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FIRST QUARTERLY REPORT 2012

HC INTERNATIONAL, INC. 慧聪网有限公司

Stock Code 股票代码: HK8292

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 (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") of the Company hereby announce the unaudited financial results of the Company and all its subsidiaries (collectively, the "Group") for the three months ended 31st March 2012, together with the comparative figures for the corresponding period ended 31st March 2011 to the shareholders of the Company.

Financial Highlights

	Three months ended 31st March	
	2012 RMB'000	2011 RMB'000
Continuing operations		
Revenue	112,852	82,375
Gross profit	100,522	68,349
EBITDA	11,183	1,751
Profit/(Loss) attributable to equity holders from continuing and discontinued operations	5,311	(1,946)

Key Financial Figures for the First Three Months of 2012

- Revenue of the Group from continuing operations for the three months ended 31st March 2012 was approximately RMB112.85 million as compared to approximately RMB82.38 million for the corresponding period in the previous financial year, which represented an approximately 37.0% increase.
- Gross profit of the Group increased approximately 47.1% compared with that for the three months ended 31st March 2011. Gross profit ratio of the Group from continuing operations for the three months ended 31st March 2012 was approximately 89.1% as compared to approximately 83.0% 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 payment (EBITDA) of approximately RMB11.18 million from continuing operations for the three months ended 31st March 2012 as compared to EBITDA of approximately RMB1.75 million for the corresponding period in the previous financial year.
- Profit attributable to equity holders of the Group for the three months ended 31st March 2012 was approximately RMB5.31 million as compared to a loss of approximately RMB1.95 million for the corresponding period in the previous financial year.



Financial and Business Review

Revenue Analysis (continuing operations)	On-line services	Trade catalogues and yellow pages directories	Seminars and other services	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
First quarter of 2012	84,563	13,434	14,855	112,852
First quarter of 2011	52,215	19,270	10,890	82,375
variance	62.0%	(30.3%)	36.4%	37.0%

For the first quarter ended 31st March 2012, the Group recorded a revenue from continuing operations of approximately RMB112.85 million (2011: RMB82.38 million).

During the reporting period, the Group achieved a revenue of approximately RMB84.56 million (2011: RMB52.22 million) from its on-line services business segment. The Group achieved a revenue of approximately RMB13.43 million (2011: RMB19.27 million) from its trade catalogues and yellow pages directories business segment. The Group achieved a revenue of approximately RMB14.86 million (2011: RMB10.89 million) from seminars and other services business segment.

Cost of revenue from continuing operations decreased from approximately RMB14.03 million for the three months ended 31st March 2011 to approximately RMB12.33 million in the same period of 2012 mainly due to the decrease on the cost of revenue of trade catalogues and yellow pages directories, which was in line with the decrease of revenue of trade catalogues and yellow pages directories.

The Group increased its selling and marketing expenses from continuing operations from approximately RMB54.97 million for the three months ended 31st March 2011 to approximately RMB74.85 million in the corresponding period of 2012 which was mainly due to the increase of staff salaries and sales commissions, marketing expenses and agency costs.

The profit before income tax of the Group from continuing operations for the three months period ended 31st March 2012 was approximately RMB5.51 million (2011: loss of RMB4.03 million).



As one of the core e-commerce operators, the Group adopted vertical markets as its strategies. While the Group continues to deepen professional development of its original B2B e-commerce industrial and consumers industries, it continues to explore new industries with the aim to provide service for more SMEs. For products, we upgrade e-commerce products continuously. The Group targets to provide complete service to the sellers as well as to address the needs of purchasers. We design and develop e-commerce products that are suitable for purchasers to enhance the effect of the SME B2B e-commerce marketing, and improve the success rate of transactions.

The Group has established a product portfolio with Mai-Mai-Tong and Biao-Wang search website as core products and internet advertisement, business information advertisement and China information collection as supplementary products. The Group has also actively promoted on-line and off-line products and service such as Top 10 activities and offline exhibition. By leveraging on strong advantages of the e-commerce platform and industry media, we will provide the users with the best products or business solution to a maximum degree.

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, 10th May 2012



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months Ended 31st March 2012

	Note	Three months ended 31st March	
		2012 RMB'000	2011 RMB'000
Continuing operations			
Revenue		112,852	82,375
Cost of revenue		(12,330)	(14,026)
Gross profit		100,522	68,349
Other income		1,837	520
Selling and marketing expenses		(74,848)	(54,972)
Administrative expenses		(21,997)	(17,929)
Profit/(loss) before income tax		5,514	(4,032)
Income tax (expense)/credit	2	(573)	1,032
Profit/(loss) for the period from continuing operations		4,941	(3,000)
Discontinued operations			
Profit from discontinued operations	3	–	970
Profit/(loss) for the period		4,941	(2,030)
Other comprehensive loss			
Currency translation difference		(43)	(177)
Total comprehensive profit/(loss) for the period		4,898	(2,207)
Profit/(loss) profit attributable to:			
– equity holders of the Company		5,311	(1,946)
– non-controlling interests		(370)	(84)
		4,941	(2,030)



	Note	Three months ended 31st March	
		2012 RMB'000	2011 RMB'000
Total comprehensive profit/(loss) attributable to:			
– equity holders of the Company		5,268	(2,123)
– non-controlling interests		(370)	(84)
		4,898	(2,207)
Earnings/(loss) per share from continuing and discontinued operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic earnings/(loss) per share:			
From continuing operations	4	0.0097	(0.0061)
From discontinued operations		–	0.0021
Diluted earnings/(loss) per share:			
From continuing operations	4	0.0091	(0.0061)
From discontinued operations		–	0.0021
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") 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 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 10th May 2012.

(b) *Basis of preparation*

This unaudited condensed consolidated first quarterly financial information for the three months ended 31st March 2012 has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong (the "GEM Listing Rules"). The unaudited condensed consolidated first quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December 2011.

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

2 Income tax (expense)/credit

Continuing operations

	Three months ended 31st March	
	2012 RMB'000	2011 RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– The PRC enterprise income tax (“EIT”) (ii)	(2,178)	(81)
Deferred income tax	1,605	1,113
	(573)	1,032

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2011: 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 operations

In 2011, the Group disposed of its equity interest in 北京慧聰博信信息諮詢有限公司 and 北京鄧白氏慧聰市場信息諮詢有限公司, an associated company which were engaged in market research and analysis businesses in the PRC, for a consideration of RMB21,548,000.

Analysis of the results of the discontinued operations, and the result recognised on the disposal of the subsidiary including the associated company is as follows:

	Three months ended 31st March	
	2012 RMB'000	2011 RMB'000
Revenue	–	15,910
Expenses	–	(15,519)
Share of net profit of an associated company	–	579
Profit before tax of discontinued operations	–	970
Income tax	–	–
Profit after tax from discontinued operations	–	970



4 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months ended 31st March 2012 is based on the respective unaudited profit attributable to the equity holders of approximately RMB5,311 thousand (2011: loss of RMB1,946 thousand) and the weighted average of approximately 546,309 thousand (2011: 489,102 thousand) ordinary shares in issue during the period.

Diluted earnings/(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 (2011: Nil).

6 Other reserves

	Group								Total
	Share premium	Capital reserve	Merger reserve	Share-based compensation reserve	Share redemption reserve	Exchange reserve	Other reserve	Share held for share reward scheme	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 based compensation-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)	-	226,608
Balance at 1st January, 2012	197,325	987	108,830	43,733	496	(10,178)	(48,474)	(22,234)	270,485
Exercise of share options	62	-	-	-	-	-	-	-	62
Share based compensation-value of employee services	-	-	-	2,521	-	-	-	-	2,521
Currency translation difference	-	-	-	-	-	(43)	-	-	(43)
Shares purchased for share award scheme	-	-	-	-	-	-	-	(10,447)	(10,447)
At 31st March 2012	197,387	987	108,830	46,254	496	(10,221)	(48,474)	(32,681)	262,578

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 2012, the interests and short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) 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:

(a) 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	Percentage of shareholding
Guo Jiang	Ordinary	Beneficial owner/family interest	61,065,146 (Note 1)	10,784,625 (Note 1)	-	-	71,849,771 (Note 1)	13.15%
Guo Fansheng	Ordinary	Beneficial owner	69,749,015	-	-	-	69,749,015	12.77%
Li Jianguang	Ordinary	Interest of controlled corporation	-	-	40,000,384 (Note 2)	-	40,000,384 (Note 2)	7.32%
Guo Bingbing	Ordinary	Beneficial owner	7,000,000 (Note 3)	-	-	-	7,000,000 (Note 3)	1.28%
Lee Wee Ong	Ordinary	Beneficial owner	100,672	-	-	-	100,672	0.02%



Notes:

1. Such interest in the Company comprises:
 - (a) 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
 - (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 derived from the share options granted to Ms. Geng Yi 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 Jiangguang. Accordingly, Mr. Li Jiangguang 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 and 3,000,000 underlying shares derived from the awarded shares granted to Ms. Guo Bingbing under the employees' share award scheme of the Company adopted by the Board on the 17th November 2011.

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 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 dealing 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 31st March 2012, 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 2012 (Note 1)
			As at 1st January 2012	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 2012, 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 2012, options to subscribe for an aggregate of 62,697,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March 2012 (Note 1)
			As at 1st January 2012	Granted during the period	Exercised during the period	Lapsed during the period	
Directors							
Guo Jiang	18th February 2004	2.4	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
Senior management							
Geng Yi	18th February 2004	2.4	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
Gao Xin	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	3,200,000	-	-	-	3,200,000
Cai Weihua	18th February 2004	2.4	200,000	-	-	-	200,000
	23rd June 2006	1.49	200,000	-	-	-	200,000
	29th September 2008	1.24	440,000	-	-	-	440,000
	29th September 2008	0.604	400,000	-	-	-	400,000
Yang Ning	7th April 2010	0.82	1,200,000	-	-	-	1,200,000
	23rd June 2006	1.49	200,000	-	-	-	200,000
	11th July 2007	1.24	400,000	-	-	-	400,000
	29th September 2008	0.604	400,000	-	-	-	400,000
	7th April 2010	0.82	3,000,000	-	-	-	3,000,000



Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 31st March 2012 (Note 1)
			As at 1st January 2012	Granted during the period	Exercised during the period	Lapsed during the period	
Other employees							
In aggregate (Note 2)	18th February 2004	2.4	5,129,000	-	-	-	5,129,000
In aggregate (Note 3)	23rd June 2006	1.49	1,534,000	-	-	-	1,534,000
In aggregate (Note 4)	11th July 2007	1.24	5,327,000	-	(67,000)	-	5,260,000
In aggregate (Note 5)	29th September 2008	0.604	3,200,000	-	-	-	3,200,000
In aggregate (Note 6)	7th April 2010	0.82	8,900,000	-	-	-	8,900,000
In aggregate (Note 7)	28th March 2011	1.108	2,900,000	-	-	-	2,900,000
Total			62,764,000	-	(67,000)	-	62,697,000

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. 44 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,129,000 shares of the Company at HK\$2.40 per share.
3. 22 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,534,000 shares of the Company at HK\$1.49 per share.
4. 27 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,260,000 shares of the Company at HK\$1.24 per share.
5. 12 employees have been granted options under the Share Option Scheme to acquire an aggregate of 3,200,000 shares of the Company at HK\$0.604 per share.
6. 10 employees have been granted options under the Share Option Scheme to acquire an aggregate of 8,900,000 shares of the Company at HK\$0.82 per share.
7. 21 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,900,000 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 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. The valuation of share options is subject to a number of assumptions and with regard to the subjectivity and uncertainty of the model.



EMPLOYEES' SHARE AWARD SCHEME

On 17th November 2011, the Board adopted an employees' share award scheme pursuant to which existing shares of the Company will be acquired by the trustee from the market at the cost of the Company and be held in trust for the selected employees until such shares are vested with the relevant selected employees in accordance with the provision of the share award scheme. For principal terms of the employees' share award scheme, please refer to the announcement of the Company dated 17th November 2011.

Since the adoption date, a total of 24,181,000 shares has been granted up to the date of this report, representing approximately 4.44% of the issued share capital of the Company as at the adoption date. The awarded shares remain outstanding as at 31st March 2012 are as set out below:

Name of Grantee	Date of grant	Number of awarded shares	As at 1st January 2012	Vested during the period	As at 31st March 2012
Director					
Guo Bingbing	23rd November 2011	3,000,000	3,000,000	–	3,000,000
Senior management					
John Hong	23rd November 2011	3,000,000	3,000,000	–	3,000,000
Cai Weihua	23rd November 2011	3,000,000	3,000,000	–	3,000,000
Yang Ning	23rd November 2011	3,000,000	3,000,000	–	3,000,000
Other employees					
In aggregate (<i>Note 1</i>)	23rd November 2011	12,181,000	12,181,000	–	12,181,000
Total		24,181,000	24,181,000	–	24,181,000

Note:

- 68 employees have been granted an aggregate of 12,181,000 awarded shares.



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

As at 31st March 2012, the interests and short positions of substantial shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Class of shares	Long position	Nature of short position	Capacity	Approximate percentage of shareholding
Kent C. McCarthy	Ordinary	89,740,000 <i>(Note 1)</i>	–	Interest in controlled corporation	16.43%
Geng Yi	Ordinary	71,849,771 <i>(Note 2)</i>	–	Beneficial owner and family Interest	13.15%
Digital China Holdings Limited	Ordinary	53,809,685 <i>(Note 3)</i>	–	Interest in controlled corporation	9.85%
Zhou Quan	Ordinary	53,256,743 <i>(Note 4)</i>	–	Interest in controlled corporation	9.75%
Ho Chi Sing	Ordinary	53,256,743 <i>(Note 4)</i>	–	Interest in controlled corporation	9.75%



Notes:

1. 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. Kent C. McCarthy.
2. 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 of which 11,000,000 underlying shares derived from the share options granted to Mr. Guo Jiang under the Share Option Scheme.
3. The reference to 53,809,685 shares of the Company held by Talent Gain Developments Limited, a wholly-owned subsidiary of Digital China (BVI) Limited, which is a wholly-owned subsidiary of Digital China Holdings Limited.
4. The reference to 53,256,743 shares of the Company comprises: (i) 16,664,743 shares and (ii) 36,592,000 shares owned by (i) 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. Zhou Quan and Mr. Ho Chi Sing and (ii) 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. Zhou Quan and Mr. Ho Chi Sing, respectively.

Save as disclosed above, as at 31st March 2012, the Company had not been notified of any interests or short positions of substantial shareholders or other persons in the shares and underlying shares of the Company which are required to be kept under Section 336 of the SFO.



ESTABLISHMENT OF NOMINATION COMMITTEE

With effect from 20th March 2012, the Company established the nomination committee of the Company and written terms of reference of the nomination committee have been adopted. The members of the nomination committee comprises Mr. Guo Fansheng, an executive Director and chairman of the Company, Mr. Lee Wee Ong and Mr. Zhang Tim Tianwei, both independent non-executive Directors. Mr. Guo Fansheng is the chairman of the nomination committee.

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 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 management of the Company the accounting principles and practices adopted by the Group, and the first quarterly results of the Group for the period ended 31st March 2012.

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 2012.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.



PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the three months ended 31st March 2012.

By order of the Board

HC International, Inc.

Guo Jiang

Chief Executive Officer and Executive Director

Beijing, PRC, 10th May 2012

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*)