

HC INTERNATIONAL, INC.
慧聪网有限公司

Stock Code 股票代碼 : HK8292

THIRD 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 (the “Board”) of the Directors 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 2013, respectively, together with the comparative figures for the corresponding periods in 2012 to the shareholders of the Company.

Financial Highlights

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	242,196	140,351	599,802	383,640
Gross Profit	211,967	117,014	548,027	333,351
EBITDA*	63,880	27,919	146,565	59,688
Profit attributable to equity holders	46,532	17,798	98,846	38,290

Key Financial Figures for the Nine Months Ended 30th September 2013

- **Revenue** was approximately **RMB599.8 million**, increased by approximately RMB216.2 million, or **up approximately 56%**, when compared to approximately RMB383.6 million recorded for the corresponding period in 2012.
- **Gross Profit Ratio** was approximately **91%**, a further improved by approximately 4 percentage points over the same period last year.
- The Group’s **EBITDA*** was approximately **RMB146.6 million**, significantly higher than that achieved in previous year of approximately RMB59.7 million, indicating **a surge of approximately 146%**.
- **Profit Attributable to Equity holders** increased approximately 158% to approximately **RMB98.8 million** during this reporting period, while it was approximately RMB38.3 million for the same period a year before.
- The **Diluted EPS** was approximately **RMB0.1614, enhanced by approximately 1.5 folds**, when compared to approximately RMB0.0646, on a period-on-period basis.

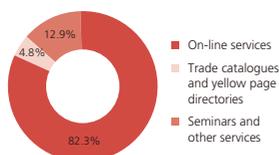
Notes: * Profit before interest, income tax, depreciation, amortisation of intangible assets, land use rights and share based payment

Financial and Business Review

	Unaudited 2013 First Nine Months		Unaudited 2012 First Nine Months		Variance %
	Revenue RMB'000	Common statement %	Revenue RMB'000	Common statement %	
On-line services	493,656	82.3%	285,723	74.5%	72.8%
Trade catalogues and yellow page directories	29,008	4.8%	37,112	9.7%	-21.8%
Seminars and other services	77,138	12.9%	60,805	15.8%	26.9%
Total	599,802	100.0%	383,640	100.0%	56.3%

Revenue spreads:

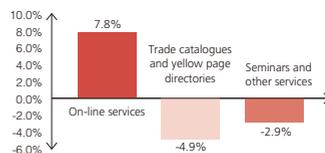
2013 First Nine Months
Revenue



2012 First Nine Months
Revenue



Changes in
Percentage Points



During the period, the Group recorded a revenue of approximately RMB599.8 million (2012: RMB383.6 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 service segment, our overall gross profit ratio has improved by approximately 4 percentage points to 91% (2012: 87%).

The Group increased its selling and marketing expenses from approximately RMB225.4 million for the nine months ended 30th September 2012 to approximately RMB352.4 million in the same period of 2013 which was mainly due to the increase of sales staff salaries and commissions, marketing expenses and agency costs.

The profit before income tax of the Group for the nine months ended 30th September 2013 was approximately RMB121.2 million (2012: RMB43.7 million).

We are also delighted to inform that the Group's profit attributable to equity holders had increased significantly to approximately RMB98.8 million for the nine months ended 30th September 2013, up approximately 158% from the same period last year, as a result of improvement in revenue, better control of costs and expenses on a period-over-period basis.

As one of the key domestic B2B e-commerce operators, trailing the past and during the period, the Group has been emphasizing on matching the SMEs focusing on domestic trades, deepening the in-depth of vertical services, and exploring the online-to-offline (O2O) business model, with all efforts aiming to provide our customers value-for-marketing products and services. Inevitably, to some extent we are benefiting from the firm growth of domestic trades in China. The recent released 2013 first nine months GDP growth of 7.7% by the National Bureau of Statistics of China indicating that 45.9% of the growth rate was contributed by domestic demands, and a numbers of economists and researchers have anticipated such trend to continue for the foreseeable next couple of years.

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 an unique B2B marketing solutions, namely "on-line + yellow page + Top 10", with that, we believe it provides the best products or commercial solutions for our customers in fullest scale.

During the nine months ended 30th September 2013, the Group had successfully acquired a piece of land with size of 43,964.82 m², located at Shunde of Guangzhou, alongside the State Road 105 for a total consideration of approximately RMB334.48 million. Such land will be utilised to build a household appliances 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.

In addition to the above, the Company has successfully conducting a placement of existing shares and subscription of 72,000,000 ordinary shares at price of HKD7.50 per share pursuant to a placing and subscription agreement dated 27th September 2013, which resulted to a net proceeds of approximately HKD520,000,000. Majority of the capital raised will be used for the deployment of new services such as B2B internet financing, payment solutions, and online transaction services.

The Directors do not recommend the payment of dividend for the nine months ended 30th September 2013.

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 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Significant investments

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 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地產交易中心) 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 subjects 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.

PROPOSED TRANSFER OF LISTING

On 20th May 2013, the Company submitted a formal application to the Stock Exchange for the transfer of listing of the shares of the Company (the “Shares”) from GEM to the Main Board under the transfer of listing arrangement pursuant to Chapter 9A of the Rules Governing the Listing of the Securities on the Stock Exchange (the “Main Board List”). The Company has withdrawn the application as currently the Company is not able to meet the ownership continuity and control requirement. Subject to the circumstances then prevailing, the Company is considering re-activating the Proposed Transfer after conclusion of the year ending 31st December 2013. Please refer to the announcements of the Company dated 20th May and 8th August 2013 for details.

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 27th September 2013, the Company, Mr. Guo Jiang, Mr. Guo Fansheng (collectively the “Vendors”), Jefferies Hong Kong Limited, Oriental Patron Securities Limited and First Shanghai Securities (collectively, the “Placing Agents”) entered into the Placing and Subscription Agreement pursuant to which (i) the Placing Agents, as placing agents of the Vendors, are appointed by the Vendors to procure purchasers of up to an aggregate of 72,000,000 Shares at a placing price of HK\$7.50 per Share on a best efforts basis; and (ii) the Vendors conditionally agreed to subscribe for up to an aggregate of 72,000,000 Shares at a subscription price of HK\$7.50 per Share. The final number of Shares to be subscribed by and issued to the Vendors shall equal the number of Shares held by each of them and successfully placed in the placing.

The placing and subscription were completed on 2nd October 2013 and 7th October 2013, respectively, in accordance with the terms and conditions of the Placing and Subscription Agreement. In respect of the placing, a total of 72,000,000 Shares have been successfully placed to not less than six placees at the placing price of HK\$7.50 per Share, and in respect of the subscription, a total of 72,000,000 new Shares have been issued to the Vendors at the subscription price of HK\$7.50 per Share. The net proceeds from the subscription amount to approximately HK\$520,000,000.

Please refer to the announcements of the Company dated 27th September 2013 and 7th October 2013.

GENERAL CONTRACTING CONSTRUCTION AND MANAGEMENT CONTRACT FOR HUICONG HOUSEHOLD APPLIANCES CITY PROJECT

After the reporting period and on 1st November 2013, the Shunde Subsidiary entered into a general contracting construction and construction management (the “Construction Contract”) with China Huaxi Corporation Limited (中國華西企業有限公司) (the “Contractor”) in respect of the construction and construction management works of the Huicong Household Appliance City Project on the Land at a contract sum of RMB308,880,000.

The transactions contemplated under the Construction Contract constitute a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. Please also refer to the announcement of the Company dated 1st November 2013.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30th September 2013

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Revenue		242,196	140,351	599,802	383,640
Cost of revenue		(30,229)	(23,337)	(51,775)	(50,289)
Gross profit		211,967	117,014	548,027	333,351
Other income		650	997	1,860	1,350
Selling and marketing expenses		(129,388)	(73,655)	(352,416)	(225,436)
Administrative expenses		(29,470)	(24,028)	(82,340)	(71,100)
Operating profit		53,759	20,328	115,131	38,165
Finance income		2,229	1,836	6,836	5,987
Finance cost		(558)	(177)	(788)	(469)
Finance income, net		1,671	1,659	6,048	5,518
Profit before income tax		55,430	21,987	121,179	43,683
Income tax expense	2	(9,881)	(4,448)	(23,958)	(6,367)
Profit for the period		45,549	17,539	97,221	37,316
Other comprehensive (loss)/income and item that may be reclassified to profit or loss:					
Fair value gain on available for sale financial assets		81	1,235	1,944	1,972
Currency translation difference		(415)	394	(2,016)	614
Total comprehensive profit for the period		45,215	19,168	97,149	39,902

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Profit attributable to:					
– equity holders of the Company		46,532	17,798	98,846	38,290
– non-controlling interests		(983)	(259)	(1,625)	(974)
		45,549	17,539	97,221	37,316
Total comprehensive profit attributable to:					
– equity holders of the Company		46,198	19,427	98,774	40,876
– non-controlling interests		(983)	(259)	(1,625)	(974)
		45,215	19,168	97,149	39,902
Earnings per share to equity holders of the Company during the periods (expressed in RMB per share)	3				
Basic earnings per share:		0.0801	0.0319	0.1726	0.0693
Diluted earnings per share:		0.0758	0.0298	0.1614	0.0646
Dividends	4	–	–	–	–

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 2013.

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 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 third quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December 2012.

2 Income tax expense

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax ("CIT") (ii)	(4,394)	(1,254)	(12,344)	(2,527)
Deferred income tax	(5,487)	(3,194)	(11,614)	(3,840)
	(9,881)	(4,448)	(23,958)	(6,367)

- (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

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Profit attributable to equity holders	46,532	17,798	98,846	38,290

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2013 Number of shares '000	2012 Number of shares '000	2013 Number of shares '000	2012 Number of shares '000
Weighted average number of shares in issue	580,722	557,114	572,745	552,364
Incremental shares from assumed exercise of share options granted	33,222	40,952	39,680	39,982
Diluted weighted average number of shares	613,944	598,066	612,425	592,346
Basic earnings per share (in RMB)	0.0801	0.0319	0.1726	0.0693
Diluted earnings per share (in RMB)	0.0758	0.0298	0.1614	0.0646

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 Dividends

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

5 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 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
As at 1st January 2013	205,397	987	108,830	496	51,466	(31,648)	(10,141)	-	(49,618)	275,769
Currency translation difference	-	-	-	-	-	-	(2,016)	-	-	(2,016)
Share based compensation-value of employee services	-	-	-	-	13,407	-	-	-	-	13,407
Share purchased for share award scheme	-	-	-	-	-	(55,809)	-	-	-	(55,809)
Fair value gain on available for sale financial assets	-	-	-	-	-	-	-	1,944	-	1,944
Vesting of shares award	2,145	-	-	-	(10,058)	7,913	-	-	-	-
Exercise of share options	16,941	-	-	-	-	-	-	-	-	16,941
As at 30th September 2013	224,483	987	108,830	496	54,815	(79,544)	(12,157)	1,944	(49,618)	250,236

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 2013, 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	114,765,146 (Notes 1 and 4)	10,784,625 (Notes 1 and 4)	-	-	125,549,771 (Notes 1 and 4)	21.59%
Guo Fansheng	Ordinary	Beneficial owner	92,749,015 (Note 4)	-	-	-	92,749,015 (Note 4)	15.95%
Li Jianguang	Ordinary	Interest of controlled corporation	-	-	32,000,384 (Note 2)	-	32,000,384 (Note 2)	5.50%
Lee Wee Ong	Ordinary	Beneficial owner	4,600,672 (Note 3)	-	-	-	4,600,672 (Note 3)	0.79%

Notes:

1. Such interest in the Company comprises:
 - (a) 58,198,771 shares of the Company (including 37,000,000 shares of the Company proposed to be placed by him pursuant to the Placing and Subscription Agreement, please refer to note 4 below for details) of which 4,850,625 shares of the Company are held by Ms. Geng Yi, who is Mr. Guo Jiang's spouse;
 - (b) 13,917,000 underlying shares derived from the awarded shares granted to Mr. Guo Jiang under the employees' share award scheme adopted on 17th November 2011;

- (c) 16,434,000 underlying shares derived from the share options granted under the share option scheme adopted on 30th November 2003 (“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; and
- (d) 37,000,000 underlying shares proposed to be subscribed by Mr. Guo Jiang pursuant to the Placing and Subscription Agreement. Please also refer to Note 4 below for details.

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: (i) 1,100,672 Shares, (ii) 2,000,000 underlying Shares derived from the awarded Shares granted to Mr. Lee Wee Ong under the employees’ share award scheme of the Company adopted by the Board on 17th November 2011 and (iii) 1,500,000 underlying Shares derived from the share options granted under the Share Option Scheme.
- 4. Pursuant to the Placing and Subscription Agreement dated 27th September 2013, (i) Mr. Guo Jiang and Mr. Guo Fansheng appointed the Placing Agents to procure purchasers for up to 37,000,000 Shares and 35,000,000 Shares, respectively, at a placing price of HK\$7.50, and (ii) each of Mr. Guo Jiang and Mr. Guo Fansheng agreed to subscribe for up to 37,000,000 Shares, and 35,000,000 Shares, respectively, at a subscription price of HK\$7.50 per Share. The final number of shares to be subscribed by and issued to them shall equal the number of Shares held by each of them and successfully placed in the placing.

As a result of the transactions contemplated under the Placing and Subscription Agreement: as at 30th September 2013, (i) Mr. Guo Jiang was regarded as having an interest in 37,000,000 Shares proposed to be placed under the placing, and in 37,000,000 Shares proposed to be subscribed by him in the subscription, and (ii) Mr. Guo Fansheng was regarded as having an interest in 35,000,000 Shares proposed to be placed under the placing, and 35,000,000 Shares proposed to be subscribed by him in the subscription.

The placing and subscription were completed on 2nd October 2013 and 7th October 2013, respectively.

Please also refer to the paragraph headed “Placing of existing shares and subscription of new shares under general mandate” above in this report.

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 2013, options to subscribe for an aggregate of 3,297,921 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30th September 2013 (Note 1)
			As at 1st January 2013	Granted during the period	Exercised during the period	Lapsed during the period	
Ex-employee							
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	-	(38,095)	-	220,147
Total			4,036,016	-	(738,095)	-	3,297,921

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 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 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 2013, there were 2 employees who had been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 220,147 shares of the Company.

(b) Share Option Scheme

As at 30th September 2013, options to subscribe for an aggregate of 33,482,000 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 30th September 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	-	(500,000)	-	1,500,000	
	7th April 2010	0.82	4,800,000	-	-	-	4,800,000	
Lee Wee Ong	3rd April 2013	4.402	-	1,500,000	-	-	1,500,000	
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	
Cai Weihua	18th February 2004	2.4	200,000	-	-	-	200,000	
	23rd June 2006	1.49	200,000	-	-	-	200,000	
	11th July 2007	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)	-	0	
	11th July 2007	1.24	400,000	-	(400,000)	-	0	
	29th September 2008	0.604	400,000	-	(400,000)	-	0	
Other employees	7th April 2010	0.82	3,000,000	-	(3,000,000)	-	0	
	In aggregate (Note 2)	18th February 2004	2.4	4,843,000	-	(4,321,000)	(32,000)	490,000
	In aggregate (Note 3)	23rd June 2006	1.49	1,034,000	-	(218,000)	-	816,000
	In aggregate (Note 4)	11th July 2007	1.24	3,951,000	-	(429,000)	-	3,522,000
In aggregate (Note 5)	29th September 2008	0.604	3,400,000	-	(1,900,000)	-	1,500,000	
In aggregate (Note 6)	7th April 2010	0.82	12,150,000	-	(5,750,000)	-	6,400,000	
In aggregate (Note 7)	28th March 2011	1.108	2,000,000	-	(1,570,000)	(50,000)	380,000	
Total			50,752,000	1,500,000	(18,688,000)	(82,000)	33,482,000	

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.

For the options exercisable at HK\$4.402 granted on 3rd April 2013, the relevant grantees may exercise options up to 20%, 20%, 20%, 20% and in full, respectively, of the Shares 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, third, fourth and fifth anniversaries of the date of the grant of options.

2. 11 employees have been granted options under the Share Option Scheme to acquire an aggregate of 490,000 shares of the Company at HK\$2.40 per share.
3. 10 employees have been granted options under the Share Option Scheme to acquire an aggregate of 816,000 shares of the Company at HK\$1.49 per share.
4. 13 employees have been granted options under the Share Option Scheme to acquire an aggregate of 3,522,000 shares of the Company at HK\$1.24 per share.

5. 3 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,500,000 shares of the Company at HK\$0.604 per share.
6. 8 employees have been granted options under the Share Option Scheme to acquire an aggregate of 6,400,000 shares of the Company at HK\$0.82 per share.
7. 5 employees have been granted options under the Share Option Scheme to acquire an aggregate of 380,000 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.

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 fair value of options granted under the Share Option Scheme on 3rd April 2013, determined using the Binomial Model valuation model, was approximately RMB3,754,000. The significant inputs into the model were exercise price of HK\$4.402 standard deviation of expected share price returns of 75%, expected life of options ranging from 9.1 to 9.6 years expected dividend paid out rate of 0% and annual risk-free interest rate 1.111%. 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.
15. 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.
16. 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 statement of comprehensive income.
17. 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.
18. The weighted average closing price of the Shares immediately before the date on which these options were exercised was approximately HK\$5.1374 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 Shares have been granted up to the date of this report, representing approximately 6.68% of the issued share capital of the Company as at the date of this report. The awarded Shares remain outstanding as at 30th September 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 30th September 2013
Directors						
Guo Jiang	20th August 2012	16,700,000	16,700,000	-	(2,783,000)	13,917,000
Lee Wee Ong	14th June 2012	3,000,000	3,000,000	-	(1,000,000)	2,000,000
Senior management						
Cai Weihua	23rd November 2011	3,000,000	3,000,000	-	(300,000)	2,700,000
Yang Ning	23rd November 2011	3,000,000	3,000,000	-	(790,000)	2,210,000
Other employees						
In aggregate (Note 1)	23rd November 2011	18,181,000	17,336,337	-	(1,640,332)	15,696,005
Total		43,881,000	43,036,337	-	(6,513,332)	36,523,005

Note:

- 70 employees have been granted an aggregate of 18,181,000 awarded shares.

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

As at 30th September 2013, the interest of persons (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Class of Shares	Long position	Nature of short position	Capacity	Approximate percentage of shareholding
Digital China Holdings Limited	Ordinary	137,758,107 (Note 1)	–	Interest in controlled corporation	23.70%
Geng Yi	Ordinary	125,549,771 (Note 2)	–	Beneficial owner and family interest	21.59%
Kent C. McCarthy	Ordinary	76,207,000 (Note 3)	–	Interest in controlled corporation	13.11%

Notes:

- The reference represents the 137,758,107 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.
- Such interest in the Company comprises: (a) 58,198,771 Shares of which 53,348,146 Shares are held by Mr. Guo Jiang (including 37,000,000 Shares of the Company proposed to be placed by him pursuant to the Placing and Subscription Agreement), who is Ms. Geng Yi's spouse; (b) 13,917,000 underlying Shares derived from the awarded Shares granted to Mr. Guo Jiang under the employees' share award scheme adopted on 17th November 2011; (c) 16,434,000 underlying Shares derived from the share options granted under the Share Option Scheme of which 10,500,000 underlying Shares derived from the share options granted to Mr. Guo Jiang under the Share Option Scheme; and (d) 37,000,000 underlying shares proposed to be subscribed by Mr. Guo Jiang pursuant to the Placing and Subscription Agreement. Ms. Geng is deemed, or taken to have, interested in the Shares and underlying Shares held by Mr. Guo Jiang pursuant to the SFO.

Pursuant to the Placing and Subscription Agreement dated 27th September 2013, among others, Mr. Guo Jiang appointed the Placing Agents to procure purchasers for up to 37,000,000 Shares from Mr. Guo Jiang at a placing price of HK\$7.50 per Share, and Mr. Guo Jiang agreed to subscribe for up to 37,000,000 Shares at a subscription price of HK\$7.50 per Share. The final number of Shares to be subscribed by and issued to Mr. Guo Jiang shall equal to the number of Shares held by him and successfully placed.

As a result, as at 30th September 2013, Mr. Guo Jiang was regarded, and Ms. Greng Yi was therefore deemed, as having an interest in 37,000,000 Shares proposed to be placed under the placing, and in 37,000,000 Shares proposed to be subscribed by Mr. Guo Jiang in the subscription.

The placing and subscription were completed on 2nd October 2013 and 7th October 2013, respectively.

Please also refer to the paragraph headed "Placing of existing shares and subscription of new shares under general mandate" above in this report.

3. The reference to 76,207,000 Shares comprises 71,700,569 Shares and 4,506,431 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.

Save as disclosed above, as at 30th September 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 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 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 nine months ended 30th September 2013.

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 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Pursuant to a share award scheme of the Company adopted in November 2011, for the nine months ended 30th September 2013, trustee under the scheme purchased an aggregate of 14,818,000 Shares as awarded Shares. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Shares during the nine months ended 30th September 2013.

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 2013