# Palmpay

anytime, anywhere, anything

(Incorporated in Bermuda with limited liability)
(Stock Code : 8047)

Annual Report 2009-2010

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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**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 of the Stock Exchange 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 Palmpay China (Holdings) Limited (the "Company'') collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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: (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.*

# Contents

# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors*
Hsu Tung Sheng *(Chairman)*
Yuan Shengjun *(Chief executive officer)*
Chan Francis Ping Kuen *(Deputy Chairman)*
Chan Hin Wing, James
Hsu Tung Chi

*Independent Non-executive Directors*
Kwok Chi Sun, Vincent
Yeung Kam Yan
Cheung Chi Hwa, Justin

## COMPANY SECRETARY

Law Ho Ming *ACCA, CPA*

## COMPLIANCE OFFICER

Chan Francis Ping Kuen

## AUTHORISED REPRESENTATIVES

Chan Francis Ping Kuen
Law Ho Ming

## AUDIT COMMITTEE

Kwok Chi Sun, Vincent
Yeung Kam Yan
Cheung Chi Hwa, Justin

## AUDITOR

Mazars CPA Limited
*Certified Public Accountants*

## LEGAL ADVISER

Michael Li & Co.

## PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

## REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1601, 16/F.,
Ruttonjee House, Ruttonjee Centre,
11 Duddell Street, Central,
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN CHINA

5/F., Suite 2, HuayuanShoufu Tower,
No. 18 Anwaixibinghe Rd.,
Dongcheng District, Beijing,
China, 100011

## SHARE REGISTRARS AND TRANSFER OFFICERS

*Principal registrar*
The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street,
Hamilton HM 11,
Bermuda

*Branch registrar*
Tricor Tengis Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Hong Kong

## WEBSITE

www.palmpaychina.com
www.palmpay.net.cn

## STOCK CODE

8047

# Chairman's Statement

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of Palmpay China (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2010 to our shareholders.

## OPERATIONAL REVIEW

During the period, the payment business of the Group was affected by the ongoing structural changes of the payment industry in the PRC. Whilst the telecommunication value-added business remains stable, the mobile payment gateway business recorded a decrease of 15.1% as compared to the previous period.

### Structural changes of the payment industry in the PRC

The People's Bank of China recently announced that non-bank payment service providers will be required to meet the requirements of, amongst others, registered capital (RMB100 million), expertise and track record profit so as to obtain a license to conduct payment business in the PRC. With such new regulations, the entry barriers to the payment industry in the PRC will be tightened and the Group expects that a majority of the current payment industry players will be eliminated.

The Group will deploy all the necessary resources to apply for the payment business license. With its track record, financial resources and experience in the payment industry, the Board believes that the Group will have a reasonable chance to successfully obtain such license.

With the take up of 3G at an accelerated rate and the popularity of internet in the PRC, the payment industry is experiencing a transitional stage which both the existing mobile payment gateway and the e-payment are changing to contactless payment system.

Among all the main contactless payment system technologies in the PRC, namely SIMPASS, Near Field Communication Technology ("NFC Technology") , which both adopt the frequency of 13.56 Megahertz ("MHz") and RF-SIM, which adopts the frequency of 2.4 Gigahertz ("G"), NFC Technology is the most secured and with a relatively low production cost and high stability. It is the main stream and widely adopted in telecommunication industry (by China Unicom and China Telecom), banking and finance industry (by UnionPay) and public transport. China Mobile recently gave up 2.4G RF-SIM and opted to adopt 13.26MHz NFC Technology.

## PARTNERSHIP WITH SONY – DEVELOPMENT BASED ON SONY FELICA

The Group has entered into co-operation agreement with Sony to develop and introduce the contactless payment system in China based on the 13.56MHz NFC Technology, FeliCa, developed by Sony. FeliCa is a technologically advanced form of NFC Technology with high security and stability. Sony FeliCa is already widely adopted, for example, NTT DoCoMo, KDDI and Softbank use FeliCa technology for their mobile wallets in Japan (NTT DoCoMo, KDDI and Softbank are the three major telecommunication operators in Japan) as well as Octopus in Hong Kong. Whilst Sony FeliCa will provide the competitive edge to the Group in the contactless payment market in the PRC, it will at the same time complement the telecommunication value added business of the Group.

With the full technical support from Sony, the Palmpay USB reader / writer, which is integrated with the Sony module, and the related clearance system has been completed, fully tested to be operational by the Group.

The Group has entered into cooperation agreement with Beijing Huatong Toyota Sales & Services Co. Limited for incorporation of Palmpay USB reader / writer into the membership system of Toyota in the PRC to develop a comprehensive cyber customer service centre / e-payment platform supported by the point of sale network in the PRC. Such operation will be officially launched on 1 July 2010.

The Group is in negotiation with a well known online travel booking internet portal in the PRC to develop its membership system into a cyber travel agent / e-payment platform with the incorporation of Sony FeliCa.

The Group has started negotiation with a major marketing / e-commerce organization which is engaged in the marketing of cosmetic and health care products in the PRC for development of an e-payment membership system through Sony FeliCa.

## Prospects

Whilst the Group regards the structural changes in the payment industry as a challenge to be overcome in short term, the Group also considers such changes as an opportunity to differentiate the Group as the forerunner in the industry particularly in the areas of mobile payment and e-payment through the NFC Technology, Sony FeliCa. The Board is optimistic that the Group is well facilitated to be a competitive player in the rapidly growing e-payment and digital value added service industry in the PRC which will generate ample business opportunities to the Group in the near future.

**Hsu Tung Sheng**
*Chairman*

Hong Kong, 28 June 2010

# Management Discussion and Analysis

## OPERATIONAL REVIEW

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## FINANCIAL REVIEW

### Results

The Group recorded a decrease of approximately 23.6% in its turnover for the year ended 31 March 2010 to approximately HK$43.4 million as compared to approximately HK$56.8 million in the previous year. It was mainly due to there was no diversified mobile value-added services during the year.

The Group recorded a decrease in gross profit of approximately 21.7% to HK$39.4 million in the current year as compared to approximately HK$50.3 million in the previous year mainly due to there was no contribution from turnover of the diversified mobile value-added services.

Net profit attributable to equity holders of the Company for the year amounted to approximately HK$13.8 million (2009: HK$20.1 million).

# Management Discussion and Analysis

## Liquidity, financial resources and capital structure

As at 31 March 2010, the Group had total assets of approximately HK$392.7 million (2009: HK$292.5 million), including net cash and bank balances of approximately HK$19.1 million (2009: HK$10.0 million).

For the year ended 31 March 2010, the Group financed its operations mainly with its own working capital and there was no general banking facilities (2009: Nil). There was no charge on the Group's assets as at 31 March 2010 (2009: Nil).

As at 31 March 2010, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero (2009: Nil). The Group had no bank borrowings as at 31 March 2010 (2009: Nil).

Most of the transactions of the Group are denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB"). The Group adopts a conservative treasury policy with most of the bank deposits being kept in HKD, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 March 2010, the Group had no foreign exchange contracts, interests or currency swaps or other financial derivatives for hedging purposes.

## Segment information

The revenue of the Group comprises the provision of mobile payment gateway services and diversified mobile value-added services.

As to the geographical segments, sale of the Group generated in the PRC market was approximately HK$43.4 million during the year ended 31 March 2010. (2009: HK$53.4 million in the PRC and HK$3.4 million in Hong Kong)

Please also refer to note 4 to the financial statements in this annual report for details of segment information.

## New products and services

During the year, the Group continued to develop new products to increase its products range and strengthen its competitive position.

## Significant investments

Other than equity investments in a company, the Group did not have any significant investment during the year (2009: Nil).

Please also refer to note 15 to the financial statements in this annual report for details of investment.

## Material acquisitions or disposals of subsidiaries and affiliated companies

During the year, the Group has further acquired 25% equity interests in Media Magic Technology Limited. After competition of the acquisition, the Company indirectly owned 100% equity interest in Media Magic Technology Limited and its subsidiaries ("Media Magic Group"). The Media Magic Group is principally engaged in the provision of mobile payment gateway services.

Details of this acquisition are disclosed in the Company's circular dated 27 May 2009.

## Future plans for material investments and expected source of funding

The Group did not have any plan for material investment or acquisition of material capital assets as at 31 March 2010. However, the Group is constantly looking for opportunities for investments or capital assets to enhance shareholders' value.

## Contingent liabilities

The Group had no contingent liability as at 31 March 2010.

## Employees and remuneration policies

As at 31 March 2010, the Group had 51 (2009: 51) employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK$5.4 million for the year ended 31 March 2010 (2009: HK$5.4 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC.

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Hsu Tung Sheng,** aged 44, being the elder brother of Mr. Hsu Tung Chi, was appointed as an executive director and chief executive officer on 2 October 2007 and redesignated as chairman of the Company on 1 June 2009. Mr. Hsu holds a bachelor's degree in law from the National Chengchi University (Taiwan) (國立政治大學(台灣)) Mr. Hsu has over 10 years' experience in advisory on management, operation and strategic planning. Mr. Hsu used to be consultant of Toyota Tsusho Corporation ("Toyota Tsusho") and participated in numerous large investment projects for Toyota Tsusho. Mr. Hsu has built up a good relationship with enterprises in Japan. Mr. Hsu is currently a consultant and the president of two companies in the PRC, both of which are principally engaged in the information technology industry. Mr. Hsu is responsible for marketing, management function and business operation of Media Magic Group which are currently principally engaged in the provision of mobile payment gateway services in the PRC. He is an executive director of China Digital Licensing (Group) Limited (Stock Code: 8175). The Company is listed on GEM.

**Yuan Shengjun,** aged 38, was appointed as an executive director and chief executive officer of the Company on 1 June 2009. Mr. Yuan holds a double degree of law and economics from the Renmin University (人民大學) of the People's Republic of China ("PRC"). Mr. Yuan has over 10 years' experience in advisory on management, operation and strategic planning. Mr. Yuan is responsible for management function and business operation of Media Magic Technology Limited and its subsidiaries which are currently principally engaged in the provision of mobile payment gateway services in the PRC.

**Chan Francis Ping Kuen,** aged 51, the executive director and deputy chairman of the Company, holds a bachelor's degree in economics from the University of Sydney in Australia. He is an associate member of the Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has over 20 years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of companies listed in Hong Kong and the United States. He was appointed as an executive director and the deputy chairman on 22 May 2007. He is an independent non-executive director of Sinocop Resources (Holdings) Limited (Stock Code: 476) and Earnest Investments Holdings Limited (Stock Code: 339). The two companies are listed on main board of the Stock Exchange.

**Hsu Tung Chi,** aged 41, being the younger brother of Mr. Hsu Tung Sheng, was appointed as an executive director on 12 March 2008. Mr. Hsu holds a bachelor's degree in Economics from Fu Jen Catholic University (輔仁大學) in Taiwan. Mr. Hsu has over 10 years' experience in advisory on management, operation and strategic planning. Mr. Hsu is responsible for the management function and business operation of Media Magic Group which are currently principally engaged in the provision of mobile payment gateway services in the PRC.

**Chan Hin Wing, James,** aged 61, was appointed as an executive director on 1 November 2006, graduated from Hong Kong Polytechnic University majoring in marketing, economics and finance. Mr. Chan is also a member of American Marketing Association, British Institute of Management and Chartered Institute of Marketing. Mr. Chan has over 36 years of experience in sales, marketing, franchising, and chain store establishments in the Asia Pacific region. Mr. Chan is currently the managing director of a company principally engaging in the field of nanotechnology.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Kwok Chi Sun, Vincent,** aged 47, who was also appointed as an audit committee member, is the sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is also an independent non-executive director of five other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited, Shun Ho Technology Holdings Limited, Magnificent Estates Limited, Emperor Capital Group Limited and China Digital Licensing (Group) Limited, the former four named companies are listed on main board of the Stock Exchange while the last named company is listed on GEM.

**Yeung Kam Yan,** aged 57, who was also appointed as an audit committee member, is a member of the Air & Waste Management Association-Hong Kong Section. Mr. Yeung has over 8 years of experience in accounting, sales and marketing in different international companies including Olivetti (Hong Kong) Ltd. from 1979 to 1982, O.P.D. Limited from 1982 to 1985 and Henry Boot Far East Limited from 1986 to 1990. Mr. Yeung also operated his own trading and investment business in the PRC from 1990 to 1998.

**Cheung Chi Hwa, Justin**, aged 56, who was also appointed as an audit committee member, holds a bachelor degree of laws from the Manchester Metropolitan University in the United Kingdom, a master degree of laws from University of London in the United Kingdom and a master of business administration degree from California State University in the United States. Mr. Cheung is a member of the American Institute of Certified Public Accountants and has over 20 years of banking, accounting and company secretarial experiences. Mr. Cheung was previously an executive director of Ming Kei (Holdings) Limited (Stock code: 8239, formerly known as Ming Kei Energy Holdings Limited) and an independent non-executive director of Richfield Group Holdings Limited (Stock code: 8136, formerly known as Maxitech International Holdings Limited and FX Creations International Holdings Limited) respectively. The two companies are listed on the GEM.

## SENIOR MANAGEMENT

**Law Ho Ming**, is the Company Secretary and Authorised Representative of the Company. He is an associate member of the Association of Chartered Certified Accountants and also a member of the Hong Kong Institute of Certified Public Accountants. He holds a degree of Bachelor of Arts in Accountancy. He was first appointed as an assistant financial controller of the Company in May 2006.

# Report of the Directors

The directors herein present their annual report and the audited financial statements of Palmpay China (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2010.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements in this annual report.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by reporting segments and geographical areas of operations for the year is set out in note 4 to the financial statements in this annual report.

## RESULTS AND DIVIDENDS

The Group's result for the year ended 31 March 2010 are set out in the consolidated statement of comprehensive income in this annual report on page 32.

The directors do not recommend the payment of any dividend during the year.

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results of the Group for each of the five years ended 31 March 2010 and of the assets, liabilities and minority interests of the Group as at 31 March 2010, 2009, 2008, 2007, and 2006.

## Consolidated results

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **43,409** | 56,810 | 142,363 | 110,074 | 42,474 |
| Profit / (Loss) before taxation | **18,064** | 29,737 | (6,468) | (5,966) | (8,013) |
| Income tax expenses | **(2,201)** | (1,043) | (2,544) | (2,652) | 353 |
| Profit / (Loss) for the year | **15,863** | 28,694 | (9,012) | (8,618) | (7,660) |
| Attributable to: | | | | | |
| Equity holders of the Company | **13,761** | 20,063 | (18,751) | (9,117) | (7,649) |
| Minority interests | **2,102** | 8,631 | 9,739 | 499 | (11) |
| | **15,863** | 28,694 | (9,012) | (8,618) | (7,660) |

## Consolidated assets and liabilities and minority interests

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **392,680** | 292,488 | 312,961 | 216,949 | 127,170 |
| Total liabilities | **(39,884)** | (27,414) | (94,246) | (124,021) | (106,140) |
| Minority interests | **–** | (16,088) | (6,850) | (4,567) | (1,988) |
| | **352,796** | 248,986 | 211,865 | 88,361 | 19,042 |

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's issued share capital are set out in note 24 to the financial statements.

# Report of the Directors

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year under review, the Group further acquired 25% equity interests in Media Magic Technology Limited. The Media Magic Group is principally engaged in the provision of mobile payment gateway services.

Other than the above, the Group did not have any acquisition and disposal of subsidiaries and investments during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 36 to 37 of the annual report and in note 25 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 March 2010, the Company's reserves available for cash distribution and / or distribution in specie amounted HK$132,980,000 (2009: Nil), as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account with a balance of approximately HK$60,370,000 as at 31 March 2010 (2009: HK$181,041,000).

## EVENTS AFTER THE REPORTING PERIOD

In March 2010, the Company entered into (i) three share subscription agreements to allot and issue in aggregate 207,000,000 shares of the Company in cash at the placing price of HK$0.185 per placing share and (ii) three warrant subscription agreements to place in aggregate 207,000,000 warrants in cash at the warrant issue price of HK$0.003 per warrant. The warrantholders can subscribe the Company's shares at the subscription price of HK$0.182 per share for a period of three years commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share of the Company. The net proceeds from the share and warrant subscriptions will be applied towards business development of the payment gateway business and other related investments and general working capital of the Group.

The completion of the share subscription and warrant subscription took place in April 2010. Details of the transactions have been set out in the circular of the Company dated 23 March 2010.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, turnover made to the Group's two largest customers accounted for 100% (2009: 86%) of the total turnover for the year. Turnover made to the largest customer included therein accounted for 94% (2009: 81%) of the total turnover for the year.

During the year, the Group did not have any purchase (2009: Nil).

As far as the directors are aware, neither the directors of the Company, any of their associates nor any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interests in the Group's two largest customers during the year.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

| | |
|---|---|
| Mr. Chan Francis Ping Kuen | |
| Mr. Chan Hin Wing, James | |
| Mr. Hsu Tung Sheng | |
| Mr. Hsu Tung Chi | |
| Mr. Yuan Shengjun | (Appointed on 1 June 2009) |

### Non-executive director:

| | |
|---|---|
| Dr. Ho Hoi Lap | (Resigned on 1 June 2009) |

### Independent non-executive directors:

| | |
|---|---|
| Mr. Kwok Chi Sun, Vincent | |
| Mr. Yeung Kam Yan | |
| Mr. Cheung Chi Hwa, Justin | (Appointed on 15 January 2010) |
| Mr. Chan Kai Wing | (Resigned on 15 January 2010) |

# Report of the Directors

In accordance with Bye-law of the Company and the Appendix 15 of the GEM Listing Rules, Chan Francis Ping Kuen, Chan Hin Wing, James, Hsu Tung Sheng, Hsu Tung Chi, Yuan Shengjun, Kwok Chi Sun, Vincent and Yeung Kam Yan will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election; meanwhile, Cheung Chi Hwa, Justin shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company confirmed that it has received from each of its independent non-executive directors the annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and considered them to be independent as at the date of this report.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 and 11 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and independent non-executive directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, will continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

Save as aforesaid, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2010, the interests and short position of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

**(i) Interest in shares:**

| Name of director | Nature of interests | Number of the shares held | Approximate percentage of issued share capital |
|---|---|---|---|
| Chan Francis Ping Kuen | Beneficial | 13,000,000(L) | 0.55% |
| Chan Hin Wing, James | Beneficial | 11,000,000(L) | 0.47% |
| Hsu Tung Sheng | Beneficial | 11,900,000(L) | 0.51% |
| Hsu Tung Chi *(Note 1)* | Beneficial | 78,694,087(L) | 3.35% |
| Yuan Shengjun | Beneficial | 37,012,000(L) | 1.57% |

(L) denotes Long position

*Note:*

1. Mr. Hsu Tung Chi ("Mr. Hsu") is interested in 76,074,000 shares of the Company and 2,620,087 conversion shares to be issued pursuant to convertible notes issued by the Company.

**(ii) Interest in share options:**

| Name of director | Number of share options outstanding | Approximate percentage of issued share capital |
|---|---|---|
| Chan Francis Ping Kuen | 13,200,000* | 0.56% |
| | 2,160,000# | 0.09% |
| Chan Hin Wing, James | 3,840,000# | 0.16% |
| Hsu Tung Sheng | 3,840,000# | 0.16% |
| Hsu Tung Chi | 3,840,000# | 0.16% |
| Yuan Shengjun | 3,840,000# | 0.16% |

* The exercise price of the share options is HK$0.4333 per share with exercise period commencing from 14 August 2007 and ending on 13 August 2017.

\# The exercise price of the share options is HK$0.3875 per share with exercise period commencing from 21 December 2007 and ending on 20 December 2017.

Save as disclosed above, as at 31 March 2010, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by directors to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors and chief executive's interests in shares, underlying shares and debentures" above, at no time since the incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 March 2010, other than the interests of a director of the Company as disclosed under the heading "Directors and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

| Name | Nature of interests | Number of the shares held | Approximate percentage of issued share capital |
|---|---|---|---|
| Starryland Profits Limited *(Note 1)* | Beneficial | 537,354,000(L) | 22.84% |
| Lau Kim Hung, Jack *(Note 1)* | Interests in controlled corporation | 537,354,000(L) | 22.84% |
| | Beneficial | 11,208,000(L) | 0.48% |
| | Deemed | 1,200,000(L) | 0.05% |
| Chan Yiu Kan, Katie *(Note 1)* | Deemed | 548,562,000(L) | 23.32% |
| | Beneficial | 1,200,000(L) | 0.05% |

(L) denotes Long position

*Notes:*

1. Starryland Profits Limited, a company incorporated in BVI, is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"). Mr. Lau is deemed to be interested in 537,354,000 shares held by Starryland Profits Limited. In addition, by virtue of being the spouse of Ms. Chan Yiu Kan Katie, he is also deemed to be interested in 1,200,000 shares held by Ms. Chan Yiu Kan Katie.

   Ms. Chan Yiu Kan Katie, being the spouse of Mr. Lau, is deemed to be interested in 537,354,000 shares held by Starryland Profits Limited and 11,208,000 shares held by Mr. Lau.

Save as disclosed above, as at 31 March 2010, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, there is sufficient public float of the Company's issued shares as required under the Listing Rules throughout the year ended 31 March 2010.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 18 October 2001 pursuant to a written resolution of the Company. Details of the movements in the number of share options during the year under the scheme were as follows:

| Grantee | At 1 April 2009 | Granted during the year | Lapsed during the year | Exercised during the year | At 31 March 2010 | Date of grant | Share price of the Company at the grant date | Exercise price | Exercise period of share options |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Chan Hin Wing, James | 3,840,000 | – | – | – | 3,840,000 | 21 December 2007 | HK$0.465 | HK$0.3875* | 21 December 2007 to 20 December 2017 |
| | 11,000,000 | – | – | (11,000,000) | – | 1 December 2008 | HK$0.106 | HK$0.106 | 1 December 2008 to 30 November 2013 |
| Chan Francis Ping Kuen | 13,200,000 | – | – | – | 13,200,000 | 14 August 2007 | HK$0.520 | HK$0.4333* | 14 August 2007 to 13 August 2017 |
| | 2,160,000 | – | – | – | 2,160,000 | 21 December 2007 | HK$0.465 | HK$0.3875* | 21 December 2007 to 20 December 2017 |
| | 13,000,000 | – | – | (13,000,000) | – | 1 December 2008 | HK$0.106 | HK$0.106 | 1 December 2008 to 30 November 2013 |
| Hsu Tung Sheng | 3,840,000 | – | – | – | 3,840,000 | 21 December 2007 | HK$0.465 | HK$0.3875* | 21 December 2007 to 20 December 2017 |
| | 11,000,000 | – | – | (11,000,000) | – | 1 December 2008 | HK$0.106 | HK$0.106 | 1 December 2008 to 30 November 2013 |

| Grantee | At 1 April 2009 | Granted during the year | Lapsed during the year | Exercised during the year | At 31 March 2010 | Date of grant | Share price of the Company at the grant date | Exercise price | Exercise period of share options |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Hsu Tung Chi | 3,840,000 | – | – | – | 3,840,000 | 21 December 2007 | HK$0.465 | HK$0.3875* | 21 December 2007 to 20 December 2017 |
| | 11,000,000 | – | – | (11,000,000) | – | 1 December 2008 | HK$0.106 | HK$0.106 | 1 December 2008 to 30 November 2013 |
| Ho Hoi Lap | 13,200,000 | – | (13,200,000) | – | – | 14 August 2007 | HK$0.520 | HK$0.4333* | 14 August 2007 to 13 August 2017 |
| Yuan Shenjun | 3,840,000 | – | – | – | 3,840,000 | 21 December 2007 | HK$0.465 | HK$0.3875* | 21 December 2007 to 20 December 2017 |
| | 11,000,000 | – | – | (11,000,000) | – | 1 December 2008 | HK$0.106 | HK$0.106 | 1 December 2008 to 30 November 2013 |
| Sub-total | 100,920,000 | – | (13,200,000) | (57,000,000) | 30,720,000 | | | | |
| **Other employees** | | | | | | | | | |
| In aggregate | 22,800,000 | – | – | – | 22,800,000 | 17 December 2007 | HK$0.440 | HK$0.3775* | 17 December 2007 to 16 December 2017 |
| | 3,840,000 | – | – | – | 3,840,000 | 21 December 2007 | HK$0.465 | HK$0.3875* | 21 December 2007 to 20 December 2017 |
| | 13,000,000 | – | – | (13,000,000) | – | 1 December 2008 | HK$0.106 | HK$0.106 | 1 December 2008 to 30 November 2013 |
| **Consultants** | | | | | | | | | |
| In aggregate | 24,000,000 | – | – | – | 24,000,000 | 17 December 2007 | HK$0.440 | HK$0.3775* | 17 December 2007 to 16 December 2017 |
| Sub-total | 63,640,000 | – | – | (13,000,000) | 50,640,000 | | | | |
| Total | 164,560,000 | – | (13,200,000) | (70,000,000) | 81,360,000 | | | | |

* *These represented options granted to directors, employees and consultants with exercise prices ranging from HK$0.453 to HK$0.52 per share. The exercise price of these share options granted at the price of HK$0.453, HK$0.465 and HK$0.52 per share had been adjusted to HK$0.3775, HK$0.3875 and HK$0.4333 per share respectively for the effect of the bonus issue of the Company's shares.*

The Company operates a share option scheme (the "Scheme") for the purpose of recognising significant contributions of the employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the Scheme include any employees, consultants, suppliers or customers of the Company and its subsidiaries, including any independent non-executive directors of the Company. The Scheme became effective on 1 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period up to the date of grant, is limited to 1% of the shares of the Company in issue at that date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Any share option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to an eligible participant but may not be exercised after the expiry of 10 years from the date of grant of the share option.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option, which must be a business day, (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the option, or (iii) the nominal value of the Company's shares on the date of offer.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year under review, none of the directors or the management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

## CONTINUING CONNECTED TRANSACTION

Under a revolving facility letter signed between the Company and a then 51% owned subsidiary, Multi Channel Technology Limited on 15 June 2007, the Company agreed to conditionally grant the subsidiary a revolving facility up to a maximum amount of HK$22,000,000 at any time during each of the three financial years ended 31 March 2010 for financing the financial requirements of the subsidiary, for its working capital requirements and business development. The facility is interest-bearing at the best lending rate for Hong Kong dollar loan per annum as quoted from time to time by the Hongkong and Shanghai Banking Corporation Limited and secured by personal guarantees of two of the Company's directors, Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng, and a share charge on approximately 25.3% of equity interest of a then 51% owned subsidiary, Media Magic Technology Limited held by Winner Gain Investments Limited and Mr. Hsu Tung Chi. Both Multi Channel Technology Limited and Media Magic Technology Limited have become wholly-owned subsidiary of the Company since June 2009.

As at 31 March 2010, a total amount of HK$18,600,000 (2009: HK$18,600,000) had been utilised against this facility. During the year, loan interest income of HK$935,000 (2009: HK$1,239,000) in respect of this facility was received by the Company.

The foresaid continuing connected transaction has been reviewed by independent non-executive directors. The independent non-executive directors confirmed that the continuing connected transaction set out in above was entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or on terms no less favorable to the Company than terms available to or from independent third parties; and

3. in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the above transactions.

Save as disclosed herein were no other transactions required to be disclosed as connected transactions and / or continuing connected transactions in accordance with the requirements of the GEM Listing Rule.

Based on the work performed, the auditor of the Company has confirmed that nothing has come to their attention that cause them to believe the aforesaid continuing connected transaction on utilisation of revolving facility which determined to be HK$18,600,000 (a) has not been approved by the Board; (b) has not been entered into in accordance with the relevant agreement governing the transaction; and (c) had been exceed the annual cap of HK$22,000,000 for the year ended 31 March 2010 as disclosed in the circular in respect of the transaction.

# Report of the Directors

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31 March 2010 except that no nomination committee of the Board is established.

## AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 18 October 2001, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. During the year, the Committee comprises the three independent non-executive directors of the Company, namely, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Kai Wing, who resigned on 15 January 2010 and was replaced by Mr. Cheung Chi Hwa, Justin. During the year, the audit committee held four meetings to review and supervise the financial reporting process, and to provide advice and recommendations to the board of directors. The financial statements of the Group for the year ended 31 March 2010 have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## AUDITOR

The financial statements for the financial years ended 31 March 2008 and 2009 were audited by Vision A.S. Limited. Vision A.S. Limited, who acted as auditor of the Company since 23 August 2007, had resigned effective from 9 April 2010 and Mazars CPA Limited, *Certified Public Accountants*, was appointed as auditor of the Company on 29 April 2010 to fill the casual vacancy and to hold office until the conclusion of the forthcoming annual general meeting of the Company, who will retire and, being eligible, offer themselves for re-appointment.

ON BEHALF OF THE BOARD

**Chan Francis Ping Kuen**
*Executive Director*

Hong Kong
28 June 2010

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

Subject to the deviation as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

## CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 March 2010.

## BOARD OF DIRECTORS AND BOARD MEETINGS

The Board members for the year ended 31 March 2010 were:

### Executive directors:

| | |
|---|---|
| Mr. Chan Francis Ping Kuen | |
| Mr. Chan Hin Wing, James | |
| Mr. Hsu Tung Sheng | |
| Mr. Hsu Tung Chi | |
| Mr. Yuan Shengjun | (Appointed on 1 June 2009) |

### Non-executive director:

| | |
|---|---|
| Dr. Ho Hoi Lap | (Resigned on 1 June 2009) |

### Independent non-executive directors:

| | |
|---|---|
| Mr. Kwok Chi Sun, Vincent | |
| Mr. Yeung Kam Yan | |
| Mr. Cheung Chi Hwa, Justin | (Appointed on 15 January 2010) |
| Mr. Chan Kai Wing | (Resigned on 15 January 2010) |

The board of directors (the "Board") is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

# Corporate Governance Report

The directors' biographical information is set out on pages 10 and 11 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice. Every director should be subject to retirement by rotation at least once every three years.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

| **Directors** | | **Attendance** |
|---|---|---|
| Mr. Chan Francis Ping Kuen | | 4/4 |
| Mr. Chan Hin Wing, James | | 4/4 |
| Mr. Hsu Tung Sheng | | 4/4 |
| Mr. Hsu Tung Chi | | 4/4 |
| Mr. Yuan Shengjun | (Appointed on 1 June 2009) | 4/4 |
| Dr. Ho Hoi Lap | (Resigned on 1 June 2009) | 0/4 |
| Mr. Kwok Chi Sun, Vincent | | 4/4 |
| Mr. Yeung Kam Yan | | 4/4 |
| Mr. Cheung Chi Hwa, Justin | (Appointed on 15 January 2010) | 1/4 |
| Mr. Chan Kai Wing | (Resigned on 15 January 2010) | 3/4 |

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required.

## Chairman and Chief Executive Officer

The roles of Chairman and chief executive officer of the Company are segregated and are not exercised by the same individual, the chairman is responsible for leading the Board in formulating overall strategies of the Company, while the chief executive office is to manage the operation of the Group's business.

## Non-executive Director

Code provision A.4.1 provides that non-executive director should be appointed for a specific term and subject to re-election. The Company's non-executive director has been appointed for specific term and subject to re-election. The non-executive director, Dr. Ho Hoi Lap resigned on 1 June 2009.

## Remuneration of Directors

The remuneration committee was established in January 2006 with written terms of reference in compliance with the code provision. The remuneration committee consists of four members, of which three are independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Kai Wing, who resigned on 15 January 2010 and was replaced by Mr. Cheung Chi Hwa, Justin, and one is executive director being Mr. Chan Francis Ping Kuen. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

During the period under review, a meeting of the remuneration committee was held in February 2010. Details of the attendance of the meeting of the remuneration committee are as follows:

| **Members** | | **Attendance** |
|---|---|---|
| Mr. Chan Francis Ping Kuen | | 1/1 |
| Mr. Kwok Chi Sun, Vincent | | 1/1 |
| Mr. Yeung Kam Yan | | 1/1 |
| Mr. Cheung Chi Hwa, Justin | (Appointed on 15 January 2010) | 0/1 |
| Mr. Chan Kai Wing | (Resigned on 15 January 2010) | 1/1 |

## Nomination of Directors

No nomination committee was established by the Company. The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

## Auditor's Remuneration

The Company has appointed Mazars CPA Limited as the auditor of the Group (the "Auditor"). The Board is authorised in the annual general meeting to determine the remuneration of the Auditor. During the year, the Auditor only performed the work of statutory audit for the year ended 31 March 2010 and did not involve any non-audit assignment of the Group. The remuneration of the Auditor for the year ended 31 March 2010 is approximately HK$350,000.

# Corporate Governance Report

## Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to directors. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Kai Wing, who resigned on 15 January 2010 and was replaced by Mr. Cheung Chi Hwa, Justin, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

| **Members** | | **Attendance** |
|---|---|---|
| Mr. Kwok Chi Sun, Vincent | | 4/4 |
| Mr. Yeung Kam Yan | | 4/4 |
| Mr. Cheung Chi Hwa, Justin | (Appointed on 15 January 2010) | 1/4 |
| Mr. Chan Kai Wing | (Resigned on 15 January 2010) | 3/4 |

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 March 2010 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## Internal Control

The board is responsible for maintaining the Group's internal controls and for reviewing the effectiveness of these controls. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed,

In consideration of the size of the Group, the Board does not consider to establish an internal audit team at present. However, the key control procedures established by the Group are day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;

– regular financial information provided to management for reviewing the Group's performance;

– clearly defined management structure and lines of responsibility.

## Directors' and Auditor's Responsibility for the Financial Statements

The directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The auditor's responsibilities are set out in the Auditor's Report.

# Independent Auditor's Report

M A Z A R S

**MAZARS CPA LIMITED**
**瑪澤會計師事務所有限公司**
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To the shareholders of
**PALMPAY CHINA (HOLDINGS) LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Palmpay China (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 90, which comprise the consolidated and the Company's statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Mazars CPA Limited**
*Certified Public Accountants*
Hong Kong, 28 June 2010

**Eunice Y M Kwok**
Practising Certificate number: P04604

# Consolidated Statement of Comprehensive Income

*Year ended 31 March 2010*

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 5 | **43,409** | 56,810 |
| Cost of services rendered | | **(4,028)** | (6,483) |
| Gross profit | | **39,381** | 50,327 |
| Other revenue | 5 | **706** | 859 |
| Distribution costs | | **(2,035)** | (4,116) |
| Administrative expenses | | **(19,373)** | (17,191) |
| Finance costs | 6 | **(615)** | (142) |
| **Profit before taxation** | 7 | **18,064** | 29,737 |
| Income tax expenses | 10 | **(2,201)** | (1,043) |
| **Profit for the year** | 11 | **15,863** | 28,694 |
| **Other comprehensive income** | | | |
| Change in fair value of available-for-sale financial assets | | **(7,453)** | (1,734) |
| Exchange differences on consolidation | | **221** | 1,004 |
| | | **(7,232)** | (730) |
| **Total comprehensive income for the year** | | **8,631** | 27,964 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **13,761** | 20,063 |
| Minority interests | | **2,102** | 8,631 |
| | | **15,863** | 28,694 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **6,470** | 19,231 |
| Minority interests | | **2,161** | 8,733 |
| | | **8,631** | 27,964 |
| **Earnings per share** | 13 | | |
| Basic | | **HK0.70 cent** | HK1.29 cents |
| Diluted | | **HK0.70 cent** | HK1.28 cents |

# Consolidated Statement of Financial Position

*At 31 March 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **12,349** | 15,436 |
| Available-for-sale financial assets | 15 | **18,870** | 26,323 |
| Intangible assets | 17 | **35,861** | 10,768 |
| Goodwill | 18 | **209,627** | 145,592 |
| | | **276,707** | 198,119 |
| **Current assets** | | | |
| Inventories | 19 | **3,684** | – |
| Trade and other receivables | 20 | **90,789** | 84,384 |
| Restricted deposits | 21 | **2,399** | – |
| Bank balances and cash | | **19,101** | 9,985 |
| | | **115,973** | 94,369 |
| **Current liabilities** | | | |
| Accruals and other payables | 22 | **32,161** | 21,585 |
| Tax payable | | **4,640** | 2,896 |
| Convertible bonds | 23 | **3,083** | – |
| | | **39,884** | 24,481 |
| **Net current assets** | | **76,089** | 69,888 |
| **Total assets less current liabilities** | | **352,796** | 268,007 |
| **Non-current liabilities** | | | |
| Convertible bonds | 23 | **–** | 2,933 |
| **NET ASSETS** | | **352,796** | 265,074 |

# Consolidated Statement of Financial Position

*At 31 March 2010*

| | Note | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *24* | **117,611** | 78,318 |
| Reserves | | **235,185** | 170,668 |
| Equity attributable to equity holders of the Company | | **352,796** | 248,986 |
| Minority interests | | **–** | 16,088 |
| **TOTAL EQUITY** | | **352,796** | 265,074 |

*Approved and authorised for issue by the Board of Directors on 28 June 2010*

**Chan Francis Ping Kuen**
*Director*

**Chan Hin Wing James**
*Director*

# Statement of Financial Position

*At 31 March 2010*

| | Note | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 16 | **–** | – |
| **Current assets** | | | |
| Trade and other receivables | 20 | **73** | 73 |
| Due from subsidiaries | 16 | **303,822** | 228,804 |
| Bank balances and cash | | **18,806** | 6,740 |
| | | **322,701** | 235,617 |
| **Current liabilities** | | | |
| Accruals and other payables | 22 | **617** | 465 |
| Due to subsidiaries | 16 | **4,674** | 984 |
| Convertible bonds | 23 | **3,083** | – |
| | | **8,374** | 1,449 |
| **Net current assets** | | **314,327** | 234,168 |
| **Total assets less current liabilities** | | **314,327** | 234,168 |
| **Non-current liabilities** | | | |
| Convertible bonds | 23 | **–** | 2,933 |
| **NET ASSETS** | | **314,327** | 231,235 |
| **Capital and reserves** | | | |
| Share capital | 24 | **117,611** | 78,318 |
| Reserves | 25 | **196,716** | 152,917 |
| **TOTAL EQUITY** | | **314,327** | 231,235 |

*Approved and authorised for issue by the Board of Directors on 28 June 2010*

**Chan Francis Ping Kuen**
*Director*

**Chan Hin Wing James**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 March 2010*

| | | Attributable to equity holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | | | | |
| | *Note* | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Exchange reserve HK$'000 | Convertible bonds reserve HK$'000 | Employee share-based payment reserve HK$'000 | Warrant reserve HK$'000 | Available-for-sale financial assets reserve HK$'000 | Accumulated (losses) profits HK$'000 | Total reserves HK$'000 | Subtotal HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 April 2008 | | 64,117 | 179,624 | 6,015 | 2,314 | 443 | 3,736 | 1,340 | – | (45,724) | 147,748 | 211,865 | 6,850 | 218,715 |
| Partial disposal of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | 505 | 505 |
| Issue of consideration shares | *24(ii)* | 1,148 | 14,470 | – | – | – | – | – | – | – | 14,470 | 15,618 | – | 15,618 |
| Issue of bonus shares | *24(iii)* | 13,053 | (13,053) | – | – | – | – | – | – | – | (13,053) | – | – | – |
| Employee share-based payment | *27(i)* | – | – | – | – | – | 2,272 | – | – | – | 2,272 | 2,272 | – | 2,272 |
| Total comprehensive income for the year | | – | – | – | 902 | – | – | – | (1,734) | 20,063 | 19,231 | 19,231 | 8,733 | 27,964 |
| At 31 March 2009 | | 78,318 | 181,041 | 6,015 | 3,216 | 443 | 6,008 | 1,340 | (1,734) | (25,661) | 170,668 | 248,986 | 16,088 | 265,074 |

| | | Attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | | | | | |
| | *Note* | Share capital | Share premium | Contributed surplus | Exchange reserve | Convertible bonds reserve | Employee share-based payment reserve | Warrant reserve | Available-for-sale financial assets reserve | Statutory reserve | Accumulated (losses) profits | Total reserves | Subtotal | Minority interests | Total |
| | | HK$'000 | HK$'000 | 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 2009 | | 78,318 | 181,041 | 6,015 | 3,216 | 443 | 6,008 | 1,340 | (1,734) | – | (25,661) | 170,668 | 248,986 | 16,088 | 265,074 |
| Share premium reduction | *25(iv)* | – | (181,041) | 139,111 | – | – | – | – | – | – | 41,930 | – | – | – | – |
| Acquisition of additional interest in subsidiary from minority shareholders | *16* | – | – | – | 7 | – | – | – | – | – | (58) | (51) | (51) | (18,249) | (18,300) |
| Issue of consideration shares | *24(iv)* | 11,818 | 14,182 | – | – | – | – | – | – | – | – | 14,182 | 26,000 | – | 26,000 |
| Issue of convertible bonds | *23(ii)* | – | – | – | – | 5,362 | – | – | – | – | – | 5,362 | 5,362 | – | 5,362 |
| Conversion of convertible bonds | *23(ii)* | 18,975 | 30,496 | – | – | (5,362) | – | – | – | – | – | 25,134 | 44,109 | – | 44,109 |
| Exercise of share options | *27(ii)* | 3,500 | 6,192 | – | – | – | (2,272) | – | – | – | – | 3,920 | 7,420 | – | 7,420 |
| Lapse of share options | *27(iii)* | – | – | – | – | – | (813) | – | – | – | 813 | – | – | – | – |
| Issue of unlisted warrants | *26(ii)* | – | – | – | – | – | – | 750 | – | – | – | 750 | 750 | – | 750 |
| Exercise of unlisted warrants | *26(ii)* | 5,000 | 9,500 | – | – | – | – | (750) | – | – | – | 8,750 | 13,750 | – | 13,750 |
| Expiry of unlisted warrants | *26(i)* | – | – | – | – | – | – | (1,340) | – | – | 1,340 | – | – | – | – |
| Transfer of statutory reserve | *25(iii)* | – | – | – | – | – | – | – | – | 1,037 | (1,037) | – | – | – | – |
| Total comprehensive income for the year | | – | – | – | 162 | – | – | – | (7,453) | – | 13,761 | 6,470 | 6,470 | 2,161 | 8,631 |
| **At 31 March 2010** | | **117,611** | **60,370** | **145,126** | **3,385** | **443** | **2,923** | **–** | **(9,187)** | **1,037** | **31,088** | **235,185** | **352,796** | **–** | **352,796** |

# Consolidated Statement of Cash Flows

*Year ended 31 March 2010*

| | 2010 | 2009 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | **18,064** | 29,737 |
| Allowances for bad and doubtful debts | **4,236** | 2,389 |
| Depreciation of property, plant and equipment | **4,592** | 4,108 |
| Employee share-based payments | **–** | 2,272 |
| Finance costs | **615** | 142 |
| Interest income | **(4)** | (155) |
| Loss on partial disposal of subsidiaries, net | **–** | 55 |
| Property, plant and equipment written-off | **51** | 144 |
| Changes in working capital | | |
| Inventories | **(3,684)** | – |
| Trade and other receivables | **(10,421)** | (54,540) |
| Accruals and other payables | **10,193** | 8,743 |
| **Cash generated from (used in) operations** | **23,642** | (7,105) |
| Income taxes paid | **(465)** | – |
| **Net cash from (used in) operating activities** | **23,177** | (7,105) |
| **INVESTING ACTIVITIES** | | |
| Interest received | **4** | 155 |
| Acquisition of additional interest in subsidiaries *(Note)* | **(7,000)** | – |
| Partial disposal of subsidiaries | **–** | 450 |
| Purchases of property, plant and equipment | **(1,516)** | (3,295) |
| Purchases of intangible assets | **(25,066)** | – |
| Purchase of available-for-sale financial assets | **–** | (12,439) |
| **Net cash used in investing activities** | **(33,578)** | (15,129) |

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Proceeds from issue of unlisted warrants | **750** | – |
| Proceeds from shares issued upon exercise of unlisted warrants | **13,750** | – |
| Proceeds from shares issued under share-based payment | **7,420** | – |
| **Net cash from financing activities** | **21,920** | – |
| **Net increase (decrease) in cash and cash equivalents** | **11,519** | (22,234) |
| **Cash and cash equivalents at beginning of reporting period** | **9,985** | 31,752 |
| Effect on foreign exchange rate changes, net | **(4)** | 467 |
| **Cash and cash equivalents at end of reporting period** | **21,500** | 9,985 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Restricted deposits | **2,399** | – |
| Bank balances and cash | **19,101** | 9,985 |
| | **21,500** | 9,985 |

*Note:*

Details of the non-cash transactions in respect of the acquisition of additional interest in subsidiaries have been set out in note 24(iv) to the financial statements.

# Notes to the Financial Statements

*Year ended 31 March 2010*

## 1. CORPORATE INFORMATION

Palmpay China (Holdings) Limited (the "Company") is a limited liability company incorporated in Bermuda on 7 June 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda and its principal place of business is located at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 16 to the financial statements.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2009 financial statements except for the adoption of certain new / revised HKFRS effective from the current year that are relevant to the Company as detailed in note 3 to the financial statements.

A summary of the principal accounting policies adopted by the Group is set out in note 3 to the financial statements.

## 3. PRINCIPAL ACCOUNTING POLICIES

### Adoption of new / revised HKFRS

HKAS 1 (Revised): *Presentation of Financial Statements*

HKAS 1 (Revised) requires transactions with owners to be presented separately from all other income and expenses in a revised statement of changes in equity. The revised Standard however allows non-owner changes in equity to be shown in a single statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Group has elected to prepare one statement. In addition, the revised Standard requires that when comparative information is restated or reclassified, a statement of financial position as at the beginning of the comparative period, in addition to the statements of financial position as at the end of the current period and the comparative period, should be presented. Since the Group and the Company did not restate comparative information during the year, this new requirement has no impact on the financial statements.

HKAS 23 (Revised): *Borrowing costs*

HKAS 23 (Revised) eliminated the option to expense borrowing costs and requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Since the Group has not previously adopted the option to expense borrowing costs, the revised Standard has no impact on the financial statements.

Amendments to HKFRS 2: *Share-based payments – Vesting conditions and cancellations*

Amendments to HKFRS 2 clarify that vesting conditions include service and performance conditions only, and all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of these amendments had no impact on the financial statements.

Amendments to HKFRS 7 *Financial Instruments: Disclosures*

Amendments to HKFRS 7 require additional disclosure about fair value measurements and liquidity risk. The fair value measurement disclosures are presented in note 34 to the financial statements, and the liquidity risk disclosures are not significantly impacted by the amendments. The Group has taken advantage of the transitional provisions set out in the amendments, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments are not provided in the financial statements.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Adoption of new / revised HKFRS *(Continued)*

HKFRS 8: *Operating segments*

The standard, replacing HKAS 14: *Segment Reporting*, requires segment information to be reported based on internal information used by management to evaluate the performance of operating segments and allocate resources to those segments. Adoption of this standard did not have any effect on the Group's results of operations or financial position. The Group has determined that its operating segments are substantially the same as the business segments previously identified under HKAS 14.

### Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost except for available-for-sale financial assets, which are measured at fair value as explained in the accounting policies.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 March each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Minority interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity holders of the Company. Losses applicable to the minority shareholder in excess of the minority shareholder's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority shareholder has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less accumulated impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the date of acquisition, after reassessment, is recognised immediately in profit or loss.

### Intangible assets (other than goodwill)

The initial cost of intangible assets is capitalised. Intangible assets with indefinite useful lives is tested for impairment annually either individually or at the cash-generating unit level and are not amortised. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

### Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised over its useful lives of five years using the straight-line method.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately.

| | |
|---|---|
| Leasehold improvements | over the remaining lease terms |
| Furniture and fixtures | 20% |
| Computer and office equipment | 20% |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

### Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the financial asset and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

*Loans and receivables*

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to profit or loss. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

*Impairment of financial assets*

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets are impaired.

An allowance for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicator that the trade receivable is impaired.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Impairment of financial assets (Continued)*

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss in respect of available-for-sale equity instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

#### *Financial liabilities*

The Group's financial liabilities include accruals and other payables. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

### Convertible bond

The component of the convertible bond that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of issue costs.

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible bonds reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bonds reserve is transferred to share premium account or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bonds reserve is transferred to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Convertible bond *(Continued)*

Issue costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of proceeds.

### Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. For classification in the statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Income from provision of mobile payment gateway services is recognised when services are rendered.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollar, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Foreign currency translation *(Continued)*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;

- Income and expenses for each statement of comprehensive income are translated at average exchange rate;

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to determine whether its property, plant and equipment and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

### Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

### Employee benefits

*Defined contribution plans*

The obligations for contributions to defined contribution retirement scheme for the staff in Hong Kong are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Pursuant to the law and regulations of the People's Republic of China (the "PRC"), contributions to the defined contribution retirement schemes for the Group's PRC staff are made to the relevant government authorities in the PRC, which are calculated on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. These contributions are expensed as incurred.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Share-based payment transactions

*Equity-settled transactions*

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the Black-Scholes-Merton or the binomial model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the vesting conditions are to be fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to profit or loss for the year of the review, with a corresponding adjustment to the reserve within equity.

Where the terms of an equity-settled award are modified, an additional expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described above. Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

### Related parties / connected parties

A party is related to the Group if

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
(b) the party is an associate of the Group;
(c) the party is a joint venture in which the Group is a venturer;
(d) the party is a member of the key management personnel of the Group or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In addition, transactions with connected parties as defined under the Listing Rules are disclosed in the Directors' Report of this annual report.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

*Allowance for bad and doubtful debts*

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

*Impairment of investments and receivables*

The Company assesses annually if investments in subsidiaries have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Critical accounting estimates and judgements *(Continued)*

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of the estimates used to calculate the recoverable amount are given in note 18 to the financial statements.

*Impairment of assets*

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

### Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued the following new / revised HKFRS that are not yet effective for the current year, which the Group has not early adopted.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standard*[1] |
| HKFRS 1 Amendments | *Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2] |
| HKFRS 2 Amendments | *Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2] |
| HKFRS 3 (Revised) | *Business Combinations*[1] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKAS 24 (Revised) | *Related Party Disclosures*[5] |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements*[1] |
| HKAS 32 Amendment | *Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues*[3] |
| HKAS 39 Amendment | *Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1] |

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Future changes in HKFRS *(Continued)*

| | |
|---|---|
| HKFRIC 14 Amendments | *Amendments to HKFRIC 14 Prepayments of a Minimum Funding Requirement*[5] |
| HKFRIC 17 | *Distributions of Non-cash Assets to Owners*[1] |
| HKFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments*[4] |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2] |
| Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008 | *Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1] |
| HKFRS (Amendments – 2009) | *Improvements to HKFRS issued in May 2009*[7] |
| HKFRS (Amendments – 2010) | *Improvements to HKFRS issued in May 2010*[8] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
8 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

The directors are in the process of assessing the possible impact on the future adoption of these new and revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's financial statements.

## 4. SEGMENTAL INFORMATION

The Group manages its businesses by individual companies, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reporting segments. No operating segments have been aggregated to form the following reporting segments:

- the mobile payment gateway services segment providing e-payment services; and
- the diversified mobile value-added services segment providing software development services.

## 4. SEGMENTAL INFORMATION *(Continued)*

### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reporting segment on the following bases:

Segment assets include all tangible and intangible assets and current assets with the exception of other corporate assets. Segment liabilities include accruals and other payables to the service activities of the individual segments.

Revenue and expenses are allocated to the reporting segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arisen from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segments to another, including sharing assets, is not measured.

Information regarding to the Group's reporting segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2010 and 2009 is set out below.

| | Mobile payment gateway services | | Diversified mobile value-added services | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenue** | | | | | | |
| Services to external customers | **43,409** | 51,143 | **–** | 5,667 | **43,409** | 56,810 |
| **Segment results** | **26,911** | 33,432 | **–** | 4,627 | **26,911** | 38,059 |
| Unallocated income | | | | | **704** | 853 |
| Unallocated expenses | | | | | **(8,936)** | (9,033) |
| Unallocated finance costs | | | | | **(615)** | (142) |
| **Profit before taxation** | | | | | **18,064** | 29,737 |
| Income tax expenses | | | | | **(2,201)** | (1,043) |
| **Profit for the year** | | | | | **15,863** | 28,694 |

## 4. SEGMENTAL INFORMATION *(Continued)*

### (a) Segment results, assets and liabilities *(Continued)*

| | Mobile payment gateway services | | Diversified mobile value-added services | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Assets and liabilities** | | | | | | |
| Segment assets | **342,583** | 248,098 | **–** | 5,680 | **342,583** | 253,778 |
| Unallocated assets | | | | | **50,097** | 38,710 |
| Consolidated total assets | | | | | **392,680** | 292,488 |
| Segment liabilities | **28,176** | 22,214 | **–** | – | **28,176** | 22,214 |
| Unallocated liabilities | | | | | **11,708** | 5,200 |
| Consolidated total liabilities | | | | | **39,884** | 27,414 |
| **Other segment information** | | | | | | |
| Depreciation | | | | | | |
| – Segment | **3,975** | 3,916 | **–** | – | **3,975** | 3,916 |
| – Unallocated | | | | | **617** | 192 |
| | | | | | **4,592** | 4,108 |
| Capital expenditure | | | | | | |
| – Segment | **23,575** | 1,087 | **–** | – | **23,575** | 1,087 |
| – Unallocated | | | | | **3,007** | 2,208 |
| | | | | | **26,582** | 3,295 |
| Goodwill – addition | **64,035** | – | **–** | – | **64,035** | – |
| Allowance for bad and doubtful debts | **4,236** | 2,389 | **–** | – | **4,236** | 2,389 |

## 4. SEGMENTAL INFORMATION *(Continued)*

### (b) Geographic information

The Group's operations are principally located in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover and non-current assets other than available-for-sale financial assets by geographical place of provision of services:

| | The PRC | | Hong Kong | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenue** | | | | | | |
| Services to external customers | **43,409** | 53,410 | **–** | 3,400 | **43,409** | 56,810 |
| **Other segment information** | | | | | | |
| Non-current assets | **257,837** | 171,796 | **–** | – | **257,837** | 171,796 |

### (c) Information about major customers

For the year ended 31 March 2010, there was one (2009: one) customer, which accounted for over 10% of total revenue of the Group with revenue of HK$40,588,000 (2009: HK$46,129,000).

## 5. TURNOVER AND REVENUE

An analysis of the Group's turnover and revenue during the year is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Mobile payment gateway services | **43,409** | 51,143 |
| Diversified mobile value-added services | **–** | 5,667 |
| **Turnover** | **43,409** | 56,810 |
| Dividend income | **702** | 702 |
| Interest income | **4** | 155 |
| Sundry income | **–** | 2 |
| **Other revenue** | **706** | 859 |
| **Total turnover and revenue** | **44,115** | 57,669 |

## 6. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Interest on convertible bonds | **615** | 142 |

## 7. PROFIT BEFORE TAXATION

This is stated after charging:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Employee benefits expenses | | |
| (including directors' remuneration) | | |
| Salaries, allowances and benefits in kind | **6,136** | 5,617 |
| Contribution to defined contribution schemes | **1,555** | 383 |
| Employee share-based payment | **–** | 2,273 |
| | **7,691** | 8,273 |
| Auditor's remuneration | | |
| Current year | **350** | 309 |
| Underprovision in previous year | **146** | – |
| Cost of services rendered (including relevant employee benefits expenses and depreciation) | **4,028** | 6,483 |
| Depreciation of property, plant and equipment | **4,592** | 4,108 |
| Property, plant and equipment written-off | **51** | 144 |
| Exchange losses, net | **24** | 38 |
| Operating lease payment on premises | **296** | 933 |
| Allowances for bad and doubtful debts | **4,236** | 2,389 |

## 8. DIRECTORS' REMUNERATION

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Directors' fees | Salaries, allowances and benefits in kind | Contribution to defined contribution scheme | Employee share-based payment | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| *Executive directors* | | | | | |
| Chan Francis Ping Kuen | 120 | – | 6 | – | 126 |
| Chan Hin Wing James | 120 | – | 6 | – | 126 |
| Hsu Tung Chi | 120 | 544 | 1 | – | 665 |
| Hsu Tung Sheng | 120 | 346 | 1 | – | 467 |
| Yuan Shengjun (appointed on 1 June 2009) | 100 | 581 | – | – | 681 |
| | 580 | 1,471 | 14 | – | 2,065 |
| *Non-executive directors* | | | | | |
| Ho Hoi Lap (resigned on 1 June 2009) | 20 | – | 1 | – | 21 |
| *Independent non-executive directors* | | | | | |
| Chan Kai Wing (resigned on 15 January 2010) | 47 | – | – | – | 47 |
| Cheung Chi Hwa, Justin (appointed on 15 January 2010) | 13 | – | – | – | 13 |
| Kwok Chi Sun, Vincent | 60 | – | – | – | 60 |
| Yeung Kam Yan | 60 | – | – | – | 60 |
| | 180 | – | – | – | 180 |
| | 780 | 1,471 | 15 | – | 2,266 |

## 8. DIRECTORS' REMUNERATION (Continued)

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Contribution to defined contribution scheme HK$'000 | Employee share-based payment HK$'000 | Total HK$'000 |
| *Executive directors* | | | | | |
| Chan Francis Ping Kuen | – | 120 | 6 | 422 | 548 |
| Chan Hin Wing, James | – | 120 | 6 | 357 | 483 |
| Hsu Tung Chi (appointed on 12 March 2008) | – | 423 | 6 | 357 | 786 |
| Hsu Tung Sheng | – | 423 | 6 | 357 | 786 |
| | – | 1,086 | 24 | 1,493 | 2,603 |
| *Non-executive directors* | | | | | |
| Ho Hoi Lap | 120 | – | 6 | – | 126 |
| *Independent non-executive directors* | | | | | |
| Chan Kai Wing (appointed on 1 May 2008) | 55 | – | – | – | 55 |
| Chan Wing Chiu (resigned on 1 May 2008) | 5 | – | – | – | 5 |
| Kwok Chi Sun, Vincent | 60 | – | – | – | 60 |
| Yeung Kam Yan | 60 | – | – | – | 60 |
| | 180 | – | – | – | 180 |
| | 300 | 1,086 | 30 | 1,493 | 2,909 |

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2009: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the year (2009: Nil).

## 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2009: three) directors, details of whose remuneration are set out in note 8 to the financial statements above. Details of the remuneration of the remaining two (2009: two) highest paid individuals, who are employees of the Group, are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **629** | 1,126 |
| Employee share-based payment | **–** | 423 |
| Contribution to defined contribution scheme | **21** | 12 |
| | **650** | 1,561 |

The two highest paid individuals' remuneration fell within the following bands:

| | Number of employees | |
|---|---|---|
| **Band** | **2010** | 2009 |
| Nil to HK$1,000,000 | **2** | 2 |

During the year, no remuneration was paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

There was no arrangement under which any of the five highest paid individuals waived or agreed to waive any remuneration during the year (2009: Nil).

## 10. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year.

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Current year provision | | |
| PRC enterprise income tax | **2,201** | 2,677 |
| Overprovision in prior years | | |
| PRC enterprise income tax | **–** | (1,634) |
| Tax expense for the year | **2,201** | 1,043 |

**Reconciliation of effective tax rate**

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **%** | % |
| Applicable tax rate | **28.2** | 26.5 |
| Effect of tax concession | **(26.1)** | (21.0) |
| Non-deductible expenses | **9.6** | 3.0 |
| Non-taxable revenues | **(2.3)** | (1.8) |
| Unrecognised tax losses | **2.8** | 2.3 |
| Overprovision in the prior years | **–** | (5.5) |
| Tax expenses for the year | **12.2** | 3.5 |

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the group entities operate.

## 11. PROFIT FOR THE YEAR

The profit for the year ended 31 March 2010 includes a loss of HK$14,299,000 (2009: HK$7,013,000) which has been dealt with in the financial statements of the Company.

## 12. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year (2009: Nil).

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company and the weighted average number of the Company's ordinary shares in issue during the year as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit attributable to equity holders of the Company | **13,761** | 20,063 |

| | **Number of shares** | |
|---|---|---|
| | **2010** | 2009 |
| Weighted average number of ordinary shares in issue during the year | **1,967,767,689** | 1,561,920,415 |

For the year ended 31 March 2010, diluted earnings per share is the same as basic earnings per share as the potential ordinary shares issuable under the convertible bonds and share options have anti-dilutive effects on the basic earnings per share.

For the year ended 31 March 2009, the calculation of diluted earnings per share is based on the net profit attributable to equity holders of the Company for the year of HK$20,063,000 and the weighted average of 1,565,340,170 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Computer and office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2008 | 632 | 94 | 18,263 | 18,989 |
| Additions | – | – | 3,295 | 3,295 |
| Written-off | (463) | – | – | (463) |
| Exchange realignment | 13 | 2 | 397 | 412 |
| At 31 March 2009 and 1 April 2009 | 182 | 96 | 21,955 | 22,233 |
| Additions | – | – | 1,516 | 1,516 |
| Written-off | (182) | – | – | (182) |
| Exchange realignment | – | 1 | 56 | 57 |
| **At 31 March 2010** | **–** | **97** | **23,527** | **23,624** |
| **Accumulated depreciation** | | | | |
| At 1 April 2008 | 225 | 14 | 2,705 | 2,944 |
| Depreciation | 181 | 18 | 3,909 | 4,108 |
| Written-off | (319) | – | – | (319) |
| Exchange realignment | 4 | 1 | 59 | 64 |
| At 31 March 2009 and 1 April 2009 | 91 | 33 | 6,673 | 6,797 |
| Depreciation | 40 | 22 | 4,530 | 4,592 |
| Written-off | (131) | – | – | (131) |
| Exchange realignment | – | – | 17 | 17 |
| **At 31 March 2010** | **–** | **55** | **11,220** | **11,275** |
| **Net book value** | | | | |
| **At 31 March 2010** | **–** | **42** | **12,307** | **12,349** |
| At 1 April 2009 | 91 | 63 | 15,282 | 15,436 |

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted equity investments, at fair value | **18,870** | 26,323 |

At the end of the reporting period, the unlisted equity investment was revalued by BMI Appraisals Limited, independent professional valuers, on the market value basis using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position and the related changes in fair values, which are recorded in the consolidated statement of comprehensive income, are reasonable, and that they are the most appropriate values at the end of the reporting period.

During the year, the change in fair value of the Group's available-for-sale financial assets recognised in available-for-sale financial assets reserve amounted to HK$7,453,000 (2009: HK$1,734,000).

## 16. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **–** | – |
| Due from subsidiaries | **303,822** | 228,804 |
| Due to subsidiaries | **(4,674)** | (984) |
| | **299,148** | 227,820 |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows:

| Name of subsidiary | Place of incorporation / registration and operations | Nominal value of issued ordinary share / registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Upper Power Limited | British Virgin Islands | US$1 | 100% | – | Investment holding |
| Great Plan Group Limited | British Virgin Islands | US$1 | – | 55% | Investment holding |
| Victory Tech Limited | Hong Kong | HK$1 | – | 55% | Investment holding |
| Beijing Hu Lian Hui Zhong Technology Company Limited* 北京互聯匯眾科技有限公司 | The PRC | HK$4,000,000 | – | 55% | Provision of payment gateway services |
| Beaming Investments Limited | British Virgin Islands | US$1 | – | 100% | Investment holding |
| Media Magic Technology Limited | British Virgin Islands | US$55,556 | – | 100% (2009: 75%) | Investment holding |
| Multi Channel Technology Limited | Hong Kong | HK$100 | – | 100% (2009: 75%) | Investment holding |
| PalmPay Technology Company Limited* 北京互聯視通科技有限公司 | The PRC | RMB21,000,000 | – | 100% (2009: 75%) | Provision of mobile payment gateway services |

* *English translation of company names are for identification purpose only.*

In June 2009, the Group acquired additional 25% equity interests in Media Magic Technology Limited (“Media Magic”) and its subsidiaries (together referred as the “Media Magic Group”) at an aggregate consideration of HK$82,335,000, which was settled by cash of HK$7,000,000, the allotment and issue of 236,363,636 ordinary shares of the Company of HK$0.11 each in the amount of HK$26,000,000 and the issue of convertible bonds with the nominal value of HK$49,335,000. Upon the completion of the acquisition, the Group held 100% (2009: 75%) equity interests in Media Magic Group.

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment term except for an amount due from a subsidiary of HK$18,600,000 which bears interest at the best lending rate of Hong Kong dollar quoted by the Hong Kong Shanghai Banking Corporation Limited. The carrying amounts of the amounts due from (to) subsidiaries approximate their fair values.

## 17. INTANGIBLE ASSETS

**Group**

| | **Technical know-how** HK$'000 | **Computer software** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| **At cost** | | | |
| At 1 April 2008 | 10,539 | – | 10,539 |
| Exchange realignment | 229 | – | 229 |
| At 31 March 2009 and 1 April 2009 | 10,768 | – | 10,768 |
| Additions | – | 25,066 | 25,066 |
| Exchange realignment | 27 | – | 27 |
| **At 31 March 2010** | **10,795** | **25,066** | **35,861** |

### Technical know-how

The technical know-how, named 通用消息服務系統技術, is a newly developed technology from Short Message Sub-Gateway Services. The technical know-how is treated as having an indefinite useful life because, in the opinion of the directors, there is no foreseeable limit to the period over which the technical know-how may be used to generate cash flows to the Group. Technical know-how with indefinite useful lives is tested for impairment annually and is not amortised. The recoverable amounts of the technical know-how have been determined on the basis of value-in-use calculations. Its recoverable amounts are based on certain similar key assumptions set out in note 18 to the financial statements below. Since the recoverable amounts of the CGU exceed its carrying amounts based on value-in-use calculation, the technical know-how was not impaired during the year.

### Computer software

The computer software is related to the new generation of payment gateway platform, the online payment gateway platform based on the Near Field Communication Technology.

## 18. GOODWILL

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **At cost** | | |
| At 1 April | **145,592** | 222,392 |
| Additions | **64,035** | – |
| Adjustments to purchase consideration | **–** | (76,800) |
| At 31 March | **209,627** | 145,592 |

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position are arising from the acquisitions of subsidiaries, Media Magic Group. The adjustments to the purchase consideration in 2009 represented adjustment to the contingent consideration due to the shortfall in respect of the profit guarantee as stipulated in the sale and purchase agreements.

In June 2009, the Group acquired additional 25% equity interests in Media Magic at an aggregate consideration of HK$82,335,000. The difference of HK$64,035,000 between the consideration and the fair value of the share of the net assets of the subsidiaries acquired is recognised as goodwill.

Goodwill acquired through business combination is allocated to the Group's cash-generating units ("CGU") identified according to the country of operations and business segment as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Mobile payment gateway services | **209,627** | 145,592 |

### Impairment test on goodwill

The Group appointed an independent professional valuer, BMI Appraisal Limited, to perform an appraisal of the market value of the mobile payment gateway business as at 31 March 2010. The recoverable amount of the CGU has been determined based on a value-in-use calculation for the CGU. That calculation uses cash flow projections based on financial budgets approved by the board of directors covering a 5-year period. Cash flows beyond the 5-year period has been extrapolated using a 2% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

## 18. GOODWILL *(Continued)*

### Impairment test on goodwill *(Continued)*

Key assumptions used for value-in-use calculations are as follows:

| | Mobile payment gateway services | |
|---|---|---|
| | **2010** | 2009 |
| | **2010** | 2009 |
| | **%** | % |
| Gross margin | **88** | 86-91 |
| Average growth rate | **21-46** | 10-30 |
| Long-term growth rate | **2** | – |
| Discount rate | **12** | 12 |

Management determined the budgeted gross profit margin based on past performance and its expectation of market development. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

Apart from the considerations described above in determining the value-in-use of the CGU, the Company's management is not aware of any other probable changes that would necessitate changes in the key assumptions.

The recoverable amounts of the CGUs exceed their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year.

## 19. INVENTORIES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Finished goods | **3,684** | – |

## 20. TRADE AND OTHER RECEIVABLES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | *Note* | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Trade receivables from third parties** | *(i)* | **94,473** | 48,296 | **–** | – |
| Allowance for bad and doubtful debts | *(ii)* | **(6,606)** | (2,389) | **–** | – |
| | | **87,867** | 45,907 | **–** | – |
| **Other receivables** | | | | | |
| Prepayments, deposits and other receivables | | **2,922** | 38,477 | **73** | 73 |
| | | **90,789** | 84,384 | **73** | 73 |

(i) Included in the Group's trade and other receivables are the following amounts denominated in a currency other than the presentation currency of the Company to which they relate:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Renminbi | **87,867** | 68,841 |

(ii) Allowance for bad and doubtful debts

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At beginning of reporting period | **2,389** | – |
| Increase in allowance | **4,236** | 2,389 |
| Amount written-off | **(25)** | – |
| Exchange realignment | **6** | – |
| **At end of reporting period** | **6,606** | 2,389 |

The Group maintains a credit policy for their customers. Included in the Group's trade receivables balance are debtors with a carrying amount of HK$83,326,000 (2009: HK$39,136,000), which were past due at the end of the reporting period but not impaired as there has not been a significant change in credit quality and part of which has been subsequently settled.

## 20. TRADE AND OTHER RECEIVABLES *(Continued)*

(ii) Allowance for bad and doubtful debts *(Continued)*

At the end of the reporting period, the ageing analysis of the trade receivables (net of allowances for bad and doubtful debts) by overdue date is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Current | **4,541** | 6,771 |
| Less than 3 months past due | **8,941** | 13,907 |
| 3 months to 6 months past due | **13,811** | 9,827 |
| 6 months to 9 months past due | **14,675** | 7,282 |
| 9 months to 1 year past due | **20,546** | 5,758 |
| Over 1 year past due | **25,353** | 2,362 |
| | **83,326** | 39,136 |
| | **87,867** | 45,907 |

## 21. RESTRICTED DEPOSITS

Restricted deposits represent marginal deposits placed with a bank for the issue of the irrevocable letter of credit to a vendor, which are restricted as to use and expect to be released within 3 months from the end of the reporting period.

## 22. ACCRUALS AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$000** | HK$000 | **HK$000** | HK$000 |
| Accruals and other payables | **18,664** | 20,504 | **617** | 465 |
| Due to minority shareholders | **4,050** | – | **–** | – |
| Due to a shareholder | **636** | 635 | **–** | – |
| Due to directors | **8,811** | 446 | **–** | – |
| | **32,161** | 21,585 | **617** | 465 |

The amounts due to minority shareholders, a shareholder and directors are unsecured, interest-free and have no fixed repayment term.

Included in the accruals and other payables is an advance from an unrelated individual of approximately HK$568,000 (2009: HK$567,000) which is unsecured, interest-free and has no fixed repayment term.

## 23. CONVERTIBLE BONDS

The convertible bonds recognised at the end of the reporting period are calculated as follows:

| | | Group and Company | |
|---|---|---|---|
| | *Note* | **2010** | 2009 |
| | | **HK$'000** | HK$'000 |
| Liability component at 1 April | *(i)* | **2,933** | 2,791 |
| Nominal value of convertible bonds issued | *(ii)* | **49,335** | – |
| Equity component at the issue date | | **(5,362)** | – |
| Liability component at the issue date | | **43,973** | – |
| Conversion of convertible bonds | *(ii)* | **(44,108)** | – |
| Interest expenses | | **615** | 142 |
| Interest paid / payable | | **(330)** | – |
| **Liability component at 31 March** | | **3,083** | 2,933 |
| **Portion classified as non-current** | | **–** | (2,933) |
| **Current portion** | | **3,083** | – |
| Equity component at 1 April | *(i)* | **443** | 443 |
| Convertible bonds issued | *(ii)* | **5,362** | – |
| Conversion of convertible bonds | *(ii)* | **(5,362)** | – |
| **Equity component at 31 March** | | **443** | 443 |

## 23. CONVERTIBLE BONDS *(Continued)*

*Note:*

(i) Upon completion of the acquisition of 24% equity interests in Media Magic in December 2007, the Company had issued zero-coupon convertible bonds with a nominal value of HK$3,200,000 to the vendors as part of the consideration. The convertible bonds will be matured on the third anniversary from the date of issue.

The bondholders have the right to convert the whole or any part of (in multiples of HK$1,000,000) of the convertible bonds into shares at conversion price of HK$0.55 at any time and from time to time on condition that Media Magic Group could achieve an audited consolidated net profit after tax and exceptional items for the year ended 31 March 2009 of not less than HK$33,000,000 ("the Guaranteed Profit"). Based on the audited financial statements of Media Magic, Media Magic Group achieved the Guaranteed Profit and as a result, the condition was fulfilled.

After the bonus issue of the Company in August 2008, the conversion price is adjusted to HK$0.458.

No convertible bonds were converted into shares of the Company during the years ended 31 Mach 2010 and 2009.

(ii) Upon completion of the acquisition of 25% equity interests in Media Magic in June 2009, the Company had issued 1% convertible bonds with nominal value of HK$49,335,000 to the vendors as part of the consideration. The convertible bonds will be matured on the third anniversary from the date of issue.

The bondholder may convert the whole or part (in multiples of HK$1,000,000) of the convertible bonds into shares at conversion price of HK$0.13, subject to adjustments, from the date of issue up to the maturity date.

During the year, the convertible bonds with nominal value of HK$49,335,000 were fully converted into shares of the Company.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible bonds. The fair value of the liability component was calculated using a market interest rate of 5% (2009: 5%). The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

## 24. SHARE CAPITAL

| | Note | Group and Company | |
|---|---|---|---|
| | | **No. of shares** | HK$'000 |
| **Authorised:** | | | |
| At 1 April 2008, ordinary shares of HK$0.05 each | | **2,000,000,000** | 100,000 |
| Increase in authorised share capital | *(i)* | **2,000,000,000** | 100,000 |
| **At 31 March 2009 and 31 March 2010, ordinary shares of HK$0.05 each** | | **4,000,000,000** | 200,000 |
| **Issued and fully paid:** | | | |
| At 1 April 2008, ordinary shares of HK$0.05 each | | **1,282,345,278** | 64,117 |
| Issue of consideration shares | *(ii)* | **22,967,646** | 1,148 |
| Issue of bonus shares | *(iii)* | **261,062,584** | 13,053 |
| At 31 March 2009 and at 1 April 2009, ordinary shares of HK$0.05 each | | **1,566,375,508** | 78,318 |
| Issue of consideration shares | *(iv)* | **236,363,636** | 11,818 |
| Conversion of convertible bonds | *(v)* | **379,499,999** | 18,975 |
| Shares issued upon exercise of share options | *(vi)* | **70,000,000** | 3,500 |
| Shares issued upon exercise of unlisted warrants | *(vii)* | **100,000,000** | 5,000 |
| **At 31 March 2010, ordinary shares of HK$0.05 each** | | **2,352,239,143** | 117,611 |

*Note:*

(i) Pursuant to an ordinary resolution passed on 1 August 2008, the authorised share capital of the Company was increased to HK$200,000,000 by creation of an additional 2,000,000,000 ordinary share of HK$0.05 each, ranking pari passu in all respects with the existing share capital of the Company.

(ii) In May 2008, the Company completed the share exchange agreement, pursuant to which, the Company had agreed to purchase 2,000,000 ordinary shares of iPeer Multimedia International Limited ("iPear Multimedia") at a price of US$1 each, which was settled by the allotment and issuance of 22,967,646 new shares of the Company at a price of HK$0.68 per share.

## 24. SHARE CAPITAL *(Continued)*

*Note: (Continued)*

(iii) In June 2008, the Company proposed to make a bonus issue of share on the basis of one new ordinary share of HK$0.05, credited as fully paid, for every five existing shares held by the shareholders of the Company. The transaction was completed in August 2008.

(iv) In February 2009, the Company entered into sale and purchase agreement to acquire 25% equity interests in Media Magic at an aggregate consideration of HK$82,335,000, which was settled by cash of HK$7,000,000, the allotment and issue of 236,363,636 ordinary shares of the Company of HK$0.11 each in the amount of HK$26,000,000 and the issue of convertible bonds with the nominal value of HK$49,335,000. Further details of the sale and purchase agreement were also set out in a circular of the Company dated 27 May 2009. The transaction was completed in June 2009.

(v) During the year, the bondholders converted the convertible bonds with nominal value of HK$49,335,000 to 379,499,999 ordinary shares of the Company at the exercise price of HK$0.13 per share, detail of which are set out in note 23(ii) to the financial statements.

(vi) Details and the movements of the Company's share options are included in note 27 to the financial statements.

(vii) Details and the movements of the Company's unlisted warrants are included in note 26 to the financial statements.

All shares issued during the year rank pari passu with the existing shares in all respects.

## 25. RESERVES

**Company**

| | *Note* | **Share premium** HK$'000 | **Contri-buted surplus** HK$'000 | **Conver-tible bonds reserve** HK$'000 | **Employee share-based payment reserve** HK$'000 | **Warrant reserve** HK$'000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2008 | | 179,624 | 6,015 | 443 | 3,736 | 1,340 | (34,917) | 156,241 |
| Issue of consideration shares | *24(ii)* | 14,470 | – | – | – | – | – | 14,470 |
| Issue of bonus shares | *24(iii)* | (13,053) | – | – | – | – | – | (13,053) |
| Employee share-based payment | *27(i)* | – | – | – | 2,272 | – | – | 2,272 |
| Total comprehensive loss for the year | | – | – | – | – | – | (7,013) | (7,013) |
| At 31 March 2009 and at 1 April 2009 | | 181,041 | 6,015 | 443 | 6,008 | 1,340 | (41,930) | 152,917 |
| Share premium reduction | *25(iv)* | (181,041) | 139,111 | – | – | – | 41,930 | – |
| Issue of consideration shares | *24(iv)* | 14,182 | – | – | – | – | – | 14,182 |
| Issue of convertible bonds | *23(ii)* | – | – | 5,362 | – | – | – | 5,362 |
| Conversion of convertible bonds | *23(ii)* | 30,496 | – | (5,362) | – | – | – | 25,134 |
| Exercises of share options | *27(ii)* | 6,192 | – | – | (2,272) | – | – | 3,920 |
| Lapse of share options | *27(iii)* | – | – | – | (813) | – | 813 | – |
| Issue of unlisted warrants | *26(ii)* | – | – | – | – | 750 | – | 750 |
| Exercise of unlisted warrants | *26(ii)* | 9,500 | – | – | – | (750) | – | 8,750 |
| Expiry of unlisted warrants | *26(i)* | – | – | – | – | (1,340) | 1,340 | – |
| Total comprehensive loss for the year | | – | – | – | – | – | (14,299) | (14,299) |
| **At 31 March 2010** | | **60,370** | **145,126** | **443** | **2,923** | **–** | **(12,146)** | **196,716** |

## 25. RESERVES *(Continued)*

*Note:*

(i) Contributed surplus represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired and the nominal value of the Company's shares issued as consideration pursuant to the Group's reorganisation took place in 2001.

Under the Companies Act 1981 of Bermuda (as amended) ("Companies Act of the Bermuda"), the Company's contributed surplus is available for distribution to shareholders subject to the requirements of Companies Act of Bermuda.

(ii) Pursuant to the Companies Act of Bermuda, share premium of the Company is available for distribution to shareholders subject to the requirements of Companies Act of Bermuda.

(iii) The laws and regulations of the PRC require wholly foreign-owned enterprises in the PRC ("WFOE") to provide for certain statutory reserves, namely general reserve, enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the PRC statutory accounts.

The Group's subsidiaries in the PRC, which are WFOE, are required to allocate at least 10% of their after-tax profit to the general reserve until the reserve has reached 50% of its registered capital. The general reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority. The staff welfare and bonus fund can only be used for the welfare of the employees of the subsidiaries in the PRC. Appropriation to the enterprise expansion fund and staff welfare and bonus fund is at the discretion of the Board of Directors of the subsidiaries in the PRC.

During the year, the subsidiaries in the PRC had generated profits for appropriations, HK$1,073,000 (2009: Nil) of which has been transferred to statutory reserve.

(iv) Pursuant to the special resolution passed on 28 September 2009, the entire amount of HK$181,041,000 standing to the credit of the share premium account of the Company as at 31 March 2009 was cancelled for offset against the Company's accumulated losses of HK$41,931,000 as at 31 March 2009 and the remaining HK$139,111,000 was transferred to the contributed surplus account of the Company.

(v) As 31 March 2010, the aggregate amount of reserves available for distribution to the equity holders of the Company comprising the contributed surplus and accumulated losses amounted to HK$132,980,000 (2009: Nil).

## 26. WARRANTS

(i) In September 2007, the Company completed a private placing of 223,000,000 unlisted warrants at an issue price of HK$0.007 per warrant. The warrant holder can subscribe for one new share at the subscription of HK$0.543 per share within a period of 30 months from the date of issue of warrants. After the bonus issue on 12 August 2008, the number of unlisted warrants is adjusted to 267,304,635 and the subscription price is adjusted to HK$0.453 per share. The warrants were expired during the year and the warrant reserve was transferred to the accumulated losses thereafter.

(ii) On 31 July 2009, the Company completed a private placing of 100,000,000 unlisted warrants at an issue price of HK$0.0075 per warrant. The warrant holder can subscribe for one new share at the subscription of HK$0.1375 per share within a period of 3 years from the date of issue of warrants.

In March 2010, the unlisted warrants were fully exercised for a total cash consideration, before expenses, of HK$13,750,000.

## 27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of recognising significant contributions of the employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the Scheme include any employees, consultants, suppliers or customers of the Company and its subsidiaries, including any independent non-executive directors of the Company. The scheme became effective on 1 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period up to the date of grant, is limited to 1% of the shares of the Company in issue at that date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Any share option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to an eligible participant but may not be exercised after the expiry of 10 years from the date of grant of the share option.

## 27. SHARE OPTION SCHEME *(Continued)*

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option, which must be a business day, (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the option, or (iii) the nominal value of the Company's shares on the date of offer.

Movements on the number of share options outstanding during the year are as follows:

| | | Number of options | |
|---|---|---|---|
| | *Note* | **2010** | 2009 |
| At 1 April | | **164,560,000** | 78,800,000 |
| Adjustment for bonus issue of the Company's shares | | **–** | 15,760,000 |
| Granted during the year | *(i)* | **–** | 70,000,000 |
| Exercised during the year | *(ii)* | **(70,000,000)** | – |
| Lapsed during the year | *(iii)* | **(13,200,000)** | – |
| **At 31 March** | | **81,360,000** | 164,560,000 |

*Note:*

(i) In December 2008, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 70,000,000 shares under the Scheme at an exercise price of HK$0.106 per share.

(ii) During the year, the subscription rights attaching to 70,000,000 share options were exercised at subscription prices of HK$0.106 per share, resulting in the issue of 70,000,000 ordinary shares of HK$0.05 each for a total cash consideration before expenses of HK$7,420,000.

(iii) In June 2009, the share options to subscribe 13,200,000 shares of the Company were lapsed due to the resignation of a director, Mr. Ho Hoi Lap.

## 27. SHARE OPTION SCHEME *(Continued)*

Details of share options granted:

| Categories of grantees | Date of grant | Exercise period | Exercise price per share | Number of options | |
|---|---|---|---|---|---|
| | | | *HK$* | **2010** | 2009 |
| Directors | 1 December 2008 | 1 December 2008 to 30 November 2013 | 0.106 | – | 46,000,000 |
| Employees | 1 December 2008 | 1 December 2008 to 30 November 2013 | 0.106 | – | 24,000,000 |
| | | | | – | 70,000,000 |

Detail of share options, outstanding during the year, are as follows:

| Date of grant | Exercise period | Exercise price | Fair value at grant date |
|---|---|---|---|
| 14 August 2007 | 14 August 2007 to 13 August 2017 | HK$0.4333* | HK$0.06163 |
| 17 December 2007 | 17 December 2007 to 16 December 2017 | HK$0.3775* | HK$0.02871 |
| 21 December 2007 | 21 December 2007 to 20 December 2017 | HK$0.3875* | HK$0.03586 |
| 1 December 2008 | 1 December 2008 to 30 November 2013 | HK$0.106 | HK$0.0325 |

* *These represented options granted to directors, employees and consultants with exercise prices ranging from HK$0.453 to HK$0.52 per share. The exercise price of these share options granted at the price of HK$0.453, HK$0.465 and HK$0.52 per share had been adjusted to HK$0.3775, HK$0.3875 and HK$0.4333 per share respectively for the effect of the bonus issue of the Company's shares in August 2008.*

## 27. SHARE OPTION SCHEME *(Continued)*

Valuation models as discussed below were used to estimate the fair value of the options. The variances and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. Inputs to the valuation models are as follows:

| | Date of grant | | | |
|---|---|---|---|---|
| | **14 August 2007** | **17 December 2007** | **21 December 2007** | **1 December 2008** |
| Model | Black-Scholes–Merton | Black-Scholes–Merton | Black-Scholes–Merton | Binominal |
| Share price at grant date (HK$) | 0.520 | 0.440 | 0.465 | 0.106 |
| Exercise price (HK$) | 0.520 | 0.453 | 0.465 | 0.106 |
| Expected option period / option life | 1 year | 1 year | 1 year | 5 years |
| Expected volatility | 30.60% | 16.50% | 16.40% | 63.89% |
| Expected dividends | Nil | Nil | Nil | Nil |
| Risk-free interest rate | 4.48% | 4.48% | 4.48% | 2.007% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Last year, the Group recognised the total expenses of HK$2,272,000 in relation to share options granted by the Company. No share options were granted by the Company during the year.

## 28. RETIREMENT BENEFITS SCHEME

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The assets of the MPF Scheme are held separately in provident fund managed by independent trustee. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of monthly earnings of HK$20,000.

The Group's subsidiaries in the PRC also participate in defined contribution retirement schemes covering its PRC employees. The schemes are administered by the relevant government authorities which undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's PRC subsidiaries.

During the year, the amount of employer's contributions made by the Group to the defined contribution plans was approximately HK$1,555,000 (2009: HK$383,000).

## 29. DEFERRED TAXATION

The tax losses of HK$929,000 (2009: HK$929,000) arising in Hong Kong have no expiry date under current tax legislation.

The unrecognised tax losses arising in the PRC at the end of the reporting period which can be offset against future taxable profits of the respective subsidiaries for a maximum of 5 years will expire as follows:

| | HK$'000 |
|---|---|
| Within one year | 10 |
| In the second to third years | 339 |
| In the third to fourth years | 511 |
| In the fourth to fifth years | 1,602 |
| At end of the reporting period | 2,462 |

The Group has not recognised deferred tax asset in respect of tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## 30. OPERATING LEASE COMMITMENTS

The Group leases certain premises under operating lease commitments. Leases for premises are negotiated for terms ranging from 1 to 2 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within one year | **88** | 1,247 |
| In the second to fifth years inclusive | **–** | 415 |
| | **88** | 1,662 |

## 31. CAPITAL EXPENDITURE COMMITMENTS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided net of deposit paid for acquisition of property, plant and equipment | **455** | 3,713 |

## 32. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

In addition to the transactions / information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with connected and related parties:

| | | Group | |
|---|---|---|---|
| **Related party relationship** | **Nature of transaction** | **2010** | 2009 |
| | | **HK$'000** | HK$'000 |
| Key management personnel (excluding directors) | Salaries, allowances and benefits in kind | **437** | 420 |
| | Contribution to defined contribution scheme | **12** | 12 |
| | Employee share-based payment | **–** | 65 |
| | | **449** | 497 |

The Group shared the office premises of a related company, in which a director of the Company is an authorised representative, for free during the year. There was no such arrangement in previous year.

None of the above are connected transactions or continuing connected transactions as defined under the Listing Rules.

Under a revolving facility letter signed between the Company and a then 51% owned subsidiary, Multi Channel Technology Limited on 15 June 2007, the Company agreed to conditionally grant the subsidiary a revolving facility up to a maximum amount of HK$22,000,000 at any time during each of the three financial years ended 31 March 2010 for financing the financial requirements of the subsidiary, for its working capital requirements and business development. The facility is interest-bearing at the best lending rate for Hong Kong dollar loan per annum as quoted from time to time by the Hongkong and Shanghai Banking Corporation Limited and secured by personal guarantees of two of the Company's directors, Mr. Hsu Tung Chi and Mr. Hsu Tung Sheng, and a share charge on approximately 25.3% of equity interest of a then 51% owned subsidiary, Media Magic Technology Limited held by Winner Gain Investments Limited and Mr. Hsu Tung Chi. Both Multi Channel Technology Limited and Media Magic Technology Limited have become wholly-owned subsidiary of the Company since June 2009.

## 32. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS *(Continued)*

As at 31 March 2010, a total amount of HK$18,600,000 (2009: HK$18,600,000) had been utilised against this facility. During the year, loan interest income of HK$935,000 (2009: HK$1,239,000) in respect of this facility was received by the Company.

The facilities granted by the Company to its subsidiary constituted continuing connected transactions under the Listing Rules and the relevant disclosures are made in the Directors' Report of this annual report.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale financial assets, convertible bonds, warrants, and bank balances and cash. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and accruals and other payables, which arise directly from its business activities.

The accounting policies for financial instruments have been applied to the line items below:

| | **Available-for-sale financial assets** | | **Loans and receivables** | | | |
|---|---|---|---|---|---|---|
| | **Group** | | **Group** | | **Company** | |
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial assets as per consolidated statement of financial position** | | | | | | |
| Available-for-sale financial assets | **18,870** | 26,323 | **–** | – | **–** | – |
| Trade and other receivables | **–** | – | **90,789** | 84,384 | **73** | 73 |
| Due from subsidiaries | **–** | – | – | – | **303,822** | 228,804 |
| Restricted deposits | **–** | – | **2,399** | – | **–** | – |
| Bank balances and cash | **–** | – | **19,101** | 9,985 | **18,806** | 6,740 |
| Total | **18,870** | 26,323 | **112,289** | 94,369 | **322,701** | 235,617 |

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

| | Financial liabilities at amortised cost | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial liabilities as per consolidated statement of financial position** | | | | |
| Accruals and other payables | **32,161** | 21,585 | **617** | 465 |
| Due to subsidiaries | **–** | – | **4,674** | 984 |
| Convertible bonds | **3,083** | 2,933 | **3,083** | 2,933 |
| Total | **35,244** | 24,518 | **8,374** | 4,382 |

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to these risks to a minimum.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group resulting in a loss to the Group. The Group's credit risk is primarily attributable to trade receivables and bank balances.

A detailed discussion of the Group's credit risk in respect of trade receivables is set out in note 20 to the financial statements. The Group only provides services to customers with recognised, creditworthy third parties. Management closely monitors all outstanding debts and reviews the collectibility of trade debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Group does not hold any collateral over these assets.

At the end of the reporting period, the Group had a concentration of credit risk as 99% (2009:78%) and 100% (2009: 87%) of the total trade receivables were due from the Group's largest customer and the two largest customers respectively.

The Group's bank balances are placed with credit-worthy banks in Hong Kong and in the PRC.

### Interest rate risk

The Group's exposure to cash flow interest rate risk mainly arises from the fluctuation of the prevailing market interest rate on the bank balances. However, the management considers the Group's exposure to such interest rate risk is not significant as bank balances are all short-term in nature. No sensitivity analysis is prepared as the fluctuation and impact is considered immaterial.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Liquidity risk

Management of the Group aims at maintaining sufficient level of bank balances and cash to finance the Group's operations and expected expansion. The Group's primary cash requirements include payments for operating expenses and additions or upgrades of property, plant and equipment and intangible assets. The Group maintains a balance between continuity of funding and flexibility through the use of bank balances and convertible bonds.

The undiscounted contractual maturity profile of the Group's financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle the financial liabilities at the end of the reporting period is summarised below:

*Group*

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total carrying value | Total contractual undiscounted cash flow | On demand | Less than 1 year | Total carrying value | Total contractual undiscounted cash flow | On demand | Over 1 year |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Accruals and other payables | 32,161 | 32,161 | 32,161 | – | 21,585 | 21,585 | 21,585 | – |
| Convertible bonds | 3,083 | 3,200 | – | 3,200 | 2,933 | 3,200 | – | 3,200 |
| | 35,244 | 35,361 | 32,161 | 3,200 | 24,518 | 24,785 | 21,585 | 3,200 |

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

*(Continued)*

### Liquidity risk *(Continued)*

*Company*

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total carrying value | Total contractual undiscounted cash flow | On demand | Less than 1 year | Total carrying value | Total contractual undiscounted cash flow | On demand | Over 1 year |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Accruals and other payables | 617 | 617 | 617 | – | 465 | 465 | 465 | – |
| Due to subsidiaries | 4,674 | 4,674 | 4,674 | – | 984 | 984 | 984 | – |
| Convertible bonds | 3,083 | 3,200 | – | 3,200 | 2,933 | 3,200 | – | 3,200 |
| | 8,374 | 8,491 | 5,291 | 3,200 | 4,382 | 4,649 | 1,449 | 3,200 |

### Fair value

The carrying amounts of the Group's and the Company's financial assets and liabilities carried at other than fair value are not materially different from their fair values as at 31 March 2010.

## 34. FAIR VALUE DISCLOSURES

The following presents the carrying value of financial instruments measured at fair value at 31 March 2010 across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

## 34. FAIR VALUE DISCLOSURES *(Continued)*

**Assets measured at fair value**

| | **31 March 2010** HK$'000 | **Level 1** HK$'000 | **Level 2** HK$'000 | **Level 3** HK$'000 |
|---|---|---|---|---|
| Available-for-sale financial assets *(note 15)* | 18,870 | – | – | 18,870 |

During the year ended 31 March 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The only movement in the Level 3 equity shares since 1 April 2009 was a fair value decrease of approximately HK$7,453,000, which has been recorded in other comprehensive income.

**Assets measured at fair value based on Level 3**

*Fair value measurement at 31 March 2010:*

| **Unlisted equity investment** | **Available-for-sale financial assets** HK$'000 |
|---|---|
| Opening balance | 26,323 |
| Change in fair value recognised in other comprehensive income | (7,453) |
| Closing balance | 18,870 |
| Total change in fair value recognised in consolidated statement of comprehensive income for the year | (7,453) |

## 35. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 March 2010 and 2009.

## 36. EVENTS AFTER THE REPORTING PERIOD

In March 2010, the Company entered into (i) three share subscription agreements to allot and issue in aggregate 207,000,000 shares of the Company in cash at the placing price of HK$0.185 per placing share and (ii) three warrant subscription agreements to place in aggregate 207,000,000 warrants in cash at the warrant issue price of HK$0.003 per warrant. The warrantholders can subscribe the Company's shares at the subscription price of HK$0.182 per share for a period of three years commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share of the Company. The net proceeds from the share and warrant subscription will be applied towards business development of the payment gateway business and other related investments and general working capital of the Group.

The completion of the share subscription and warrant subscription took place in April 2010. Details of the transactions have been set out in the circular of the Company dated 23 March 2010.