



20 years, young HC!



HC INTERNATIONAL, INC.
慧聪网有限公司

Stock Code 股票代码 : HK8292

FIRST QUARTERLY REPORT

2013

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") hereby announces the unaudited financial results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31st March 2013, together with the comparative figures for the corresponding period ended 31st March 2012 to the shareholders of the Company.

Financial Highlights

	Three months ended 31st March (Unaudited)	
	2013 RMB'000	2012 RMB'000
Revenue	161,256	112,852
Gross profit	150,447	100,522
EBITDA*	30,931	11,183
Profit attributable to equity holders	20,277	5,311

Unaudited Key Financial Figures For The 1st Quarter of 2013

- **Revenue** was approximately **RMB161.3 million**, increased by RMB48.4 million, or **up 42.9%**, when compared to RMB112.9 million recorded for the corresponding period in 2012.
- **Gross Profit Ratio** was approximately **93%**, a further improved by 4 percentage points over the same period last year.
- The Group's **EBITDA*** was approximately **RMB30.9 million**, significantly higher than that achieved in the first quarter of 2012 of RMB11.2 million, indicating **a surge of 177%**.
- **Profit Attributable to Equity Holders** of the Company was approximately **RMB20.3 million** during the first quarter of 2013, while it was RMB5.3 million for the same period a year before.
- The **Fully Diluted EPS** was **RMB0.0337, enhanced by 2.7 folds**, when compared to RMB0.0091 in the first quarter of 2012, on a year-on-year basis.

Note: *Profit before interest, income tax, depreciation, amortization of intangible assets, land use rights and share based payment

Financial and Business Review

Revenue Analysis	On-line services	Trade catalogues and yellow page directories	Seminars and other services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
First quarter of 2013	135,809	9,877	15,570	161,256
First quarter of 2012	84,563	13,434	14,855	112,852
Variance	60.6%	(26.5%)	4.8%	42.9%

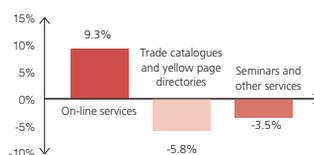
2013 first three months revenue



2012 first three months revenue



Changes in Percentage Points



During the period, the Group recorded a revenue of approximately RMB161.3 million (2012: RMB112.9 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 4 percentage points to 93% (2012: 89%).

The Group increased its selling and marketing expenses from approximately RMB74.8 million for the first quarter ended 31st March 2012 to approximately RMB102.6 million in the same period of 2013 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 for the three months period ended 31st March 2013 was approximately RMB24.8 million (2012: RMB5.5 million).

We are also delighted to inform that the profit attributable to equity holders of the Company had increased significantly to approximately RMB20.3 million for the three months ended 31st March 2013, up 282% from the same period last year, as a result of improvement in revenue, better control of cost and expenses on a year-over-year basis.

As one of the key e-commerce operators, the Group has been further upgrading its on-line products and has launched new value-added services such as Cai-Gou-Tong as well as Huicong – Minsheng Bank cooperation of credit card 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.

In addition, the Group had successfully acquired a piece of land with size of 43,965 m², located at Shunde of Guangzhou, alongside the State Road 105 on 5th February 2013 for a total consideration of approximately RMB334 million. Such land will be utilised to build a household electrical appliances business exhibition centre in order to enhance the integration of online to offline operations which shall further fasten both ends of virtual and reality businesses of the sector.

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 products or commercial solutions for our customers in the 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, 10th May 2013

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months Ended 31st March 2013

	Note	Three months ended 31st March	
		2013 RMB'000	2012 RMB'000
Revenue		161,256	112,852
Cost of revenue		(10,809)	(12,330)
Gross profit		150,447	100,522
Other income		700	304
Selling and marketing expenses		(102,630)	(74,848)
Administrative expenses		(26,147)	(21,864)
Operating profit		22,370	4,114
Finance income		2,799	1,533
Finance cost		(325)	(133)
Finance income, net		2,474	1,400
Profit before income tax		24,844	5,514
Income tax expense	2	(4,832)	(573)
Profit for the period		20,012	4,941
Other comprehensive loss			
Currency translation difference		(336)	(43)
Total comprehensive profit for the period		19,676	4,898
Profit attributable to:			
– equity holders of the Company		20,277	5,311
– non-controlling interests		(265)	(370)
		20,012	4,941
Total comprehensive profit attributable to:			
– equity holders of the Company		19,941	5,268
– non-controlling interests		(265)	(370)
		19,676	4,898

	Note	Three months ended 31st March	
		2013 RMB	2012 RMB
Earnings per share attributable to equity holders of the Company			
Basic earnings per share:	3	0.0359	0.0097
Diluted earnings per share:	3	0.0337	0.0091
Dividends	4	—	—

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 prioritizing 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 2013.

(b) *Basis of preparation*

This unaudited condensed consolidated first quarterly financial information for the three months ended 31st March 2013 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 2012.

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

2 Income tax (expense)/credit

	Three months ended 31st March	
	2013 RMB'000	2012 RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– The PRC enterprise income tax (“EIT”) (ii)	(2,846)	(2,178)
Deferred income tax	(1,986)	1,605
	(4,832)	(573)

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2012: 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 Earnings per share

The calculation of basic earnings per share for the three months ended 31st March 2013 is based on the respective unaudited profit attributable to the equity holders of the Company approximately RMB20,277,000 (2012: RMB5,311,000) and the weighted average of approximately 564,344,000 (2012: 546,309,000) ordinary shares in issue during the period.

Diluted earnings 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.

4 Dividend

No dividend was paid or declared by the Company during the period (2012: Nil).

5 Other reserves

	Group								Total RMB'000
	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Share-based compensation reserve RMB'000	Share redemption reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Share held for share reward scheme RMB'000	
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
Balance at 1st January 2013	205,397	987	108,830	51,466	496	(10,141)	(49,618)	(31,648)	275,769
Exercise of share options	1,685	-	-	-	-	-	-	-	1,685
Share based compensation-value of employee services	-	-	-	3,161	-	-	-	-	3,161
Currency translation difference	-	-	-	-	-	(336)	-	-	(336)
Shares purchased for share award scheme	-	-	-	-	-	-	-	(10,494)	(10,494)
At 31st March 2013	207,082	987	108,830	54,627	496	(10,477)	(49,618)	(42,142)	269,785

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 2013, 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' and chief executive's long positions in the shares of the Company ("Shares")

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 shares	Beneficial owners/family interest	77,765,146 (Note 1)	10,784,625 (Note 1)	-	-	88,549,771 (Note 1)	15.66%
Guo Fansheng	Ordinary shares	Beneficial owners	57,749,015	-	-	-	57,749,015	10.21%
Li Janguang	Ordinary shares	Interest of controlled corporation	-	-	32,000,384 (Note 2)	-	32,000,384 (Note 2)	5.66%
Lee Wee Ong	Ordinary shares	Beneficial owners	3,100,672 (Note 3)	-	-	-	3,100,672 (Note 3)	0.55%

Notes:

1. Such interest in the Company comprises:
 - (a) 54,915,771 Shares of which 4,850,625 Shares 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 32,000,384 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 32,000,384 shares of the Company pursuant to the SFO.
3. Such interests in the Company comprises 100,672 Shares 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 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 2013, options to subscribe for an aggregate of 3,336,016 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 HK\$	Number of share options				As at 31st March 2013 (Note 1)
			As at 1st January 2013	Granted during the period	Exercised during the period	Lapsed during the period	
Ex-employees							
GU Yuanchao	2nd December 2003	0.44	3,777,774	-	(700,000)	-	3,077,774
Other employees							
In aggregate (Note 2)	2nd December 2003	0.44	258,242	-	-	-	258,242
Total			4,036,016	-	(700,000)	-	3,336,016

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 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 2013, 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 2013, options to subscribe for an aggregate of 47,902,000 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 2013 (Note 1)	
			As at 1st January 2013	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	
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	
Other employees	7th April 2010	0.82	3,000,000	–	–	–	3,000,000	
	In aggregate (Note 2)	18th February 2004	2.4	4,843,000	–	–	–	4,843,000
	In aggregate (Note 3)	23rd June 2006	1.49	1,034,000	–	–	–	1,034,000
	In aggregate (Note 4)	11th July 2007	1.24	3,951,000	–	–	–	3,951,000
	In aggregate (Note 5)	29th September 2008	0.604	2,400,000	–	(800,000)	–	1,600,000
In aggregate (Note 6)	7th April 2010	0.82	8,950,000	–	(2,000,000)	–	6,950,000	
In aggregate (Note 7)	28th March 2011	1.108	2,000,000	–	–	(50,000)	1,950,000	
Total			50,752,000	–	(2,800,000)	(50,000)	47,902,000	

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. 34 employees have been granted options under the Share Option Scheme to acquire an aggregate of 4,833,000 shares of the Company at HK\$2.40 per share.
3. 13 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,034,000 shares of the Company at HK\$1.49 per share.
4. 17 employees have been granted options under the Share Option Scheme to acquire an aggregate of 3,951,000 shares of the Company at HK\$1.24 per share.
5. 4 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,600,000 shares of the Company at HK\$0.604 per share.

6. 9 employees have been granted options under the Share Option Scheme to acquire an aggregate of 6,950,000 shares of the Company at HK\$0.82 per share.
7. 19 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,950,000 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. 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 43,881,000 shares has been granted up to the date of this report, representing approximately 7.69% of the issued share capital of the Company as at the date of this report. The awarded shares remain outstanding as at 31st March 2013 are as set out below:

Name of Grantee	Date of grant	Number of awarded shares	As at 1st January 2013	Granted during the period	Vested during the period	As at 31st March 2013
Directors						
Guo Jiang	20-Aug-12	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	14,336,337	14,336,337	–	–	14,336,337
Total		43,036,337	43,036,337	–	–	43,036,337

Note:

1. 69 employees have been granted an aggregate of 14,336,337 awarded shares.

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

As at 31st March 2013, 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
Digital China Holdings Limited	Ordinary	112,758,107 (Note 1)	–	Interest in controlled corporation	19.94%
Geng Yi	Ordinary	88,549,771 (Note 2)	–	Beneficial Owner and Family Interest	15.66%
Kent C. McCarthy	Ordinary	81,022,000 (Note 3)	–	Interest in controlled corporation	14.33%
Zhou Quan	Ordinary	53,256,743 (Note 4)	–	Interest in controlled corporation	9.42%
Ho Chi Sing	Ordinary	53,256,743 (Note 4)	–	Interest in controlled corporation	9.42%

Notes:

1. The references to 112,758,107 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.
2. Such interest in the Company comprises: (a) 54,915,771 Shares of which 50,065,146 Shares 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. GuoJiang pursuant to the SFO.

3. The reference to 81,022,000 Shares comprises 76,448,873 Shares and 4,573,127 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 above mentioned entities is owned by Mr. Kent C. McCarthy.
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 31st March 2013, 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.

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 unaudited first quarterly results of the Group for the period ended 31st March 2013.

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 2013.

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

Pursuant to a share award scheme of the Company adopted in November 2011, for the three months ended 31st March 2013, trustee purchased an aggregate of 3,540,000 shares as awarded shares. 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 2013.

MATERIAL ACQUISITION AND DISPOSAL

On 5th February 2013, 廣東慧聰家電城投資有限公司 (the "Shunde Subsidiary"), an indirectly non-wholly owned subsidiary of the Company whose equity interest was owned as to 59% by Huicong (Tianjin) E-Commerce Industry Investment Co., Ltd.* (慧聰(天津)電子商務產業投資有限公司), as to 16.5% by Foshan Shunde Bo Shi Investment Co., Ltd.* (佛山市順德區博時投資有限公司) and as to 24.5% by Foshan Shunde Cheng Shun Assets Management Co., Ltd.* (佛山市順德區誠順資產管理有限公司) won the public tender for the sale of the land use rights of a land with a planned land area of 43,964.82 square meters and located at No.8, East of State Road 105, Beijiao Town, Shunde, Foshan, Guangdong Province (廣東省佛山市順德北滘鎮105國道東側8號) of the PRC (the "Land") at the consideration of RMB334,480,000.

The Shunde Subsidiary and Foshan Shunde Land and Property Transactions Centre (佛山市順德區土地房產交易中心) have signed a Confirmation on Completion of the Sale of Land Used Rights (國有建設用地使用權掛牌出讓成交確認書) on 5th February 2013. The Shunde Subsidiary has entered into the transfer contract for land use rights of state-owned land (國有土地使用權出讓合同書) in respect of the Land with The Land Construction and Water Conservancy Bureau of Shunde, Foshan, and the consideration was fully paid by the Shunde Subsidiary on 4th March 2013.

The said land acquisition constituted a major transaction for the Company and subject to, among other things, the approval by the Shareholders under Chapter 19 of the GEM Listing Rules. Shareholders' advanced approval and authorities were granted to the directors for the said land acquisition in advance by the Shareholders at the extraordinary general meeting of the Company held on 4th February 2013. Please also refer to the circular of the Company dated 18th January 2013, and the announcements of the Company dated 4th February 2013 and 5th February 2013, respectfully, for further details of the said land acquisition.

CHANGE OF PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT IN THE CAYMAN ISLANDS

With effect from 26th January 2013, the Company's principal share registrar and transfer agent in the Cayman Islands has been changed to Royal Bank of Canada Trust Company (Cayman) Limited at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands.

SUBSEQUENT EVENTS

Grant of Share Options

On 3rd April 2013, the Company granted 1,500,000 share options to Mr. Lee Wee Ong, an executive Director and chief financial officer of the Company, which entitles Mr. Lee to subscribe for an aggregate of 1,500,000 new Shares in the capital of the Company.

Proposed Transfer of Listing

As announced by the Company on 18th April 2013, the Company is actively considering the possibility for the transfer of listing of the Shares from GEM to the Main Board of the Stock Exchange. The said proposal is only at a preliminary stage, and to definitive timetable has yet been finalised, and no application has yet been made to the Stock Exchange. The Company believes that if materialised, the listing of Shares on the Main Board of the Stock Exchange will enhance the profile of the Group, and will improve the trading liquidity of the Shares.

By order of the Board

HC International, Inc.

Guo Jiang

Chief Executive Officer and Executive Director

Beijing, PRC, 10th May 2013

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*)