

Finet Group Limited

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2005/2006



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims 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 Finet Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Finet Group Limited. 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 HIGHLIGHT

- The Group reported a turnover of approximately HK\$6,922,000 for the three months ended 30th June, 2005, representing an increase of 38% from approximately HK\$5,016,000 of last corresponding period in 2004.
- The Group's unaudited consolidated profit attributable to shareholders for the three months ended 30th June, 2005 was approximately HK\$16,000, representing a decrease of 96% from approximately HK\$368,000 of last corresponding period in 2004.
- The board of directors does not recommend the payment of dividend for the three months ended 30th June, 2005.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30th June, 2005

The board of directors (the "Board") of Finet Group Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30th June, 2005, together with the comparative figures:

	Notes	For the three months ended 30th June,	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	6,922	5,016
Cost of sales		(2,087)	(1,335)
		4,835	3,681
Other revenue	2	220	6
Selling expenses		(116)	(155)
General and administrative expenses		(4,923)	(3,164)
Profit before taxation	3	16	368
Taxation	4	–	–
Profit attributable to shareholders		16	368
Dividend	5	–	–
Earnings per share			
– Basic	6	HK0.003 cents	HK0.141 cents
– Diluted	6	HK0.003 cents	N/A

NOTES TO THE ACCOUNTS

1. Basis of preparation of the accounts

The unaudited financial statements are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st March, 2005, except for those mentioned below.

In the quarterly period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for the accounting periods beginning on or after 1st January, 2005.

The major effects of the new HKFRSs, which have had impacts on the unaudited quarterly results, are set out below:

Under HKFRS 2 "Share-based payment", the Group is required to determine the fair value of all share-based payments to employees as remuneration and recognise an expense in the profit and loss account. This treatment results in a reduction in profit as such items have not been recognised as expenses under the previous accounting policy. Under the specific transitional provisions of HKFRS 2, this treatment applies to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7th November, 2002 and had not yet vested on 1st January, 2005 and to liabilities arising from share-based payment transactions existing on 1st January, 2005.

The valuation of options granted under the Company's share option schemes are not recognised in the first quarterly report. Based on the Group's latest assessment, the directors of the Company consider that there are limitations in obtaining the basis for those key assumptions in the application of valuation model for determination of the fair value of such options and it may have impacts on the financial statements of the Group. The Company will take steps to consult professionals for the determination of a reasonable valuation model for the Company and resulted impacts on the financial statement will be considered in due course.

The unaudited financial statements have been reviewed by the audit committee.

2. Turnover and revenue

Turnover represents total invoiced value of goods supplied and services rendered. Revenue recognized during the period is as follows:

	For the three months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Turnover		
Service income	6,570	4,918
Advertising income	214	98
Sales of merchandise	138	–
	<u>6,922</u>	<u>5,016</u>
Other Revenue		
Realized gain on disposal of short term investments	183	–
Exchange gain	–	5
Interest income	24	1
Dividend income	13	–
	<u>220</u>	<u>6</u>
Total turnover and other revenue	<u><u>7,142</u></u>	<u><u>5,022</u></u>

3. Profit Before Taxation

	For the three months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Profit before taxation is arrived at after charging:		
Depreciation of property, plant and equipment	298	320
Operating lease charges		
– rentals of office premises	322	167
Staff costs, including directors' remuneration	2,378	1,650
Unrealized holding loss on short term investments	300	–
	<u><u>300</u></u>	<u><u>–</u></u>

4. Taxation

The Company was incorporated in the Cayman Islands as an exempted company and, accordingly, is 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.

No Hong Kong profits tax has been provided for the three months ended 30th June, 2005 (three months ended 30th June, 2004: nil) as the Group applied tax losses carried forward from prior years to offset the estimated assessable profit for the year.

No income tax was provided for the three months ended 30th June, 2005 (three months ended 30th June, 2004: nil) for a subsidiary of the Company established in the People's Republic of China ("PRC") as the subsidiary had no assessable profits for the three months ended 30th June, 2005.

5. Dividend

The Board does not recommend the payment of dividend for the three months ended 30th June, 2005 (three months ended 30th June, 2004: nil).

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$16,000 (three months ended 30th June, 2004: HK\$368,000) and on the 493,840,000 ordinary shares in issue during the three months ended 30th June, 2005 (three months ended 30th June, 2004: 260,650,000).

The calculation of diluted earnings per share is based on 493,840,000 ordinary shares in issue during the period plus the 29,758,979 ordinary shares deemed to be issued if all the outstanding potential ordinary shares representing 63,576,000 share options granted with an exercise price of HK\$0.15 per share were exercised.

No diluted earnings per share for the three months ended 30th June, 2004 is presented as there was no dilutive instruments at 30th June, 2004.

7. Movement of Reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share issuance costs <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st April, 2004	2,607	61,513	(3,845)	4,870	(61,086)	4,059
Share issuance cost	-	-	(990)	-	-	(990)
Net profit for the period	-	-	-	-	368	368
As at 30th June, 2004	<u>2,607</u>	<u>61,513</u>	<u>(4,835)</u>	<u>4,870</u>	<u>(60,718)</u>	<u>3,437</u>
As at 1st April, 2005	4,938	76,477	-	4,870	(59,631)	26,654
Net profit for the period	-	-	-	-	16	16
As at 30th June, 2005	<u>4,938</u>	<u>76,477</u>	<u>-</u>	<u>4,870</u>	<u>(59,615)</u>	<u>26,670</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Group has been a technology-based financial information provider engaging in the development, production and provision of financial information services and technology solutions. The Group continued to focus on its core business for the three months ended 30th June, 2005 while preparing for capturing the PRC market opportunities and continuing to commit resources in product/service development and enhancement.

On 13th May, 2005, the Company entered into an Agreement for the sale and purchase of a commercial property with a total gross floor area of approximately 493 square meters in Shenzhen, the PRC at the consideration of HK\$5,585,295 (equivalent to approximately RMB5,919,240). The property is intended to be used by the Group for business operations in the PRC.

FINANCIAL REVIEW

The Group reported a turnover of approximately HK\$6,922,000 for the three months ended 30th June, 2005, representing an increase of 38% from approximately HK\$5,016,000 of last corresponding period in 2004. The unaudited consolidated profit attributable to shareholders for the three months ended 30th June, 2005 was approximately HK\$16,000, representing a decrease of 96% from approximately HK\$368,000 of last corresponding period in 2004.

During the three months ended 30th June, 2005, the Group recorded cost of sales amounted to approximately HK\$2,087,000, representing an increase of 56% from the same period in 2004, was in line with the increase in the turnover for the same period.

During the three months ended 30th June, 2005, the Group recorded general and administrative expenses amounted to approximately HK\$4,923,000, representing an increase of 56% or approximately HK\$1,759,000 from the same period in 2004, which was mainly resulted from increase in the staff costs by approximately HK\$728,000; increase in the provision of unrealized holding loss on short term investments by approximately HK\$300,000; increase in the office premise related expenses by approximately HK\$241,000 mainly due to payment of duplicated rentals and building management fee in respect of relocation of the Hong Kong office; and increase in the legal and professional following the listing of the Company on the GEM of the Stock Exchange in January 2005.

Nevertheless, the Board satisfied with the substantial growth in the turnover during the three months ended 30th June, 2005 and believe that the growth trend shall maintain during the rest of the year.

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

As at 30th June, 2005, 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)		Notes	Total	% of shares in issue
	Personal interest	Interest of controlled corporation	Personal interest	Interest of controlled corporation			
Executive directors:							
Yu Gang, George	-	365,840,000	27,726,000	-	1(a) & (b)	393,566,000	79.69%
Au Siu Lun, Allen	-	-	3,800,000	-	-	3,800,000	0.76%
Non-executive director:							
Kwan Pun Fong, Vincent	490,000	-	-	-	-	490,000	0.09%

(II) AGGREGATE LONG POSITIONS IN THE SHARES OF ASSOCIATED CORPORATIONS

Name of associated corporation	Name of director	No. of shares		Notes	% of shares in issue
		Personal interest	Interest of controlled corporation		
Finet International Holdings Limited	Yu Gang, George	–	3,900,000 Series A common shares	1(a)	59.85%
	Au Siu Lun, Allen	268,125 Series A common shares	–	2	4.11%
Opulent Oriental International Limited	Yu Gang, George	75	–	1(a)	75%

Notes:

1. Mr. Yu Gang, George was deemed (by virtue of the SFO) to be interested in 393,566,000 shares in the Company. These shares were held in the following capacity:
 - (a) 365,840,000 shares were held by Finet International Holdings Limited (“FIHL”). Mr. Yu Gang, George controlled 75% of Opulent Oriental International Limited (“Opulent”), which in turn controlled 59.85% of the total voting rights of FIHL (or 79.80% of all Series A common shares). The references to 365,840,000 shares deemed to be interested by Mr. Yu Gang, George (as disclosed herein), FIHL (as disclosed in the section headed “Substantial Shareholders” below) and Opulent (as disclosed in the section headed “Substantial Shareholders” below) relate to the same block of shares.
 - (b) Mr. Yu Gang, George is directly interested in options carrying 27,726,000 underlying shares.
2. The issued share capital of FIHL comprised 4,887,187 Series A common shares and 1,629,063 Series B common shares. Mr. Au Siu Lun, Allen controlled 4.11% of the total voting rights of FIHL (or 5.48% of all Series A common shares).

Save as disclosed above, as at 30th June, 2005, none of the directors or chief executive 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' INTERESTS AND SHORT POSITION IN THE SHARES

As at the 30th June, 2005, so far as the directors of the Company 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	Capacity	Notes	Number of shares interested	% of shares in issue
Substantial shareholders:				
Finet International Holdings Limited	Direct interest	(1)	365,840,000	74.08%
Opulent Oriental International Limited	Interest of controlled corporation	(1)	365,840,000	74.08%
Other persons:				
T & C Capital Limited	Direct interest	(2)	39,750,000	8.04%
T & C Holdings, Inc.	Interest of controlled corporation	(2)	39,750,000	8.04%

Notes:

1. FIHL and Opulent were deemed (by virtue of the SFO) to be interested in 365,840,000 shares in the Company. Please refer to Note 1 in the section headed "Directors and Chief Executives' Interests and Short Positions in the Shares" above.
2. 39,750,000 shares were held by T & C Capital Limited ("TCC"), which was a wholly-owned subsidiary of T & C Holdings, Inc. ("TCH"). Accordingly, both TCC and TCH were deemed (by virtue of the SFO) to be interested in 39,750,000 shares in the Company.

Save as disclosed above, the directors of the Company are not aware of other person who, as at 30th June, 2005, 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 30th June, 2005, options to subscribe for an aggregate of 63,576,000 underlying shares had been granted by the Company under the Pre-IPO Share Option Scheme adopted on 23rd July, 2004. Details of the outstanding options which have been granted and remaining unexercised under the Pre-IPO Share Option Scheme as at 30th June, 2005 are as follows:

Name of grantee	Date of grant	Exercise Price per Share	Exercise period	Number of share options				Balance as at 30th June, 2005
				Balance as at 1st April, 2005	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	
Directors:								
Yu Gang, George	21st September, 2004	HK\$0.15	7th January, 2006 – 20th September, 2014	8,317,000	-	-	-	8,317,000
			7th January, 2007 – 20th September, 2014	8,317,000	-	-	-	8,317,000
			7th January, 2008 – 20th September, 2014	11,092,000	-	-	-	11,092,000
Au Siu Lun, Allen	21st September, 2004	HK\$0.15	7th January, 2006 – 20th September, 2014	1,140,000	-	-	-	1,140,000
			7th January, 2007 – 20th September, 2014	1,140,000	-	-	-	1,140,000
			7th January, 2008 – 20th September, 2014	1,520,000	-	-	-	1,520,000
Employees	21st September, 2004	HK\$0.15	7th January, 2006 – 20th September, 2014	12,555,000	-	-	(2,940,000)	9,615,000
			7th January, 2007 – 20th September, 2014	12,555,000	-	-	(2,940,000)	9,615,000
			7th January, 2008 – 20th September, 2014	16,740,000	-	-	(3,920,000)	12,820,000
				73,376,000	-	-	(9,800,000)	63,576,000

As at 30th June, 2005, there was no outstanding option granted by the Company under the Share Option Scheme adopted on 16th December, 2004.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significant in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the three months ended 30th June, 2005 or at any time during such period.

SPONSOR'S INTERESTS

As at 30th June, 2005, the Company's sponsor, Hantec Capital Limited ("Hantec"), its directors, employees or associates did not have any interest in the shares of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

Pursuant to the sponsor's agreement dated 30th December, 2004 entered into between the Company and Hantec, Hantec will receive a fee for acting as the Company's retained sponsor for the period from 7th January, 2005 to 31st March, 2007.

CORPORATE GOVERNANCE

The Company is in the process of reviewing its corporate governance practice and will report in its half-year financial announcement on the compliance of the Code on Corporate Governance Practices.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the three months period ended 30th June, 2005. The Company has also made specific enquiry to all directors of the company and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors of the Company.

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 competes with the business of the Group or has any other conflict of interests with the Group during the three months ended 30th June, 2005.

AUDIT COMMITTEE

The Company's audit committee is currently comprised of the independent non-executive directors of the Company, Mr. Wu Tak Lung, Dr. Lam Lee G., and Mr. Ng Ching Wo, with Mr. Wu Tak Lung being appointed as the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and the Group's internal control system.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the three months ended 30th June, 2005.

By Order of the Board

Yu Gang, George

Chairman

Hong Kong, 12th August, 2005

As at the date of this report, executive directors of the Company are Dr. Yu Gang, George and Mr. Au Siu Lun, Allen and the non-executive director is Dr. Kwan Pun Fong, Vincent, and the independent non-executive directors are Dr. Lam Lee G., Mr. Ng Ching Wo and Mr. Wu Tak Lung.