



20 years, young HC!

HC INTERNATIONAL, INC.  
慧聪网有限公司  
Stock Code : HK2280



## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The board of Directors (the “Board”) hereby announces the unaudited financial results of HC International, Inc. (the “Company”) and all its subsidiaries (collectively, the “Group”) for the three months and the nine months ended 30th September 2014, respectively, together with the comparative figures for the corresponding periods ended 30th September 2013 to the shareholders of the Company.

### Financial Highlights

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	257,649	242,196	722,920	599,802
Gross Profit	229,722	211,967	670,191	548,027
EBITDA*	75,710	63,880	209,294	146,565
Profit attributable to equity holders	58,186	46,532	160,641	98,846
Diluted EPS	0.0845	0.0758	0.2329	0.1614

Key Financial Figures for the nine months ended 30th September 2014

- **Revenue** was approximately **RMB722.9 million**, increased by RMB123.1 million, or **up approximately 21%**, when compared to RMB599.8 million recorded for the corresponding period in 2013.
- **Gross Profit Ratio** was approximately **93%**, a further improvement by 1.3 percentage points over the same period last year.
- The Group's **EBITDA\*** was approximately **RMB209.3 million**, significantly higher than that achieved in previous year of RMB146.6 million.
- **Profit Attributable to Equity holders** was approximately **RMB160.6 million** during this reporting period, while it was RMB98.8 million for the same period a year before, indicating an increase of approximately 63%.
- The **Diluted EPS** was **RMB0.2329, up by 44%**, when compared to RMB0.1614, on a period-on-period basis.

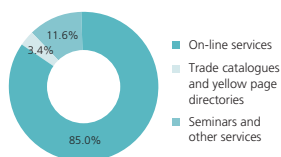
Notes: \*Profit before interest, income tax, depreciation, amortisation of intangible assets, land use rights and share based payment

## FINANCIAL AND BUSINESS REVIEW

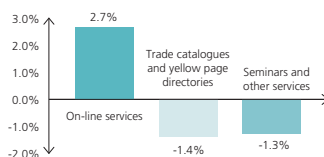
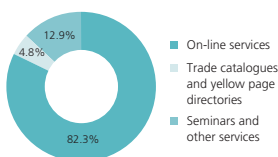
Revenue Analysis	On-line services RMB'000	Trade catalogues and yellow page directories RMB'000	Seminars and other services RMB'000	Total RMB'000
First Nine months of 2014	614,018	24,706	84,196	722,920
First Nine months of 2013	493,656	29,008	77,138	599,802
Variance	24.4%	(14.8%)	9.1%	20.5%

### Revenue spreads:

2014 First Nine Months Revenue



2013 First Nine Months Revenue



During the period, the Group recorded a revenue of approximately RMB722.9 million (2013: RMB599.8 million).

The revenue was derived from the segments of on-line services, seminars and other services and trade catalogues and yellow page directories, 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 further improved by approximately 1.3 percentage points to a satisfied level of 92.7% (2013: 91.4%).

The profit before income tax of the Group for the nine months ended 30th September 2014 was approximately RMB186.3 million (2013: RMB121.2 million).

The Group continued to increase its selling and marketing expenses from approximately RMB352.4 million for the nine months ended 30th September 2013 to approximately RMB393.2 million in the same period of 2014 which was mainly due to the increase of marketing expenses and agency costs. The direct cost of the on-line products is mainly the customers' verification cost which is relatively a small portion comparing to the relatively high profit margin of the on-line products.

We are also delighted to report that the Group's profit attributable to equity holders had increased significantly to approximately RMB160.6 million for the nine months ended 30th September 2014, up 63% from the same period last year.

The Board is of the view that the main reasons for the increase in profit are as follows:

- (i) The improvement in on-line revenue, migration of cost structure and better control of expenses on a period-over-period basis.
- (ii) The Group's online products and services are getting increasingly sophisticated, resulting in a higher customers' satisfaction rates.
- (iii) The small and medium sized enterprises in the PRC are increasingly receptive to internet sale and purchase. Pursuant to the a research conducted by EnfoInternational (易觀國際), in the first half of 2014, the Company was referred to as the 2nd largest B2B e-commerce operator in the PRC in terms of market share.

Notwithstanding of the above, the Board is of the view that the (i) B2B household electrical appliances business exhibition centre and (ii) Chongqing Digital China Huicong Micro-Credit Co.,Ltd. may result in movement deviated from the Group's financial results.

Currently, the construction of The B2B household electrical appliance business exhibition centre (the "Exhibition Centre") located on the land No. 8, East of State Road 105, Beijiao Town, Shunde, PRC (the "Land") has commenced, and is scheduled to be completed by the end of 2015 and shall be put into operation afterwards. The Exhibition Centre provides business information through both on-line and off-line channels and one-stop solution for B2B buyers and sellers of that particular sector. It is contemplated that further sale of a total gross floor area of not more than 58,850 square meters will be carried out in the second half of 2014 and in the year of 2015. The proceeds from the further sale of the Land may be out of expectation and may result in movement deviation from the Group's financial results.

Chongqing Digital China Huicong Micro-Credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司) ("Micro-Credit JV") was established pursuant to a joint venture agreement. Micro-Credit JV is owned as to 40% by the Group. Therefore, the Group will be entitled to share the profits, as well as the loss, of the Micro-Credit JV in proportion to its shareholding. As at the date of this report, Micro-Credit JV has obtained the business license and commenced its micro-credit business. Since the micro-credit business is still in its early stage, it may result in movement deviation from the Group's financial results.

Focusing on the B2B transactions, the Group has continued to extend its on-line transaction services and develop respective transaction modules based on the needs of different industries so as to continue with the transactions of each sector. In order to build a B2B transaction-enabled platform, the Group will continue to explore various approaches to enhance the stability of the close loop operations, and to include various elements (such as O2O and internet finance) in order to smoothen the operation in further.

To date, the Group provides its on-line services mainly through the platform of "hc360.com", on which business information is collected and disseminated with an aim to facilitate the location and matching of buyers and sellers. The Group currently derives revenues from its on-line services through receiving subscription fee from users who subscribed for fee-charging services provided on the platform. Principal on-line services provided by the Group includes, among others, Mai-Mai-Tong and Biao-Wang Search, etc. For further details of the Group's principal on-line services, please refer to the announcement of the Company dated 25th September 2014. We further provided to Mai-Mai-Tong users the service of HuiFuBao with an aim to assist transaction between buyers and sellers of the on-line platform. HuiFuBao operates through the operation and cooperation pursuant to a payment services agreement (支付服務協議) and a transaction funding escrow services cooperation agreement (交易資金監管服務合作協議). Currently, the Group does not derive any revenue or charge buyers or sellers for the use of HuiFuBao service.

On-line advertising services are also provided by the Group at the on-line platform and sub-divided industry pages of the website.

Through the utilisation of specialised sector information and e-commerce services, users are able to promptly get hold of industry information and intelligence and capture business opportunities. We also promoted the communication and activities within the communities of industries 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 maximised, so as to increase the success rate of transactions.

## **Major customers and suppliers**

The Group's customers are a vast amount of small and medium sized enterprises in the PRC. Most of the Group's revenue is derived from on-line products and since the relevant price of each on-line products is not significant and the on-line products are sold to the large number of customers, each customer's contribution towards the Company's revenue is relatively small. Therefore, the Company's reliance on any individual customer is low. In respect of Mai-Mai-Tong, Biao-Wang products and services, sales agreements are entered into between the Group and its customers. The term of the sale agreements are divided into one-year, two-year and/or three-year in accordance with different products. Upon the expiry of the sales agreements, customers has an option to renew the sales agreements.

The Company's major suppliers are as follows: (i) the verification supplier provides verification services for Mai-Mai-Tong members. Our verification supplier is a joint venture company with the relevant verification qualifications, and is paid on a monthly basis according to the number of verifications carried out in that particular month. We have cooperated with this verification supplier for over 8 years and our supply contract with this verification supplier is renewed yearly; (ii) the search product suppliers provide search engine and promotion services for Biao-Wang products, allowing our paid members to have a higher exposure of their products by getting more search engine hits and promoting their products and achieving transactions. We currently have 6 search product suppliers which are leading search engine providers like Baidu and 360 Search and the respectively service contracts with them are renewed on a yearly basis; (iii) for our Group's offline products like trade catalogues and yellow page directories, our Group also engage a printing supplier that provides industry and commerce catalogue and yellow pages printing services. The Group has been cooperating with the printing supplier for over 10 years and a long-term service agreement has been entered.

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, People's Republic of China, 12th November 2014

## MANAGEMENT DISCUSSION AND ANALYSIS

### TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

On 15th April 2014, an application was made by the Company to the Stock Exchange for the transfer of listing of all the Shares in issue from GEM to the Main Board. The Company has applied for the listing of, and permission to deal in, (i) all Shares in issue; and (ii) all Shares which may fall to be issued upon exercise of the outstanding share options which were granted under the GEM Share Option Scheme, on the Main Board by way of transfer of listing from GEM to the Main Board. The approval-in-principle and the listing approval have been granted by the Stock Exchange on 25th September 2014 and on 9th October 2014 respectively for the Shares to be listed on the Main Board and de-listed from GEM, according to Rule 9A.09(6) of the Main Board Listing Rules. All pre-conditions for the Transfer of Listing as set out in Rule 9A.02 of the Main Board Listing Rules have been fulfilled in relation to the Company and the Shares.

The last day of dealings in the Shares on GEM (Stock code: 08292) was Thursday, 9th October 2014. Dealing in the Shares on the Main Board (Stock code: 02280) commenced at 9:00 a.m. on Friday, 10th October 2014.

The Transfer of Listing have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares have a board lot size of 2,000 Shares each and are traded in Hong Kong dollars. No change was made to the Chinese and English stock short names, the existing share certificates, the board lot size, trading currency of the Shares and the Hong Kong branch share registrar and transfer office of the Company in connection with the Transfer of Listing.

### Contractual arrangements

As disclosed in the prospectus of the Company dated 8th December 2003, in light of relevant PRC laws and regulations restricting the participation and operation of internet content services by foreign investors, the Group has since January 2002 engaged Huicong Construction to operate its on-line platform, and disseminate its business information on the internet pursuant to certain contractual arrangements. To further strengthen the Group's protection under such contractual arrangements and its management and control over Huicong Construction, in September 2014, the Group amended certain terms of the then existing agreements and entered into new Exclusive Option Agreement, Equity Pledge Agreement and Powers of Attorney with Huicong Construction and/or its registered shareholders (namely, Mr. Guo Fansheng and Mr. Guo Jiang).

For further details, please refer to the paragraphs under "Contractual Arrangements" of the announcement dated 25th September 2014 of the Company.

## CHONGQING DIGITAL CHINA HUICONG MICRO-CREDIT CO., LTD

On 4th December 2013, the Company and Digital China Holdings Limited (“Digital China”) entered into the joint venture agreement (the “Chongqing JV Agreement”), pursuant to which the parties (or its nominee subsidiary) agreed to, among other things, establish Chongqing Digital China Huicong Micro-Credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司) (the “Chongqing JV Company”), which will be owned as to 60% by Digital China and as to 40% by the Company (or their respective nominee subsidiaries) for the purpose of the development and operation of the micro-credit internet financing business.

Pursuant to the Chongqing JV Agreement, the total registered capital of the Chongqing JV Company shall be RMB1,000,000,000, of which RMB400,000,000 should be contributed by the Group in cash. As at 30th September 2014, the Group had contributed RMB150,000,000. As at the date of this report, the Chongqing JV Company has already commenced operation. According to the Chongqing JV Agreement, the application for increasing the registered capital of the Chongqing JV Company to RMB675 million has been approved and the Group will contribute an additional RMB120 million by the end of December 2014.

## CORNERSTONE INVESTMENT IN COGOBUY GROUP

On 2nd July 2014, the Company and Hong Kong Huicong (a wholly-owned subsidiary of the Company) entered into the Cornerstone Investment Agreement with Cogobuy Group, UBS AG, Hong Kong Branch and UBS Securities Hong Kong Limited, pursuant to which Hong Kong Huicong has agreed to subscribe for shares of Cogobuy Group up to an aggregate value of US\$20,000,000 (equivalent to approximately HK\$155,034,000). On 18th July 2014, Hong Kong Huicong was allocated 38,758,000 shares of Cogobuy Group for a total consideration of HK\$155,034,000.

For further details, please refer to the announcement of the Company dated 3rd July 2014.

## B2B HOUSEHOLD ELECTRICAL APPLIANCES BUSINESS EXHIBITION CENTRE

The B2B household electrical appliances business exhibition centre 廣東慧聰家電城投資有限公司 (“Shunde Subsidiary”), a subsidiary of the Group which is owned as to 53.1% by 慧聰 (天津) 電子商務產業投資有限公司 (“Tianjin HC”). The construction of the B2B household electrical appliance business exhibition centre (the “Exhibition Centre”) on the land located in Shunde (the “Land”) has commenced, and is scheduled to complete by the end of 2015 and shall be put into operation afterwards.

With a view to maintain the financial position of the project, a property situated on the Land with a total gross floor area of 24,300 square meters, representing approximately 14.6% of the total gross floor area of the Land, was sold as at the date of this report. All proceeds from the sale are or will be applied as capital for further construction of the Exhibition Centre, or for repayment of facilities or loan of Shunde Subsidiary. The aforesaid sale is within the ambit and contemplation of the grant of the Land and pursuant to the terms of transfer contract for land use rights of state-owned



land for the Land and in line with the conditions as set out in the tender notice of the Land, which provides for not more than 50% of the total floor area of the Land be sold or transferred within 7 years after delivery of the Land. It is contemplated that further sale of a total gross floor area of not more than 58,850 square meters will be carried out.

### **BAIDU ALADDIN TECHNICAL SERVICE CONTRACT**

On 13th August 2014, Beijing Huicong International Information Co., Ltd.\* (北京慧聰國際資訊有限公司) (“Beijing HC”) (an indirect wholly-owned subsidiary of the Company,) and Baidu (China) Co., Ltd. (百度(中國)有限公司) (“Baidu”) entered into the Baidu Aladdin Technical Service Contract (the “Service Contract”) pursuant to which Beijing HC becomes a partner of Baidu in the Aladdin B2B project and will provide information of its fee-paying customers relating to business-to-business enterprises to Baidu’s Aladdin PC platform, such as product images, models, prices and customers’ information and Baidu will exhibit such information in personalised form in the result pages through its search engine so as to provide more efficient search contents for the users. According to the terms and conditions of the Services Contract, the contract term is for one year commencing from 29th August 2014 and the Group will pay Baidu a fixed fee in the aggregate amount of RMB50,080,000.

### **ACQUISITION OF SHARES IN PANPASS INFORMATION TECHNOLOGY CO., LTD**

On 30th September 2014 (after trading hours), Beijing HC Technology (an indirect wholly-owned subsidiary of the Company) and the remaining purchasers entered into the acquisition agreement with the vendors, pursuant to which, among other things, Beijing HC Technology agreed to acquire 16,487,000 shares in Panpass Information Technology Co., Ltd (北京兆信信息技術股份有限公司) (representing approximately 56.002% of the issued share capital of the Target) at an aggregate consideration of RMB108,814,200 (equivalent to approximately HK\$137,105,000). The acquisition was completed on 8th October 2014.

For further details, please refer to the announcement of the Company dated 30th September 2014.

### **Staff**

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th September 2014, the Group had 2,944 employees.

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options and share awarded are granted to employees based on individual performance. Other benefits to the Group’s employees include medical insurance, retirement schemes, training programs and educational subsidies.

### **Capital structure**

During the nine months ended 30th September 2014, 3,237,000 shares of the Company (“Shares”) were issued upon the exercise of share options. The total number of issued Shares was 662,816,618 as at 30th September 2014.

### **Charges on Group assets**

As at 30th September 2014, the Group has bank borrowings amounting to RMB119.8 million and undrawn banking facilities of RMB160.2 million, which are secured by land use rights.

### **Exchange risk**

As the Group's operations are principally in the People's Republic of China ("PRC"), and majority of the Group's assets and liabilities are denominated in Renminbi ("RMB"), the Directors believe that the operations of the Group are not subject to significant exchange risk.

### **Contingent liabilities**

As at 30th September 2014, the Group had no material contingent liabilities.

### **Material acquisition and disposal**

Saved as disclosed in this report, the Group had no significant investments during the nine months ended 30th September 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.

## **SUBSEQUENT EVENTS**

### **Establishment of Zhejiang Huicong**

On 31st October 2014, Beijing HC International (a wholly-owned subsidiary of the Group) and Hui De Holdings Co., Ltd ("Hui De") entered into the investment cooperation agreement (the "Cooperation Agreement"), pursuant to which the parties agreed to, among other things, establish Zhejiang Huicong Investment Co., Ltd (浙江慧聰投資有限公司) (the "Zhejiang Huicong"), which will be owned as to 80% by Hu De and as to 20% by Beijing HC International for the purpose of the development and operation of the e-commercial industrial center project(s).

Pursuant to the Cooperation Agreement, the total registered capital of Zhejiang Huicong shall be RMB250,000,000 of which RMB50,000,000 should be contributed by Beijing HC International. The registered capital of Zhejiang Huicong shall be contributed in four tranches. As at the date of this report, the Group has not contributed to the registered capital of Zhejiang Huicong yet.

For further details, please refer to the announcement of the Company dated 31st October 2014.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Revenue		257,649	242,196	722,920	599,802
Cost of revenue		(27,927)	(30,229)	(52,729)	(51,775)
<b>Gross profit</b>		<b>229,722</b>	211,967	<b>670,191</b>	548,027
Other income		795	650	4,316	1,860
Selling and marketing expenses		(128,698)	(129,388)	(393,228)	(352,416)
Administrative expenses		(40,385)	(29,470)	(117,014)	(82,340)
<b>Operating profit</b>		<b>61,434</b>	53,759	<b>164,265</b>	115,131
Finance income		7,132	2,229	23,068	6,836
Finance cost		(228)	(558)	(657)	(788)
Share of post-tax losses of an associate		(162)	–	(289)	–
Share of post-tax losses of a joint venture		(60)	–	(60)	–
<b>Profit before income tax</b>		<b>68,116</b>	55,430	<b>186,327</b>	121,179
Income tax expense	2	(12,775)	(9,881)	(31,772)	(23,958)
<b>Profit for the period</b>		<b>55,341</b>	45,549	<b>154,555</b>	97,221
<b>Other comprehensive income/(loss) and item that may be reclassified to profit or loss:</b>					
Fair value gain on available-for-sale financial assets		29,447	81	29,447	1,944
Currency translation difference		1,147	(415)	3,204	(2,016)
<b>Total comprehensive income for the period</b>		<b>85,935</b>	45,215	<b>187,206</b>	97,149
<b>Profit attributable to:</b>					
– equity holders of the Company		58,186	46,532	160,641	98,846
– non-controlling interests		(2,845)	(983)	(6,086)	(1,625)
		<b>55,341</b>	45,549	<b>154,555</b>	97,221

	Note	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
<b>Total comprehensive income attributable to:</b>					
– equity holders of the Company		88,780	46,198	193,292	98,774
– non-controlling interests		(2,845)	(983)	(6,086)	(1,625)
		85,935	45,215	187,206	97,149
<b>Earnings per share attributable to the equity holders of the Company during the period (expressed in RMB per share)</b>					
Basic earnings per share:	3	0.0878	0.0801	0.2426	0.1726
Diluted earnings per share:	3	0.0845	0.0758	0.2329	0.1614
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 (together, the “Group”) organise a business-to-business community across China by providing business information through both on-line and offline channels. The Group operates an on-line market place, provides industrial search result prioritising services through its business-to-business website “hc360.com” and publishes its own trade catalogues and yellow page directories in China. The Group is in the process of constructing a B2B household electrical appliances business exhibition centre, through the operation of which provides vertical in-depth services and one-stop solution for B2B buyers and sellers.

As at 30th September 2014, the B2B household electrical appliances business exhibition centre (“the business exhibition centre”) was under development and a substantial amount of construction cost had been incurred. Deposits from pre-sale of properties of the business exhibition centre and related government grants was received as at 30th September 2014.

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, British West Indies.

The Company has its primary listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Company has subsequently completed the transfer of listing to Main Board on 10th October 2014.

The condensed consolidated financial information is presented in Renminbi, unless otherwise stated. The condensed consolidated financial information has been approved for issue by the Board on 12th November 2014.

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

#### (b) Basis of preparation

The condensed consolidated financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2013, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”).

## 2 Income tax expense

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax ("CIT") (ii)	(19,829)	(4,394)	(34,029)	(12,344)
Deferred income tax	7,054	(5,487)	2,257	(11,614)
	(12,775)	(9,881)	(31,772)	(23,958)

- (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

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Profit attributable to equity holders	58,186	46,532	160,641	98,846

	Unaudited Three months ended 30th September		Unaudited Nine months ended 30th September	
	2014 Number of shares '000	2013 Number of shares '000	2014 Number of shares '000	2013 Number of shares '000
Weighted average number of shares in issue	662,817	580,722	662,279	572,745
Incremental shares from assumed exercise of share options granted	26,056	33,222	27,455	39,680
Diluted weighted average number of shares	688,873	613,944	689,734	612,425
Basic earnings per share (in RMB)	0.0878	0.0801	0.2426	0.1726
Diluted earnings per share (in RMB)	0.0845	0.0758	0.2329	0.1614

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.

#### 4 Dividends

No dividends was paid or declared by the Company during the period (2013: 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 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 share 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
As at 1st January 2014	633,269	987	108,830	496	60,797	(107,814)	(12,833)	-	(17,493)	666,239
Currency translation difference	-	-	-	-	-	-	3,204	-	-	3,204
Share based compensation-value of employee services	-	-	-	-	23,899	-	-	-	-	23,899
Share purchased for share award scheme	-	-	-	-	-	(20,358)	-	-	-	(20,358)
Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	-	29,447	-	29,447
Changes in ownership interest in subsidiaries without change of control	-	-	-	-	-	-	-	-	72	72
Vesting of share award	1,198	-	-	-	(8,908)	7,710	-	-	-	-
Exercise of share options	4,010	-	-	-	-	-	-	-	-	4,010
As at 30th September 2014	638,477	987	108,830	496	75,788	(120,462)	(9,629)	29,447	(17,421)	706,513

## 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 2014, the interests and short positions of the Directors and chief executive of the Company 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

Name of Director	Class of		Personal interests	Family interests	Corporate interests	Other interests	Total number of Shares	Percentage of shareholding (approximate)
	Shares	Capacity						
Guo Jiang	Ordinary	Beneficial owners/ family interest	77,765,146 (Note 1)	10,784,625 (Note 1)	-	-	88,549,771 (Note 1)	13.36%
Guo Fansheng	Ordinary	Beneficial owners	57,749,015	-	-	-	57,749,015	8.71%
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) 13,917,000 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 adopted on 30th November 2003 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 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) 2,100,672 Shares, (ii) 1,000,000 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 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) 6,131,939 Shares and (ii) 4,000,000 underlying shares derived from the awarded share 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 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 Rules 5.46 to 5.47 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

### (b) Share Option Scheme

As at 30th September 2014, options to subscribe for an aggregate of 37,221,000 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 1st January 2014	Granted during the period	Exercised during the period	Lapsed during the period
<b>Directors</b>						
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
<b>Senior management</b>						
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
<b>Other employees</b>						
In aggregate	18th February 2004	2.4	96,000		(96,000)	–
In aggregate (Note 2)	23rd June 2006	1.49	410,000		(316,000)	94,000
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		(400,000)	5,668,000
In aggregate (Note 6)	28th March 2011	1.108	230,000		(30,000)	200,000
In aggregate (Note 7)	18th November 2013	9.84	10,000,000			10,000,000
Total			40,458,000		(3,237,000)	37,221,000

*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 comprised in his or her option (less any number of Shares 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 comprised in his or her option (less any number of Shares 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 comprised in his or her option (less any number of Shares 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 comprised in his or her option (less any number of Shares 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\$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. 2 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 5,668,000 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\$14.12 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 7.07% of the issued share capital of the Company as at the date of this report. The awarded shares remain outstanding as at 30th September 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 30th September 2014
<b>Directors</b>						
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		(1,000,000)	1,000,000
Yang Ning	23rd November 2011	3,000,000	2,210,000		(1,210,000)	1,000,000
	17th January 2014	3,000,000	-	3,000,000	-	3,000,000
<b>Senior management</b>						
Guo Gang	23rd November 2011	300,000	200,000		(100,000)	100,000
Li Tao	23rd November 2011	300,000	200,000		(100,000)	100,000
<b>Other employees</b>						
In aggregate (Note 1)	23rd November 2011	20,581,000	17,529,335		(3,895,936)	13,633,399
<b>Total</b>		<b>46,881,000</b>	<b>36,056,335</b>	<b>3,000,000</b>	<b>(6,305,936)</b>	<b>32,750,399</b>

Note:

- 69 employees have been granted an aggregate of 20,581,000 awarded shares on 23rd November 2011.

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

As at 30th September 2014, the interest and short positions of substantial shareholders and other persons (not being a Director or chief executive of the Company) in the Shares and underlying Shares 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		Approximate percentage of shareholding as at 30 September 2014
			short position	Capacity	
Digital China Holdings Limited	Ordinary	137,758,107 (Note 1)		Interest in controlled corporation	20.78%
Geng Yi	Ordinary	88,549,771 (Note 2)		Beneficial Owner and Family Interest	13.36%
Kent C. McCarthy	Ordinary	59,048,785 (Note 3)		Interest in controlled corporation	8.91%

### Notes:

- 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.
- 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. Guo Jiang pursuant to the SFO.
- The reference to 59,048,785 Shares comprises 41,710,710 Shares, 2,618,186 Shares, 9,980,000 Shares, 2,493,058 Shares, 1,124,737 Shares and 1,122,094 Shares held by Jayhawk Private Equity Fund, L.P., Jayhawk Private Equity Co – Invest Fund, L.P., JHAB Fund II, LLC, Kent C McCarthy Revocable Trust, Kent C McCarthy Dynasty Trust and McCarthy Family SD, 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 30th September 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 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.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted written guidelines regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules on 20th March 2006. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard of dealings and the said guidelines regarding Directors' securities transactions during the nine months ended 30th September 2014.

## **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 management of the Company the accounting principles and practices adopted by the Group, this report and the third quarterly results of the Group for the nine months ended 30th September 2014.

## **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 had or may have any other conflict of interests with the Group that are required to be disclosed pursuant to the GEM Listing Rules during the nine months ended 30th September 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 a 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 code 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 2014.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Pursuant to a share award scheme of the Company adopted in November 2011, for the nine months ended 30th September 2014, trustee under the scheme purchased an aggregate of 1,492,000 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 2014.

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

Beijing, PRC, 12th November 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*)