

Finet Group Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005/2006



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

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This report, for which the directors of Finet Group Limited (“Directors”) 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.

RESULT HIGHLIGHTS

- The Group reported a turnover of approximately HK\$13,722,000 for the six months ended 30th September, 2005, representing an increase of 32% from approximately HK\$10,370,000 of last corresponding period in 2004.
- The Group's unaudited consolidated profit attributable to shareholders for the six months ended 30th September, 2005 was approximately HK\$23,000, representing a decrease of 97% from approximately HK\$709,000 of last corresponding period in 2004.
- The effect on the adoption of HKFRS 2 "Share-Based Payment" has been to increase the accumulated losses carried forward at 31st March, 2005 by HK\$1,284,000. In addition, profit for the six months ended 30th September, 2004 and 30th September, 2005 decreased by approximately HK\$67,000 and HK\$1,111,000 respectively, due to the increase in the share option benefits which is included in the general and administrative expenses.
- The board of Directors does not recommend the payment of dividend for the six months ended 30th September, 2005.

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 and six months ended 30th September, 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th September, 2005

	Notes	For the three months ended 30th September, 2005		For the six months ended 30th September, 2005	
		HK\$'000	2004 HK\$'000 (restated)	HK\$'000	2004 HK\$'000 (restated)
Turnover	3	6,800	5,354	13,722	10,370
Cost of sales		(1,965)	(1,354)	(4,052)	(2,689)
		4,835	4,000	9,670	7,681
Other revenue	3	1,879	–	2,099	1
Selling expenses		(154)	(187)	(270)	(342)
General and administrative expenses		(6,517)	(3,472)	(11,440)	(6,631)
Profit from operations	4	43	341	59	709
Finance cost	5	(36)	–	(36)	–
Profit before taxation		7	341	23	709
Taxation	6	–	–	–	–
Profit attributable to shareholders		7	341	23	709
Earnings per share (<i>in HK cents</i>)					
– Basic	7	0.0014	0.1308	0.0047	0.2720
– Diluted	7	0.0013	N/A	0.0043	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September, 2005

	Notes	30th September, 2005 HK\$'000 (Unaudited)	31st March, 2005 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		9,262	2,546
Rental deposits		336	–
		<u>9,598</u>	<u>2,546</u>
Current assets			
Short term investments		1,847	2,163
Amount due from ultimate holding company		25	25
Accounts receivable	8	2,565	1,758
Prepayments, deposits and other current assets		3,298	1,143
Cash at banks and in hand		16,436	20,622
		<u>24,171</u>	<u>25,711</u>
Current liabilities			
Accounts payable	9	750	524
Accruals and other payables		1,249	1,079
Bank loan, secured		233	–
Finance lease		20	–
		<u>2,252</u>	<u>1,603</u>
Net current assets		<u>21,919</u>	<u>24,108</u>
Non-current liabilities			
Bank loan, secured		3,640	–
Finance lease		89	–
		<u>3,729</u>	<u>–</u>
Net assets		<u>27,788</u>	<u>26,654</u>
CAPITAL AND RESERVES			
Share capital	10	4,938	4,938
Reserves		22,850	21,716
Shareholders' funds		<u>27,788</u>	<u>26,654</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2005

	Share Capital HK\$'000	Share premium HK\$'000	Share issuance costs HK\$'000	Merger reserve HK\$'000	Employee Share-based compensation reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
As at 1st April, 2004	2,607	61,513	(3,845)	4,870	-	(61,086)	4,059
Net profit for the period as restated	-	-	-	-	-	709	709
Share issuance cost	-	-	(1,420)	-	-	-	(1,420)
Effect of changes in accounting policies - adoption of HKFRS2 (note 2)	-	-	-	-	67	-	67
As at 30th September, 2004 as restated	<u>2,607</u>	<u>61,513</u>	<u>(5,265)</u>	<u>4,870</u>	<u>67</u>	<u>(60,377)</u>	<u>3,415</u>
As at 1st April, 2005	4,938	76,477	-	4,870	-	(59,631)	26,654
Effect of changes in accounting policies - adoption of HKFRS2 (note 2)	-	-	-	-	1,284	(1,284)	-
As at 1st April, 2005 as restated	<u>4,938</u>	<u>76,477</u>	<u>-</u>	<u>4,870</u>	<u>1,284</u>	<u>(60,915)</u>	<u>26,654</u>
Net profit for the period	-	-	-	-	-	23	23
Share option benefits	-	-	-	-	1,111	-	1,111
Share option benefits - Lapsed	-	141	-	-	(141)	-	-
As at 30th September, 2005	<u>4,938</u>	<u>76,618</u>	<u>-</u>	<u>4,870</u>	<u>2,254</u>	<u>(60,892)</u>	<u>27,788</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2005

	For the six months ended	
	30th September,	
	2005	2004
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(2,593)	1,178
Net cash outflow from investing activities	(5,575)	(710)
Net cash inflow/(outflow) from financing activities	3,982	(1,420)
Net decrease in cash and cash equivalents	(4,186)	(952)
Cash and cash equivalents, beginning of period	20,622	3,376
Cash and cash equivalents, end of period	16,436	2,424
Analysis of balances of cash and cash equivalents:		
Cash and cash equivalents	16,436	2,424

NOTES TO THE ACCOUNTS

1. Basis of preparation of the accounts

The unaudited interim consolidated financial statements are prepared in accordance with Hong Kong Accounting Standards (“HKASs”) 34 “Interim Financial Reporting” and comply with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 31st March, 2005, except for the adoption of certain new and revised HKFRSs and HKASs as disclosed in note 2 below.

2. Impact on new HKFRSs and HKASs

The HKICPA has issued and revised a number of HKFRSs and HKASs, which are generally effective for the accounting periods beginning on or after 1st January, 2005. The Group has adopted, for the first time, the following HKFRSs and HKASs, which are pertinent to its operations and have had significant effect on these unaudited interim financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 23	Borrowing Costs
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-Based Payment

The adoption of new/revised HKFRSs and HKASs did not result in substantial changes to the Company’s accounting policies and had no material effect on the financial statements except for the adoption of HKFRS 2 as stated below.

The effect on the adoption of HKFRS 2 “Share-Based Payment” has been to increase the accumulated losses carried forward at 31st March, 2005 by HK\$1,284,000. In addition, profit for the six months ended 30th September, 2004 and 30th September, 2005 decreased by approximately HK\$67,000 and HK\$1,111,000 respectively, due to increase in the share option benefits which is included in the general and administrative expenses. Furthermore, 11,400,000 option lapsed during the six months ended 30th September, 2005 which resulted in transferring approximately HK\$141,000 from the employee share-based compensation reserve to the share premium account.

Due to the adoption of certain new HKFRSs and HKASs during the six months ended 30th September, 2005, the accounting treatment and presentation of certain items and balances in the unaudited interim financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified/ restated to conform with the current period's presentation.

3. 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 September,		For the six months ended 30th September,	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Service income	6,520	5,214	13,090	10,132
Advertising income	253	138	467	236
Sales of merchandise	27	2	165	2
	<u>6,800</u>	<u>5,354</u>	<u>13,722</u>	<u>10,370</u>
Other Revenue				
Realized gain on disposal of short term investments	1,820	–	2,003	–
Interest income	59	–	83	1
Dividend income	–	–	13	–
	<u>1,879</u>	<u>–</u>	<u>2,099</u>	<u>1</u>
Total turnover and other revenue	<u>8,679</u>	<u>5,354</u>	<u>15,821</u>	<u>10,371</u>

The Group has one business segment, which is the provision of financial information services and internet advertising. During the period, over 90% of the Group's revenue is derived from customers located in Hong Kong. Accordingly, no separate business geographical segment information is prepared.

4. Profit from operations

	For the three months ended 30th September,		For the six months ended 30th September,	
	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)
Depreciation of property, plant and equipment:				
– owned assets	319	337	617	657
– assets held under finance lease	2	–	2	–
Operating lease charges				
– rentals of office premises	328	171	650	338
Staff costs, including Directors' remuneration:				
– salaries and allowances	2,458	1,817	4,836	3,467
– share option benefits	1,111	67	1,111	67
Unrealized holding loss on short term investments	593	–	893	–

5. Finance costs

	For the three months ended 30th September,		For the six months ended 30th September,	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest on bank loan, secured	36	–	36	–

6. 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 six months ended 30th September, 2005 (six months ended 30th September, 2004: nil) as the Group applied tax losses carried forward from prior years to offset the estimated assessable profit for the period.

No income tax was provided for the six months ended 30th September, 2005 (six months ended 30th September, 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 six months ended 30th September, 2005.

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the three months and six months ended 30th September, 2005 approximately of HK\$7,000 and HK\$23,000 respectively (three months and six months ended 30th September, 2004: HK\$341,000 and HK\$709,000 respectively) and on the 493,840,000 ordinary shares in issue during the three months and six months ended 30th September, 2005 (three months and six months ended 30th September, 2004: 260,650,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on 493,840,000 ordinary shares in issue during the three months and six months ended 30th September, 2005 plus the 36,348,355 and 35,686,417 ordinary shares deemed to be issued during the three months and six months ended 30th September, 2005 respectively if all the outstanding potential ordinary shares were exercised.

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

8. Accounts receivable

The credit terms granted by the Group to its customers range from 14 days to 90 days. An aging analysis of accounts receivable as of the balance sheet date is as follows:

	30th September, 2005 HK\$'000 (Unaudited)	31st March, 2005 HK\$'000 (Audited)
0 – 30 days	1,473	638
31 – 60 days	371	796
61 – 90 days	404	30
Over 90 days	317	294
	2,565	1,758

9. Accounts payable

An aging analysis of accounts payable as of the balance sheet date is as follows:

	30th September, 2005 HK\$'000 (Unaudited)	31st March, 2005 HK\$'000 (Audited)
0 – 30 days	713	391
31 – 60 days	12	49
61 – 90 days	20	12
Over 90 days	5	72
	<u>750</u>	<u>524</u>

10. Share capital

	For the six months ended 30th September, 2005		For the twelve months ended 31st March, 2005	
	<i>No. of shares</i>	<i>HK\$'000 (Unaudited)</i>	<i>No. of shares</i>	<i>HK\$'000 (Audited)</i>
Authorized:				
Ordinary shares of HK\$0.01 each				
Beginning of period/year	1,000,000,000	10,000	700,000,000	7,000
Increase during the period/year	–	–	300,000,000	3,000
End of period/year	<u>1,000,000,000</u>	<u>10,000</u>	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:				
Beginning of period/year	493,840,000	4,938	260,650,000	2,607
Capitalization	–	–	117,990,000	1,179
Issue of shares	–	–	115,200,000	1,152
End of period/year	<u>493,840,000</u>	<u>4,938</u>	<u>493,840,000</u>	<u>4,938</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Group has established itself as one of the pioneering and leading providers of integrated financial information solutions in Greater China to incorporate multiple-market news, data, analyses and analytical tools into cutting-edge software and applications to serve financial institutions and the investment community. The Group continued to focus on its core business for the six months ended 30th September, 2005.

In July 2005, the Company acquired a commercial property with a total gross floor area of approximately 493 square meters in Shenzhen, the PRC at the consideration of approximately HK\$5,585,000 (equivalent to approximately RMB5,919,000). The property is used by the Group for business operations in the PRC. The acquisition of the property was financed by approximately 30% from internal resources and 70% from bank borrowings.

In September 2005, the Company engaged Vigers Appraisal & Consulting Limited to assess the value of share option benefits in relation to the effect of adoption of HKFRS 2 "Share-Based Payment". As a result, share option benefits absorbed in the profit and loss account as staff cost for the six months ended 30th September, 2004 and 30th September, 2005 was amounting to approximately HK\$67,000 and HK\$1,111,000 respectively.

FINANCIAL REVIEW

The Group reported a turnover of approximately HK\$13,722,000 for the six months ended 30th September, 2005, representing an increase of approximately 32% from approximately HK\$10,370,000 of last corresponding period in 2004. The unaudited consolidated profit attributable to shareholders for the six months ended 30th September, 2005 was approximately HK\$23,000, representing a decrease of 97% from approximately HK\$709,000 of last corresponding period in 2004.

During the six months ended 30th September, 2005, the Group recorded cost of sales amounted to approximately HK\$4,052,000, representing an increase of 51% from the same period in 2004, which was in line with the increase in the turnover for the same period.

During the six months ended 30th September, 2005, the Group recorded general and administrative expenses amounted to approximately HK\$11,440,000, representing an increase of 73% or approximately HK\$4,809,000 from the same period in 2004, which was mainly resulted from the increase in the staff costs – salaries and allowances by approximately HK\$1,369,000; the increase in the share option benefits by approximately HK\$1,044,000; the increase in the provision of unrealized holding loss on short term investments by approximately HK\$893,000.

Nevertheless, the Board was satisfied with the substantial growth in the turnover during the six months ended 30th September, 2005 and believed that the growth trend shall maintain for the rest of the financial year.

PROSPECTS

Looking forward, the Group anticipates more demand for its products and services from the PRC financial institutions, media, listed companies and investors, who will increasingly trade on multiple markets. In order to capture the business opportunities, the Group is seriously investing in IT infrastructure, human resources, research and development, and content origination and processing capabilities in the PRC and Hong Kong. By focusing on perfecting and aggressively marketing Finet PowerStation, we aim to be the No. 1 financial information provider for global Chinese investors, particularly for the massive PRC investors, and hence to create long-term values for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September, 2005, the net current assets of the Group was approximately HK\$21,919,000 (31st March, 2005: HK\$24,108,000); the total shareholders' equity of the Group was approximately HK\$27,788,000 (31st March, 2005: HK\$26,654,000); the cash and bank deposits of the Group was approximately HK\$16,436,000 (31st March, 2005: HK\$20,622,000).

CAPITAL STRUCTURE

As at 30th September, 2005, the Company had total outstanding bank borrowings of approximately HK\$3,873,000 (31st March, 2005: nil). The bank borrowings are denominated in Hong Kong dollars.

Except for the bank borrowings approximately of HK\$3,873,000, there was no change in the capital structure of the Group as at 30th September, 2005 as compared to 31st March, 2005.

CHARGES OF ASSETS

As at 30th September, 2005, the land and building of the Company was pledged to a bank to secure the bank borrowings of approximately HK\$3,873,000 (31st March, 2005: nil).

GEARING RATIO

The Group's gearing ratio, representing total bank borrowings divided by total equity, was approximately 14% as at 30th September, 2005 (31st March, 2005: nil).

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

As at 30th September, 2005, the Group had short term investment on listed shares in Hong Kong and the U.S. of approximately HK\$1,847,000 (31st March, 2005: HK\$2,163,000). Save as the aforesaid, the Group had no other significant investment held and material acquisitions and disposal of subsidiaries during the six months ended 30th September, 2005.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND ANY RELATED HEDGES

As most of the Group's monetary assets and liabilities were denominated in Hong Kong dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

CONTINGENT LIABILITIES

As at 30th September, 2005, the Group had no contingent liabilities (31st March, 2005: nil).

EMPLOYEE INFORMATION

As at 30th September, 2005, the Group had 66 (31st March, 2005: 51) full-time employees, of which 37 (31st March, 2005: 27) are based in Hong Kong and 29 (31st March, 2005: 24) in the PRC.

The Group has introduced share option schemes to recognize the contributions of its employees to the growth of the Group. In addition, annual review of remuneration of its employees have been put in place with reference to the Group's performance, individual's performance, and market conditions.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the Company prospectus dated 31st December, 2004 to the actual business progress for the six months ended 30th September, 2005:

Business Objectives

Actual Business Progress

Expanding the Group's business into the PRC

- Continue to promote the brand of Finet (財華社) and the Group's product and services through advertising on TV and newspapers and sponsorship on financial market related events in the PRC
- Adopted a new corporate identity to reinforce the company's commitment to serving and bringing values to global Chinese
- Continue to customize the features and functionalities of Finet PowerStation for the PRC users
- Promoted the brand of Finet (財華社) through aggressive publicity efforts such as company interviews on local and international media
- Continue to enhance the quality of China listed company database and macroeconomic statistics
- Ongoing customization of Finet PowerStation to match PRC user preferences, including the addition of warrants data and H share versus A share data
- Continue to solicit strategic channel partners to offer value-added financial information related services such as SMS, WAP, IVR and other new technology-based distributional channels to target PRC-based customers
- Ongoing enhancement of PRC-listed company database and related content
- Ongoing exploration of strategic channel partners and distribution channels to service PRC-based customers. For example, Finet worked with Sina.com to promote Finet's options and futures information in a simulated trading competition

Business Objectives

- To establish a joint venture company in Shanghai in agreement with China regulations on ICP business and prepare to apply for an ICP license and offer ICP business in the PRC
- Continue to expand the workforce at FGTL by employing additional 4 technology and product developers; 4 content developers; 2 sales and marketing professionals; and 2 finance and administrative staff
- To conduct the second phase establishment of primary data servers in Shenzhen, with independent datafeed service and server farm for serving the PRC clients
- Continue to solicit qualified distribution agents for marketing the Group's services in the PRC
- To set up additional sales and customer services offices in Shanghai and Beijing for promoting the Group's services in Shanghai and Beijing

Actual Business Progress

- Establishment of a joint venture company in Shanghai to offer ICP business in the PRC was not yet completed pending the search of a suitable joint venture partner
- Expanded the workforce on an ongoing basis and the number of full-time employees in Shenzhen, the PRC, grew from 24 to 29 during the six months ended 30th September, 2005
- Commenced the plan of establishing an independent datafeed server farm in Shenzhen, the PRC
- In talks with certain PRC-based brokerage houses as potential distribution partners
- Customer service offices were set up in Shanghai and Beijing

Business Objectives**Actual Business Progress****Enhancing the Group's technology and product development capabilities and IT infrastructure**

- Continue to strengthen and upgrade the database and datafeed storage systems
- Continue to upgrade the network and system capacity and security level
- To conduct the second phase establishment of primary data center in Shenzhen, with independent datafeed service and server farm for serving the PRC clients
- To conduct the content and database reengineering project
- To establish direct leased line linkage between Hong Kong and Shenzhen data center
- To established a centralized payment gateway for worldwide users
- Ongoing enhancement and upgrades of database structure and data feed storage system
- Ongoing upgrade of the network and system capacity and security level of IT infrastructure
- Commenced the plan of establishing an independent datafeed server farm in Shenzhen, the PRC
- Built up a delegated data source team and commenced the database re-engineering project
- Completed the establishment of direct leased line linkage between Hong Kong and Shenzhen data centers
- Establishment of a centralized payment gateway for worldwide users was outstanding pending the completion of an operations review

Business Objectives**Actual Business Progress****Enhancing the Group's content development capabilities**

- Continue to enhance the features and functionalities of Finet PowerStation
- Continue to introduce new features and enhanced functionalities of Finet Web Products according to market demand
- Continue to develop the web business through marketing campaigns and new subscription-based service offerings
- Continue to solicit the US, China, Hong Kong, Taiwan and Singapore financial information and data such as news, database, and equity market data aggregation for FITS, Finet PowerStation and the Group's website
- Continue to expand the content development team by employing additional 2 content developers
- Ongoing enhancement of the features and functionalities of Finet PowerStation, particularly in the areas of analytics, data presentation, data coverage and interface design
- Finet PowerStation made the debut of VoIP on financial information platform. The new feature was widely reported by local and international media.
- Finet Web Products had been upgraded with more customized features and functionalities
- A dedicated web business development team was set up to focus on growing the Group's web business
- In talks with several global information providers to aggregate their content on Finet's products and services
- Expanded the content development team by recruiting 4 professionals

Business Objectives**Actual Business Progress****Strengthening the Group's sales and marketing efforts**

- Continue to promote the brand of Finet (財華社) through advertising on newspapers and magazines and sponsorship on financial market related events
- Adopted a new corporate identity to reinforce the company's commitment to serving and bringing values to global Chinese
- Promoted the brand of Finet (財華社) through aggressive publicity efforts such as company interviews on local and international media
- Continue to carry out advertising on financial newspapers and seminars to promote the Group's products
- Advertised the Group's products and services on 21st Century Business Herald and South China Morning Post
- Continue to increase the market share of FITS, Finet PowerStation and Finet Web Products in Hong Kong by direct marketing and sales
- Ongoing sales and marketing efforts underway through continuous exploration of cross-selling opportunities with existing clients and active search for new clients
- To solicit qualified distribution agents for marketing the Group's services in Taiwan and Singapore
- In talks with a potential partner in Taiwan to develop the Taiwan market
- Continue to expand the sales and marketing team by employing additional 2 sales and marketing professionals
- Expanded the sales and marketing team by recruiting 4 professionals

USE OF PROCEEDS

The actual use of proceeds for the six months ended 30th September, 2005 as compared to the amount set out in the section headed "Use of Proceeds" of the Company prospectus dated 31st December, 2004 are summarized as follows:

	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>
Expanding the Group's business into the PRC	3,600	1,062
Enhancing the Group's technology and product development capabilities and IT infrastructure	700	793
Enhancing the Group's content development capabilities	600	727
Strengthening the Group's sales and marketing efforts	500	682
Total	<u>5,400</u>	<u>3,264</u>

Notes:

1. Establishment of a joint venture company in Shanghai for offering ICP business in the PRC was not yet completed pending the search for a suitable joint venture partner. Hence, the proceeds amounting to HK\$2.6 million was not used.
2. The excess in the actual amount of the use of proceeds was financed by the unused fund in the similar purpose brought forward from previous period.

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

As at 30th September, 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' Interests and Short Position in the Shares" below) and Opulent (as disclosed in the section headed "Substantial Shareholders' Interests and Short Position in the Shares" 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 September, 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 September, 2005, 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	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 are not aware of other person who, as at 30th September, 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 September, 2005, options to subscribe for an aggregate of 61,976,000 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 September, 2005 are as follows:

Name of grantee	Date of grant	Exercise Price per Share	Number of share options				Balance as at 30th September, 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	27,726,000	-	-	-	27,726,000
Au Siu Lun, Allen	21st September, 2004	HK\$0.15	3,800,000	-	-	-	3,800,000
Employees	21st September, 2004	HK\$0.15	41,850,000	-	-	(11,400,000)	30,450,000
			<u>73,376,000</u>	<u>-</u>	<u>-</u>	<u>(11,400,000)</u>	<u>61,976,000</u>

As at 30th September, 2005, options to subscribe for an aggregate of 12,500,000 underlying shares had been granted by the Company under the Post-IPO Share Option Scheme adopted on 16th December, 2004. Details of the outstanding options which have been granted and remaining unexercised under the Post-IPO Share Option Scheme as at 30th September, 2005 are as follows:

Name of grantee	Date of grant	Exercise Price per Share	Number of share options				Balance as at 30th September, 2005
			Balance as at 1st April, 2005	Granted during the period	Exercised during the period	Cancelled or lapsed during the period	
Non-Executive Director:							
Kwan Pun Fong, Vincent	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Independent Non-Executive Directors:							
Lam Lee G.	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Ng Ching Wo	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Wu Tak Lung	29th September, 2005	HK\$0.365	-	1,000,000	-	-	1,000,000
Employees	5th September, 2005	HK\$0.28	-	8,500,000	-	-	8,500,000
			-	12,500,000	-	-	12,500,000

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 six months ended 30th September, 2005 or at any time during such period.

SPONSOR'S INTERESTS

As at 30th September, 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 REPORT

The Board is committed to maintaining a high standard of corporate governance. The Company has complied with the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16.

BOARD EFFECTIVENESS

BOARD COMPOSITION

The Board currently comprises two executive directors and four non-executive directors. The non-executive directors are with a wide range of experience and caliber, capable of bringing valuable judgment on issues of strategy, performance, compliance, and resources.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Yu Gang, George serves as the Chairman and Chief Executive Officer. The reasons for not splitting the roles of Chairman and Chief Executive Officer at this moment are as follow:

- The Group's operation is still relatively small and thus does not justify the separation of the roles of Chairman and Chief Executive Officer
- The Group has in place an internal control system to perform the check and balance function

BOARD PROCESS

The Board meets at least quarterly. Directors are provided with comprehensive information on the management's strategic plans and objectives and to be updated from time to time. All directors have access to the Company Secretary, who is responsible for ensuring the Board procedures are complied with and advises the Board on corporate governance and compliance matters.

BOARD COMMITTEES

- **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference in accordance with Rules 5.28 of the GEM Listing Rules. The audit committee comprises three members who are independent non-executives directors. Their principal duties are to review and supervise the financial reporting process and internal control procedures of the Group. Mr. Wu Tak Lung is the chairman of the audit committee.

The unaudited interim financial statements of the Company for the six months ended 30th September, 2005 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

- **REMUNERATION COMMITTEE**

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements set out in the Code Provision B.1.3.

The composition of the remuneration committee comprises the Chairman and two independent non-executive directors.

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 six months period ended 30th September, 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 six months ended 30th September, 2005.

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 six months ended 30th September, 2005.

By Order of the Board

Yu Gang, George

Chairman

Hong Kong, 11th November, 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.