



財華社  
FINET

# Finet Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08317)



Third Quarterly Report  
**2010/2011**

## **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 GEM of the Stock Exchange (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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## RESULTS HIGHLIGHTS

- The Group reported a turnover of approximately HK\$26,801,000 for the nine months ended 31 December 2010, representing an increase of 12% from approximately HK\$23,872,000 for the same period in 2009.
- The Group's unaudited consolidated loss attributable to the owners of the Company for the nine months ended 31 December 2010 was approximately HK\$26,761,000, representing an increase of 78% from approximately HK\$15,071,000 for the same period in 2009.
- The Board does not recommend the payment of dividend for the nine months ended 31 December 2010.

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 (collectively the "Group") for the three months and the nine months ended 31 December 2010, together with the comparative unaudited figures for the corresponding period in 2009 as follows:

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	2	<b>10,637</b>	7,553	<b>26,801</b>	23,872
Cost of sales		<b>(3,275)</b>	(2,391)	<b>(8,113)</b>	(7,244)
Gross profit		<b>7,362</b>	5,162	<b>18,688</b>	16,628
Other operating income/(loss)	2	<b>(3,610)</b>	297	<b>(1,595)</b>	865
Development costs		<b>(1,314)</b>	(1,103)	<b>(3,733)</b>	(3,495)
Selling expenses		<b>(456)</b>	(1,035)	<b>(2,170)</b>	(2,455)
General and administrative expenses		<b>(13,332)</b>	(8,751)	<b>(38,985)</b>	(27,889)
Other operating expenses		<b>(2)</b>	(6)	<b>(2)</b>	(131)
Operating loss		<b>(11,352)</b>	(5,436)	<b>(27,797)</b>	(16,477)
Finance costs		<b>(49)</b>	(52)	<b>(152)</b>	(159)
Loss before income tax expenses		<b>(11,401)</b>	(5,488)	<b>(27,949)</b>	(16,636)
Income tax expenses	3	<b>(15)</b>	(49)	<b>(45)</b>	(49)
Loss for the period		<b>(11,416)</b>	(5,537)	<b>(27,994)</b>	(16,685)
Other comprehensive income/(loss):					
Currency translation		<b>52</b>	39	<b>219</b>	25
Available-for-sale financial assets		<b>(36)</b>	(110)	<b>297</b>	(147)
Other comprehensive income/(loss) for the period		<b>16</b>	(71)	<b>516</b>	(122)
Total comprehensive loss for the period		<b>(11,400)</b>	(5,608)	<b>(27,478)</b>	(16,807)

	<i>Notes</i>	<b>For the three months ended 31 December</b>		<b>For the nine months ended 31 December</b>	
		<b>2010</b>	2009	<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Attributable to:					
Owners of the Company		<b>(11,374)</b>	(4,918)	<b>(26,761)</b>	(15,071)
Minority interests		<b>(42)</b>	(619)	<b>(1,233)</b>	(1,614)
		<b>(11,416)</b>	(5,537)	<b>(27,994)</b>	(16,685)
Loss per share					
attributable to owners of the Company					
– Basic ( <i>in HK cent</i> )	5(a)	<b>(2.652)</b>	(2.788)	<b>(7.277)</b>	(8.545)
– Diluted ( <i>in HK cent</i> )	5(b)	<b>N/A</b>	N/A	<b>N/A</b>	N/A

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation of the accounts

The unaudited interim condensed 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 and the disclosure requirements of the GEM Listing Rules.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Except as described below, 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 2010.

#### (a) Standards, amendments and interpretations to existing standards effective in 2010 but not affecting the Group

- HKAS 17 (amendment) – Leases
- HKAS 27 (amendment) – Consolidated and separate financial statements
- HKAS 39 (amendment) – Eligible hedged items
- HKFRS 1 (amendment) – Additional exemptions for first-time adopters
- HKFRS 2 (amendment) – Group cash-settled share-based payment transactions
- HKFRS 3 (revised) – Business combinations
- HKFRS 5 (amendment) – Non-current assets held for sale and discontinued operations
- HK(IFRIC) – Int 17 – Distributions of non-cash assets to owners
- Second improvements to HKFRS (2009)

#### (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2010 and have not been early adopted:

- HKAS 24 (revised) – Related party disclosures
- HKAS 32 (amendment) – Classification of rights issues
- HKFRS 1 (amendment) – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters
- HKFRS 9 – Financial instruments
- HK(IFRIC) – Int 14 (amendment) – Prepayments for a minimum funding requirement
- HK(IFRIC) – Int 19 – Extinguishing financial liabilities with equity instruments
- Third improvements to HKFRS (2010)

The audit committee of the Company has reviewed the unaudited consolidated financial statements for the three months and nine months ended 31 December 2010.

## 2. Revenue and other operating incomes

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

	For the three months ended 31 December		For the nine months ended 31 December	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Revenue</b>				
Service income from provision of financial information services	8,286	7,100	21,290	22,837
Advertising income	309	440	986	948
Online games income	–	13	1	87
Brokerage, commission, dealing and service income	2,042	–	4,524	–
	<b>10,637</b>	7,553	<b>26,801</b>	23,872
<b>Other operating incomes/(loss)</b>				
Fair value loss on financial assets/liabilities at fair value through profit or loss	(3,981)	–	(3,191)	–
Gross rental income from investment property	287	283	851	847
Interest income	6	–	509	4
Dividend income	–	–	40	–
Others	78	14	196	14
	<b>(3,610)</b>	297	<b>(1,595)</b>	865
Total income/(loss)	<b>7,027</b>	7,850	<b>25,206</b>	24,737

### 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.

No Hong Kong profits tax has been provided for the nine months ended 31 December 2010 (2009: nil) as the Group had no assessable profit arising in Hong Kong for the period under review.

The income tax of the People's Republic of China (the "PRC") of approximately HK\$45,000 was paid during the nine months ended 31 December 2010 (2009: HK\$42,000) for the net rental income from the investment properties of the Company in the PRC.

### 4. Dividend

The Board does not recommend the payment of dividend for the nine months ended 31 December 2010 (2009: nil).

### 5. Loss per share

#### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months and nine months ended 31 December 2010 approximately of HK\$11,374,000 and HK\$26,761,000 respectively (three months and nine months ended 31 December 2009: loss attributable to the owners of the Company approximately of HK\$4,918,000 and HK\$15,071,000 respectively), and on the weighted average number of 428,910,879 shares and 367,751,167 shares respectively in issue during the three months and nine months ended 31 December 2010 (three months and nine months ended 31 December 2009: 176,373,546 shares).

#### (b) Diluted loss per share

Diluted loss per share for the three months and nine months ended 31 December 2010 have not been disclosed as the bonus warrants outstanding have an anti-dilutive effect on the basic loss 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.



## 6. Movement of Reserves

	Share capital HK\$'000	Share premium HK\$'000	Employee		Translation reserve HK\$'000	Property Investment		Accumulated losses HK\$'000	Total reserves HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
			Merger reserve HK\$'000	compensation reserve HK\$'000		revaluation reserve HK\$'000	revaluation reserve HK\$'000				
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)
<b>At 31 December 2009</b>	<b>17,989</b>	<b>196,331</b>	<b>4,870</b>	<b>1,748</b>	<b>2,415</b>	<b>9,989</b>	<b>(1,066)</b>	<b>(132,490)</b>	<b>81,797</b>	<b>12,243</b>	<b>112,029</b>
At 1 April 2010	18,373	199,393	4,870	1,745	2,473	9,989	(1,064)	(152,971)	64,435	1,200	84,008
Fair value gain											
– Available-for-sales financial assets	–	–	–	–	–	–	297	–	297	–	297
Issue of shares upon exercise of bonus warrants	15	119	–	–	–	–	–	–	119	–	134
Issue of shares upon exercise of share options	3	33	–	–	–	–	–	–	33	–	36
Issue of shares upon placement	3,650	26,536	–	–	–	–	–	–	26,536	–	30,186
Currency translation differences	–	–	–	–	186	–	–	–	186	33	219
Vested share options lapsed/ cancelled	–	–	–	(1,745)	–	–	–	1,745	–	–	–
Loss for the period	–	–	–	–	–	–	–	(26,761)	(26,761)	(1,233)	(27,994)
<b>At 31 December 2010</b>	<b>22,041</b>	<b>226,081</b>	<b>4,870</b>	<b>–</b>	<b>2,659</b>	<b>9,989</b>	<b>(767)</b>	<b>(177,987)</b>	<b>64,845</b>	<b>–</b>	<b>86,886</b>

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## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONS REVIEW

Below is a summary of business performance of each business segments.

#### **Financial Information Business**

There will be a new business opportunity in the financial information business market as the Stock Exchange will upgrade their system and extend the trading hours of its securities and derivatives in the forthcoming months. Both the delivery channels of the basic market prices services (“BMP Services”) of the Group and its service scope will be broadened by such system enhancement. The Group will be able to provide the BMP Services not only through its existing websites, but also on smart phones in various application platforms such as iPhone and Android.

The Directors expect that the extension of the trading hours by the Stock Exchange will increase the transaction volume of listed securities especially for PRC related securities because of convergence of trading hours of Hong Kong market with that of the PRC market. The Group expects this will increase the demand for financial data services in both Hong Kong and PRC markets. We will continue to explore new product developments and business opportunities in both Hong Kong and the PRC.

In response to market changes, the Group is going to reface the existing websites. There will be newly added dynamic features and the content of the FINET video channel will be enriched and repositioned as well.

Our belief that a future successful business model must include trading execution capabilities has led us to acquire an online broker in Hong Kong, Finet Securities Limited (formerly known as Fukoku Investment (Asia) Limited) (“Finet Securities”) as disclosed in our announcement dated 11 February 2010. We aim to turn Finet Securities into a leading securities trading platform that is empowered with the Group’s rich financial content such as news, data, market analysis with advanced algo-trading technologies to access multiple markets in the next few years. We believe this will help the Group to capitalize Finet’s brand-name in the past and to monetize exponential growth of PRC investors who are increasingly investing overseas (particularly in Hong Kong and in the United States of America financial markets).

## Securities and Futures Business

On 19 May 2010, the Group completed the acquisition of the entire issued share capital of Finet Securities at a cash consideration of approximately HK\$10,245,000. Finet Securities is a company incorporated in Hong Kong with limited liability and a licensed corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) to carry out Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities. During the three months ended 31 December 2010 under review, Finet Securities, in its capacity as a placing agent, has successfully raised HK\$18 million for a client. Looking forward, the Group will continue to explore new business opportunities and expansion in the securities and futures business segment.

## Online Game Business

“Mo Long Zhan Ji” (“魔龍戰紀”), a massive multiplayer online role-playing game jointly developed with Xiamen-based Onwind Digital Co., Ltd. has entered the final stage of product development before public testing. In June 2010, the Group tested the market response to the game through the first round of pre-marketing and attained very positive feedback from the media and hardcore gamers regarding in particular its unique style and outstanding graphic quality of the game. Despite the controlled scope of pre-marketing, the game was chosen to be one of the most anticipated games in a mainstream game publication.

In September 2010, “Mo Long Zhan Ji” unfolded its public technical testing, which received overwhelming testers’ participation over the 7-day testing period. All major media, blogs and microblogs reported the game’s debut and the game had gained high regard from professional media including the reputable game portal, 17173.com. The technical testing assured the stability, reliability and scalability of the game technical infrastructure.

In the meantime, the Group’s future flagship product through its in-house development, Project Ming, as announced in the annual report of the Company for the year ended 31 March 2010, has passed two milestones in May 2010 and August 2010 with significant technical and content upgrades.

On the other hand, the Group also noticed the increasing competition, soaring operating and marketing costs have forced a number of consolidations and lay-offs in the online game industry in the PRC in the last quarter of 2010. The Group intended to re-deploy its financial resources to areas which may yield more promising returns. Discussions and negotiations are being held with external game operator and our own on-line game team members and management which may lead to future consolidation of operation and reduction of work force.

## Placing of New Shares

The Group announced on 15 October 2010 the successful completion of placing of 73,000,000 new shares of HK\$0.05 each at a placing price of HK\$0.42 per share. The net proceeds of approximately HK\$30 million from the placing will be used as general working capital of the Group.

## FINANCIAL REVIEW

The Group reported revenue of approximately HK\$26,801,000 for the nine months ended 31 December 2010, representing an increase of 12% from approximately HK\$23,872,000 for the same period in 2009.

During the nine months ended 31 December 2010, the Group recorded cost of sales amounting to approximately HK\$8,113,000, representing an increase of 12% from approximately HK\$7,244,000 for the same period in 2009.

Development costs of the Group for the nine months ended 31 December 2010 was increased to approximately HK\$3,733,000 (2009: HK\$3,495,000), 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 2010 was decreased to approximately HK\$2,170,000 compared with approximately HK\$2,455,000 in 2009.

General and administrative expenses of the Group for the nine months ended 31 December 2010 was approximately HK\$38,985,000 (2009: HK\$27,889,000), that mainly comprised the staff costs (including director's emoluments) of approximately HK\$17,494,000 (2009: HK\$16,243,000) and the other general and administrative expenses. The increase in general and administrative expenses for the nine months ended 31 December 2010 over the comparative period in 2009 was mainly attributed to the inclusion of general and administrative expenses of approximately HK\$6.1 million in the securities and futures business segment and the increase in legal and professional expenses of approximately HK\$5.1 million (including the amount disputed by the Group as discussed in the section headed "Potential Legal Proceedings").

The Group's unaudited consolidated loss attributable to the owners of the Company for the nine months ended 31 December 2010 was approximately HK\$26,761,000 (2009: loss of HK\$15,071,000).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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:

### Long positions in the shares and underlying shares of the Company

Name of Director	Number of shares		Number of underlying shares		Total number of shares	% of shares in issue
	Beneficial owner	Interest of controlled corporation	Beneficial owner	Interest of controlled corporation		
<b>Executive Director:</b>						
Lo Yuk Yee ("Ms. Lo")	-	203,266,790 (Note 1)	-	53,600,000 (Note 2)	256,866,790	58.27%

Notes:

- 203,266,790 shares were held by Maxx Capital International Limited ("Maxx"), which was wholly-owned by Pablos International Limited ("Pablos"), and Pablos was wholly owned by Ms. Lo. Accordingly, Pablos and Ms. Lo were deemed by virtue of the SFO to be interested in 203,266,790 shares in the Company held by Maxx.
- 35,600,000 and 18,000,000 underlying shares were respectively held by Wise Capital International Limited ("Wise") and Mass Faith Management Limited ("Mass Faith"), both were wholly-owned companies of Ms. Lo. Accordingly, Ms. Lo was deemed by virtue of the SFO to be interested in 53,600,000 underlying shares, in the Company held by Mass Faith and Wise.

Save as disclosed above, as at 31 December 2010, 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 and 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 2010, 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:

	Number of shares and capacity in which the share were held		Number of underlying shares and capacity in which the share were held		Note	Total number of shares	% of shares in issue
	Beneficial owner	Interest of controlled corporation	Beneficial owner	Interest of controlled corporation			
<b>Substantial shareholders:</b>							
Maxx	203,266,790	-	-	-	1	203,266,790	46.11%
Pablos	-	203,266,790	-	-	1	203,266,790	46.11%
Wise	-	-	35,600,000	-	-	35,600,000	8.08%

Note:

- 203,266,790 shares were held by Maxx, which was wholly-owned by Pablos and Pablos was wholly owned by Ms. Lo. Accordingly, Pablos and Ms. Lo were deemed by virtue of the SFO to be interested in 203,266,790 shares in the Company held by Maxx. Ms. Lo is a director of each of Maxx, Pablos and Wise.

## OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS

Save as disclosed above, the Directors are not aware of other person who, as at 31 December 2010, 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.

## MOVEMENTS OF OPTIONS

Details of the movements of options granted under the Pre-IPO Share Option Scheme (as defined in the prospectus of the Company dated 31 December 2004) adopted on 23 July 2004 for the nine months ended 31 December 2010 are as follows:

Name of grantee	Date of grant	Adjusted exercise price	Number of share options		Balance as at 31 December 2010	
			Balance as at 1 April 2010	Exercised during the period		Lapsed during the period
<b>Director:</b>						
Dr. Yu Gang, George (Note)	21 September 2004	HK\$0.6080	2,992,384	–	(2,992,384)	–
<b>Employees:</b>						
Employees	21 September 2004	HK\$0.6080	224,565	(59,226)	(165,339)	–
Total			3,216,949	(59,226)	(3,157,723)	–

Note: Dr. Yu Gang, George ceased to be an executive Director with effect from 30 September 2010.

Details of movements of the options granted under the Share Option Scheme (as defined in the prospectus of the Company dated 31 December 2004) adopted on 16 December 2004 for the nine months ended 31 December 2010 are as follows:

Name of grantee	Date of grant	Adjusted exercise price	Number of share options			Balance as at 31 December 2010
			Balance as at 1 April 2010	Cancelled during the period	Lapsed during the period	
<b>Independent Non-executive Directors:</b>						
Dr. Lam Lee G. (Note 1)	29 September 2005	HK\$1.4790	246,774	(246,774)	-	-
Mr. Wu Tak Lung (Note 2)	29 September 2005	HK\$1.4790	246,774	(246,774)	-	-
<b>Employees:</b>						
Employees	5 September 2005	HK\$1.1345	653,952	-	(653,952)	-
Employees	29 September 2005	HK\$1.4790	98,710	-	(98,710)	-
Employees	6 December 2006	HK\$2.7070	246,774	-	(246,774)	-
Total			<u>1,492,984</u>	<u>(493,548)</u>	<u>(999,436)</u>	<u>-</u>

Notes:

1. Dr. Lam Lee G. ceased to be an independent non-executive Director with effect from 25 January 2011.
2. Mr. Wu Tak Lung ceased to be an independent non-executive Director with effect from 23 September 2010.



## **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 Directors had a material interest, whether directly or indirectly, subsisted during or at the end of the nine months ended 31 December 2010 or at any time during such period (2009: Nil).

## **CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code"), contained in Appendix 15 of the GEM Listing Rules during the nine months ended 31 December 2010, except for the following deviation:

Code provision A.2.1 of the CG Code 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 were performed by the same individual, Dr. Yu Gang, George up to 30 September 2010 when Dr. Yu Gang, George ceased to be a Director. Dr. Lam Lee G., an independent non-executive Director, was appointed as the chairman of the Company on 30 September 2010 and resigned on 25 January 2011. Ms. Lo Yuk Yee was appointed as the chairman of the Company on 25 January 2011. Mr. Lum Chor Wah, Richard was appointed as an executive Director and chief executive officer of the Company on 30 September 2010.

Please also refer to the paragraph headed "Audit Committee and Minimum Number Requirement for Independent Non-executive Directors" below.

## **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 nine months ended 31 December 2010. Having made specific enquiry of all Directors, 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.

## COMPETING INTERESTS

None of the Directors or substantial shareholders of the Company or any of their respective associates has reported to the Board that he/she 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 2010.

According to service agreements with Dr. Yu Gang, George who ceased as a Director with effect from 30 September 2010 and Mr. Lin Peng, Ben who ceased as a Director with effect from 3 January 2011, they undertake to the Group that they shall not take up employment with, or be involved in or interested directly or indirectly in, whether as employee, contractor or otherwise, competitors of the Group in Hong Kong and such other jurisdictions where the Group may operate from time to time and where they shall have had involvements for a period of 12 months after the termination date; they shall not during the 12 months after the termination date, actively or passively, either on their own or on behalf of any other person, firm, company or organisation directly or indirectly canvass or solicit business from or do business with any of the Group's clients with whom they shall have had materials dealings in the past 12 months prior to the termination date; and they shall not during the 12 months after the termination date, actively or passively, either on their own or on behalf of any other person, firm, company or organisation directly or indirectly, induce or seek to induce any employee of the Group whether or not such person would commit any breach of his/her contract of employment by reason of his/her leaving the service of the relevant company in the Group.

## **AUDIT COMMITTEE AND MINIMUM NUMBER REQUIREMENT FOR INDEPENDENT NON-EXECUTIVE DIRECTORS**

Following the resignation of Dr. Lam Lee G. on 25 January 2011, the Company has only two independent non-executive Directors and two members in its audit committee, and such numbers do not meet the minimum requirement prescribed in Rule 5.05(1) and 5.28 of the GEM Listing Rules. The Company is endeavoring to identify suitable candidate to fill the vacancies of independent non-executive Director and audit committee member so as to comply with the minimum numbers requirement for independent non-executive Directors and audit committee members under Rule 5.05(1) and 5.28 of the GEM Listing Rules as soon as possible. A further announcement will be published upon compliance with the requirement under Rule 5.05(1) and 5.28 of the GEM Listing Rules.

The unaudited consolidated results of the Group for the nine months ended 31 December 2010 have been reviewed by the audit committee and recommended to the Board for adoption.

## **POTENTIAL LEGAL PROCEEDINGS**

### **(1) Dispute over legal fees**

During the period under review, the Group was in dispute with one of its legal advisors on certain billings totaling approximately HK\$2.5 million. Although the full amount was included as part of the general and administrative expenses in the results for the nine months ended 31 December 2010, the Group contended that the billings were excessive and is negotiating with that legal advisor for settlement. In the event that settlement cannot be reached, the Board would seek to have the bills taxed before the court.

### **(2) Working capital funds of the Group held by Dr. Yu Gang, George**

In order to facilitate its operation in the PRC, the Group had entrusted Dr. Yu Gang, George, a former executive Director who was not re-elected in the annual general meeting of the Company held on 30 September 2010, to manage the working capital of the Group as a trustee. Following the cessation of Dr. Yu Gang, George as a Director on 30 September 2010, the Group decided to terminate the trust arrangement and demanded return of the working capital funds of the Group totaling approximately HK\$4.7 million from Dr. Yu Gang, George. Notwithstanding repeated demands by the Group, Dr. Yu Gang, George failed to return the funds to the Group. The Group is now considering taking appropriate legal actions against Dr. Yu Gang, George, and is assessing its financial impact on the Group.

**(3) Disposal of China Capital Management Limited (formerly known as Finet Pride Asset Management Limited, Finet Investment Advisers Limited and Insight Advisory Services Limited) (“CCM”)**

As disclosed in page 100 of the annual report for the year ended 31 March 2008 of the Company, during the year ended 31 March 2008, the Group disposed of 70.101% equity interest in CCM to Wealthy Mate Limited (presently known as CCM Financial Corporation) (“WML”) at a cash consideration of approximately HK\$3,090,000.

However, it was recently discovered by the existing members of the Board that the Group had entered into an agreement with WML in which the Group had an option to sell the remaining approximately 20% equity interest in CCM (“Remaining Interest”) to WML at a consideration of HK\$1,000,000 (“Put Option”).

Upon investigation by the Board, the existing members of the Board noted that the Group had disposed of the Remaining Interest to Opulent Oriental International Limited (“Opulent”) at a consideration of HK\$18,750 on 3 November 2008, instead of exercising the Put Option. To the best knowledge and belief of the Directors, Opulent is owned by Dr. Yu Gang, George, a former executive Director. The Board also discovered that on 3 November 2008, a total of approximately 60% equity interest of CCM was transferred by CCM Financial Corporation to Opulent. As a result thereof, Opulent was interested in 80% equity interest of CCM after the acquisitions on 3 November 2008. The Board noted that the disposal of the Remaining Interest to Opulent was not authorised by the then members of the Board nor by the then shareholders of the Company. The existing members of the Board are of the preliminary view that such disposal was unauthorized and is seeking legal advice.

## **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 2010.

By Order of the Board

**Lo Yuk Yee**

*Chairman*

Hong Kong, 9 February 2011

*As at the date of this report, the executive Directors are Ms. Lo Yuk Yee, Mr. Lum Chor Wah, Richard, Mr. Chow Wing Chau, Mr. Yiu Wing Hei and Mr. Wong Po Tin, and the independent non-executive Directors are Mr. Wong Wai Kin and Mr. Siu Siu Ling, Robert.*