



20 years, young HC!



THIRD 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”)

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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”) 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 2012, respectively, together with the comparative figures for the corresponding periods in 2011 to the shareholders of the Company.

Financial Highlights

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Continuing operations				
Revenue	140,351	114,081	383,640	307,484
Gross Profit	117,014	96,104	333,351	260,089
EBITDA	27,919	14,140	59,688	24,182
Profit attributable to equity holders (Note 1)	17,798	13,259	38,290	15,662

Note: 1. The amounts in 2011 include the continuing operations and discontinued operations.

Key Financial Figures for the nine months ended 30th September 2012

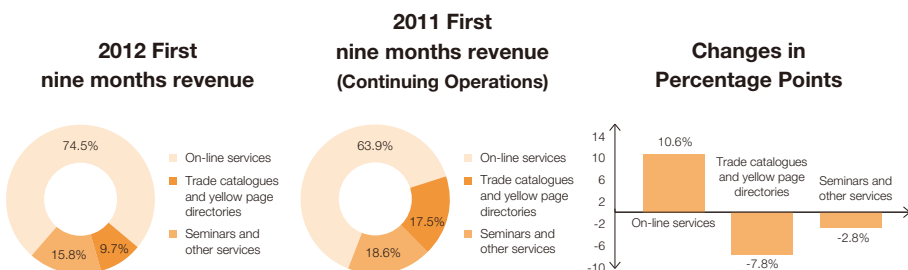
- **Revenue of the Group from continuing operations grew by 24.8% year-over-year**, increased to approximately RMB383.6 million for the first nine months of 2012, from approximately RMB307.5 million for the corresponding period last year.
- During the period, **gross profit ratio improved by approximately 2 percentage points to 87%**, from 85% recorded in the corresponding period last year.
- The Group achieved earnings before interest, income tax, depreciation, amortisation of intangible assets, land use rights and share based payments (“**EBITDA**”) of **approximately RMB59.7 million** during the period, representing an increment of 146.8% when compared to approximately RMB24.2 million for the corresponding period last year.

- **Profit attributable to equity holders of the Group was approximately RMB38.3 million** during the period, demonstrating a significant **improvement of 144.5%** over approximately RMB15.7 million achieved during the corresponding period last year.

Financial and Business Review

	Unaudited 2012 first nine months		Unaudited 2011 first nine months (Continuing Operations)		
	Revenue RMB'000	Common statement %	Revenue RMB'000	Common statement %	Variance %
On-line services	285,723	74.5%	196,474	63.9%	45.4%
Trade catalogues and yellow page directories	37,112	9.7%	53,820	17.5%	-31.0%
Seminars and other services	60,805	15.8%	57,190	18.6%	6.3%
Total	383,640	100.0%	307,484	100.0%	24.8%

Revenue spreads:



During the period, the Group recorded a revenue of approximately RMB383.6 million from continuing operations (2011: RMB307.5 million).

The revenue was derived from the segments of on-line services, trade catalogues and yellow page directories, and seminars and other services, of which breakdowns are stated above through table and charts. As a consequence of the increment in the contribution of on-line services segment, our overall gross profit ratio has improved by approximately 2 percentage points to 87% (2011: 85%).



During the three months ended 30th September 2012, the selling and marketing expenses had increased by 12.8% (2012 third quarter: approximately RMB73.7 million, 2011 third quarter: approximately RMB65.3 million) as a result of more intense marketing efforts and incentives, nevertheless, it was at a slower pace when compared to 23.0% growth in revenue for the same period (2012 third quarter: approximately RMB140.4 million, 2011 third quarter: approximately RMB114.1 million).

We are also delighted to inform that the Group's profit attributable to equity holders had increased significantly to approximately RMB38.3 million for the nine months ended 30th September 2012, up 144.5% from the same period last year, as a result of improvement in revenue, and better control of costs and expense elements on a year-over-year basis.

As one of the key e-commerce operators, the Group has further upgraded its on-line products in 2012 and has launched new value-added services such as Cai-Gou-Tong with an aim to enhance quality and comprehensiveness of services, which help optimised the marketing performance of our SME users, increased their chances of entering into transactions and expanded the effect of their branding efforts.

The Group has formulated a multi-facet matrix of products and services, by means of both on-line and off-line, which successfully builds up a unique B2B marketing solutions, namely "on-line + yellow pages+ Top 10", with that, we believe it provides the best product or commercial solutions for our customers in fullest scale.

On behalf of the Board, I would like to take this opportunity to thank the management team and every staff member of the Group for their on-going dedication and hard work.

Guo Jiang

Executive Director and Chief Executive Officer

Beijing, PRC, 12th November 2012



MANAGEMENT DISCUSSION AND ANALYSIS

Significant investments

On 3rd July 2012, 慧聰(天津)電子商務產業投資有限公司 (“Tianjin HC”), an indirect non-wholly owned subsidiary of the Company, entered into an investment and cooperation agreement with 佛山市天諾投資發展有限公司 (“Tian Nuo”), pursuant to which parties agreed to, inter alia, form a company, to be owned as to 51% by Tianjin HC and as to 49% by Tian Nuo for the purpose of the development and operation of a household electrical appliances exhibition centre in Shunde Beijiao, Foshan City, the PRC with a registered capital of RMB150,000,000. The establishment of company constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. Please also refer to the announcement of the Company dated 3rd July 2012.



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30th September 2012

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Continuing operations					
Revenue		140,351	114,081	383,640	307,484
Cost of revenue		(23,337)	(17,977)	(50,289)	(47,395)
Gross profit		117,014	96,104	333,351	260,089
Other income		2,833	732	7,337	2,070
Selling and marketing expenses		(73,655)	(65,294)	(225,436)	(186,769)
Administrative expenses		(24,205)	(22,023)	(71,569)	(66,070)
Profit before income tax		21,987	9,519	43,683	9,320
Income tax expense	2	(4,448)	(1,619)	(6,367)	(1,233)
Profit for the period from continuing operations		17,539	7,900	37,316	8,087
Discontinued operations					
Profit from discontinued operations	3	–	5,159	–	7,815
Profit from the period		17,539	13,059	37,316	15,902
Other comprehensive income/ (loss)					
Currency translation difference		394	(1,796)	614	(2,144)
Total comprehensive profit for the period		17,933	11,263	37,930	13,758
Profit attributable to:					
– equity holders of the Company		17,798	13,259	38,290	15,662
– non-controlling interests		(259)	(200)	(974)	240
		17,539	13,059	37,316	15,902
Total comprehensive profit attributable to:					
– equity holders of the Company		18,192	11,463	38,904	13,518
– non-controlling interests		(259)	(200)	(974)	240
		17,933	11,263	37,930	13,758



	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Earnings per share from continuing and discontinued operations attributable to the equity holders of the Company during the periods (expressed in RMB per share)	4				
Basic earnings per share:					
From continuing operations		0.0319	0.0146	0.0693	0.0160
From discontinued operations		–	0.0097	–	0.0148
Diluted earnings per share:					
From continuing operations		0.0298	0.0138	0.0646	0.0151
From discontinued operations		–	0.0092	–	0.0140
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 (collectively referred to 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 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 condensed consolidated third quarterly financial information are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The condensed consolidated third quarterly financial information has been approved for issue by the Board on 12th November 2012.

These condensed consolidated third quarterly financial statements have not been audited.

(b) *Basis of preparation*

This unaudited condensed consolidated third quarterly financial information for the nine months ended 30th September 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 third quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December 2011.

2 Income tax expense

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Continuing operations				
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax (“CIT”) (ii)	(1,254)	(480)	(2,527)	(527)
Deferred income tax	(3,194)	(1,139)	(3,840)	(706)
	(4,448)	(1,619)	(6,367)	(1,233)
Discontinued operations				
Current income tax				
– The PRC corporate income tax (“CIT”) (ii)	–	(3,077)	–	(3,077)
Deferred income tax	–	–	–	–
	–	(3,077)	–	(3,077)

- (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

On 30th May 2011, the Group and Huicong Investment Management (Beijing) Limited (“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 北京慧聰博信信息諮詢有限公司 (“Fulfillment JV Co”), a subsidiary of the Group 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”), 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 the Fulfillment JV Co and the 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.



	Three months ended 30th September 2011 <i>RMB'000</i>	Nine months ended 30th September 2011 <i>RMB'000</i>
Revenue	18,334	46,361
Share of profit of an associated company	876	2,390
Expenses	(18,865)	(45,750)
Profit before income tax	345	3,001
Income tax	-	-
Profit after income tax	345	3,001
Post tax profit on disposal of discontinued operations	4,814	4,814
Profit from discontinued operations	5,159	7,815
Profit from discontinued operations attributable to:		
Equity holders of the Company	5,303	7,519
Non-controlling interests	(144)	296

4 Earnings per share

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Profit from continuing operations attributable to equity holders	17,798	7,956	38,290	8,143
Profit from discontinued operations attributable to equity holders	-	5,303	-	7,519
	17,798	13,259	38,290	15,662



	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2012 Number of shares '000	2011 Number of shares '000	2012 Number of shares '000	2011 Number of shares '000
Weight average number of shares in issue	557,114	544,123	552,364	509,069
Incremental shares from assumed exercise of share options granted	40,952	33,097	39,982	29,102
Diluted weighted average number of shares	598,066	577,220	592,346	538,171

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2012 RMB	2011 RMB	2012 RMB	2011 RMB
Basic earnings per share from continuing operations (in RMB)	0.0319	0.0146	0.0693	0.0160
Basic earnings per share from discontinued operations (in RMB)	–	0.0097	–	0.0148
Diluted earnings per share from continuing operations (in RMB)	0.0298	0.0138	0.0646	0.0151
Diluted earnings per share from discontinued operations (in RMB)	–	0.0092	–	0.0140

Diluted earning 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.



5 Dividends

No dividends was paid or declared by the Company during the period (2011: Nil).

6 Other reserves

	Share premium	Capital reserve	Merger reserve	Share redemption reserve	Share-based compensation reserves	Share held for share award scheme	Exchange reserve	Available for sales reserve	Others reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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)	290,152
As at 1st January 2012	197,325	987	108,830	496	43,733	(22,234)	(10,178)	-	(48,474)	270,485
Currency translation difference	-	-	-	-	-	-	614	-	-	614
Share based compensation-value of employee services	-	-	-	-	6,286	-	-	-	-	6,286
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(144)	(144)
Share purchased for share award scheme	-	-	-	-	-	(10,447)	-	-	-	(10,447)
Fair value gain on available for sale financial assets	-	-	-	-	-	-	-	1,972	-	1,972
Vesting of shares award	-	-	-	-	(1,033)	1,033	-	-	-	-
Exercise of share options	5,298	-	-	-	-	-	-	-	-	5,298
As at 30th September 2012	202,623	987	108,830	496	48,986	(31,648)	(9,564)	1,972	(48,618)	274,064

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

As at 30th September 2012, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in 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 (approximate)
Guo Jiang	Ordinary	Beneficial owner/ family interest	77,765,146 (Note 1)	10,784,625 (Note 1)	-	-	88,549,771 (Note 1)	15.88%
Guo Fansheng	Ordinary	Beneficial owner	69,749,015	-	-	-	69,749,015	12.51%
Li Janguang	Ordinary	Interest of controlled corporation	-	-	40,000,384 (Note 2)	-	40,000,384 (Note 2)	7.18%
Lee Wee Ong	Ordinary	Beneficial owner	3,100,672 (Note 3)	-	-	-	3,100,672 (Note 3)	0.56%



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, who is Mr. Guo Jiang's spouse;
 - (b) 16,700,000 underlying shares derived from the awarded shares granted to Mr. Guo Jiang under the employees' share award scheme adopted on 17th November 2011; and
 - (c) 16,934,000 underlying shares derived from the share options granted under the share option scheme adopted on 30th November 2003 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.
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 have, interested in the said 40,000,384 shares of the Company pursuant to the SFO.
3. Such interests in the Company comprises 100,672 shares of the Company and 3,000,000 underlying shares derived from the awarded share granted to Mr. Lee Wee Ong under the employees' share award scheme of the Company adopted by the Board on 17th November 2011.

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 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.

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 2012, options to subscribe for an aggregate of 4,036,016 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 <i>HK\$</i>	As at 1st January 2012	Number of share options			As at 30th September 2012 <i>(Note 1)</i>
				Granted during the period	Exercised during the period	Lapsed during the period	
Ex-employees							
FAN Qimiao	2nd December 2003	0.44	5,111,104	-	(5,111,104)	-	-
GU Yuanchao	2nd December 2003	0.44	3,777,774	-	-	-	3,777,774
Other employees							
In aggregate <i>(Note 2)</i>	2nd December 2003	0.44	258,242	-	-	-	258,242
Total			9,147,120	-	(5,111,104)	-	4,036,016

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 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 30th September 2012, options to subscribe for an aggregate of 55,474,000 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 2012	Number of share options			As at 30th September 2012 (Note 1)
				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
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
	7th April 2010	0.82	1,200,000	-	-	-	1,200,000
Yang Ning	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
Other employees							
In aggregate (Note 2)	18th February 2004	2.4	5,129,000	-	-	(161,000)	4,968,000
In aggregate (Note 3)	23rd June 2006	1.49	1,534,000	-	(332,000)	(134,000)	1,068,000
In aggregate (Note 4)	11th July 2007	1.24	5,327,000	-	(1,063,000)	-	4,264,000
In aggregate (Note 5)	29th September 2008	0.604	4,000,000	-	(1,400,000)	-	2,600,000
In aggregate (Note 6)	7th April 2010	0.82	12,100,000	-	(3,200,000)	(800,000)	8,100,000
In aggregate (Note 7)	28th March 2011	1.108	2,900,000	-	(100,000)	(100,000)	2,700,000
Total			62,764,000	-	(6,095,000)	(1,195,000)	55,474,000



Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the grant of options.

For the options exercisable at HK\$2.40 granted on 18th February 2004, the relevant grantees may exercise options up to 33.3%, 66.6% and in full, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first, second and third anniversaries of the date of the grant of options.

For the options exercisable at HK\$1.49 granted on 23rd June 2006, the relevant grantees may exercise these options in a 10-year period starting from the expiry of twelve months from the date of the grant of options.

For the options exercisable at HK\$1.24 granted on 11th July 2007, the relevant grantees may exercise options up to 50% and in full, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first and second anniversaries of the date of the grant of options.

For the options exercisable at HK\$0.604 granted on 29th September 2008, the relevant grantees may exercise these options in a 10-year period starting from the expiry of twelve months from the date of the grant of options.


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. 36 employees have been granted options under the Share Option Scheme to acquire an aggregate of 4,968,000 shares of the Company at HK\$2.40 per share.
3. 14 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,068,000 shares of the Company at HK\$1.49 per share.
4. 20 employees have been granted options under the Share Option Scheme to acquire an aggregate of 4,264,000 shares of the Company at HK\$1.24 per share.
5. 9 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,600,000 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 8,100,000 shares of the Company at HK\$0.82 per share.
7. 20 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,700,000 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 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.

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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 lapsed, 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\$2.0395 per Share.

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 43,881,000 awarded shares have been granted up to the date of this report, representing approximately 7.87% of the issued share capital of the Company as at the date of this report. The awarded shares remained outstanding as at 30th September 2012 are as set out below:

Name of grantee	Date of grant	Number of awarded shares	As at 1st January 2012	Granted during the period	Vested during the period	As at 30th September 2012
Directors						
Guo Jiang	20th August 2012	16,700,000	-	16,700,000	-	16,700,000
Lee Wee Ong	14th June 2012	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 (Note 1)	23rd November 2011	15,181,000	15,181,000	-	(844,663)	14,336,337
Total		43,881,000	24,181,000	19,700,000	(844,663)	43,036,337

Note:

- 69 employees have been granted an aggregate of 15,181,000 awarded shares.

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

As at 30th September 2012, 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	Nature of		Capacity	Approximate percentage of shareholding
		Long position	short position		
Geng Yi	Ordinary	88,549,771 (Note 1)	–	Beneficial owner and family interest	15.88%
Kent C. McCarthy	Ordinary	86,968,000 (Note 2)	–	Interest in controlled corporations	15.60%
Digital China Holdings Limited	Ordinary	83,728,107 (Note 3)	–	Interest in controlled corporation	15.02%
Zhou Quan	Ordinary	53,256,743 (Note 4)	–	Interest in controlled corporations	9.55%
Ho Chi Sing	Ordinary	53,256,743 (Note 4)	–	Interest in controlled corporations	9.55%

Notes:

- 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; (b) 16,700,000 underlying shares derived from the awarded shares granted to Mr. Guo Jiang under the employees' share award scheme adopted on 17th November 2011; and (c) 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.



2. The reference to 86,968,000 shares of the Company comprises 82,042,675 shares and 4,925,325 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.
3. The reference to 83,728,107 shares of the Company represents shares held by the 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 comprises (i) 16,664,743 Shares and (ii) 36,592,000 Shares owned by (i) IDG Technology Venture Investments, L.P., a 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 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 30th September 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 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 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 nine months ended 30th September 2012.

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 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 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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 2012.

By order of the Board
HC International, Inc.
Guo Jiang

Chief Executive Officer and Executive Director

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

Mr. Guo Fansheng (*Executive Director and Chairman*)
Mr. Guo Jiang (*Executive Director and Chief Executive Officer*)
Mr. Lee Wee Ong (*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. Zhang Tim Tianwei (*Independent non-executive Director*)

Beijing, PRC, 12th November, 2012