



20 years, young HC!

HC INTERNATIONAL, INC.

慧聪网有限公司

Stock Code : HK8292



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2014, together with the comparative figures for the corresponding period ended 31st March 2013 to the shareholders of the Company.

Financial Highlights

	Three months ended 31st March (Unaudited)	
	2014 RMB'000	2013 RMB'000
Revenue	223,893	161,256
Gross profit	207,165	150,447
EBITDA*	59,247	30,931
Profit attributable to equity holders	42,283	20,277

Unaudited Key Financial Figures For The 1st Quarter of 2014

- **Revenue** was approximately **RMB223.9 million**, increased by approximately RMB62.6 million, or **up approximately 38.8%**, when compared to approximately RMB161.3 million recorded for the corresponding period in 2013.
- **Gross Profit Ratio** was approximately **93%**, which was in line with the same period of last year.
- **Net Profit Ratio** increased 6 percentage points to approximately **18%**, on a year-on-year basis.
- The Group's **EBITDA*** was approximately **RMB59.2 million**, significantly higher than that achieved in the first quarter of 2013 of approximately RMB30.9 million.
- **Profit Attributable to Equity Holders** of the Company was approximately **RMB42.3 million** during the first quarter of 2014, while it was approximately RMB20.3 million for the same period a year before, indicating **a surge of approximately 108.5%**.
- The **Fully Diluted EPS** was **RMB0.0615, increased by 82%**, when compared to RMB0.0337 in the first quarter of 2013, 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 2014	191,138	7,541	25,214	223,893
First quarter of 2013	135,809	9,877	15,570	161,256
Variance	40.7%	(23.7%)	61.9%	38.8%

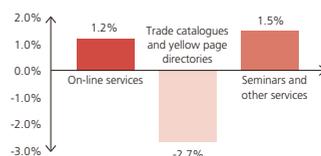
2014 first three months revenue



2013 first three months revenue



Changes in Percentage Points



During the period, the Group recorded a revenue of approximately RMB223.9 million (2013: RMB161.3 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 continuing high contribution of on-line services segment, our overall gross profit ratio has maintained at approximately 93% (2013: 93%).

The Group increased its selling and marketing expenses from approximately RMB102.6 million for the first quarter ended 31st March 2013 to approximately RMB129.8 million in the same period of 2014 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 2014 was approximately RMB50.0 million (2013: RMB24.8 million).

We are also delighted to inform that the profit attributable to equity holders of the Company had increased significantly to approximately RMB42.3 million for the three months ended 31st March 2014, up 108.5% 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 B2B e-commerce operators, the Group has been further upgrading its on-line products and has added micro-shops in the new version of Mai-Mai-Tong. This function utilizes Wechat, one of the most widely used mobile internet products today, to build up on-line storefronts at the mobile terminals that enable customers' access anytime, anywhere. Such innovation has made up the shortfall of the B2B mobile internet terminal and kept abreast of the development trend of the mobile internet. HuiFuBao, an on-line transaction service, is a newly developed B2B transaction facilitated product of the Group. In light of the increasing demand of SMEs in respect of transaction safety and timeliness, on-line transaction has become the future development roadmap of the B2B e-commerce market. Based on HC360 own strategies and business characteristics, and at the aim of fully satisfy customers' requests, the Group has developed the first ever on-line transaction service tailored to the B2B e-commerce, which facilitates large value payment and eliminates customers' concern about the safety issue. Focusing on the B2B transactions, the Group continues to extend its on-line transaction services and develop respective transaction modules based on the needs of different industry sectors so as to pursue with the transactions of each sector.

To date, we assisted the match between buyers and sellers through Mai-Mai-Tong, Biao-Wang Search, Cai-Gou-Tong and On-line advertisement, and we promulgated the rights to use safe and free transaction platform by SME through our on-line transaction services HuiFuBao, in order to encourage more deals between buyers and sellers. Through the "HC – Minsheng e-Loan Credit Card", we helped to bridge Internet finance micro loan facility for SMEs. While our specialized sector information and e-commerce services, users to promptly get hold of industry information and market intelligence and thus capture business opportunities. We also promoted the communication and activities within the community of industry via various off-line forums, trade fairs, expositions, Feasts for Industry Brands, Trade Catalogues and Yellow Page Directories, enhancing the complementary effect of off-line marketing in such a way that the marketing efforts of e-commerce will be maximized, so as to increase the successful rate of transactions.

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, 9th May 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Three Months Ended 31st March 2014

	Note	Three months ended 31st March	
		2014 RMB'000	2013 RMB'000
Revenue		223,893	161,256
Cost of revenue		(16,728)	(10,809)
Gross profit		207,165	150,447
Other income		2,414	700
Selling and marketing expenses		(129,842)	(102,630)
Administrative expenses		(35,761)	(26,147)
Operating profit		43,976	22,370
Finance income		6,283	2,799
Finance cost		(231)	(325)
Finance income, net		6,052	2,474
Profit before income tax		50,028	24,844
Income tax expense	2	(8,984)	(4,832)
Profit for the period		41,044	20,012
Other comprehensive income/(loss)			
Currency translation difference		642	(336)
Total comprehensive profit for the period		41,686	19,676
Profit attributable to:			
– equity holders of the Company		42,283	20,277
– non-controlling interests		(1,239)	(265)
		41,044	20,012
Total comprehensive profit attributable to:			
– equity holders of the Company		42,925	19,941
– non-controlling interests		(1,239)	(265)
		41,686	19,676

	Note	Three months ended 31st March	
		2014	2013
Earnings per share attributable to equity holders of the Company (expressed in RMB per share)			
Basic earnings per share:	3	0.0639	0.0359
Diluted earnings per share:	3	0.0615	0.0337
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 9th May 2014.

(b) *Basis of preparation*

This unaudited condensed consolidated first quarterly financial information for the three months ended 31st March 2014 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 2013.

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	
	2014 RMB'000	2013 RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– The PRC enterprise income tax (“EIT”) (ii)	(2,928)	(2,846)
Deferred income tax	(6,056)	(1,986)
	(8,984)	(4,832)

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2013: 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 2014 is based on the respective unaudited profit attributable to the equity holders of the Company approximately RMB42,283,000 (2013: RMB20,277,000) and the weighted average of approximately 661,514,000 (2013: 564,344,000) 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 (2013: 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 award scheme RMB'000	
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
Balance at 1st January 2014	633,269	987	108,830	60,797	496	(12,833)	(17,493)	(107,814)	666,239
Exercise of share options	3,709	-	-	-	-	-	-	-	3,709
Share based compensation-value of employee services	-	-	-	8,301	-	-	-	-	8,301
Currency translation difference	-	-	-	-	-	642	-	-	642
At 31st March 2014	636,978	987	108,830	69,098	496	(12,191)	(17,493)	(107,814)	678,891

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 2014, 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	Beneficial owners/family interest	77,765,146 (Note 1)	10,784,625 (Note 1)	-	-	88,549,771 (Note 1)	13.37%
Guo Fansheng	Ordinary	Beneficial owners	57,749,015	-	-	-	57,749,015	8.72%
Li Janguang	Ordinary	Interest of controlled corporation	-	-	32,000,384 (Note 2)	-	32,000,384 (Note 2)	4.83%
Lee Wee Ong	Ordinary	Beneficial owners	4,600,672 (Note 3)	-	-	-	4,600,672 (Note 3)	0.69%
Yang Ning	Ordinary	Beneficial owners	10,131,939 (Note 4)	-	-	-	10,131,939 (Note 4)	1.53%

Notes:

1. Such interest in the Company comprises:
 - (a) 59,498,771 Shares of which 5,150,625 Shares are held by Ms. Geng Yi, who is Mr. Guo Jiang's spouse;
 - (b) 13,910,000 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) 15,134,000 underlying Shares derived from the share options granted under the share option scheme adopted on 30th November 2003 ("Share Option Scheme") of which 5,634,000 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 relate to the same block of Shares 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 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. Such interests in the Company comprises: (i) 4,921,939 Shares and (ii) 5,210,000 underlying Shares derived from the awarded shares granted to Mr. Yang Ning 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. All options granted under the Pre-IPO Share Option Scheme had been exercised or lapsed, and no such option is outstanding.

OUTSTANDING SHARE OPTIONS

Share Option Scheme

As at 31st March 2014, options to subscribe for an aggregate of 37,641,000 Shares 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 2014 (Note 1)
			As at 1st January 2014	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	1,500,000	-	-	-	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
Guo Gang	28th March 2011	1.108	50,000	-	-	-	50,000
Li Tao	11th July 2007	1.24	220,000	-	-	-	220,000
	29th September 2008	0.604	400,000	-	-	-	400,000
	7th April 2010	0.82	800,000	-	-	-	800,000
Other employees							
In aggregate	18th February 2004	2.4	96,000	-	(96,000)	-	-
In aggregate (Note 2)	23rd June 2006	1.49	410,000	-	(206,000)	-	204,000
In aggregate (Note 3)	11th July 2007	1.24	2,950,000	-	(895,000)	-	2,055,000
In aggregate (Note 4)	29th September 2008	0.604	1,300,000	-	(200,000)	-	1,100,000
In aggregate (Note 5)	7th April 2010	0.82	6,068,000	-	(100,000)	-	5,968,000
In aggregate (Note 6)	28th March 2011	1.108	230,000	-	(20,000)	-	210,000
In aggregate (Note 7)	18th November 2013	9.84	10,000,000	-	-	-	10,000,000
Total			40,458,000	-	(2,817,000)	-	37,641,000

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.

For the options exercisable at HK\$4.402 granted on 3rd April 2013, the relevant grantee may exercise options up to 20%, 40%, 60%, 80% and 100%, of the shares of the Company comprised in his 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 respectively.

For the options exercisable at HK\$9.84 granted on 18th November 2013, the relevant grantees may exercise options up to 10%, 20%, 40%, 70% 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, third, fourth and fifth anniversaries of the date of the grant of options.

2. 3 employees have been granted options under the Share Option Scheme to acquire an aggregate of 204,000 Shares at HK\$1.49 per share.

3. 7 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,055,000 Shares at HK\$1.24 per share.
4. 2 employees have been granted options under the Share Option Scheme to acquire an aggregate of 1,100,000 Shares at HK\$0.604 per share.
5. 6 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,968,000 Shares at HK\$0.82 per share.
6. 3 employees have been granted options under the Share Option Scheme to acquire an aggregate of 210,000 Shares at HK\$1.108 per share.
7. 56 employees have been granted options under the Share Option Scheme to acquire an aggregate of 10,000,000 Shares at HK\$9.84 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 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. The fair value of options granted under the Share Option Scheme on 18th November 2013, determined using the Binomial Model valuation model, was approximately RMB50,125,000. The significant inputs into the model were exercise price of HK\$9.84 standard deviation of expected share price returns of 71.5%, expected life of options ranging from 4.7 to 7.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 1.915%. 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.
16. The valuation of share options is subject to a number of assumptions and with regard to the subjectivity and uncertainty of the model.
17. 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 final statement of comprehensive income.
18. The weighted average closing price of the Shares immediately before the date on which these options were exercised was approximately HK\$13.5953 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 46,881,000 shares has been granted up to the date of this report, representing approximately 7.08% of the issued share capital of the Company as at the date of this report. The awarded shares remain outstanding as at 31st March 2014 are set out below:

Name of grantee	Date of grant	Number of awarded shares	As at 1st January 2014	Granted during the period	Vested during the period	As at 31st March 2014
Directors						
Guo Jiang	20th August 2012	16,700,000	13,917,000	–	–	13,917,000
Lee Wee Ong	14th June 2012	3,000,000	2,000,000	–	–	2,000,000
Yang Ning	23rd November 2011	3,000,000	2,210,000	–	–	2,210,000
	17th January 2014	3,000,000	–	3,000,000	–	3,000,000
Senior management						
Guo Gang	23rd November 2011	300,000	200,000	–	–	200,000
Li Tao	23rd November 2011	300,000	200,000	–	–	200,000
Other employees						
In aggregate (Note 1)	23rd November 2011	20,581,000	17,529,335	–	–	17,529,335
Total		46,881,000	36,056,335	3,000,000	–	39,056,335

Note:

- 69 employees have been granted an aggregate of 20,581,000 awarded shares.

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

As at 31st March 2014, 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 as at 31st March 2014
Digital China Holdings Limited	Ordinary	137,758,107 <i>(Note 1)</i>	–	Interest in controlled corporation	20.80%
Geng Yi	Ordinary	88,549,771 <i>(Note 2)</i>	–	Beneficial owner and family interest	13.37%
Kent C. McCarthy	Ordinary	72,727,000 <i>(Note 3)</i>	–	Interest in controlled corporation	10.98%

Notes:

1. The references to 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.
2. Such interest in the Company comprises: (a) 59,498,771 Shares of which 54,348,146 Shares are held by Mr. Guo Jiang, 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; and (c) 15,134,000 underlying Shares derived from the share options granted under the Share Option Scheme of which 9,500,000 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 72,727,000 Shares comprises 59,030,329 Shares, 3,716,671 Shares and 9,980,000 Shares held by Jayhawk Private Equity Fund, L.P., Jayhawk Private Equity Co – Invest Fund, L.P. and JHAB Fund II, LLC, respectively. The entire issued share capital of each of the above mentioned entities is owned by Mr. Kent C. McCarthy.

Save as disclosed above, as at 31st March 2014, 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 2014. The results of the Group for the three months ended 31st March 2014 have not been audited by the Company's auditors.

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 2014.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the three months ended 31st March 2014.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisition or disposal of subsidiaries or associates during the three months ended 31st March 2014.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

With effect from 3rd March 2014, the principal place of business of the Company in Hong Kong has been changed to 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

CONNECTED TRANSACTION

Following the appointment of Mr. Yang Ning as an executive Director on 17th January 2014, the loan in the principal amount of HK\$2,464,384 (being Hong Kong dollars equivalent of RMB2,000,000) (the "Loan") granted by the Company to Mr. Yang, as a selected employee, pursuant to the Employees' Share Scheme adopted on 21 December 2012 constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As certain of the percentage ratios in respect of the Loan was higher than 0.1% but below 5%, the Loan is subject to reporting and announcement requirements, but exempted from independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. The Loan, together with Mr. Yang's self-funded amount of HK\$1,232,192, was applied to purchase 1,289,939 Shares under the Employees' Share Scheme. Please also refer to the announcement of the Company dated 17th January 2014 for further details of the Loan.

SUBSEQUENT EVENT

Proposed Transfer of Listing

As announced by the Company on 15th April 2014, the Company submitted a formal application to the Stock Exchange for the transfer of listing of the shares of the Company 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 proposed transfer of listing is conditional upon, among other things: (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, (i) all Shares in issue; and (ii) Shares which may fall to be issued upon exercise of the outstanding share options which were granted under the Share Option Scheme, on the Main Board; and (b) all other relevant consents required or in connection with the implementation of the proposed transfer of listing having been obtained, and the fulfillment of all conditions which may be attached to such consents, if any. 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. There is no assurance that permission will be obtained from the Stock Exchange for the proposed transfer of listing. Further announcement will be made by the Company as and when required by the relevant listing rules.

Please refer to the announcement of the Company dated 15th April 2014 for details.

By order of the Board
HC International, Inc.
Guo Jiang
Chief Executive Officer and Executive Director

Beijing, PRC, 9th May 2014

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. Yang Ning (*Executive Director and President*)
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*)