



20 years, young HC!

HC INTERNATIONAL, INC.

慧聪网有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8292)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2012

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 announcement, 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 announcement.

This announcement, 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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 announcement is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this announcement misleading.

* For identification purpose only

HIGHLIGHTS

- Revenue of the Group from continuing operations grew by 25.8% year-over-year, increased to approximately RMB243.3 million for the first half of 2012 (“the period”), from approximately RMB193.4 million for the corresponding period last year.
- During the period, gross profit ratio improved by approximately 4 percentage points to 89%, from 85% recorded in the corresponding period last year.
- The Group incurred earnings before interest, income tax, depreciation, amortization of intangible assets, land use rights and share based payments (“EBITDA”) of approximately RMB31.8 million during the period, representing an increment of approximately 216%, when compared to RMB10.0 million for the corresponding period last year.
- Profit attributable to equity holders of the Group was approximately RMB20.5 million during the period, demonstrating a significant improvement of 7.5 folds over RMB2.4 million achieved during the same period last year.

UNAUDITED INTERIM RESULTS

The board of Directors (the “Board”) hereby announce the unaudited financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months and the six months ended 30th June 2012, respectively, together with the comparative figures for the corresponding periods in 2011 to the shareholders of the Company.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
		2012	2011	2012	2011
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations					
Revenue	4	130,437	108,618	243,289	193,403
Cost of revenue	5	(14,622)	(15,784)	(26,952)	(29,418)
Gross profit		115,815	92,834	216,337	163,985
Other income		2,667	818	4,504	1,338
Selling and marketing expenses	5	(76,933)	(66,051)	(151,781)	(121,475)
Administrative expenses	5	(25,367)	(24,653)	(47,364)	(44,047)
Profit/(loss) before income tax		16,182	2,948	21,696	(199)
Income tax (expense)/credit	6	(1,346)	(646)	(1,919)	386
Profit for the period from continuing operations		14,836	2,302	19,777	187
Discontinued operations					
Profit for the period from discontinued operations	17	–	2,571	–	2,656
Profit for the period		14,836	4,873	19,777	2,843
Other comprehensive income/(loss):					
Currency translation difference	16	263	(171)	220	(348)
Total comprehensive profit for the period		15,099	4,702	19,997	2,495
Profit attributable to:					
– equity holders of the Company		15,181	4,349	20,492	2,403
– non-controlling interests		(345)	524	(715)	440
		14,836	4,873	19,777	2,843

	<i>Note</i>	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Total comprehensive income attributable to:					
– equity holders of the Company		15,444	4,178	20,712	2,055
– non-controlling interests		(345)	524	(715)	440
		15,099	4,702	19,997	2,495
Earnings per share from continuing and discontinued operations attributable to the equity holders of the Company during the period (expressed in RMB per share)					
Basic earnings per share:					
From continuing operations	7	0.0274	0.0047	0.0373	0.0004
From discontinued operations	7	–	0.0041	–	0.0045
Diluted earnings per share:					
From continuing operations	7	0.0255	0.0044	0.0348	0.0004
From discontinued operations	7	–	0.0039	–	0.0043
Dividends	8	–	–	–	–

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	9	201,894	178,353
Land use rights	9	17,510	17,725
Intangible assets	9	161	464
Deferred income tax assets		6,697	2,563
Long term deposit, prepayments and other receivables		51,088	48,814
Total non-current assets		277,350	247,919
Current assets			
Trade receivables	10	16,733	21,582
Deposits, prepayments and other receivables		28,336	27,380
Direct selling costs	11	74,210	69,477
Amount due from a related party	18	1,649	1,556
Bank deposit		30,000	–
Cash and cash equivalents		142,705	254,982
Available for sale financial assets		126,737	–
Total current assets		420,370	374,977
Total assets		697,720	622,896
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	15	57,731	56,884
Other reserves	16	269,749	270,485
Accumulated losses		(34,384)	(54,876)
		293,096	272,493
Non-controlling interests		30,495	14
Total equity		323,591	272,507

		Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		13,684	8,904
Non-current portion of finance lease obligations	12	3,054	–
Total non-current liabilities		16,738	8,904
Current liabilities			
Trade payables	13	3,874	2,285
Deferred revenue		307,240	290,820
Accrued expenses and other payables		31,245	29,699
Other taxes payable	14	7,639	9,783
Income tax payable	14	5,722	8,898
Current portion of finance lease obligations	12	1,671	–
Total current liabilities		357,391	341,485
Total liabilities		374,129	350,389
Total equity and liabilities		697,720	622,896
Net current assets		62,979	33,492
Total assets less current liabilities		340,329	281,411

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Unaudited Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Non-controlling interests RMB'000	Total RMB'000
<hr/>						
Balance as at 1st January 2011		52,116	224,395	(96,081)	2,795	183,225
Profit for the period		–	–	2,403	440	2,843
Other comprehensive loss:						
Currency translation difference	16	–	(348)	–	–	(348)
<hr/>						
Total comprehensive (loss)/income for the period ended 30th June 2011		–	(348)	2,403	440	2,495
<hr style="border-top: 1px dashed black;"/>						
Transactions with owners:						
Proceeds from new share issued		4,472	62,475	–	–	66,947
Share based compensation-value of employee services	16	–	3,200	–	–	3,200
Exercise of share options	15, 16	95	554	–	–	649
<hr/>						
Balance as at 30th June 2011		56,683	290,276	(93,678)	3,235	256,516
<hr/>						
Balance as at 1st January 2012		56,884	270,485	(54,876)	14	272,507
Profit for the period		–	–	20,492	(715)	19,777
Other comprehensive income:						
Currency translation difference	16	–	220	–	–	220
<hr/>						
Total comprehensive income/(loss) for the period ended 30th June 2012		–	220	20,492	(715)	19,997

Unaudited Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Non-controlling interests RMB'000	Total RMB'000
Transactions with owners:						
Share purchase for share award scheme	16	–	(10,447)	–	–	(10,447)
Share based compensation-value of employee services	16	–	4,129	–	–	4,129
Contribution from non-controlling interests on set up of a subsidiary		–	–	–	31,200	31,200
Fair value gain on available for sale financial assets	16	–	737	–	–	737
Acquisition of additional interest in a subsidiary	16	–	(144)	–	(4)	(148)
Exercise of share options	15, 16	847	4,769	–	–	5,616
Balance as at 30th June 2012		57,731	269,749	(34,384)	30,495	323,591

UNAUDITED CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

		Unaudited Six months ended 30th June	
	Note	2012 RMB'000	2011 RMB'000
Net cash inflow from operating activities		48,291	39,005
Net cash outflow from investing activities (<i>Note 1</i>)		(187,007)	(28,474)
Net cash inflow from financing activities		26,219	67,596
(Decrease)/increase in cash and cash equivalents		(112,497)	78,127
Cash and cash equivalents at beginning of period		254,982	188,424
Exchange gains/(losses) on cash and cash equivalents		220	(348)
Cash and cash equivalents at end of period		142,705	266,203
Analysis of balances of cash and cash equivalents			
Bank balances and cash		142,705	256,785
Bank balances and cash classified under assets held for sale	17	–	9,418
		142,705	266,203

Note:

1. The net cash outflow from investing activities for the six months ended 30th June 2012 includes RMB126 million investments in banking products and RMB30 million certificate of deposit.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 prioritising services through its business-to-business website “hc360.com”. The Group also publishes its own trade catalogues and yellow page directories and generates market research reports 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, British West Indies.

The Company has its primary listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial information are presented in thousands of units of Renminbi (RMB’000), unless otherwise stated. The condensed consolidated interim financial information has been approved for issue by the Board on 8th August 2012.

These condensed consolidated interim financial statements have not been audited.

(b) Basis of preparation

This condensed consolidated interim financial information for the six months ended 30th June 2012 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2011, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”).

On 30th May 2011, 北京慧聰國際資訊有限公司 (“HC PRC”), an indirect wholly-owned subsidiary of the Company, entered into certain disposal agreements with 慧聰投資管理(北京)有限公司 (“the Purchaser”). Pursuant to the Disposal Agreements, HC PRC has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to acquire, in aggregate, 70% and 40% of the equity interests in 北京慧聰博信信息諮詢有限公司 (“Fulfilment JV Co”) and 北京鄧白氏慧聰市場信息諮詢有限公司 (“Sales JV Co”), respectively. The disposal of Fulfilment JV Co was completed on 30th September 2011. The statement of comprehensive income relating to Fulfilment JV Co and Sales JV Co (the “Disposal Group”) for the period ended 30th June 2011 distinguishes discontinued operations from continuing operations.

2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2011, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standard, amendment to standards and interpretations are mandatory for the first time for the financial year beginning 1st January 2012, but are not currently relevant to the Group.

HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
HKFRS 7 (Amendment)	Disclosures – Transfers of financial assets

The following new standards, amendments to standards and interpretations have been issued but yet effective for the financial year beginning 1st January 2012 and have not been early adopted:

HKAS 1 (Amendment)	“Presentation of financial statements”, Effective for annual periods beginning on or after 1st July 2012
HKAS 27 (revised 2011)	“Separate financial statements”, Effective for annual periods beginning on or after 1st January 2013
HKAS 28 (revised 2011)	“Associates and joint ventures”, Effective for annual period beginning on or after 1st January 2013
HKFRS 7 (Amendment)	“Financial instruments: Disclosures – Offsetting financial assets and financial liabilities”, Effective for annual period beginning on or after 1st January 2013
HKFRS 10	“Consolidated financial statements”, Effective for annual period beginning on or after 1st January 2013
HKFRS 11	“Joint arrangements”, Effective for annual period beginning on or after 1st January 2013
HKFRS 13	“Fair value measurements”, Effective for annual period beginning on or after 1st January 2013
HK (IFRIC)-Int 20	“Stripping cost in the production phase of a surface mine”, Effective for annual period beginning on or after 1st January 2013
HKAS 19 (Amendment)	“Employee benefits”, Effective for annual period beginning on or after 1st January 2013
HKAS 32 (Amendment)	“Financial instruments: Presentation – Offsetting financial assets and financial liabilities”, Effective for annual period beginning on or after 1st January 2014
HKFRS 9	“Financial Instruments”, Effective for annual periods beginning on or after 1st January 2015
HKFRS 7 and HKFRS 9 (Amendment)	“Mandatory effective date and transition disclosures”, Effective date to annual periods beginning on or after 1st January 2015

Management is assessing the impact of the above amendments to standards and interpretations, which have been issued but are not yet effective for 2012, on the Group’s operations, and is yet in the position to conclude the impact.

3 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2011.

4 Segment information

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal report in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Directors consider the business from product perspective. From a product perspective, the Executive Directors assess the performance of on-line services, trade catalogues and yellow page directories, and seminars and other services.

The Executive Directors assess the performance of the operating segments based on a measure of profit/(loss) before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments.

As at 30th June 2012, the Group was organised in the following business segments:

- (i) On-line services – provision of a reliable platform to customers to do business and meet business partners on-line.
- (ii) Trade catalogues and yellow page directories – provision of trade information through trade catalogues and yellow page directories operated/published by the Group.
- (iii) Seminars and other services – services for hosting of seminars.

There were no sales or other transactions between the business segments in first half of 2012 and 2011.

The market research and analysis segment information for the period ended 30th June 2011 distinguishes discontinued operations from continuing operations.

Unaudited					
Six months ended 30th June 2012					
	On-line services RMB'000	Trade catalogues and yellow page directories RMB'000	Seminars and other services RMB'000	Total RMB'000	
Revenue	186,988	26,551	29,750	243,289	
Segment results	36,960	(21,414)	1,646	17,192	
Other income				4,504	
Profit before income tax				21,696	
Depreciation and amortisation	9,205	344	554	10,103	
Share based compensation expense	2,207	1,251	671	4,129	
Unaudited					
Six months ended 30th June 2011					
	On-line services RMB'000	Trade catalogues and yellow page directories RMB'000	Seminars and other services RMB'000	Total RMB'000	Discontinued operations RMB'000
Revenue	120,253	37,928	35,222	193,403	28,027
Segment results	8,892	(17,240)	6,811	(1,537)	2,656
Other income				1,338	–
(Loss)/profit before income tax				(199)	2,656
Depreciation and amortisation	5,927	1,120	1,657	8,704	138
Share based compensation expense	2,541	327	7	2,875	325
Share of profit of an associated company	–	–	–	–	1,514

The Group is domiciled in the PRC. All revenues for the six months ended 30th June 2012 are from external customers in the PRC (six months ended 30th June 2011: same).

5 Expenses by nature

Expenses including cost of revenue, selling and marketing expenses and administrative expenses are analysed as follows:

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Continuing operations				
Direct cost of trade catalogues and yellow page directories	6,621	7,337	12,877	14,690
Direct cost of on-line services	16,575	12,692	30,824	20,164
Direct cost of seminars and other services	7,351	7,357	12,987	12,664
Marketing expenses	7,436	6,454	13,034	10,582
Network and telephone expenses	3,163	3,423	6,050	6,458
Auditor's remuneration	546	481	1,092	962
Staff costs, including directors' emoluments	57,209	52,747	111,862	97,505
Amortisation of land use rights	107	107	215	214
Amortisation of intangible assets	151	701	302	1,402
Share based compensation expenses	1,609	827	4,129	2,875
Depreciation of property, plant and equipment	5,164	3,594	9,586	7,088
(Reversal provision)/provision for impairment and direct write-off of trade and other receivables	(157)	599	(157)	599
Profit on disposal of property, plant and equipment	(16)	(18)	(27)	(47)
Operating lease payments in respect of land and buildings	3,578	3,389	7,019	7,025
Other expenses	7,585	6,798	16,304	12,759
Total cost of revenue, selling and marketing expenses and administrative expenses	116,922	106,488	226,097	194,940

	Unaudited Three months ended 30th June 2011 RMB'000	Unaudited Six months ended 30th June 2011 RMB'000
--	--	--

Discontinued operations

Direct cost of market research and analysis	6,618	14,284
Network and telephone expenses	129	264
Staff costs, including directors' emoluments	4,469	9,015
Share based compensation expenses	111	325
Depreciation of property, plant and equipment	69	138
Operating lease payments in respect of land and buildings	448	869
Other expenses	1,047	1,990

Total cost of revenue, selling and marketing expenses and administrative expenses

12,891 26,885

6 Income tax (expense)/credit

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000

Continuing operations:

Current income tax				
– Hong Kong profits tax (i)	–	–	–	–
– The PRC corporate income tax ("CIT") (ii)	905	34	(1,273)	(47)
Deferred income tax	(2,251)	(680)	(646)	433
	(1,346)	(646)	(1,919)	386

	Unaudited Three months ended 30th June 2011 RMB'000	Unaudited Six months ended 30th June 2011 RMB'000
--	--	--

Discontinued operations:

Current income tax		
– The PRC corporate income tax ("CIT") (ii)	–	–
Deferred income tax	–	–
	–	–

- (i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period (2011: Nil).
- (ii) The PRC corporate income tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates. The subsidiaries of the Group established in the PRC are generally subject to income tax on their taxable income at a combined national and local tax rate of 25%. Certain subsidiaries enjoy tax preferential treatment and subject to a tax rate of 15% for the period.

7 Earnings per share

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Profit from continuing operations attributable to equity holders	15,181	2,302	20,492	187
Profit from discontinued operations attributable to equity holders	–	2,047	–	2,216
	15,181	4,349	20,492	2,403

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 No. of shares '000	2011 No. of shares '000	2012 No. of shares '000	2011 No. of shares '000
Weighted average number of shares in issue	553,617	493,378	549,963	491,252
Incremental shares from assumed exercise of share options granted	40,826	32,434	39,295	27,400
Diluted weighted average number of shares	594,443	525,812	589,258	518,652

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Basic earnings per share from continuing operations (in RMB)	0.0274	0.0047	0.0373	0.0004
Basic earnings per share from discontinued operations (in RMB)	–	0.0041	–	0.0045
Diluted earnings per share from continuing operations (in RMB)	0.0255	0.0044	0.0348	0.0004
Diluted earnings per share from discontinued operations (in RMB)	–	0.0039	–	0.0043

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 weighted average number of issued shares as at 30th June 2012 is compared with the number of shares that would have been issued assuming the exercise of the share options.

8 Dividends

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

9 Capital expenditures

	Goodwill RMB'000	Software development RMB'000	Data library RMB'000	Total intangible assets RMB'000	Land use rights RMB'000	Properties, plant and equipment RMB'000
Opening net book amount as at 1st January 2012	–	463	–	463	17,725	178,353
Additions	–	–	–	–	–	33,153
Disposals	–	–	–	–	–	(26)
Depreciation and amortisation	–	(302)	–	(302)	(215)	(9,586)
Closing net book amount as at 30th June 2012	–	161	–	161	17,510	201,894
Opening net book amount as at 1st January 2011	167	1,068	5,496	6,731	18,152	140,468
Additions	–	–	–	–	–	14,728
Disposals	–	–	–	–	–	(5)
Depreciation and amortisation	–	(303)	(1,099)	(1,402)	(214)	(7,226)
Property, plant and equipment and intangible assets classified as held for sale	(167)	–	–	(167)	–	(419)
Closing net book amount as at 30th June 2011	–	765	4,397	5,162	17,938	147,546

10 Trade receivables

The Group generally grants a credit period of 30 days to 90 days to customers. The aging analysis of the trade receivables as at 30th June 2012 and 31st December 2011 are as follows:

	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Current to 90 days	13,425	16,230
91 to 180 days	1,919	3,607
181 to 365 days	2,774	3,490
Over 1 year	1,670	1,601
	19,788	24,928
Less: provision for impairment of trade receivables	(3,055)	(3,346)
	16,733	21,582

11 Direct selling costs

Upon the receipt of subscription revenue from third party customers, the Group is obligated to pay sales commissions and agency fees to the salespersons and agents. The subscription revenue is initially deferred and recognised in the consolidated statement of comprehensive income in the period in which the services are rendered. Accordingly, the commissions and agency fees, which are directly attributable to earn such subscription revenue during the service period, are deferred and recognised in the consolidated statement of comprehensive income in the same period.

12 Finance lease obligations

	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Finance lease obligations:		
Non-current	3,054	–
Current	1,671	–
Total financial lease obligations	4,725	–
	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	1,814	–
Later than 1 year and no later than 5 years	4,158	–
Future finance charges on finance leases	(1,247)	–
Present value of finance lease liabilities	4,725	–
The present value of finance lease liabilities is as follows:		
No later than 1 year	1,671	–
Later than 1 year and no later than 5 years	3,054	–
	4,725	–

The effective interest rates monthly for the finance lease obligations ranges from 1.20% to 1.43%.

13 Trade payables

The aging analysis of the trade payables as at 30th June 2012 and 31st December 2011 are as follows:

	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Current to 90 days	3,525	2,052
91 to 180 days	89	8
181 to 365 days	60	25
Over 1 year	200	200
	3,874	2,285

14 Income tax payable and other taxes payable

	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Income tax payable:		
Corporate income tax	5,722	8,898
Other taxes payable:		
Business tax and value added tax	5,591	7,596
Cultural and development tax	350	427
Other taxes	1,698	1,760
	13,361	18,681

15 Share capital

	Number of shares	Par Value RMB'000
As at 1st January 2012	546,248,645	56,884
Exercise of share options	10,432,104	847
As at 30th June 2012	556,680,749	57,731

The total authorised number of ordinary shares is 1,000 million shares (2011: 1,000 million shares) with a par value of HK\$0.1 per share (2011: HK\$0.1 per share). All issued shares are fully paid.

During the six months ended 30th June 2012, 10,432,104 shares of the Company were issued upon the exercise of share options at exercise price of HK\$0.44, HK\$1.49, HK\$1.24, HK\$0.604, HK\$0.82 and HK\$1.108, and resulting in approximately RMB4,769,000 increase in share premium.

The total number of issued shares of the Company was 556,680,749 as at 30th June 2012.

Share options

- (i) Pursuant to a written resolution of the shareholders of the Company dated 30th November 2003, a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) was adopted by the Company. Pursuant to the Pre-IPO Share Option Scheme, the Board is authorised to grant options to any Directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the Board in accordance with the terms of the Pre-IPO Share Option Scheme.

Each option under the Pre-IPO Share Option Scheme has a 10-year exercisable period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM, being 17th December 2003 (“Listing Date”). Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100% respectively. No additional share options were granted pursuant to the Pre-IPO Share Option Scheme during the period.

- (ii) Pursuant to a written resolution of the shareholders of the Company dated 30th November 2003, a share option scheme (the “Share Option Scheme”) was adopted by the Company. Pursuant to the Share Option Scheme, the Board is authorised to grant options to any Directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at prices to be determined by the Board in accordance with the terms of the Share Option Scheme.

During the year ended 31st December 2004, a total of 26,000,000 share options were granted to two Executive Directors and certain employees pursuant to the Share Option Scheme, of which 7,850,000, 9,350,000, 1,080,000, 581,000, 265,000 and 245,000 share options were lapsed during the year ended 31st December 2005, 2007, 2008, 2009, 2010 and 2011, respectively. The grantees can exercise these options at an exercise price of HK\$2.40 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 18th February 2004. Commencing from the first, second and third anniversaries of the date of grant, the relevant grantee may exercise options up to 33.3%, 66.6% and 100%, respectively.

During the year ended 31st December 2006, a total of 10,000,000 share options were granted to one Executive Director and certain employees pursuant to the Share Option Scheme, of which 2,460,000, 2,908,000, 346,000, 644,000 and 274,000 share options were lapsed during the year ended 31st December 2007, 2008, 2009, 2010 and 2011, respectively. During the six months ended 30th June 2012, 252,000 share options were exercised. The grantees can exercise 100% of these options at an exercise price of HK\$1.49 per share in ten years period starting from the expiry of twelve months from the date of the grant of options, being 23rd June 2006.

During the year ended 31st December 2007, a total of 23,000,000 share options were granted to two Executive Directors and certain employees pursuant to Share Option Scheme, of which 10,267,000, 1,035,000, 2,403,000 and 668,000 share options were lapsed during the year ended 31st December 2008, 2009, 2010 and 2011, respectively. During the year ended 31st December

2011 and the six months ended 30th June 2012, 260,000 and 769,000 share options were exercised. The grantees can exercise these options at an exercise price of HK\$1.24 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 11th July 2007. Commencing from the first and second anniversaries of the date of grant, the relevant grantee may exercise options up to 50% and 100% respectively.

During the year ended 31st December 2008, a total of 14,600,000 share options were granted to one Executive Director and certain employees pursuant to Share Option Scheme, of which 500,000, 1,180,000 and 1,120,000 share options were lapsed during the year ended 31st December 2009, 2010 and 2011, respectively. During the year ended 31st December 2010, 2011 and the six months ended 30th June 2012, 700,000, 2,300,000 and 1,000,000 share options were exercised. The grantees can exercise these options at an exercise price of HK\$0.604 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 29th September 2008. Commencing from the first anniversary of the date of grant, the relevant grantee may exercise options in full.

During the year ended 31st December 2010, a total of 33,800,000 share options were granted to one Executive Director and certain employees pursuant to Share Option Scheme, of which 700,000, 400,000 and 800,000 share options were lapsed during the year ended 31st December 2010, 2011 and the six months ended 30th June 2012. During the year ended 31st December 2011 and the six months ended 30th June 2012, 1,000,000 and 3,200,000 share options were exercised. The grantees can exercise these options at an exercise price of HK\$0.82 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 7th April 2010. Commencing from the first and second anniversaries of the date of grant, the relevant grantee may exercise options up to 50% and 100%, respectively.

During the year ended 31st December 2011, a total of 3,000,000 share options were granted to certain employees pursuant to Share Option Scheme, of which 100,000 share options were lapsed during the year ended 31st December 2011. During the six months ended 30th June 2012, 100,000 share options were exercised. The grantees can exercise these options at an exercise price of HK\$1.108 per share in ten years period starting from the expiry of twelve months from the date of the granting of options, being 28th March 2011. Commencing from the first and second anniversaries of the date of grant, the relevant grantee may exercise options up to 50% and 100% respectively.

- (iii) The fair value of options granted on 18th February 2004, determined using the Binomial Model valuation model, was approximately RMB20,193,000. The significant inputs into the model were 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 yield 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.
- (iv) The fair value of options granted 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 yield rate of 0% and annual risk-free interest rate of 4.911%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

- (v) 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 yield 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.
- (vi) 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 yield 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.
- (vii) 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 yield 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.
- (viii) 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.

Movements in the number of share options outstanding and their exercise prices are as follows:

(a) *Pre-IPO Share Option Scheme*

	2012		2011	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share options
As at 1st January	0.44	9,147,120	0.44	9,147,120
Exercised	0.44	(5,111,104)	–	–
As at 30th June	0.44	4,036,016	0.44	9,147,120

(b) *Share Option Scheme*

	2012		2011	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share options
As at 1st January	2.40	6,629,000	2.40	6,874,000
Lapsed	2.40	–	2.40	(130,000)
As at 30th June	2.40	6,629,000	2.40	6,744,000
As at 1st January	1.49	3,368,000	1.49	3,642,000
Lapsed	1.49	–	1.49	(84,000)
Exercised	1.49	(252,000)	1.49	–
As at 30th June	1.49	3,116,000	1.49	3,558,000
As at 1st January	1.24	8,367,000	1.24	9,295,000
Lapsed	1.24	–	1.24	(176,000)
Exercised	1.24	(769,000)	1.24	(140,000)
As at 30th June	1.24	7,598,000	1.24	8,979,000
As at 1st January	0.604	9,800,000	0.604	12,220,000
Lapsed	0.604	–	0.604	–
Exercised	0.604	(1,000,000)	0.604	(1,000,000)
As at 30th June	0.604	8,800,000	0.604	11,220,000
As at 1st January	0.82	31,700,000	0.82	33,100,000
Lapsed	0.82	(800,000)	0.82	–
Exercised	0.82	(3,200,000)	0.82	(400,000)
As at 30th June	0.82	27,700,000	0.82	32,700,000
As at 1st January	1.108	2,900,000	–	–
Granted	–	–	1.108	3,000,000
Lapsed	1.108	–	1.108	–
Exercised	1.108	(100,000)	1.108	–
As at 30th June	1.108	2,800,000	1.108	3,000,000

Share options outstanding at the end of the period have the following expiry date and exercise prices:

(a) *Pre-IPO Share Option Scheme*

	Exercise price HK\$ per share	Share options 30th June 2012	31st December 2011
17th December 2013	0.44	4,036,016	9,147,120

(b) *Share Option Scheme*

	Exercise price HK\$ per share	Share options 30th June 2012	31st December 2011
18th February 2014	2.40	6,629,000	6,629,000
23rd June 2016	1.49	3,116,000	3,368,000
11th July 2017	1.24	7,598,000	8,367,000
29th September 2018	0.604	8,800,000	9,800,000
7th April 2020	0.82	27,700,000	31,700,000
28th March 2021	1.108	2,800,000	2,900,000

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 27,181,000 shares have been granted up to the date of this announcement, representing approximately 4.88% of the issued share capital of the Company as at the date of this announcement.

The following table represents the movement for number of shares under the Share Award Scheme for the period ended 30th June 2012.

	Number of Shares
As at 1st January 2012	17,654,000
Shares purchased from the market	6,464,000
As at 30th June 2012	24,118,000

The Group has adopted the requirements under HKFRS 2 to account for the equity compensation expense of the shares granted at the date of grant at fair value.

16 Other reserves

	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Share redemption reserve RMB'000	Share-based compensation reserves RMB'000	Share held for share award scheme RMB'000	Exchange reserve RMB'000	Available for sales financial assets reserve RMB'000	Others reserve RMB'000	Total RMB'000
As at 1st January 2011	133,044	987	108,830	496	37,002	-	(7,490)	-	(48,474)	224,395
Currency translation difference	-	-	-	-	-	-	(348)	-	-	(348)
Share option scheme-value of employee services	-	-	-	-	3,200	-	-	-	-	3,200
Proceeds from shares issued	62,475	-	-	-	-	-	-	-	-	62,475
Exercise of share options	554	-	-	-	-	-	-	-	-	554
As at 30th June 2011	196,073	987	108,830	496	40,202	-	(7,838)	-	(48,474)	290,276
As at 1st January 2012	197,325	987	108,830	496	43,733	(22,234)	(10,178)	-	(48,474)	270,485
Currency translation difference	-	-	-	-	-	-	220	-	-	220
Share based compensation-value of employee services	-	-	-	-	4,129	-	-	-	-	4,129
Acquisition of additional interest in a subsidiary (i)	-	-	-	-	-	-	-	-	(144)	(144)
Share purchased for share award scheme	-	-	-	-	-	(10,447)	-	-	-	(10,447)
Fair value gain on available for sale financial assets	-	-	-	-	-	-	-	737	-	737
Vesting of share award	-	-	-	-	(1,033)	1,033	-	-	-	-
Exercise of share options	4,769	-	-	-	-	-	-	-	-	4,769
As at 30th June 2012	202,094	987	108,830	496	46,829	(31,648)	(9,958)	737	(48,618)	269,749

(i) Acquisition of additional interest in a subsidiary

On 16th February 2012, the Group acquired an additional 30% of the issued and paid-up share capital in 北京慧智普吉科技有限公司, as subsidiary of the Group for a purchase consideration of approximately RMB148,000 from the non-controlling shareholder.

The carrying amount of the non-controlling interest acquired and consideration paid in excess of carrying value recognised within equity as a result of the transaction with non-controlling interest were as follows:

	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Carrying amount of non-controlling interest acquired	4	-
Consideration paid for the non-controlling interests	(148)	-
Consideration paid in excess of carrying value recognised within equity	(144)	-

The effect of the transaction with non-controlling interests on the equity attributable to the Company's equity holders for the period ended 30th June 2012 was summarised as follows:

	Unaudited 30th June 2012 RMB'000
Total comprehensive income for the period attributable to owners of the Group	20,712
Changes in equity attributable to owners of the Group arising from the acquisition of additional interests in subsidiary	(144)
	20,568

17 Discontinued operations and disposal group

(a) Discontinued operations

On 30th May 2011, the Group disposed of its the equity interests in Fulfilment JV Co and Sales JV Co., an associated company. The Disposal Group was engaged in market research and analysis business in the PRC, for a consideration of RMB21,548,000.

Income statement information

	Unaudited	
	Three months ended 30th June 2011 RMB'000	Six months ended 30th June 2011 RMB'000
Revenue	14,527	28,027
Share of profit of an associated company	935	1,514
Expenses	(12,891)	(26,885)
Profit before income tax	2,571	2,656
Income tax	–	–
Profit from discontinued operations	2,571	2,656
Profit from discontinued operations attributable to:		
– Owners of the Company	2,047	2,216
– Non-controlling interests	524	440
	2,571	2,656

Cash flow information

	Unaudited Six months ended 30th June 2011 RMB'000
The cashflows for the discontinued operations are as follows:	
Operating cash flow	581
Investing cash flow	6
Financing cash flow	–
	587

18 Related-party transactions

The following significant transactions were carried out with related parties:

(a) Sales of services

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Sales of services				
– 北京慧聰建設信息諮詢有限公司 (technology services) (i)	53	53	106	106
– 北京慧聰建設信息諮詢 有限公司 (granted the right to use the domain names and trademark) (ii)	60	60	120	120
– 北京鄧白氏慧聰市場信息諮詢 有限公司 (“Sales JV Co”) (iii)	–	17,925	–	34,696
	113	18,038	226	34,922

- (i) 北京慧聰建設信息諮詢有限公司, a company owned as to 80% by Mr. Guo Fansheng, the Chairman of the Board and an Executive Director of the Company, entered into a three-year Technology Services Agreement with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Technology Services Agreement to 31st December 2007 and on 30th December 2007, 2009 and 2011, the parties entered into another supplemental agreement which extended the term of the Technology Services Agreement to 31st December 2009, 2011 and 2014 respectively.

Pursuant to the agreement, the Group received technical service income from 北京慧聰建設信息諮詢有限公司 based on the working hours devoted to the service and support.

- (ii) 北京慧聰建設信息諮詢有限公司 entered into a three-year Domain Names and Trademark Licence Agreement with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Domain Names and trademark Licence Agreement to 31st December 2007 and on 30th December 2007, 2009 and 2011, the parties entered into another supplemental agreement which extended the term of the Domain Names and Trademark Licence to 31st December 2009, 2011 and 2014 respectively.

Pursuant to the agreement, 北京慧聰建設信息諮詢有限公司 was granted the right to use the domain names and trademark owned or attained by the Group during the agreement period for a fixed fee.

- (iii) In November 2008, Fulfilment JV Co, a subsidiary of the Group, entered into a Fulfilment Service Agreement with Sales JV Co, an associated company, for a period of 3 years, under which Fulfilment JV Co will provide fulfilment service to Sales JV Co in relation to market research fulfilment services, at a price charged at 66.7%, 67.3% and 66.2%, for the 3 years respectively, on the net annual revenue of Sales JV Co. The fulfilment charge for the six months ended 30th June 2011 amounted to RMB29,658,000 (Three months ended 30th June 2011: RMB15,372,000).

Another subsidiary of the Group entered into another Fulfilment Service Agreement with Sales JV Co, under which the Group would sell e-Eyes products, at a charge of actual costs plus 12% mark-up. The fulfilment charge for the six months ended 30th June 2011 amounted to RMB5,038,000 (Three months ended 30th June 2011: RMB2,553,000).

The disposal of Fulfilment JV Co. was completed on 30th September 2011. The transactions pursuant to this agreement are no longer related party transactions of the Group since then.

(b) *Purchases of services*

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Purchases of services:				
– 北京慧聰建設信息諮詢有限公司 (on-line information distribution services) (i)	60	60	120	120
– 北京慧聰建設信息諮詢有限公司 (on-line advertisement publication services) (ii)	25	25	50	50
	85	85	170	170

- (i) 北京慧聰建設信息諮詢有限公司 entered into a three-year Online Information Distribution Agreement with the Group in 2002, and on 31st December 2004, 2007, 2009, and 2011, the parties entered into a supplemental agreement which extended the term of the Online Information Distribution Agreement to 31st December 2007, 2009, 2011, and 2014 respectively.

Pursuant to the Online Information Distribution Agreement, 北京慧聰建設信息諮詢有限公司 received distribution income from the Group at a fixed rate per annum. It disseminated the Group's business information and research reports on its web-site and on those as stipulated by the Group.

- (ii) 北京慧聰建設信息諮詢有限公司 entered into a three-year Online Advertisement Publication Agreement with the Group in 2002, and on 31st December 2004, 2007, 2009, and 2011, the parties entered into supplemental agreements which extended the term of Online Advertisement Publication Agreement to 31st December 2007, 2009, 2011, and 2014 respectively.

Pursuant to the Online Advertisement Publication Agreement, Huicong Construction received publication income from the Group at a fixed fee. It published the Group's advertisements on its website and on those as stipulated by the Group.

(c) *Key management compensation*

	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other short-term employee benefits	1,663	1,509	3,326	2,998
Share-based payments	808	594	2,314	2,053
	2,471	2,103	5,640	5,051

(d) *Period end balance from sales/purchase of services*

	Unaudited 30th June 2012 RMB'000	Audited 31st December 2011 RMB'000
Amount due from a related company (i)	1,649	1,556

- (i) The related company is 北京慧聰建設信息諮詢有限公司 a company owned as to 80% by Mr. Guo Fansheng, the Chairman of the board of directors and an executive director of the Company. Details of the business transactions are set out in Note 18a and Note 18b.

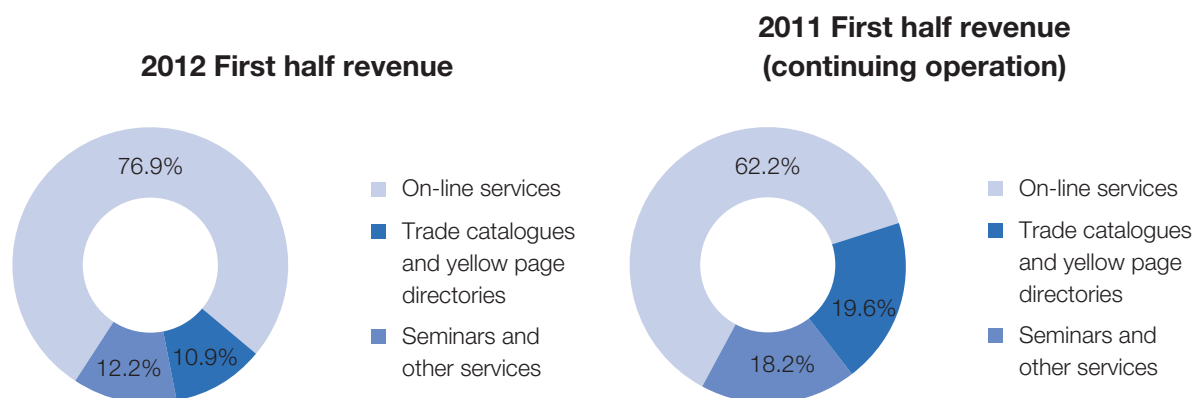
19 **Contingent liabilities**

As at 30th June 2012, there were no material contingent liabilities to the Group (31st December 2011: Nil).

Financial and Business Review

	2012 First Half		2011 First Half (continuing operation)		Variance
	Revenue RMB'000	Common statement	Revenue RMB'000	Common statement	
On-line services	186,988	76.9%	120,253	62.2%	55.5%
Trade catalogues and yellow page directories	26,551	10.9%	37,928	19.6%	-30.0%
Seminars and other services	29,750	12.2%	35,222	18.2%	-15.5%
Total	243,289	100.0%	193,403	100.0%	25.8%

Revenue spreads:



During the period, the Group recorded a revenue of approximately RMB243.3 million from continuing operations (2011: RMB193.4 million).

The revenue was derived from the segments of on-line services, trade catalogues and yellow page directories, and seminars and other services, of which breakdowns are stated above through table and charts. As a consequence of the increment in the contribution of on-line segment, our overall gross profit ratio has improved by approximately 4 percentage points to 89% (2011: 85%).

During the three months ended 30th June 2012, cost of revenue further decreased by 7.4% year-over-year, in line with the downward movement of revenue of trade catalogues and yellow pages directories. Meanwhile, the selling and marketing expenses continued to grow 16.5% (2012 second quarter: approximately RMB76.9 million, 2011 second quarter: approximately RMB66.1 million), nevertheless, that was at a slower pace when compared to 20.1% growth in revenue (2012 second quarter: approximately RMB130.4 million, 2011 second quarter: approximately RMB108.6 million).

We are also delighted to inform that the Group's profit attributable to equity holders has increased significantly to approximately RMB20.5 million for the six months ended 30th June 2012, as a results of improvement in revenue, reduction in cost and better control of expenses on a year-over-year basis.

The net cash inflow from operating activities from continuing and discontinued operations for the six months ended 30th June 2012 was approximately RMB48.3 million (2011: inflow of RMB39.0 million).

As one of the key B2B e-commerce operators, the Group has been further upgrading its on-line products in 2012 and has launched new value-added services such as Cai-Gou-Tong with an aim to enhance quality and comprehensiveness of services, which has optimised the marketing performance of our SME users, increased their chances of entering into transactions and expanded the effect of their branding efforts.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30th June 2012, the Group had cash and bank balance of approximately RMB142.7 million and net current assets of approximately RMB63.0 million. The Group maintained a strong working capital position during the six months ended 30th June 2012.

The Group had RMB126.0 million investments in banking products from commercial banks which are listed financial institutions in the PRC. The fair value of such investments as at 30th June 2012 was approximately RMB126.7 million.

The Group had no short-term loans as at 30th June 2012. Gearing ratio of the Group remained at 0% as at 30th June 2012, which is the same as at 31st December 2011, calculated with reference to its nil short-term loans as at 30th June 2012 (31st December 2011: Nil).

The capital and reserves attributable to equity holders of the Company increased by approximately RMB20.6 million from approximately RMB272.5 million as at 31st December 2011 to approximately RMB293.1 million as at 30th June 2012.

Significant investments

The Group had no significant investments during the six months ended 30th June 2012.

Future plans for material investments

Save as disclosed in this announcement, the Group had no plan for material investments during the six months ended 30th June 2012.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th June 2012, the Group had 3,018 employees.

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options 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 six months ended 30th June 2012, 10,432,104 shares of the Company ("Shares") were issued upon the exercise of share options. The total number of issued Shares was 556,680,749 as at 30th June 2012.

Charges on Group assets

As at 30th June 2012, there were no charges on any of the Group's assets.

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 June 2012, the Group had no material contingent liabilities.

ESTABLISHMENT OF NOMINATION COMMITTEE

With effect from 20th March 2012, the Company established the nomination committee of the Company and written terms of reference of the nomination committee have been adopted. The members of the nomination committee comprise Mr. Guo Fansheng, an executive Director and chairman of the Company, Mr. Zhang Ke and Mr. Zhang Tim Tianwei, both independent non-executive Directors. Mr. Guo Fansheng is the chairman of the nomination committee.

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 six months ended 30th June 2012.

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 announcement, 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, the interim report and the interim results of the Group for the six months ended 30th June 2012.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or 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 six months ended 30th June 2012.

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 six months ended 30th June 2012.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Shares during the six months ended 30th June 2012.

SUBSEQUENT EVENT

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

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

Chief Executive Officer and Executive Director

Beijing, the PRC, 8th August 2012

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

Mr. Guo Fansheng (*Executive Director and Chairman*)
Mr. Guo Jiang (*Executive Director and Chief Executive Officer*)
Mr. Lee Wee Ong (*Executive Director and Chief Financial Officer*)
Mr. Li Jianguang (*Non-executive Director*)
Mr. Guo Wei (*Non-executive Director*)
Mr. Zhang Ke (*Independent non-executive Director*)
Mr. Xiang Bing (*Independent non-executive Director*)
Mr. Zhang Tim Tianwei (*Independent non-executive Director*)

This announcement will remain on the pages of "Latest Company Announcements" on the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and the Company's website at <http://www.hcgroup.com>.