

# 2010 Interim Report



首華財經網絡集團有限公司

FIRST CHINA FINANCIAL NETWORK HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 08123

## **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.**

*Pursuant to Chapter 36 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), the Securities and Futures Commission (the “SFC”) regulates First China Financial Network Holdings Limited (the “Company”) in relation to the listing of its shares on The Stock Exchange of Hong Kong Limited. The SFC, The Hong Kong Exchanges and Clearing Limited, and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.*

## Highlights

The Group recorded a turnover of approximately HK\$37,123,000 for the six months ended 30 June 2010.

Loss for the six months ended 30 June 2010 was approximately HK\$30,317,000.

Loss attributable to equity holders of the Company for the six months ended 30 June 2010 amounted to approximately HK\$29,379,000.

Loss per share was approximately 0.91 HK cents.

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2010.

## Interim Result (Unaudited)

The board of Directors of the Company (the "Board") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 together with the comparative unaudited figures for the corresponding period in 2009.

### Condensed Consolidated Statement of Comprehensive Income

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Revenue	3	20,289	23,154	37,123	42,987
Other income		2,416	409	2,824	635
Employee benefits expenses		(32,013)	(6,511)	(40,873)	(12,003)
Depreciation of property, plant and equipment		(1,172)	(896)	(2,245)	(1,762)
Amortization of intangible assets		(1,126)	(1,198)	(2,248)	(1,598)
Other operating expenses		(12,196)	(10,118)	(22,466)	(19,008)
Share of loss of associates		(135)	(148)	(383)	(148)
(Loss)/profit before income tax		(23,937)	4,692	(28,268)	9,103
Income tax expense	5	(1,375)	(2,136)	(2,049)	(4,543)
(Loss)/profit for the period		(25,312)	2,556	(30,317)	4,560
<b>Other comprehensive income</b>					
Change in fair value of available-for-sale financial assets		—	338	—	343
Currency translation differences		1,052	1,067	1,607	1,022
Other comprehensive income for the period, net of tax		1,052	1,405	1,607	1,365
Total comprehensive (loss)/income for the period		(24,260)	3,961	(28,710)	5,925

	Note	Three months ended		Six months ended	
		30 June		30 June	
		2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
<b>(Loss)/profit for the period attributable to:</b>					
Equity holders of the Company		(24,716)	2,556	(29,379)	4,560
Minority interests		(596)	—	(938)	—
		(25,312)	2,556	(30,317)	4,560
<b>Total comprehensive (loss)/income attributable to:</b>					
Equity holders of the Company		(23,658)	3,961	(27,767)	5,925
Minority interests		(602)	—	(943)	—
		(24,260)	3,961	(28,710)	5,925
<b>(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period</b>					
— basic (HK cents)	6	(0.91)	0.09	(0.91)	0.15
— diluted (HK cents)	6	(0.91)	0.09	(0.91)	0.15

## Condensed Statements of Financial Position

	Note	At 30 June 2010 HK\$'000 (unaudited)	At 31 December 2009 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		14,762	13,315
Intangible assets		186,328	177,091
Statutory deposits and other assets		530	2,075
Investments in associates		627	1,001
		<b>202,247</b>	193,482
<b>Current assets</b>			
Held-for-trading investments		866	—
Trade receivables	7	12,273	17,450
Other receivables		42,633	34,495
Amount due from an associate		2,430	2,396
Bank balances and cash		193,632	88,906
		<b>251,834</b>	143,247
<b>Total assets</b>		<b>454,081</b>	336,729
<b>Current liabilities</b>			
Trade payables	8	40,141	51,795
Other payables and deferred income		9,557	7,358
Short term bank loan		14,898	14,728
Loan payable under control agreements			
— amount due within one year		—	30,022
Current income tax liabilities		1,294	5,623
		<b>65,890</b>	109,526
<b>Net current assets</b>		<b>185,944</b>	33,721
<b>Total assets less current liabilities</b>		<b>388,191</b>	227,203

	Note	At 30 June 2010 HK\$'000 (unaudited)	At 31 December 2009 HK\$'000 (audited)
<b>Non-current liabilities</b>			
Loan payable under control agreements			
— amount due after one year		—	32,854
Deferred income tax liabilities		<b>31,322</b>	31,457
		<b>31,322</b>	64,311
<b>Net assets</b>			
		<b>356,869</b>	162,892
<b>Capital and reserves</b>			
Share capital	9	<b>38,290</b>	29,541
Share premium	9	<b>863,251</b>	495,488
Special reserve		<b>4,779</b>	4,779
Translation reserve		<b>5,758</b>	4,151
Shares to be issued		<b>168,000</b>	336,000
Share options reserve		<b>14,460</b>	28,921
Share-based compensation reserve		<b>24,178</b>	795
Accumulated losses		<b>(766,827)</b>	(737,448)
<b>Equity attributable to the Company's equity holders</b>			
		<b>351,889</b>	162,227
<b>Minority interests</b>			
		<b>4,980</b>	665
<b>Total equity</b>			
		<b>356,869</b>	162,892

## Condensed Consolidated Statements of Changes in Equity

For the six months ended 30 June 2010

	Attributable to the equity holders of the Company											
	Share capital	Share premium	Special reserve	Available-	Translation reserve	Shares to be issued	Share options reserve	Share-based compensation reserve	Accumulated losses	Total	Minority interests	Total equity
				for-sale								
				investments								
HK\$'000	HK\$'000	HK\$'000	revaluation reserve	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 2009	29,341	478,228	4,779	353	3,674	336,000	43,382	1,767	(741,825)	155,699	72	155,771
Total comprehensive income for the period	—	—	—	343	1,022	—	—	—	4,560	5,925	—	5,925
Issue of shares upon exercise of Option in respect of acquisition of subsidiaries	200	2,800	—	—	—	—	—	—	—	3,000	—	3,000
Transfer upon exercise of Option in respect of acquisition of subsidiaries	—	14,461	—	—	—	(14,461)	—	—	—	—	—	—
Share option scheme — vested share options lapsed	—	—	—	—	—	—	—	(972)	972	—	—	—
<b>Balance as at 30 June 2009</b>	<b>29,541</b>	<b>495,489</b>	<b>4,779</b>	<b>696</b>	<b>4,696</b>	<b>336,000</b>	<b>28,921</b>	<b>795</b>	<b>(736,293)</b>	<b>164,624</b>	<b>72</b>	<b>164,696</b>
Balance as at 1 January 2010	29,541	495,488	4,779	—	4,151	336,000	28,921	795	(737,448)	162,227	665	162,892
Total comprehensive loss for the period	—	—	—	—	1,607	—	—	—	(29,379)	(27,772)	(943)	(28,715)
Capital contributions from minority interests	—	—	—	—	—	—	—	—	—	—	5,258	5,258
Issue of shares upon exercise of Option in respect of acquisition of subsidiaries	200	2,800	—	—	—	—	—	—	—	3,000	—	3,000
Issue of Consideration Shares	2,000	166,000	—	—	—	(168,000)	—	—	—	—	—	—
Issue of Bonus Shares	75	6,207	—	—	—	—	—	—	—	6,282	—	6,282
Transfer upon exercise of Option in respect of acquisition of subsidiaries	—	14,461	—	—	—	(14,461)	—	—	—	—	—	—
Issue of Open Offer Shares	6,382	176,692	—	—	—	—	—	—	—	183,074	—	183,074
Share option scheme — value of employee services	—	—	—	—	—	—	—	23,383	—	23,383	—	23,383
Issue of shares for acquisition of software copyright	92	1,603	—	—	—	—	—	—	—	1,695	—	1,695
<b>Balance as at 30 June 2010</b>	<b>38,290</b>	<b>863,251</b>	<b>4,779</b>	<b>—</b>	<b>5,758</b>	<b>168,000</b>	<b>14,460</b>	<b>24,178</b>	<b>(766,827)</b>	<b>351,889</b>	<b>4,980</b>	<b>356,869</b>



## Condensed Consolidated Statement of Cash Flows

	For the six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash (used in)/generated from operating activities	<b>(16,477)</b>	75,382
Net cash used in investing activities	<b>(10,038)</b>	(99,164)
Net cash generated from financing activities	<b>134,741</b>	2,028
Net increase/(decrease) in cash and cash equivalents	<b>108,226</b>	(21,754)
Cash and cash equivalents at beginning of period	<b>54,005</b>	67,389
Cash and cash equivalents at end of period	<b>162,231</b>	45,635
Analysis of the balance of cash and cash equivalents		
Cash at bank and in hand	<b>193,632</b>	70,998
Segregated trust bank balances	<b>(31,401)</b>	(25,363)
	<b>162,231</b>	45,635

Notes:

## **1. General Information**

First China Financial Network Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the provision of stock information and research analysis services in Mainland China, provision of securities and futures trading services, corporate finance consultancy services, trading and principal investments in Hong Kong and wealth management services in Hong Kong and the PRC.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands. The Company’s shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars (HK\$) unless otherwise stated. These unaudited condensed consolidated financial statements were approved and authorized for issue by the board of directors on 6 August 2010.

## **2. Basis of Preparation**

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2009.

### 3. Revenue

	Three months ended 30 June		Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Income from provision of stock information and research analysis services	15,744	19,154	27,932	36,061
Income from provision of a trading platform	54	38	81	75
Commission income from securities and futures brokerage	3,489	3,095	7,584	4,948
Interest income from clients	93	62	179	148
Net fair value gains on investments	356	59	356	54
Income from provision of wealth management services	553	746	991	1,701
	<b>20,289</b>	23,154	<b>37,123</b>	42,987

### 4. Segment Information

#### (a) Primary reporting format — business segments

As at 30 June 2010, the Group is organized into 6 business segments:

- (i) Provision of a trading platform;
- (ii) Provision of brokerage and securities margin financing, and infrastructure broking services;
- (iii) Provision of corporate finance consultancy services;
- (iv) Trading and principal investment;
- (v) Provision of wealth management services; and
- (vi) Provision of stock information and research.

The segment results for the six months ended 30 June 2010 are as follows:

	Brokerage and securities margin		Corporate		Wealth management services	Stock information and research	Total
	Provision of a trading platform	financing, and infrastructure broking services	finance consultancy services	Trading and principal investment			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue from external customers	81	7,763	—	357	991	27,931	37,123
Segment results	6	353	—	196	(1,335)	592	(188)
Net unallocated expenses							(28,080)
Loss before income tax							(28,268)
Income tax expense							(2,049)
Loss for the period							(30,317)

The segment results for the six months ended 30 June 2009 are as follows:

	Brokerage and securities margin		Corporate		Wealth management services	Stock information and research	Total
	Provision of a trading platform	financing, and infrastructure broking services	finance consultancy services	Trading and principal investment			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue from external customers	75	5,096	—	54	1,701	36,061	42,987
Segment results	6	(2,175)	—	54	(1,119)	18,119	14,885
Net unallocated expenses							(5,782)
Profit before income tax							9,103
Income tax expense							(4,543)
Profit for the period							4,560

**(b) Secondary reporting format — geographical segments**

The Group mainly operates in Hong Kong and the PRC.

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Revenue</b>		
Hong Kong	<b>8,675</b>	6,908
The PRC	<b>28,448</b>	36,079
	<b>37,123</b>	42,987

Revenue is allocated based on the country in which the customer is located.

**5. Income Tax Expense**

Hong Kong Profits Tax is calculated at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the period. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the period (2009: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

**6. (Loss)/Earnings Per Share**

**Basic**

Basic (loss)/earnings per share is calculated by dividing the loss attributable to equity holders of the Company for the six months ended 30 June 2010 of approximately HK\$29,379,000 (2009: profit of approximately HK\$4,560,000) by the weighted average number of 3,208,517,493 (2009: 2,952,576,254) ordinary shares in issue during the period.

### **Diluted**

The computation of diluted loss per share for the period ended 30 June 2010 did not assume the exercise of the Company's share options outstanding during the period ended 30 June 2010 since their exercise would result in a decrease in loss per share.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume the exercise of the Company's share options outstanding during the period ended 30 June 2009.

### **Earnings**

Profit attributable to equity holders of the Company, approximately	HK\$4,560,000
Profit used to determine diluted earnings per share, approximately	HK\$4,560,000
Weighted average number of ordinary shares in issue	2,952,576,254
Adjustments for share options	243,770
Weighted average number of ordinary shares for diluted earnings per share	2,952,820,024

## 7. Trade Receivables

	At 30 June 2010 HK\$'000 (unaudited)	At 31 December 2009 HK\$'000 (audited)
Amounts receivable arising from securities broking:		
Margin clients	41	377
Cash clients	2,069	575
Brokers and dealers	—	—
HKSCC (net)	7,224	9,076
Amounts receivable arising from future broking:		
Brokers and dealers	—	1,907
HKFECC	—	4,069
Other trade receivables	2,939	1,446
	<b>12,273</b>	17,450
Less: provision for impairment of receivables	—	—
Trade receivables, net	<b>12,273</b>	17,450

Amounts receivable from margin clients are repayable on demand, bear interest at prevailing market rates and are secured by clients' pledged securities that are listed on the Stock Exchange with a total market value of approximately HK\$22,449,000 as at 30 June 2010 (31 December 2009: approximately HK\$14,145,000). No aged analysis is disclosed as, in the opinion of the directors, the aged analysis does not give additional value in view of the nature of the business of securities margin financing.

The settlement terms of amounts receivable arising from securities broking are one or two trade days after the trade execution date, and those of amounts receivable arising from futures broking are one trade day after the trade execution date. Except for the amounts receivable from margin clients as mentioned above, these balances are aged within 30 days.

Other trade receivables arising from the provision of corporate finance consultancy services and wealth management services are due immediately from date of billing but the Group will generally grant a credit period of 30 days on average to its customers. Trade receivables arising from the provision of stock information and research analysis services are with credit term of 30 to 90 days.

The following is an aged analysis of other trade receivables at the balance sheet date:

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
0-30 days	<b>2,824</b>	1,333
31-90 days	—	—
91-180 days	—	—
181-365 days	—	—
Over 365 days	<b>115</b>	113
	<b>2,939</b>	1,446

The maximum exposure to credit risk at the reporting date is the carrying amounts of trade receivables. Other than the amounts receivable from margin clients, the Group does not hold any collateral as security in respect of its trade receivables.

## 8. Trade Payables

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
Amounts payable arising from securities broking:		
Margin clients	—	533
Cash clients	<b>40,134</b>	44,064
HKSCC (net)	—	—
Amounts payable arising from futures broking:		
Clients	—	6,862
Other trade payables	<b>7</b>	336
	<b>40,141</b>	51,795



Amounts payable to margin clients are repayable on demand. No aged analysis is disclosed as, in the opinion of the directors, the aged analysis does not give additional value in view of the nature of the business of securities margin financing.

The settlement terms of amounts payable arising from securities broking are one or two trade days after the trade execution date. Amounts payable to clients arising from futures broking are margin deposits received from clients for their trading of futures contracts. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as, in the opinion of the directors, the aged analysis does not give additional value in view of the nature of the business of futures broking.

Except for the amounts payable to margin clients as mentioned above, these balances are aged within 30 days.

The following is an aged analysis of other trade payables at the balance sheet date:

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
0-30 days	7	21
31-90 days	—	—
91-180 days	—	—
181-365 days	—	3
Over 365 days	—	312
	<b>7</b>	<b>336</b>

## 9. Share Capital and Premium

	Number of issued shares (in thousands)	Ordinary shares HK\$'000	Share premium HK\$'000	Total HK\$'000
As at 1 January 2010	2,954,123	29,541	495,488	525,029
Issue of shares through:				
Exercise of Options in respect of acquisition of subsidiaries	20,000	200	2,800	3,000
Issue of Consideration Shares in respect of acquisition of subsidiaries	200,000	2,000	166,000	168,000
Issue of Bonus Shares in respect of acquisition of subsidiaries	7,478	75	6,207	6,282
Issue of Consideration Shares in respect of acquisition of software copyright	9,202	92	1,603	1,695
Issue of Open Offer Shares	638,161	6,382	176,692	183,074
Transfer upon exercise of options in respect of acquisition of subsidiaries	—	—	14,461	14,461
As at 30 June 2010	3,828,964	38,290	863,251	901,541

The total authorized number of ordinary shares is 10,000,000,000 shares (2009: 10,000,000,000 shares) with a par value of HK\$0.01 per share (2009: HK\$0.01 per share). All issued shares are fully paid.

The ordinary shares issued during the period have the same rights as the other shares then in issue.

## 10. Dividend

The Directors do not recommend the payment of a dividend for the period ended 30 June 2010 (2009: nil).

## Business Review

Owing to the ensuing competitive market conditions that the financial services sector faces in the first half of the year of 2010, the Group incurred a loss for the period. The turnover for the six months ended 30 June 2010 amounted to approximately HK\$37.1 million. First China Securities Consultancy (Shenzhen) Co., Ltd., the Group's wholly owned subsidiary in Shenzhen, continued to be the major contributor to the Group's turnover.

In line with our business plan for further developing the China market, one of the Group's subsidiaries has entered into an agreement to acquire the software copyright for a software namely "Stock Online First Stock Search Software" (選股在線第一搜股軟件). The software is an investment analysis platform which relies on fundamental investment analysis methods. The transfer of the software copyright will include all rights relating to the software copyright, including the rights to amend, the rights to protection of the copyright, the duplication rights and the distribution rights. The acquisition will enable the Group to increase the competitive advantage in the market and increase the attractiveness of such services to its customers on expert intelligence analysis system and information system software, which will enhance its overall business performance.

In May 2010, we have carried out a divestment of our entire interest in First China Futures Limited with a consideration of over HK\$9.7 million in a bid to optimize our operational position, though not ruling out the possibility, given our built-up reputation in futures industry and experienced staff as we retain in our Group, of exploring this line of business again.

## Financial Review

The Group recorded an unaudited turnover of approximately HK\$37.1 million for the six months ended 30 June 2010 compared to that of approximately HK\$42.9 million for the corresponding period in 2009. The decrease is mainly attributable to the reduction of income from provision of wealth management services, and income from provision of stock information and research services, the latter of which resulted from fewer people seeking consultancy services for stock information research because the stock trades were less fluctuating for this period under review than the corresponding period last year. Nevertheless, thanks to our experienced stockbrokers and development in the business of institutional investors, turnover of commission income from securities and futures brokerage continue to improve by approximately 1.5 times from approximately HK\$4.9 million for the corresponding period in 2009 to approximately HK\$7.6 million for the period under review.

For the six months ended 30 June 2010, loss attributable to shareholders was approximately HK\$29.3 million, compared with a profit of approximately HK\$4.5 million for the corresponding period last year. The loss for the period under review actually included a share-based compensation expense accruing out of issue of share options to certain eligible persons in April 2010. It amounted to over HK\$23.3 million. In line with the reasons attributable to the decrease in revenue due to the intense competition in the industry, the decrease is mainly caused by the slight increase in several segment losses. Segment loss from provision of wealth management services rises to HK\$1.3 million in the current period under review from HK\$1.1 million for the same period last year; segment profits from provision of stock information and research services significantly decreased to HK\$0.5 million in the current period from HK\$18.1 million due to lesser volume of businesses. However, these segment losses are alleviated with a turnaround from segment loss from brokerage and securities margin financing, and infrastructure broking services of approximately HK\$2.2 million in the corresponding period of last year to a segment gain of approximately HK\$0.3 million for the period under review. Segment gain from trading and principal investment increases by 3.6 times. The loss per share for the reporting period was approximately 0.91 HK cent while the earnings per share was 0.15 HK cent for the same period last year.

## Outlook

As mentioned in our Annual Report 2009 and First Quarterly Report 2010, the financial services market in PRC continued to be our major focus.

Besides the software copyright acquisition, coupled with our plan at PRC market and the risks that can have adverse impact on our core business, we attempt to mitigate the business risk by diversifying our operation reasonably. During March 2010, we began preliminary discussions with an independent third party to explore the opportunity of making a possible investment in a mining business.

In view of this planned leaping-forward to our existing business, in April 2010, the Company granted share options of 84,000,000 shares to certain eligible persons according to the share option scheme adopted on 17 December 2001 (the "Share Option Scheme") in order to offer incentives to the key executives and senior management. (the total number of underlying shares have been augmented to 93,991,647, adding those granted in September of 2007 and the adjustments made, after the Open Offer, according to the clauses in the Share Option Scheme)

In May 2010, we have launched an open offer on the basis of one offer share for every five existing shares (the "Open Offer"). The Open Offer was complete in mid-June 2010. It was over-subscribed by about 40.48% based on the total number of offer shares. The total number of excess offer shares validly applied for by the qualifying shareholders represented about 4.11 times of the offer shares available for the excess applications. No shares were underwritten.

On 2 August 2010, a wholly owned subsidiary of the Company entered into a memorandum of understanding with certain independent third parties (the "Vendors") in relation to acquiring 20% equity interest in a sino-foreign equity joint venture ("JV"). According to the Vendors, this JV currently holds an exploitation permit with exploitation right in respect of certain iron and copper ore mining site situated in Zhaoqing of Guangdong Province, PRC. The principal terms are set out in the announcement published on 4 August 2010.

Our liquidity position is further improved by repaying a loan under control agreements after the Open Offer according to the plan as the proceeds used as intended by the Company set out in the prospectus issued under the Open Offer. It eliminates the capital risks outright to gear our Group up for further development.

Building on the solid base of existing business together with the above further recent developments, the Group is positioned to deliver better results in the future.

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 30 June 2010, the interests or 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 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 taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (a) Long positions in shares of the Company

Name of Director	Number of shares			Approximate percentage of shareholding
	Personal Interests	Corporate Interests	Total	
Wang Wenming	595,328,957 (Note 1)	162,410,095 (Note 2)	757,739,052	19.79%
Lee Yiu Sun	110,060,000	—	110,060,000	2.87%
Liu Runtong	2,646,000	—	2,646,000	0.07%

Notes:

- (1) Mr. Wang Wenming held 450,212,307 shares of the Company. Ms. Chen Dongjin, the spouse of Mr. Wang Wenming, held 145,116,650 shares of the Company. As such, Mr. Wang Wenming was deemed to be interested in 595,328,957 shares of the Company.
- (2) These 162,410,095 shares were held by Fame Treasure Limited in which Mr. Wang Wenming had a controlling interest. Mr. Wang Wenming is deemed to be interested in the shares held by Fame Treasure Limited by virtue of Part XV of the SFO.

## (b) Long positions in underlying shares of the Company

### (i) Share option scheme of the Company

Pursuant to the share option scheme adopted by the Company on 17 December 2001 (the "Share Option Scheme"), the Directors and chief executive were granted share options to subscribe for shares of the Company, the details of which as at 30 June 2010 are as follows:

Name of Director	Date of grant	Number of share options					Outstanding as at 30 June 2010 (Note 3)	Option period	Exercise price (Note 3) (HK\$)
		Outstanding		Exercised during the period	Cancelled/ lapsed during the period	Outstanding			
		as at 1 January 2010	Granted during the period						
Wang Wenming	13/04/2010	—	11,682,577	—	—	11,682,577	13/04/2010– 12/04/2020	0.419	
Lee Yiu Sun	13/04/2010	—	31,861,575	—	—	31,861,575	13/04/2010– 12/04/2020	0.419	
Lee Yiu Sun	05/09/2007	4,000,000	248,210	—	—	4,248,210	05/09/2007– 04/09/2017	0.215	
Liu Runtong	13/04/2010	—	31,861,575	—	—	31,861,575	13/04/2010– 12/04/2020	0.419	
Tsang Hing Lun	13/04/2010	—	3,186,158	—	—	3,186,158	13/04/2010– 12/04/2020	0.419	
Zhang Benzhen	13/04/2010	—	2,124,105	—	—	2,124,105	13/04/2010– 12/04/2020	0.419	

Note:

- (3) After the date of grant, as a result of completion of an Open Offer, the exercise price and the number of shares to be issued upon exercise of these outstanding share options have been adjusted with effect from 15 June 2010. Reference is made to the announcement dated 15 June 2010.

(ii) *Agreement and Subscription Agreement involving granting of share options*

Pursuant to the Agreement dated 11 July 2007 and the Supplementary Agreement dated 30 July 2007 relating to the acquisition of the entire shareholding of GoHi Holdings Limited (collectively the "Agreements"), the Company granted to Mr. Wang Wenming an option to subscribe for 20,000,000 shares of the Company at an exercise price of HK\$0.15 per share in each of the 12-month periods ending 30 June 2008, 2009 and 2010 respectively (i.e. a maximum of 60,000,000 shares) subject to the fulfillment of certain conditions as stipulated in the Agreements. With the fulfillment of the said conditions for the 12-month period ended 30 June 2008, an option to subscribe for 20,000,000 shares was granted to Mr. Wang Wenming who exercised the options and was allotted 20,000,000 shares on 15 January 2009. With the fulfillment of the said conditions for the 12-month period ended 30 June 2009, another option to subscribe for 20,000,000 shares was granted to Mr. Wang Wenming who exercised the options and was allotted 20,000,000 shares on 26 February 2010.

Accordingly, pursuant to the aforesaid Agreements, the remaining option to subscribe for the shares of the Company which has not yet been exercised is 20,000,000 shares of the Company.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executive to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors, nor the chief executive, nor any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

(c) **Short positions in underlying shares of the Company**

Name of Director	Number of shares		Approximate percentage of shareholding
	Personal Interests	Corporate Interests	
Lee Yiu Sun	50,000,000 (Note 4)	—	1.30%



Note:

- (4) Pursuant to an option deed dated 31 August 2005, Asia Network Holdings Limited entered into an option deed with Mr. Lee Yiu Sun ("Mr. Lee") whereby Mr. Lee granted Asia Network Holdings Limited an option to purchase all or part of his 50,000,000 shares in the Company at such time and such price when Mr. Lee intends to transfer or dispose of all or part of the shares to any person during the period commencing on 31 August 2005 till the date when Mr. Lee ceases to be interested in the shares.

Save as disclosed above, during the period, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares And Underlying Shares of the Company

So far as is known to any Directors of the Company, as at 30 June 2010, the following persons (not being a Director of the Company) had interests in the shares or underlying shares which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

### (a) Long positions in shares of the Company

<u>Name of shareholders</u>	<u>Capacity</u>	<u>Number of shares</u>	<u>Approximate percentage of shareholding</u>
Wang Wenming and Chen Dongjin (Note 1)	Beneficial owners	595,328,957	15.55%

Note:

- (1) Ms. Chen Dongjin held 145,116,650 shares of the Company. Ms. Chen Dongjin is the spouse of a director of the Company, Mr. Wang Wenming, who held 450,212,307 shares of the Company. As such, they were deemed to be collectively interested in 595,328,957 shares of the Company.

## (b) Long positions in underlying shares of the Company

Name of shareholders	Capacity	Number of shares	Approximate percentage of shareholding
Wang Wenming and Chen Dongjin	Beneficial owners	20,000,000 (Note 2)	0.52%
	Beneficial owners	11,682,577 (Note 3)	0.31%

Notes:

- (2) On 16 November 2007, Mr. Wang Wenming was granted an option which entitles him to subscribe up to 60,000,000 shares of the Company subject to the fulfillment of the conditions as stipulated in the Agreement dated 11 July 2007 and the Supplemental Agreement dated 30 July 2007 relating to the acquisition of the entire shareholding of GoHi Holdings Limited by the Group (collectively the "Agreement"). As Ms. Chen Dongjin is the spouse of Mr. Wang Wenming, she is deemed to be interested in the said option granted to Mr. Wang Wenming. With the fulfillment of the said conditions for the 12-month period ended 30 June 2008, an option to subscribe for 20,000,000 shares was granted to Mr. Wang Wenming who exercised the options and was allotted 20,000,000 shares on 15 January 2009. With the fulfillment of the said conditions for the 12-month period ended 30 June 2009, another option to subscribe for 20,000,000 shares was granted to Mr. Wang Wenming who exercised the options and was allotted 20,000,000 shares on 26 February 2010.

Accordingly, pursuant to the aforesaid Agreements, the remaining option to subscribe for the shares of the Company which has not yet been exercised is 20,000,000 shares of the Company.

- (3) Pursuant to the Share Option Scheme, Mr. Wang Wenming was granted on 13 April 2010 share options, the number of shares underlying which was adjusted on 15 June 2010, to subscribe for 11,682,577 shares of the Company. Ms. Chen Dongjin is the spouse of Mr. Wang Wenming so they were deemed to be collectively interested in the share options to subscribe for 11,682,577 shares of the Company.

Save as disclosed above, as at 30 June 2010, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” above) who had an interest or short position in the shares or underlying shares of the Company and was required to be recorded in the register required to be kept under Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## **Details of the Options Granted by the Company**

### **(a) Share Option Scheme of the Company**

The Company operates the Share Option Scheme under which the persons working for the interest of the Group are entitled to an opportunity to obtain equity interest in the Company. The number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company’s shareholders.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Company to any person (including both exercised and outstanding) in any 12-month period up to the date of grant of the options shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company’s shareholders.

On 5 September 2007 and 13 April 2010, options to subscribe for 32,400,000 and 84,000,000 shares of the Company respectively were granted to the Directors and certain employees of the Company. As at 30 June 2010, details of the outstanding options were as follows:

Name of Director	Date of grant	Number of share options					Outstanding as at 30 June 2010 (Note)	Option period	Exercise price (Note) (HK\$)
		Outstanding as at 1 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2010			
Wang Wenming	13/04/2010	—	11,682,577	—	—	11,682,577	13/04/2010– 12/04/2020	0.419	
Lee Yiu Sun	13/04/2010	—	31,861,575	—	—	31,861,575	13/04/2010– 12/04/2020	0.419	
Lee Yiu Sun	05/09/2007	4,000,000	248,210	—	—	4,248,210	05/09/2007– 04/09/2017	0.215	
Liu Runtong	13/04/2010	—	31,861,575	—	—	31,861,575	13/04/2010– 12/04/2020	0.419	
Tsang Hing Lun	13/04/2010	—	3,186,158	—	—	3,186,158	13/04/2010– 12/04/2020	0.419	
Zhang Benzhen	13/04/2010	—	2,124,105	—	—	2,124,105	13/04/2010– 12/04/2020	0.419	

Note: After the date of grant, as a result of completion of an Open Offer, the exercise price and the number of shares to be issued upon exercise of these outstanding share options have been adjusted with effect from 15 June 2010. Reference is made to the announcement dated 15 June 2010.

**(b) Agreement and Supplemental Agreement involving granting of share options**

Pursuant to the Agreement dated 11 July 2007 and the Supplementary Agreement dated 30 July 2007 relating to the acquisition of the entire shareholding of GoHi Holdings Limited (collectively the "Agreements"), the Company granted to Mr. Wang Wenming an option to subscribe for 20,000,000 shares of the Company at an exercise price of HK\$0.15 per share in each of the 12-month periods ending 30 June 2008, 2009 and 2010 respectively (i.e. a maximum of 60,000,000 shares) subject to the fulfillment of certain conditions as stipulated in the Agreements. With the fulfillment of the said conditions for the 12-month period ended 30 June 2008, an option to subscribe for 20,000,000 shares was granted to Mr. Wang Wenming who exercised the options and was allotted 20,000,000 shares on 15 January 2009. With the fulfillment of the said conditions for the 12-month period ended 30 June 2009, another option to subscribe for 20,000,000 shares was granted to Mr. Wang Wenming who exercised the options and was allotted 20,000,000 shares on 26 February 2010.

Accordingly, pursuant to the aforesaid Agreements, the remaining option to subscribe for the shares of the Company which has not yet been exercised is 20,000,000 shares of the Company.

## **Purchase, Redemption or Sale of Listed Securities**

During the period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules**

The Company has adopted a code of conduct 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. The Company's Directors have complied with such code of conduct and the required standard of dealings.

## **Audit Committee**

The Audit Committee has reviewed the financial statements of the Group for the six months period ended 30 June 2010 pursuant to the relevant provisions contained in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure has been made in respect thereof.

On behalf of the Board  
**First China Financial Network Holdings Limited**  
**Lee Yiu Sun**  
*Executive Director*

Hong Kong, 6 August 2010