-	(130,000)	5,414,000
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	-	(260,000)	(176,000)	6,514,000
In aggregate (Note 5)	29th September 2008	0.604	5,620,000	-	(1,900,000)	-	3,720,000
In aggregate (Note 6)	7th April 2010	0.82	11,300,000	-	(200,000)	(400,000)	10,700,000
In aggregate (Note 7)	28th March 2011	1.108	-	3,000,000	-	-	3,000,000
Total			65,131,000	3,000,000	(2,360,000)	(790,000)	64,981,000

**Notes:**

- 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.

For the options exercisable at HK\$0.82 granted on 7th April 2010, 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\$1.108 granted on 28th March 2011, 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.

2. 47 employees have been granted options under the Share Option Scheme with outstanding options to acquire an aggregate of 5,414,000 shares of the Company at HK\$2.40 per share.
3. 26 employees have been granted options under the Share Option Scheme with outstanding options to acquire an aggregate of 2,058,000 shares of the Company at HK\$1.49 per share.
4. 31 employees have been granted options under the Share Option Scheme with outstanding options to acquire an aggregate of 6,514,000 shares of the Company at HK\$1.24 per share.
5. 18 employees have been granted options under the Share Option Scheme with outstanding options to acquire an aggregate of 3,720,000 shares of the Company at HK\$0.604 per share.
6. 13 employees have been granted options under the Share Option Scheme with outstanding options to acquire an aggregate of 10,700,000 shares of the Company at HK\$0.82 per share.
7. 22 employees have been granted options under the Share Option Scheme with outstanding options to acquire an aggregate of 3,000,000 shares of the Company at HK\$1.108 per share. The closing price of the Shares immediately before the date on which the options were granted was HK\$1.1 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 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.
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 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.
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 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.

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 of 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 13th May 2011, 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 24th April 2011 and 13th May 2011 respectively.
15. In respect of employees resigned during the period whose share options have not been vested, such share options are forfeited, and the share compensation costs recognised previously are credited to condensed consolidated quarterly statement of comprehensive income.
16. The values of share options recognised in share-based compensation reserves are subject to a number of assumptions and with regard to the limitation of the valuation model.
17. The weighted average closing price of the Shares immediately before the date on which these options were exercised was HK\$1.6057 per share.

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

As at 30th September 2011, 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	Capacity	Approximate Percentage of share capital
<i>Substantial shareholders</i>					
McCarthy Kent C.	Ordinary	89,740,000 <i>(Note 1)</i>	–	– Interest in controlled corporations	16.46%
McGovern Patrick J	Ordinary	78,730,697 <i>(Note 2)</i>	–	– Interest in controlled corporations	14.44%
Geng Yi	Ordinary	71,849,771 <i>(Note 3)</i>	–	– Beneficial owner/ Family interests	13.18%

*Notes:*

- The reference to 89,740,000 shares of the Company comprises 84,533,055 shares and 5,206,945 shares held 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 entities is owned by Mr. McCarthy Kent C..
- The reference to 78,730,697 shares of the Company comprises 25,473,954 shares, 16,664,743 shares and 36,592,000 shares owned by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., whose majority shareholder is Mr. Patrick J. McGovern, 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 IDG Technology Venture Investment III, L.P., a 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.
- Such interest in the Company comprises: (a) 54,915,771 shares of the Company of which 50,065,146 shares of the Company are held by Mr. Guo Jiang, who is Ms. Geng Yi's spouse; and (b) 16,934,000 underlying shares derived from the share options granted under the Share Option Scheme adopted on 30th November 2003 of which 11,000,000 underlying shares derived from the share options granted to Mr. Guo Jiang under the Share Option Scheme.

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

Save as disclosed above, as at 30th September 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 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 the accounting principles and practices adopted by the Group, and the third quarterly results of the Group for the nine months ended 30th September 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 nine months ended 30th September 2011.

### **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 2011.

## 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 2011.

By order of the board of Directors

**HC International, Inc.**

**Guo Jiang**

*Chief Executive Officer and Executive Director*

As at the date of this report, the Board 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. Guo Wei (*Non-executive Director*)

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

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

Mr. Lee Wee Ong (*Independent non-executive Director*)

Mr. Zhang Tim Tianwei (*Independent non-executive Director*)

Beijing, PRC, 10th November, 2011