

# Finet Group Limited

(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 08317)



財華社  
FINET

First Quarterly Report 2009/2010



## 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors of Finet Group Limited (the “Directors”) 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **RESULTS HIGHLIGHTS**

- The Group reported a turnover of approximately HK\$8,763,000 for the three months ended 30 June 2009, representing a decrease of approximately 3% from approximately HK\$9,000,000 for the same period in 2008.
- The Group's unaudited consolidated loss attributable to equity holders of the Company for the three months ended 30 June 2009 was approximately HK\$4,350,000.
- The board of Directors does not recommend the payment of dividend for the three months ended 30 June 2009.

The board of Directors (the "Board") of Finet Group Limited (the "Company") is pleased to present the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2009, together with the comparative unaudited figures for the corresponding period in 2008 as follows:

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2009

		<b>For the three months ended 30 June</b>	
		<b>2009</b>	2008
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Revenue	2	<b>8,763</b>	9,000
Cost of sales		<b>(2,303)</b>	(2,597)
		<hr/>	<hr/>
Gross profit		<b>6,460</b>	6,403
Other operating incomes	2	<b>284</b>	774
Development costs		<b>(1,325)</b>	(1,683)
Selling expenses		<b>(582)</b>	(672)
General and administrative expenses		<b>(9,516)</b>	(10,453)
Other operating expenses		<b>(114)</b>	(15)
		<hr/>	<hr/>
Operating loss		<b>(4,793)</b>	(5,646)
Finance costs		<b>(53)</b>	(36)
		<hr/>	<hr/>
Loss before tax expenses		<b>(4,846)</b>	(5,682)
Income tax expense	3	-	-
		<hr/>	<hr/>
Loss after tax expenses		<b>(4,846)</b>	(5,682)
Share of loss of associate		-	(40)
		<hr/>	<hr/>
Loss for the period		<b>(4,846)</b>	(5,722)
		<hr/> <hr/>	<hr/> <hr/>

		<b>For the three months ended 30 June</b>	
		<b>2009</b>	2008
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		<b>(4,350)</b>	(5,084)
Minority Interests		<b>(496)</b>	(638)
		<b><u>(4,846)</u></b>	<u>(5,722)</u>
Loss per share attributable to the equity holders of the Company			
– Basic ( <i>in HK cent</i> )	5(a)	<b>(0.726)</b>	(0.848)
– Diluted ( <i>in HK cent</i> )	5(b)	<b>N/A</b>	N/A
		<b><u>N/A</u></b>	<u>N/A</u>

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation of the accounts

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules.

The principal accounting policies and methods of computation used in the preparation of these accounts are consistent with those adopted in the preparation of the annual accounts for the year ended 31 March 2009.

The unaudited consolidated results for the three months ended 30 June 2009 have been reviewed by the audit committee.

### 2. Revenue and other operating incomes

Revenue, which is also the Group's turnover, represents total invoiced value of services rendered. Revenue recognised during the period is as follows:

	<b>For the three months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>		
Service income from provision of financial information services	<b>8,553</b>	8,460
Advertising income	<b>162</b>	451
Online games income	<b>48</b>	89
	<b>8,763</b>	9,000
<b>Other operating incomes</b>		
Fair value gain on financial assets/liabilities at fair value through profit or loss	–	204
Gross rental income from investment properties	<b>282</b>	339
Interest income	<b>2</b>	8
Others	–	223
	<b>284</b>	774
<b>Total incomes</b>	<b>9,047</b>	9,774

### 3. **Income tax expense**

The Company and one of its subsidiaries were incorporated in the Cayman Islands as exempted companies and, accordingly, are exempted from payment of Cayman Islands income tax. The Company's subsidiary established in the British Virgin Islands was exempted from payment of the British Virgin Islands income tax. The Company's subsidiary established in the Republic of Seychelles was exempted from payment of the Republic of Seychelles income tax.

No Hong Kong profits tax has been provided for the three months ended 30 June 2009 (2008: Nil) as the Group had no assessable profit for the period.

No income tax was provided for the three months ended 30 June 2009 (2008: Nil) for the subsidiaries of the Company established in the People's Republic of China as the subsidiaries had no assessable profit for the three months ended 30 June 2009.

### 4. **Dividend**

The Board does not recommend the payment of dividend for the three months ended 30 June 2009 (2008: Nil).

### 5. **Loss per share**

#### (a) **Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company for the three months ended 30 June 2009 of approximately HK\$4,350,000 (2008: HK\$5,084,000) on the weighted average number of 599,370,000 ordinary shares in issue during the three months ended 30 June 2009 (2008: 599,302,747).

#### (b) **Diluted loss per share**

Diluted loss per share for the three months ended 30 June 2009 and 2008 have not been disclosed as the share options outstanding have an anti-dilutive effect on the basic loss per share.

## 6. Movement of Reserves

	Share capital HK\$'000	Share premium HK\$'000	Employee		Translation reserve HK\$'000	Property	Investment	Accumulated losses HK\$'000	Total reserves HK\$'000	Minority interest HK\$'000	Total equity HK\$'000
			Merger reserve HK\$'000	compensation reserve HK\$'000		revaluation reserve HK\$'000	revaluation reserve HK\$'000				
At 1 April 2008	5,978	134,169	4,870	4,675	1,843	9,989	(567)	(59,349)	95,630	12,325	113,933
Fair value loss:											
– Available-for-sale financial assets	-	-	-	-	-	-	114	-	114	-	114
Currency translation differences	-	-	-	-	(13)	-	-	-	(13)	(3)	(16)
Issue of shares under the share option scheme	16	213	-	-	-	-	-	-	213	-	229
Employee share-based compensation	-	-	-	339	-	-	-	-	339	-	339
Exercise of share options	-	54	-	(54)	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	(5,084)	(5,084)	(638)	(5,722)
<b>At 30 June 2008</b>	<b>5,994</b>	<b>134,436</b>	<b>4,870</b>	<b>4,960</b>	<b>1,830</b>	<b>9,989</b>	<b>(453)</b>	<b>(64,433)</b>	<b>91,199</b>	<b>11,684</b>	<b>108,877</b>
At 1 April 2009	5,994	134,436	4,870	1,748	2,394	9,989	(919)	(117,419)	35,099	11,998	53,091
Fair value loss:											
– Available-for-sale financial assets	-	-	-	-	-	-	5	-	5	-	5
Currency translation differences	-	-	-	-	(9)	-	-	-	(9)	(1)	(10)
Transfer to income statement on disposal of available-for-sale financial assets	-	-	-	-	-	-	97	-	97	-	97
Loss for the period	-	-	-	-	-	-	-	(4,350)	(4,350)	(496)	(4,846)
<b>At 30 June 2009</b>	<b>5,994</b>	<b>134,436</b>	<b>4,870</b>	<b>1,748</b>	<b>2,385</b>	<b>9,989</b>	<b>(817)</b>	<b>(121,769)</b>	<b>30,842</b>	<b>11,501</b>	<b>48,337</b>

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## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONS REVIEW

The Group still focused on two major business lines in Greater China for the three months ended 30 June 2009: financial information services in Greater China and online games in Mainland China. The Group continues to focus on executing the China growth strategy by enhancing the product customizations to Mainland China investors and expanding the distribution channels in China. We had restructured our operations to adapt to the changes in market conditions and prepared to capture the growth opportunities when the world economy is expected to recover in the second half of 2009.

The Group's online game business focused on developing its games in the pipeline. In June, the Group's first webgame successfully delivered its first playable version, which, thanks to its adoption of the latest web technologies, incorporated some RPG (role-playing game) features on the web browser without downloading any software, among the first in China's web game history.

China Game's Shanghai research & development center progressed well on delivering the first playable version in September 2009 and had made remarkable efforts to achieve next-generation graphics in the game. We believe its graphical presentation, combined with market-oriented design, will make this game our flagship game in the next year.

In order to strengthen our pipeline and ensure consistent supply of quality products, China Game signed up a co-development agreement with Xiamen-based Onwind Digital Co., Ltd. ("Onwind") to jointly develop an MMORPG that aims to reach a level of 100,000 concurrent users. Onwind, with Shanda (Nasdaq: SNDA) as one of its shareholders, had released the popular *Zu Online* that had exceeded over 50,000 concurrent users.

We had substantially enhanced the functionalities of our flagship China-based product, Finet PowerStation 2008. At the same time, we strengthened our sales efforts by finding more business partners in China, for example, online brokers and banks with substantial potential customers in China. With enhanced content and marketing efforts, our two websites have shown consistent visitor traffic growth and commanded a pillar position for investors to understand Hong Kong's and China's financial markets. Following a strong partnership with Google during the year, we had significantly increased the advertising sales results on our websites. With more Chinese investors now investing in Hong Kong and overseas markets, we believe the sales in financial information terminals and online advertising will continue to grow. In the mean time, several key projects of Finet information and technology solution had been delivered successfully with tremendous efforts. With trophy and reward achieved both through the project implementation, the team has been equipped valuable knowledge on project for multinational financial institutions.

With the new China-Hong Kong CEPA Amendment VI reached in May 2009, the integration between Hong Kong and others regions of China, particularly in investment activities by Mainland Chinese investors is arriving. As a result, we will witness the next wave of strong cross-border demand by Mainland Chinese investors in financial information (for examples, content distribution and product sales), financial intermediary (corporate financing and brokerage business) and asset management in Hong Kong markets. Thus, the Group is reviewing its existing business strategies compared to the latest industry developments, and plans new initiatives to enhance the Group's business scope, value-added product lines and financial positions to capitalize on such market opportunities and maximize shareholder value.

On 5 May 2009, the Company proposed an open offer on the basis of one offer share for every two existing shares held on the record date and with three bonus warrants for every ten offer shares issued and allotted. Following shareholder approval and overwhelming support, the open offer was completed on 5 August 2009. The open offer involved an issue of 299,685,000 offer shares and at the subscription price of HK\$0.05 per offer share. Based on 299,685,000 offer shares issued, the estimated net proceeds from the open offer were approximately HK\$13.6 million. The Company will use the net proceeds for general working capital and for investment in new business should any opportunities arise.

## **FINANCIAL REVIEW**

The Group reported a turnover of approximately HK\$8,763,000 for the three months ended 30 June 2009, representing a decrease of approximately 3% from approximately HK\$9,000,000 for the same period in 2008.

During the three months ended 30 June 2009, the Group recorded cost of sales amounting to approximately HK\$2,303,000, representing a decrease of 11% to the same period in 2008, which was mainly resulted in the decreased in cost to the information providers in connection with the provision of relevant services.

Development costs of the Group for the three months ended 30 June 2009 was approximately HK\$1,325,000 (2008: HK\$1,683,000), which mainly included depreciation of property, plant and equipment and employee benefit expenses.

General and administrative expenses of the Group for the three months ended 30 June 2009 was decreased by approximately HK\$937,000 to approximately HK\$9,516,000 (2008: HK\$10,453,000).

The Group's unaudited consolidated loss attributable to equity holders of the Company for the three months ended 30 June 2009 was approximately HK\$4,350,000 (2008: HK\$5,084,000).

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES

As at 30 June 2009, the interests and short positions of the Directors and the chief executives 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 (the "SFO") as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

### (I) AGGREGATE LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of director	No. of shares		No. of underlying shares (share options)		Note	Total	% of shares in issue
	Personal interest	Interest of controlled corporation	Personal interest	Interest of controlled corporation			
<b>Executive Director:</b>							
Yu Gang, George	-	577,741,203	12,126,000	-	1	589,867,203	98.41%
<b>Independent Non-executive Directors:</b>							
Lam Lee G.	-	-	1,000,000	-	-	1,000,000	0.17%
Wu Tak Lung	-	-	1,000,000	-	-	1,000,000	0.17%

## (II) AGGREGATE LONG POSITIONS IN THE SHARES OF ASSOCIATED CORPORATION

Name of associated corporation	Name of director	No. of shares		Note	% of shares in issue
		Personal interest	Interest of controlled corporation		
Opulent Oriental International Limited ("Opulent")	Yu Gang, George	100	–	1	100%

*Note 1:*

Dr. Yu was deemed (by virtue of the SFO) to be interested in 589,867,203 shares. These shares were held in the following capacity:

- (a) 486,724,956 Shares and 91,016,247 underlying shares were held by Opulent. Dr. Yu is interested in the entire issued share capital of Opulent. Therefore, the interest of Dr. Yu in these 486,724,956 Shares and 91,016,247 underlying shares duplicates with the interest of Opulent in the same lots of 486,724,956 shares and 91,016,247 underlying shares; and
- (b) Dr. Yu is entitled to share options to subscribe for an aggregate of 12,126,000 shares.

Save as disclosed above, as at 30 June 2009, none of the Directors or chief executives of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITION IN THE SHARES

As at 30 June 2009, so far as the Directors are aware, persons other than Directors or chief executives of the Company who have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of company	Number of shares		Notes	Total	% of shares in issue
	Personal interest	Interest of controlled corporation			
<b>Substantial shareholder:</b>					
Opulent Oriental International Limited	577,741,203	–	1	577,741,203	96.39%
<b>Other persons:</b>					
Union Stars Group Ltd.	54,739,152	–	2	54,739,152	9.13%
Chang Wen Shiann	–	54,739,152	2	54,739,152	9.13%
Chang Hu Ching Yueh	–	54,739,152	2	54,739,152	9.13%
Nebulamart Limited	38,738,477	–	3	38,738,477	6.46%
United Business Media Limited	–	38,738,477	3	38,738,477	6.46%
Grand Alliance Asia Pacific Funds Limited	37,220,000	–	–	37,220,000	6.20%

Notes:

1. Opulent was deemed (by virtue of the SFO) to be interested 577,741,203 shares as beneficial owner. The interest of Opulent in these 577,741,203 shares duplicates with the interest of Dr. Yu in the same lot of 577,741,203 shares. Such 577,741,203 shares comprise:
  - (a) 183,337,456 shares held by Opulent;
  - (b) 91,668,728 offer shares to be issued to Opulent in respect of the 183,337,456 shares held by it which Opulent has undertaken to take up under the open offer announced by the Company on 5 May 2009 that proposed open offer on the basis of one offer share for every two existing shares held on the record date with bonus issue of warrants on the basis of three bonus warrants for every ten offer shares issued and allotted under the open offer;
  - (c) 27,500,616 underlying shares falling to be issued to Opulent upon the exercise of the subscription rights attaching to the 27,500,616 bonus warrants to be issued to Opulent under the bonus issue of warrants in respect of the 91,668,728 offer shares;
  - (d) 211,718,772 offer shares underwritten by Opulent pursuant to the underwriting agreement, assuming that all the outstanding share options (other than those held by Dr. Yu and the 400,000 share options granted to an employee of the Company exercisable only from 5 November 2009) are exercised on or before the record date; and
  - (e) 63,515,631 underlying shares falling to be issued to Opulent upon the exercise of the subscription rights attaching to the 63,515,631 bonus warrants to be issued to Opulent under the bonus issue of warrants in respect of the 211,718,772 offer shares.
2. 54,739,152 shares were held by Union Stars Group Ltd. ("USG"), which Mr. Chang Wen Shiann and Mrs. Chang Hu Ching Yueh hold 50% of the total voting rights respectively. Accordingly, all USG, Mr. Chang and Mrs. Chang were deemed (by virtue of the SFO) to be interested in 54,739,152 shares in the Company.
3. 38,738,477 shares were held by Nebulamart Limited ("Nebulamart"), which was a wholly-owned subsidiary of United Business Media Limited ("UBM"). Accordingly, both Nebulamart and UBM were deemed (by virtue of the SFO) to be interested in 38,738,477 shares in the Company.

Save as disclosed above, the Directors are not aware of other person who, as at 30 June 2009, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## DETAILS OF OUTSTANDING OPTIONS GRANTED

As at 30 June 2009, options to subscribe for an aggregate of 13,881,000 underlying shares had been granted by the Company under the Pre-IPO Share Option Scheme adopted on 23 July 2004. Details of the outstanding options which have been granted and remaining unexercised under the Pre-IPO Share Option Scheme as at 30 June 2009 are as follows:

Name of grantee	Date of grant	Exercise price per share	Number of share options				Balance as at 30 June 2009
			Balance as at 1 April 2009	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	
<b>Director:</b>							
Yu Gang, George	21 September 2004	HK\$0.15	12,126,000	-	-	-	12,126,000
<b>Employees:</b>							
Employees	21 September 2004	HK\$0.15	1,755,000	-	-	-	1,755,000
			<u>13,881,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,881,000</u>

As at 30 June 2009, options to subscribe for an aggregate of 6,050,000 underlying shares had been granted by the Company under the Post-IPO Share Option Scheme adopted on 16 December 2004. Details of the outstanding options which have been granted and remaining unexercised under the Post-IPO Share Option Scheme as at 30 June 2009 are as follows:

Name of grantee	Date of grant	Exercise price per share	Number of share options				Balance as at 30 June 2009
			Balance as at 1 April 2009	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	
<b>Independent Non-executive Directors:</b>							
Lam Lee G.	29 September 2005	HK\$0.365	1,000,000	-	-	-	1,000,000
Wu Tak Lung	29 September 2005	HK\$0.365	1,000,000	-	-	-	1,000,000
<b>Employees:</b>							
Employee	5 September 2005	HK\$0.280	2,650,000	-	-	-	2,650,000
Employee	29 September 2005	HK\$0.365	400,000	-	-	-	400,000
Employee	6 December 2006	HK\$0.668	1,000,000	-	-	-	1,000,000
			<u>6,050,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,050,000</u>

## COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the three months ended 30 June 2009.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members whom are independent non-executive directors, namely, Mr. Wu Tak Lung, Dr. Lam Lee G. and Mr. William Hay with Mr. Wu Tak Lung as the chairman thereof. Following the retirement of Mr. William Hay as an audit committee member with effect from 31 July 2009, the Company appointed Mr. Lam Ka Wai, Graham with effect from 5 August 2009 to fill the vacancy pursuant to Rule 5.28 of the GEM listing Rules.

The principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

The unaudited consolidated results of the Group for the three months ended 30 June 2009 have been reviewed by the audit committee.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the three months ended 30 June 2009.

By Order of the Board

**Yu Gang, George**

*Chairman*

Hong Kong, 10 August 2009

*As at the date of this report, the executive directors of the Company are Dr. Yu Gang, George and Mr. Lin Peng, Ben; the independent non-executive directors of the Company are Dr. Lam Lee G., Mr. Wu Tak Lung and Mr. Lam Ka Wai, Graham.*