

Finet Group Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 08317)



財華社
FINET

Third Quarterly Report 2009/2010



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

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

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

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

RESULTS HIGHLIGHTS

- The Group reported a turnover of approximately HK\$23,872,000 for the nine months ended 31 December 2009, representing a decrease of 12% from approximately HK\$27,152,000 for the same period in 2008.
- The Group's unaudited consolidated loss attributable to the owners of the Company for the nine months ended 31 December 2009 was approximately HK\$15,071,000.
- The board of Directors does not recommend the payment of dividend for the nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2009

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Revenue	2	7,553	9,863	23,872	27,152
Cost of sales		(2,391)	(2,712)	(7,244)	(7,773)
Gross profit		5,162	7,151	16,628	19,379
Other operating incomes	2	297	541	865	2,068
Development costs		(1,103)	(1,558)	(3,495)	(4,989)
Selling expenses		(1,035)	(2,083)	(2,455)	(3,575)
General and administrative expenses		(8,751)	(11,725)	(27,889)	(34,668)
Other operating expenses		(6)	(38)	(131)	(159)
Operating loss		(5,436)	(7,712)	(16,477)	(21,944)
Finance costs		(52)	(192)	(159)	(278)
Loss before tax expenses		(5,488)	(7,904)	(16,636)	(22,222)
Gain on disposal of interest in a subsidiary		-	-	-	27,537
Loss on disposal of an associate		-	(56)	-	(56)
Share of loss of an associate		-	-	-	(5)
Income tax expenses	3	(49)	-	(49)	-
(Loss)/Profit for the period		(5,537)	(7,960)	(16,685)	5,254
Other comprehensive income/(expense):					
Currency translation		39	(177)	25	217
Available-for-sale financial assets		(110)	7	(147)	(68)
Other comprehensive (expense)/income for the period		(71)	(170)	(122)	149
Total comprehensive (expense)/income for the period		(5,608)	(8,130)	(16,807)	5,403

	For the three months ended 31 December		For the nine months ended 31 December	
	2009	2008	2009	2008
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:				
Owners of the Company	(4,918)	(7,341)	(15,071)	3,403
Minority interests	(619)	(619)	(1,614)	1,851
	(5,537)	(7,960)	(16,685)	5,254
(Loss)/Earnings per share attributable to owners of the Company				
– Basic (<i>in HK cent</i>)	5(a) (2.788)	(4.164)	(8.545)	1.930
– Diluted (<i>in HK cent</i>)	5(b) N/A	N/A	N/A	1.881

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation of the accounts

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

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

The audit committee has reviewed the unaudited consolidated financial statements for the three months and nine months ended 31 December 2009.

2. Revenue and other operating incomes

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 31 December		For the nine months ended 31 December	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Service income from provision of financial information services	7,100	7,470	22,837	23,640
Advertising income	440	312	948	1,120
Online games income	13	2,081	87	2,392
	7,553	9,863	23,872	27,152
Other operating incomes				
Fair value (loss)/gain on financial assets/liabilities at fair value through profit or loss	-	(32)	-	166
Gross rental income from investment property	283	401	847	1,142
Interest income	-	4	4	14
Management fee income	-	168	-	356
Sundry income	14	-	14	390
	297	541	865	2,068
Total incomes	7,850	10,404	24,737	29,220

3. 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.

Hong Kong profits tax is calculated at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the period. No Hong Kong profits tax has been provided for the nine months ended 31 December 2009 as the Group had no assessable profit arising in Hong Kong for the period (2008: nil). However, the amount of approximately HK\$49,000 was provided in the accounts for the adjustments of the income tax expenses in respect of the prior years upon the final assessment from the Inland Revenue Department of Hong Kong.

No income tax was provided for the nine months ended 31 December 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 nine months ended 31 December 2009.

4. Dividend

The Board does not recommend the payment of dividend for the nine months ended 31 December 2009 (2008: nil).

5. (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 owners of the Company for the three months and nine months ended 31 December 2009 approximately of HK\$4,918,000 and HK\$15,071,000 respectively (three months and nine months ended 31 December 2008: (loss)/profit attributable to the owners of the Company approximately of (HK\$7,341,000) and HK\$3,403,000 respectively), and on the weighted average number of 176,373,546 ordinary shares of HK\$0.05 each in issue during the three months and nine months ended 31 December 2009 (three months and nine months ended 31 December 2008 (restated): 176,313,918 shares).

The denominator for the purpose of calculating basic earnings per share in 2008 have been adjusted to reflect the bonus element in the two open offers of shares during the period ended 31 December 2009.

(b) Diluted (loss)/earning per share

Diluted loss per share for the three months and nine months ended 31 December 2009 have not been disclosed as the share options and bonus warrants outstanding have an anti-dilutive effect on the basic loss per share.

Diluted loss per share for the three months ended 31 December 2008 has not been disclosed as the share options outstanding have an anti-dilutive effect on the basic loss per share.

The calculation of diluted earnings per share for the nine months ended 31 December 2008 is based on the weighted average number of (restated) 176,313,918 ordinary shares in issue plus (restated) 4,626,007 ordinary shares deemed to be issued during the nine months ended 31 December 2008 if all the outstanding potential ordinary share options were exercised.

6. Movement of Reserves

	Share		Employee		Translation	Property		Investment	Accumulated	Total	Minority	Total
	capital	premium	Merger	compensation		revaluation	revaluation					
	HK\$'000	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	-	-	-	-	-	-	(68)	-	(68)	-	(68)	
Issue of shares under share												
option scheme	16	213	-	-	-	-	-	-	213	-	229	
Employee share-based compensation	-	-	-	977	-	-	-	-	977	-	977	
Exercise of share options	-	54	-	(54)	-	-	-	-	-	-	-	
Currency translation	-	-	-	-	239	-	-	-	239	(22)	217	
Disposal of interest in subsidiaries	-	-	-	-	(245)	-	-	3,113	2,868	324	3,192	
Profit for the period	-	-	-	-	-	-	-	3,403	3,403	1,851	5,254	
At 31 December 2008	5,994	134,436	4,870	5,598	1,837	9,989	(635)	(52,833)	103,262	14,478	123,734	
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	-	-	-	-	-	-	(244)	-	(244)	-	(244)	
Issue of shares on open offers	11,991	65,955	-	-	-	-	-	-	65,955	-	77,946	
Transaction cost related to open												
offers and bonus warrants	-	(4,097)	-	-	-	-	-	-	(4,097)	-	(4,097)	
Issue of shares on exercise of bonus												
warrants	4	37	-	-	-	-	-	-	37	-	41	
Currency translation	-	-	-	-	21	-	-	-	21	4	25	
Transfer to income statement on												
disposal of available-for-sale												
financial assets	-	-	-	-	-	-	97	-	97	-	97	
Issue of new shares in a subsidiary	-	-	-	-	-	-	-	-	-	1,855	1,855	
Loss for the period	-	-	-	-	-	-	-	(15,071)	(15,071)	(1,614)	(16,685)	
At 31 December 2009	17,989	196,331	4,870	1,748	2,415	9,989	(1,066)	(132,490)	81,797	12,243	112,029	

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

The Group continued to grow its business along two business lines for the past nine months ended 31 December 2009: financial information services in Greater China, mainly through sales to corporations and financial institutions, and online games in Mainland China. To further enhance the Group's market position and profitability, the Group continues to look for acquisition targets in China in the IMM (Internet, Mobile and Media) markets.

Financial Information Business

During the past nine months, both Hong Kong's and China's financial markets were experiencing higher market volatilities following the low interest rate environment as a result of quantitative easing by global central banks. On the one hand, the spending by both corporate and individual customers for financial information products and system enhancements within the Group's scope of services had witnessed improvement. On the other hand, the Group's revenue increase from financial information services was not substantial, owing to the impact of HKEx's "Free Real-time Quote" service introduced in the last quarter of 2009.

In reacting to market changes, the Group had implemented a number of ways to improve operational efficiency amid the deteriorating business environment. The results are encouraging. At the same time, the Group is reviewing its existing business strategies as compared to the latest industry developments, such as applications of quantitative modeling and algo-trading systems for financial institutions, and plans new initiatives to enhance the Group's business scope and financial positions to create shareholder value.

Online Game Business

China Game, the Group's online game group, concluded the third quarter of the fiscal year 2009/2010 with major product development progress and a stronger game pipeline. In particular, China Game successfully explored a co-development model with experienced game development studios. In the last quarter, China Game and Xiamen-based Onwind Digital embarked on a co-development project and completed a significant milestone, proving impressive game development efficiency with the combined technologies and design from the two companies.

In the meantime, China Game continued to enhance its in-house development capabilities. As self-developed game project progressed to another milestone in the last quarter, the Shanghai development centre had completed the setup of an engine research centre to upgrade and enhance its engine technologies. The centre would focus on the study and importing more internationally superior engine technologies for our internal development.

Amid the trend of increasing collaboration between leading game companies such as Shanda-Kingsoft joint venture and Tencent-Giant Interactive joint operations, China Game in future will apply an open attitude to search and collaborate with ideal partners, abroad and domestic alike, to launch either joint operation campaigns or co-developed products.

China Game also embraces the growing convergence of movies/animation and online games as a source of popular game themes. It was exploring collaboration with certain well-known movies and animations to turn them into our games and conclusive arrangements are expected to be announced in the next quarter.

Open Offer

In view of the improved market conditions in the mid-year 2009 and the overwhelming support of the shareholders of the Company during the first open offer, as set out in the announcement of the Company dated 5 May 2009, the Company announced on 25 September 2009 for another open offer. On 26 November 2009, the Company completed the open offer with an assured allotment of one offer share at HK\$0.07 per share for every existing share held. The Company issued 899,465,189 shares of HK\$0.01 each under the open offer raising net proceeds of approximately HK\$61.5 million. The Company intends to use the net proceeds for general working capital to grow the Group's two core business lines, particularly the online game business in the Mainland China, and for investment in new business should any opportunities arise in the future.

Share Consolidation

On 30 November 2009, the Company completed the share consolidation on the basis that every five issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company was consolidated into one share of HK\$0.05 each in the share capital of the Company, as set out in the announcement of the Company dated 30 September 2009.

Upon the share consolidation becoming effective on 30 November 2009, the authorised share capital of the Company became HK\$20,000,000 divided into 400,000,000 shares of HK\$0.05 each, of which 359,786,075 consolidated shares of HK\$0.05 each were issued.

FINANCIAL REVIEW

The Group reported a turnover of approximately HK\$23,872,000 for the nine months ended 31 December 2009, representing a decrease of 12% from approximately HK\$27,152,000 for the same period in 2008.

During the nine months ended 31 December 2009, the Group recorded cost of sales amounting to approximately HK\$7,244,000, representing a decrease of 7% from the same period in 2008.

Development costs of the Group for the nine months ended 31 December 2009 was decreased to approximately HK\$3,495,000 (2008: HK\$4,989,000), 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 nine months ended 31 December 2009 was decreased to approximately HK\$2,455,000 compared with approximately HK\$3,575,000 in 2008.

General and administrative expenses of the Group for the nine months ended 31 December 2009 was approximately HK\$27,889,000 (2008: HK\$34,668,000), that mainly comprised the staff costs (including director's emoluments) of approximately HK\$16,243,000 (2008: HK\$17,574,000) and the other general and administrative expenses.

The Group's unaudited consolidated loss attributable to the owners of the Company for the nine months ended 31 December 2009 was approximately HK\$15,071,000 (2008: profit of HK\$3,403,000).

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

As at 31 December 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 Rule 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")	-	197,364,617	2,992,384	5,500,123	1	205,857,124	57.21%
Independent Non-executive Directors:							
Lam Lee G.	-	-	246,774	-	-	246,774	0.06%
Wu Tak Lung	-	-	246,774	-	-	246,774	0.06%

(ii) Aggregate long positions in the shares of associated corporation

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

Note:

1. Dr. Yu was deemed (by virtue of the SFO) to be interested in 205,857,124 shares. These shares were held in the following capacity:
 - (a) 197,364,617 shares and 5,500,123 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 197,364,617 shares and 5,500,123 underlying shares duplicates with the interest of Opulent in the same lots of 197,364,617 shares and 5,500,123 underlying shares; and
 - (b) Dr. Yu is entitled to share options to subscribe for an aggregate of 2,992,384 shares.

Save as disclosed above, as at 31 December 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 Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITION IN THE SHARES

As at 31 December 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		Note	% of shares	
	Personal interest	controlled interest of corporation	Personal interest	shares		Total	in issue
Substantial shareholder:							
Opulent Oriental International Limited	197,364,617	-	5,500,123		1	202,864,740	56.38%

Note:

1. Opulent was deemed (by virtue of the SFO) to be interested 202,864,740 shares as beneficial owner. The interest of Opulent in these 202,864,740 shares duplicates with the interest of Dr. Yu in the same lot of 202,864,740 shares. Such 202,864,740 shares comprise:
 - (a) 197,364,617 shares held by Opulent; and
 - (b) 5,500,123 underlying shares falling to be issued to Opulent upon the exercise of the subscription rights attaching to the 5,500,123 bonus warrants.

Save as disclosed above, the Directors are not aware of other person who, as at 31 December 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 31 December 2009, options to subscribe for an aggregate of 3,267,537 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 31 December 2009 are as follows:

Name of grantee	Date of grant	Exercise price per share (Notes 1 and 2)	Balance as at 1 April 2009	Number of share options			Lapsed during the period	Balance as at 31 December 2009
				Granted during the period	Adjustments during the period (Notes 1 and 2)	Exercised during the period		
Director:								
Yu Gang, George	21 September 2004	HK\$0.6080	12,126,000	-	(9,133,616)	-	-	2,992,384
Employees:								
Employees	21 September 2004	HK\$0.6080	1,755,000	-	(811,911)	-	(667,936)	275,153
			13,881,000	-	(9,945,527)	-	(667,936)	3,267,537

As at 31 December 2009, options to subscribe for an aggregate of 1,492,984 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 31 December 2009 are as follows:

Name of grantee	Date of grant	Exercise price per share	Balance as at 1 April 2009	Number of share options			Lapsed during the period	Balance as at 31 December 2009
				Granted during the period	Adjustments during the period	Exercised during the period		
Independent Non-executive Directors:								
Lam Lee G.	29 September 2005	HK\$1.4790	1,000,000	-	(753,226)	-	-	246,774
Wu Tak Lung	29 September 2005	HK\$1.4790	1,000,000	-	(753,226)	-	-	246,774
Employees:								
Employee	5 September 2005	HK\$1.1345	2,650,000	-	(1,996,048)	-	-	653,952
Employee	29 September 2005	HK\$1.4790	400,000	-	(301,290)	-	-	98,710
Employee	6 December 2006	HK\$2.7070	1,000,000	-	(753,226)	-	-	246,774
			6,050,000	-	(4,557,016)	-	-	1,492,984

Notes:

- As a result of the two open offers during the nine months period ended on 31 December 2009, which (a) 299,685,000 new shares of HK\$0.01 each were issued 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; and (b) 899,465,189 new shares of HK\$0.01 each were issued at the subscription price of HK\$0.07 per share on the basis of one offer share for every existing share of HK\$0.01 each in the share capital of the Company on 30 October 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 24 November 2009.

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.

2. As at 30 November 2009, every five issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK\$0.05 each in the share capital of the Company. As a result of the consolidation, the exercise prices per share and the number of outstanding share options under the share option schemes were adjusted accordingly.

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 nine months ended 31 December 2009.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members whom are independent non-executive directors, namely, Mr. Wu Tak Lung, Dr. Lam Lee G. and Mr. 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 Rules.

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

The unaudited consolidated results of the Group for the nine months ended 31 December 2009 have been reviewed by the audit committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the nine months ended 31 December 2009.

By Order of the Board

Yu Gang, George

Chairman

Hong Kong, 8 February 2010

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 of the Company are Dr. Lam Lee G., Mr. Wu Tak Lung and Mr. Lam Ka Wai, Graham.