

Finet Group Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 08317)



財華社
FINET

Interim Report 2009/2010



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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Finet Group Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS HIGHLIGHTS

- The Group reported a turnover of approximately HK\$16,319,000 for the six months ended 30 September 2009, representing a decrease of 6% from approximately HK\$17,289,000 for the same period in 2008.
- The Group's unaudited consolidated loss attributable to the owners of the Company for the six months ended 30 September 2009 was approximately HK\$10,153,000.
- The board of Directors does not recommend the payment of dividend for the six months ended 30 September 2009.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2009

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue	2	7,556	8,289	16,319	17,289
Cost of sales		(2,550)	(2,464)	(4,853)	(5,061)
Gross profit		5,006	5,825	11,466	12,228
Other operating incomes	2	284	753	568	1,527
Development costs		(1,067)	(1,748)	(2,392)	(3,431)
Selling expenses		(838)	(820)	(1,420)	(1,492)
General and administrative expenses		(9,622)	(12,490)	(19,138)	(22,943)
Other operating expenses		(11)	(106)	(125)	(121)
Operating loss	4	(6,248)	(8,586)	(11,041)	(14,232)
Finance cost	5	(54)	(50)	(107)	(86)
Loss before tax expenses		(6,302)	(8,636)	(11,148)	(14,318)
Gain on disposal of interest in a subsidiary		-	27,537	-	27,537
Share of profit/(loss) of associate		-	35	-	(5)
Income tax expense	6	-	-	-	-
(Loss)/Profit for the period		(6,302)	18,936	(11,148)	13,214
Other comprehensive (expense)/income:					
Currency translation		(4)	410	(14)	394
Available-for-sale financial assets		(139)	(189)	(37)	(75)
Other comprehensive (expense)/income for the period		(143)	221	(51)	319
Total comprehensive (expense)/income for the period		(6,445)	19,157	(11,199)	13,533

	For the three months ended 30 September		For the six months ended 30 September	
	2009	2008	2009	2008
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:				
Owners of the Company	(5,803)	15,828	(10,153)	10,744
Minority interests	(499)	3,108	(995)	2,470
	(6,302)	18,936	(11,148)	13,214
(Loss)/Earnings per share attributable to owners of the Company				
– Basic (<i>in HK cent</i>)	8(a) (0.83)	2.27	(1.46)	1.54
– Diluted (<i>in HK cent</i>)	8(b) N/A	2.27	N/A	1.51

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2009

		30 September	31 March
		2009	2009
		HK\$'000	HK\$'000
	Notes	(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		10,021	12,168
Investment properties		14,000	14,000
Intangible assets		27,010	27,006
Available-for-sale financial assets		603	580
		51,634	53,754
Current assets			
Accounts receivable	9	1,192	1,661
Prepayments, deposits and other receivables		5,925	4,752
Cash and cash equivalents		8,235	7,444
		15,352	13,857
Current liabilities			
Accounts payable	10	1,571	2,033
Accruals and other payables		3,598	3,540
Deferred income		2,950	4,471
Finance lease payables – due within one year		533	533
Borrowings – due within one year	11	234	234
		8,886	10,811
Net current assets		6,466	3,046
Total assets less current liabilities		58,100	56,800
Non-current liabilities			
Finance lease payables – due after one year		444	711
Borrowings – due after one year	11	2,884	2,998
		3,328	3,709
Net assets		54,772	53,091
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	12	8,995	5,994
Reserves		34,777	35,099
		43,772	41,093
Minority interests		11,000	11,998
		54,772	53,091

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Share capital	Share premium	Merger reserve	Employee compensation reserve	Translation reserve	Property revaluation reserve	Investment revaluation reserve	Accumulated losses	Total reserves	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	5,978	134,169	4,870	4,675	1,843	9,989	(567)	(59,349)	95,630	12,325	113,933
Fair value loss:											
– Available-for-sale financial assets	-	-	-	-	-	-	(75)	-	(75)	-	(75)
Issue of shares under share option scheme	16	213	-	-	-	-	-	-	213	-	229
Employee share-based compensation	-	-	-	677	-	-	-	-	677	-	677
Exercise of share options	-	54	-	(54)	-	-	-	-	-	-	-
Currency translation	-	-	-	-	394	-	-	-	394	-	394
Disposals of interest in a subsidiary	-	-	-	-	(245)	-	-	3,113	2,868	324	3,192
Profit for the period	-	-	-	-	-	-	-	10,744	10,744	2,470	13,214
At 30 September 2008	5,994	134,436	4,870	5,298	1,992	9,989	(642)	(45,492)	110,451	15,119	131,564
At 1 April 2009	5,994	134,436	4,870	1,748	2,394	9,989	(919)	(117,419)	35,099	11,998	53,091
Fair value loss:											
– Available-for-sale financial assets	-	-	-	-	-	-	(134)	-	(134)	-	(134)
Issue of shares on open offer	2,997	11,987	-	-	-	-	-	-	11,987	-	14,984
Transaction cost related to open offer with bonus warrants	-	(2,145)	-	-	-	-	-	-	(2,145)	-	(2,145)
Issue of shares on exercise of bonus warrants	4	37	-	-	-	-	-	-	37	-	41
Currency translation	-	-	-	-	(11)	-	-	-	(11)	(3)	(14)
Transfer to income statement on disposal of available-for sale financial assets	-	-	-	-	-	-	97	-	97	-	97
Loss for the period	-	-	-	-	-	-	-	(10,153)	(10,153)	(995)	(11,148)
At 30 September 2009	8,995	144,315	4,870	1,748	2,383	9,989	(956)	(127,572)	34,777	11,000	54,772

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 September 2009

	For the six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Net cash outflow from operating activities	(11,944)	(790)
Net cash inflow/(outflow) from investing activities	82	(7,153)
Net cash inflow from financing activities	12,499	1,729
Net increase/(decrease) in cash and cash equivalents	637	(6,214)
Cash and cash equivalents, beginning of period	7,444	7,556
Effect of foreign exchange rate changes, net	154	–
Cash and cash equivalents, end of period	8,235	1,342
Analysis of balances of cash and cash equivalents:		
Cash and cash equivalents	8,235	1,342

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation of the accounts

The unaudited interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34 “Interim Financial Reporting” and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the GEM Listing Rules.

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

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments or interpretations, (“new and revised HKFRSs”) issued by the HKICPA which are or have effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27	Cost of an investment in a subsidiary, jointly controlled (Amendments) entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 15	Agreements for the construction of real estate
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKFRS 8 – Operating Segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

HKAS 1 (Revised) – Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

The adoption of these new or revised standards, amendments and interpretations had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The audit committee has reviewed the unaudited interim consolidated financial statements.

2. Revenue and other operating income

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

	For the three months ended 30 September		For the six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue				
Service income from provision of financial information services	7,184	7,710	15,737	16,170
Advertising income	346	357	508	808
Online games income	26	222	74	311
	7,556	8,289	16,319	17,289
Other operating incomes				
Fair value gain on financial assets/ liabilities at fair value through profit or loss	–	(6)	–	198
Gross rental income from investment property	282	402	564	741
Interest income	2	2	4	10
Management fee income	–	188	–	188
Sundry income	–	167	–	390
	284	753	568	1,527
Total incomes	7,840	9,042	16,887	18,816

3. Segment information

Business segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the board of directors of the Company, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

At 30 September 2009, the Group is organized into two main business segments:

- (i) Financial information services business – the development, production and provision of financial information services and technology solutions to corporate clients and retail investors in Greater China.
- (ii) Online game business – the development and operations of online games in Mainland China.

Segment information for the six months ended 30 September 2009 and 2008 about these businesses is as follows:

	Financial information services business		Online game business		Total	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover	16,245	16,978	74	311	16,319	17,289
Segment results	(4,642)	(5,222)	(6,967)	17,000	(11,609)	11,778
Other income					568	1,527
Finance costs					(107)	(86)
Share of loss of an associate					-	(5)
(Loss)/profit before tax					(11,148)	13,214

4. Operating loss

For the three months ended 30 September		For the six months ended 30 September	
2009	2008	2009	2008
HK\$'000	HK\$'000	HK\$'000	HK\$'000

Operating loss is arrived at after charging:

Operating lease charges				
– rentals of office premises	1,364	1,626	2,761	2,456
Amortization of intangible assets	1	11	2	22
Depreciation of property, plant and equipment	1,083	908	2,210	1,772
Staff costs, including directors' emoluments				
– salaries and allowances	5,395	6,550	11,078	12,077
– share option benefits	–	338	–	677
	5,395	6,550	11,078	12,077

5. Finance cost

For the three months ended 30 September		For the six months ended 30 September	
2009	2008	2009	2008
HK\$'000	HK\$'000	HK\$'000	HK\$'000

Interest expenses on bank borrowings

– not wholly repayable within five years	33	50	64	86
Interest on a finance lease	21	–	43	–
	54	50	107	86

6. Income Tax Expenses

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

No Hong Kong profits tax has been provided for the six months ended 30 September 2009 (2008: nil) as the Group had no assessable profit arising in Hong Kong for the period.

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

7. Dividend

The Board does not recommend the payment of dividend for the six months ended 30 September 2009 (2008: nil).

8. (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to the owners of the Company for the three months and six months ended 30 September 2009 approximately of HK\$5,803,000 and HK\$10,153,000 respectively (three months and six months ended 30 September 2008: profit attributable to the owners of the Company approximately HK\$15,828,000 and HK\$10,744,000 respectively) and on the weighted average number of 696,076,949 ordinary shares in issue during the three months and six months ended 30 September 2009 (three months and six months ended 30 September 2008 (restated): 695,950,920).

The denominator for the purpose of calculating basic earnings per share in 2008 have been adjusted to reflect the bonus element in the open offer of shares during the period ended 30 September 2009.

(b) Diluted (loss)/earnings per share

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

The calculation of diluted earnings per share for the three months and six months ended 30 September 2008 is based on (restated) 695,950,920 ordinary shares in issue plus nil and 13,747,468 ordinary shares deemed to be issued during the three months and six months ended 30 September 2008 if all the outstanding potential ordinary share options were exercised.

9. 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 statement of financial position date is as follows:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
0 – 30 days	569	1,186
31 – 60 days	160	194
61 – 90 days	284	109
Over 90 days	179	172
	1,192	1,661

10. Accounts payable

An aging analysis of accounts payable as of the statement of financial position date is as follows:

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
0 – 30 days	761	1,110
31 – 60 days	523	562
61 – 90 days	95	101
Over 90 days	192	260
	1,571	2,033

11. Bank Borrowings

	30 September 2009 HK\$'000 (Unaudited)	31 March 2009 HK\$'000 (Audited)
Secured bank loans	3,118	3,232
Less: Amount due within one year shown under current liabilities	(234)	(234)
Amount due after one year shown under non-current liabilities	2,884	2,998

The bank loans were secured by the investment properties with an aggregate carrying values of approximately HK\$14,000,000 as at 30 September 2009.

12. Share capital

Ordinary shares of HK\$0.01 each

	For the six months ended 30 September 2009		For the twelve months ended 31 March 2009	
	No. of shares	HK\$'000 (Unaudited)	No. of shares	HK\$'000 (Audited)
Authorized:				
Beginning of period/year	1,000,000,000	10,000	1,000,000,000	10,000
Increased in authorized share capital (note 1)	1,000,000,000	10,000	–	–
End of period/year	2,000,000,000	20,000	1,000,000,000	10,000
Issued and fully paid:				
Beginning of period/year	599,370,000	5,994	597,850,000	5,978
Issue of shares under share option scheme (Note 2)	–	–	1,520,000	16
Issue of shares on open offer (Note 3)	299,685,000	2,997	–	–
Issue of shares on exercise of bonus warrants (Note 4)	410,189	4	–	–
End of period/year	899,465,189	8,995	599,370,000	5,994

Notes:

- Pursuant to a resolution passed in the extraordinary general meeting of the Company on 3 July 2009, the authorized share capital of the Company increased to HK\$20,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.01 each of the Company.
- Share options were exercised by optionholders during the period ended 30 September 2008 to subscribe for a total of 1,520,000 shares in the Company by payment of subscription monies of approximately HK\$228,000, of which HK\$15,200 was credited to share capital and the balance of HK\$212,800 was credited to the share premium account.

3. Pursuant to a resolution passed in the extraordinary general meeting of the Company held on 3 July 2009, the Company issued 299,685,000 new ordinary shares ("Offer Shares") at a price of HK\$0.05 per Offer Share under the open offer on the basis of one Offer Share for every two existing shares held on 3 July 2009 (the "Open Offer").
4. In conjunction with the Open Offer, each of the registered holders of fully-paid Offer Shares was issued three bonus warrant for every ten Offer Shares issued and allotted by the Company under the Open Offer, resulting in 89,905,500 warrants having been issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 at an initial subscription price of HK\$0.10 per share, payable in cash and subject to adjustment, from 3 August 2009 to 2 August 2011 (both days inclusive).

Up to 30 September 2009, 410,189 warrants were exercised at a subscription price of HK\$0.10 per share, resulting in the issue of 410,189 ordinary shares of HK\$0.01 each. As at 30 September 2009, the Company had 89,495,311 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 89,495,311 additional shares of HK\$0.01 each.

All shares issued during the period were ranked *pari passu* with other shares in issue in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

The Group continued to focus its two business lines in Greater China for the past half year ended 30 September 2009: financial information services in Greater China, mainly through sales to corporations and financial institutions and online games in Mainland China. At the same time, the Group continues to look for growth opportunities in China's IMM market, namely, in China's Internet Value-added Services, Mobile Value-added Services and Online Media sectors. We believe with China's growing Internet population and massive mobile user bases (especially following the launch of 3G services in China), the Group will benefit positively from future investment opportunities in IMM markets.

Financial Information Business

The global economy is still on the recovery after financial crisis. During the past half-year, both Hong Kong's and China's financial markets were experiencing higher market volatilities due to the hot money impact. The spending by both corporate and individual customers for financial information products and for financial information system enhancements within the Group's scope of services was improved but didn't increase along with market turnover.

Because of that, the Group has examined the ways to reduce costs and improve operational efficiency in the deteriorating business environment. The results are appreciated. The Group is also reviewing its existing business strategies compared to the latest industry developments, and plans new initiatives to enhance the Group's business scope, value-added product lines and financial positions to create shareholder value.

Despite negative market sentiment during this period, the Group continued to upgrade our products, enhance our sales efforts and examine new ways to improve the operational results of our China growth strategy:

1. In the field of financial information and solution business, several key projects of Finet information and technology solution had been delivered successfully with tremendous efforts. With trophy and reward achieved both through the project implementation, the team has been equipped valuable knowledge on project for multinational financial institutions.
2. With enhanced content and marketing efforts, our two websites have shown consistent visitor traffic growth and commanded a pillar position for investors to understand Hong Kong's and China's financial markets. With increase on the advertising sales from our websites, we are exploring some new business models to meet market requirements.
3. We continue to promote brand name of Finet news and build our global news distribution channels, which have already covered thousands of financial websites and portals as well as prime medias in great China area. In the mean time, our value-added services of news press release, media monitoring and investor relationship have also been introduced to our clients and greatly appreciated by the market.

Online Game Business

The past half-year ended 30 September 2009 witnessed a fast-changing landscape of China's online game market with mixed sentiments. On the positive side, the market continued to grow strongly and reached an aggregate market size of RMB18.58 billion from January to September 2009 (Source: Analysys International). The spin-off of Shanda Interactive's online game subsidiary that was taken to public and raised US\$960M further proved the confidence among the international investor community towards this market.

Yet, the industry also saw escalating competition for blockbusters, including Netease taking Blizzard's "World of Warcraft" from The9, leading to a major slash of The9's revenue, and Changyou filing a lawsuit over the IP right of its flagship game. In view of these incidents, the Group reasserts its strategic focus on self-development capabilities and proper protection of game IPs in order to sustain and prosper.

In the past year ended 30 September 2009, the Group's online game business focused on developing its games in the pipeline. In June, the Group's first webgame successfully delivered its first playable version, which, thanks to its adoption of the latest web technologies, incorporated some RPG (role-playing game) features on the web browser without downloading any software, among the first in China's web game history.

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

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

Open Offer

On 3 August 2009, the Company completed an open offer with an assured allotment of one offer share at HK\$0.05 per share for every two existing shares held with bonus issue of warrants on the basis of three bonus warrants at the initial subscription price of HK\$0.10 each for every ten offer shares issued and allotted under the open offer. The Company issued 299,685,000 shares of HK\$0.01 each under the open offer raising net proceeds of approximately HK\$12.8 million. The net proceeds will be used for general working capital and for investment in new business should any opportunities arise. The Company issued 89,905,500 bonus warrants and the net proceeds from the bonus warrant issue is estimated to be approximately HK\$9 million assuming full subscription of new ordinary shares under the bonus warrant issued.

FINANCIAL REVIEW

The Group reported a turnover of approximately HK\$16,319,000 for the six months ended 30 September 2009, representing a decrease of approximately 6% from approximately HK\$17,289,000 for the same period in 2008.

During the six months ended 30 September 2009, the Group recorded cost of sales amounting to approximately HK\$4,853,000, representing a decrease of 4% from the same period in 2008.

Development costs of the Group for the six months ended 30 September 2009 was decreased to approximately HK\$2,392,000 (2008: HK\$3,431,000), which mainly included the depreciation of property, plant and equipment; and employment benefit expenses of the research and development team.

Selling expenses of the Group for the six months ended 30 September 2009 was decreased to approximately HK\$1,420,000 compared with approximately HK\$1,492,000 in 2008.

General and administrative expenses of the Group for the six months ended 30 September 2009 was approximately HK\$19,138,000 (2008: HK\$22,943,000), that mainly comprised the staff costs (including directors' emoluments) of approximately HK\$11,078,000 (2008: HK\$12,754,000) and the other general and administrative expenses.

The Group's unaudited consolidated loss attributable to the owners of the Company for the six months ended 30 September 2009 was approximately HK\$10,153,000 (2008: profit of HK\$10,744,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2009, the net current assets of the Group was approximately HK\$6,466,000 (31 March 2009: HK\$3,046,000); the total equity of the Group was approximately HK\$54,772,000 (31 March 2009: HK\$53,091,000); the cash and bank deposits of the Group was approximately HK\$8,235,000 (31 March 2009: HK\$7,444,000).

CAPITAL STRUCTURE

As at 30 September 2009, the Company had total outstanding bank borrowings of approximately HK\$3,118,000 (31 March 2009: HK\$3,232,000).

CHARGES OF ASSETS

As at 30 September 2009, the investment properties and some equipment with an aggregate carrying value of approximately HK\$14,000,000 and approximately HK\$1,200,000 respectively (31 March 2009: HK\$14,000,000 and HK\$1,360,000 respectively) were pledged as securities for the borrowing facilities of the Group.

GEARING RATIO

The Group's gearing ratio, representing total borrowings divided by total equity, was approximately 7.5% as at 30 September 2009 (31 March 2009: approximately 8.4%).

SIGNIFICANT INVESTMENTS HELD

As at 30 September 2009, the Group held available-for-sale financial assets of approximately HK\$603,000 (31 March 2009: HK\$580,000).

ACQUISITION AND DISPOSALS OF SUBSIDIARIES

The Group had no acquisitions and disposals of subsidiaries during the six months ended 30 September 2009.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group holds investment properties in RMB and available-for-sale financial assets in RMB and Japanese Yen. The Group is therefore exposed to currency risks, as the value of the assets/liabilities will fluctuate due to change in exchange rates.

CONTINGENT LIABILITIES

As at 30 September 2009, the Group had no significant contingent liabilities.

EMPLOYEE INFORMATION

As at 30 September 2009, the Group had 191 (31 March 2009: 242) full-time employees, of which 28 (31 March 2009: 28) are based in Hong Kong and 163 (31 March 2009: 214) 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.

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

As at 30 September 2009, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

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

Name of director	No. of shares		No. of underlying shares		Note	Total	% of shares in issue
	Personal interest	Interest of controlled corporation	Personal interest	Interest of controlled corporation			
Executive Director:							
Yu Gang, George ("Dr. Yu")	-	1,271,430,232	13,299,484	27,500,618	1	1,312,230,334	145.89%
Independent Non-executive Directors:							
Lam Lee G.	-	-	1,096,774	-		1,096,774	0.12%
Wu Tak Lung	-	-	1,096,774	-		1,096,774	0.12%

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

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

Note:

1. Dr. Yu was deemed (by virtue of the SFO) to be interested in 1,312,230,334 shares. These shares were held in the following capacity:
 - (a) 1,271,430,232 shares and 27,500,618 underlying shares were held by Opulent. Dr. Yu is interested in the entire issued share capital of Opulent. Therefore, the interest of Dr. Yu in these 1,271,430,232 shares and 27,500,618 underlying shares duplicates with the interest of Opulent in the same lots of 1,271,430,232 shares and 27,500,618 underlying shares; and
 - (b) Dr. Yu is entitled to share options to subscribe for an aggregate of 13,299,484 shares.

Save as disclosed above, as at 30 September 2009, 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' INTEREST AND SHORT POSITION IN THE SHARES

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

Name	Number of shares		Number of underlying shares	Notes	Total	% of shares in issue
	Personal interest	Interest of controlled corporation				
Substantial shareholder:						
Opulent Oriental International Limited	1,271,430,232	-	27,500,618	1	1,298,930,850	144.41%
Other persons:						
Grand Alliance Asia Pacific Funds Limited	67,409,500	-	-		67,409,500	7.49%
Union Stars Group Ltd.	54,739,152	-	-	2	54,739,152	6.09%
Chang Wen Shiann	-	54,739,152	-	2	54,739,152	6.09%
Chang Hu Ching Yueh	-	54,739,152	-	2	54,739,152	6.09%

Notes:

1. Opulent was deemed (by virtue of the SFO) to be interested 1,298,930,850 shares as beneficial owner. The interest of Opulent in these 1,298,930,850 shares duplicates with the interest of Dr. Yu in the same lot of 1,298,930,850 shares. Such 1,298,930,850 shares comprise:
 - (a) 275,006,184 shares held by Opulent as at 30 September 2009;
 - (b) 275,006,184 offer shares to be issued to Opulent in respect of the 275,006,184 shares held by it which Opulent has undertaken to take up under the open offer;
 - (c) 27,500,618 underlying shares falling to be issued to Opulent upon the exercise of the subscription rights attaching to the 27,500,618 bonus warrants held by Opulent;

- (d) 27,500,618 offer shares falling to be issued to Opulent in respect of the 27,500,618 underlying shares held by it upon the exercised of the bonus warrants held by Opulent; and
- (e) 693,917,246 offer shares underwritten by Opulent pursuant to the underwriting agreement dated 22 September 2009, assuming that all the outstanding vested share options (other than those held by Dr. Yu) and the bonus warrant are exercised on or before the record date on 30 October 2009.
2. 54,739,152 shares were held by Union Stars Group Ltd. (“USG”), which Mr. Chang Wen Shiann and Mrs. Chang Hu Ching Yueh hold 50% of the total voting rights respectively. Accordingly, all USG, Mr. Chang and Mrs. Chang were deemed (by virtue of the SFO) to be interested in 54,739,152 shares in the Company.

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

DETAILS OF OUTSTANDING OPTIONS GRANTED

As at 30 September 2009, options to subscribe for an aggregate of 14,566,258 underlying shares had been granted by the Company under the Pre-IPO Share Option Scheme adopted on 23 July 2004. Details of the outstanding options which have been granted and remaining unexercised under the Pre-IPO Share Option Scheme as at 30 September 2009 are as follows:

Name of grantee	Date of grant	Exercise price per share (note 1)	Number of share options					Balance as at 30 September 2009
			Balance as at 1 April 2009	Granted during the period	Adjustment during the period (note 1)	Exercised during the period	Lapsed during the period	
Director:								
Yu Gang, George	21 September 2004	HK\$0.1368	12,126,000	-	1,173,484	-	-	13,299,484
Employees:								
Employees	21 September 2004	HK\$0.1368	1,755,000	-	169,839	-	(658,065)	1,266,774
			<u>13,881,000</u>	<u>-</u>	<u>1,343,323</u>	<u>-</u>	<u>(658,065)</u>	<u>14,566,258</u>

As at 30 September 2009, options to subscribe for an aggregate of 6,635,484 underlying shares had been granted by the Company under the Post-IPO Share Option Scheme adopted on 16 December 2004. Details of the outstanding options which have been granted and remaining unexercised under the Post-IPO Share Option Scheme as at 30 September 2009 are as follows:

Name of grantee	Date of grant	Exercise price per share (note 1)	Number of share options				Balance as at 30 September 2009	
			Balance as at 1 April 2009	Granted during the period	Adjustment during the period (note 1)	Exercised during the period		Lapsed during the period
Independent Non-executive Directors:								
Lam Lee G.	29 September 2005	HK\$0.3328	1,000,000	-	96,774	-	-	1,096,774
Wu Tak Lung	29 September 2005	HK\$0.3328	1,000,000	-	96,774	-	-	1,096,774
Employees:								
Employee	5 September 2005	HK\$0.2553	2,650,000	-	256,452	-	-	2,906,452
Employee	29 September 2005	HK\$0.3328	400,000	-	38,710	-	-	438,710
Employee	6 December 2006	HK\$0.6091	1,000,000	-	96,774	-	-	1,096,774
			<u>6,050,000</u>	<u>-</u>	<u>585,484</u>	<u>-</u>	<u>-</u>	<u>6,635,484</u>

Note:

- As a result of the issue of 299,685,000 new shares of HK\$0.01 each at the subscription price of HK\$0.05 per share on the basis of one Offer Share for every two existing shares of HK\$0.01 each in the share capital of the Company on 3 July 2009, the exercise prices per share and the number of outstanding share options under the share option schemes were adjusted as per announcement dated 30 July 2009 and the auditors of the Company had confirmed in writing to the Directors that such adjustments were made in accordance with the requirements set out in the note to Rule 23.03(13) of the GEM Listing Rules and the terms of the shares option schemes of the Company dated 23 July 2004 and 16 December 2004.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which any of the Company Directors had a material interest, whether directly or indirectly, subsisted during or at the end of the six months ended 30 September 2009 or at any time during such period.

CORPORATE GOVERNANCE REPORT

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices, contained in Appendix 15 of the GEM Listing Rules during the six months ended 30 September 2009, except for the following deviation:

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be the same individual.

The roles of the chairman and chief executive officer are performed by the same individual, Dr. Yu Gang, George. While serving as the chairman of the Company, Dr. Yu Gang, George leads the Board and is responsible for the proceedings and workings of the Board. He is also responsible for running the Company and executing strategies adopted by the Board. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board which comprises of experienced and professional individuals. Given the Company's current stage of development, the Board considers that vesting the role of chairman and chief executive officer in the same person facilitates the execution of the Company's business strategies and maximizes the effectiveness of its operations. However, the Board will review the existing structure from time to time.

NON-COMPLIANCE OF THE GEM LISTING RULES

Following the conclusion of the annual general meeting of the Company on 31 July 2009, with the poll result announced on the same day, the Company has only two independent non-executive directors and two members in its audit committee, such number do not meet the minimum requirement prescribed in Rule 5.05(1) and 5.28 of the GEM Listing Rules for the period from 1 August 2009 to 4 August 2009. On 5 August 2009, Mr. Lam Ka Wai, Graham has been appointed as an independent non-executive director, member of audit committee and remuneration committee of the Company to fill the vacancy accordingly.

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 30 September 2009. Having made specific enquiry of all Directors of the Company, 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 compete with the business of the Group or has any other conflict of interests with the Group during the six months ended 30 September 2009.

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 whom are independent non-executive directors, namely, Mr. Wu Tak Lung, Dr. Lam Lee G. and Mr. Lam Ka Wai, Graham with Mr. Wu Tak Lung as the chairman thereof. Following the retirement of Mr. William Hay at the annual general meeting as at 30 July 2009 as an audit committee member, the Company appointed Mr. Lam Ka Wai, Graham with effect from 5 August 2009 to fill the vacancy pursuant to Rule 5.28 of the GEM Listing Rule.

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

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2009.

By Order of the Board
Yu Gang, George
Chairman

Hong Kong, 13 November 2009

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