Palmpay

anytime, anywhere, anything

Palmpay China (Holdings) Limited
(Incorporated in Bermuda with limited liability)
(Stock Code : 8047)

# Annual Report 2010-2011

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

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

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board 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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# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors*
Yuan Shengjun *(Chairman and 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

Flat 909, Building 1,
Taida Time Centre,
No.15 Guanghua Road,
Chaoyang District,
Beijing, China,
PC: 100026

## SHARE REGISTRARS AND TRANSFER OFFICERS

*Principal registrar*
HSBC Securities Services (Bermuda) Limited
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"), I hereby present the Annual Report of Palmpay China (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2011 to our shareholders.

## OPERATIONAL REVIEW

### Business and Operation Review

*Payment by deduction business*

During the year, the payment by deduction business of the Group was adversely affected by the prevailing rules and regulations in the PRC. While the Sony Felica related businesses have commenced during the year, the Board does not foresee any improvements on the payment by deduction business as a whole in the coming future. The Group has, once and for all, made significant impairment provision on the payment by deduction business.

With the China telecommunication operators' ongoing multi-billion dollar investment in upgrading the telecommunication network and infrastructure; the Group will capitalise on our existing resources and know-how in the telecommunication industry and will refocus its business to telecommunication related enhancement, maintenance, security and value-added peripheral business in the PRC.

*Acquisition of telecommunication optic fiber business*

The Group completed the acquisition of China Optic Communication Technology Limited ("China Optic") in February 2011 which is principally engaged in the provision of telecommunication optic fiber business to the telecommunication operators in the PRC.

China Optic's business partner has entered into agreements with China United Network Communications Group Co., Ltd. ("China Unicom") and China Telecommunications Corporation ("China Telecom") for the provision of optic fiber and maintenance services in Guangdong (廣東省), Anhui (安徽省), Shandong (山東省), Jiangsu (江蘇省) and Henan (河南省). The established relationship of the Group in the telecommunication related industries is well positioned to facilitate China Optic to penetrate into other provinces in the PRC. The Group believes the acquisition has laid down the foundations and networks for the development of such new business activities. It provides a base for the Group to penetrate into the telecommunication related enhancement, maintenance, security and value-added peripheral business.

## PROSPECTS

Despite at very high and painful costs, the Group has, once and for all, made the significant provision on the unpromising payment by deduction business and paved the way for the rationalizing of the Group's strategic business focus.

The Group will continue to explore investment opportunities in other telecommunication related enhancement maintenance, security and value-added peripheral business which the Group believes will have promising future and generate significant profitability in medium to long term.

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group and to those who have supported us. We will continue to make our best efforts in developing our businesses to produce good economic results and better return for our shareholders.

**Yuan Shengjun**
*Chairman*

Hong Kong, 27 June 2011

# Management Discussion and Analysis

## OPERATIONAL REVIEW

### Business and operation review

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## FINANCIAL REVIEW

### Results

The Group recorded a decrease of approximately 45.2% in its turnover for the year ended 31 March 2011 to approximately HK$23.8 million as compared to approximately HK$43.4 million in the previous year. The decrease in turnover was due to the adverse change in the payment industry in the PRC.

The Group recorded a decrease in gross profit of approximately 56.9% to HK$17.0 million in the current year as compared to approximately HK$39.4 million in the previous year mainly due to the decrease in turnover of the payment gateway services.

Net loss attributable to equity holders of the Company for the year amounted to approximately HK$328.6 million (2010 net profit of approximately: HK$13.8 million). Loss during the year was mainly due to the impairment loss of goodwill and allowance for bad and doubtful debts amounted HK$251.6 million and HK$48.3 million respectively.

## Liquidity, financial resources and capital structure

As at 31 March 2011, the Group had total assets of approximately HK$167.5 million (2010: HK$392.7 million), including net cash and bank balances of approximately HK$59.6 million (2010: HK$19.1 million).

For the year ended 31 March 2011, the Group financed its operations mainly with its own working capital and there was no general banking facilities (2010: Nil). There was no charge on the Group's assets as at 31 March 2011 (2010: Nil).

As at 31 March 2011, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero (2010: Nil). The Group had no bank borrowings as at 31 March 2011 (2010: Nil).

## Exposure to fluctuations in exchange rates and related hedges

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 2011, the Group had no foreign exchange contracts, interests or currency swaps or other financial derivatives for hedging purposes.

## Charge on Group assets

As at 31 March 2011, the Group did not have any charge on its assets (2010: Nil).

## Segment information

The revenue of the Group comprises the provision of payment gateway services and manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment.

As to the geographical segments, sale of the Group generated in the PRC market was approximately HK$23.8 million during the year ended 31 March 2011. (2010: HK$43.4 million in the PRC)

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

# Management Discussion and Analysis

## 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 (2010: Nil).

Please also refer to note 15 to the consolidated 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 acquired 50.1% equity interests in China Optic Communication Technology Limited and its subsidiaries. China Optic Communication Technology Limited and its subsidiaries are principally engaged in manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment in the PRC.

Details of the acquisition are disclosed in the Company's announcements dated 25 January 2011 and 27 January 2011.

## 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 2011. 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 2011.

## Employees and remuneration policies

As at 31 March 2011, the Group had 79 (2010: 51) employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK$4.9 million for the year ended 31 March 2011 (2010: 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

**Yuan Shengjun,** aged 39, was appointed as an executive director and chief executive officer of the Company on 1 June 2009 and redesignated as chairman of the Company on 1 January 2011. 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 (the "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 payment gateway services in the PRC.

**Chan Francis Ping Kuen,** aged 52, 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.

**Chan Hin Wing, James,** aged 62, was appointed as an executive director of the Company 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 37 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.

**Hsu Tung Chi,** aged 42, was appointed as an executive director of the Company 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 Technology Limited and its subsidiaries which are currently principally engaged in the provision of payment gateway services in the PRC. He is an executive director of China Digital Licensing (Group) Limited (Stock Code: 8175), whose shares are listed on GEM.

# Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Kwok Chi Sun, Vincent,** aged 48, 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 six 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, Evergreen International Holdings Limited and China Digital Licensing (Group) Limited, the former five named companies are listed on main board of the Stock Exchange while the last named company is listed on GEM.

**Yeung Kam Yan,** aged 58, 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 9 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 57, 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: 183, formerly known as Maxitech International Holdings Limited and FX Creations International Holdings Limited) respectively. The former named company is listed on GEM while the last named company is listed on the main board of the Stock Exchange.

## 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 2011.

## 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 consolidated 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 consolidated financial statements in this annual report.

## RESULTS AND DIVIDENDS

The Group's result for the year ended 31 March 2011 are set out in the consolidated statement of comprehensive income in this annual report on page 27.

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 2011 and of the assets, liabilities and minority interests of the Group as at 31 March 2011, 2010, 2009, 2008 and 2007.

### Consolidated results

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **23,786** | 43,409 | 56,810 | 142,363 | 110,074 |
| (Loss) / Profit before taxation | **(327,722)** | 18,064 | 29,737 | (6,468) | (5,966) |
| Income tax expenses | **(1,412)** | (2,201) | (1,043) | (2,544) | (2,652) |
| (Loss) / Profit for the year | **(329,134)** | 15,863 | 28,694 | (9,012) | (8,618) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(328,601)** | 13,761 | 20,063 | (18,751) | (9,117) |
| Non-controlling interests | **(533)** | 2,102 | 8,631 | 9,739 | 499 |
| | **(329,134)** | 15,863 | 28,694 | (9,012) | (8,618) |

# Report of the Directors

## Consolidated assets and liabilities and non-controlling interests

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **167,451** | 392,680 | 292,488 | 312,961 | 216,949 |
| Total liabilities | **(43,756)** | (39,884) | (27,414) | (94,246) | (124,021) |
| Non-controlling interests | **(4,309)** | – | (16,088) | (6,850) | (4,567) |
| | **119,386** | 352,796 | 248,986 | 211,865 | 88,361 |

## 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 consolidated financial statements.

## SHARE CAPITAL

In March 2010, the Company entered into three share subscription agreements with Magic Galaxy Limited, Ampio Investments Limited and Max Achieve Limited. Pursuant to which, those subscribers agreed to subscribe and the Company agreed to allot and issue in aggregate 207,000,000 ordinary shares of HK$0.05 each in the share capital of the Company in cash at the placing price of HK$0.185 per placing share. The share subscription took place in April 2010. The issue was made to provide additional funding to strengthen the financial position of the Group for any future business development of payment gateway services and other related investments, which would be beneficial and in the interest of the Group and the shareholders as a whole.

Details of movements in the Company's issued share capital are set out in note 25 to the consolidated financial statements.

## ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, the Group has acquired 50.1% equity interests in China Optic Communication Technology Limited and its subsidiaries. China Optic Communication Technology Limited and its subsidiaries are principally engaged in manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment in the PRC.

Other than the above, the Group did not have any acquisition and disposal of subsidiaries 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 31 to 32 of the annual report and in note 26 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 March 2011, the Company's reserves available for cash distribution and / or distribution in specie amounted to zero (2010: HK$132,980,000), 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$135,870,000 as at 31 March 2011 (2010: HK$60,370,000) may be distributed in form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, turnover made to the Group's five largest customers accounted for 89% (2010: 100%) of the total turnover for the year. Turnover made to the largest customer included therein accounted for 26% (2010: 94%) of the total turnover for the year.

During the year, purchases from the Group's five largest suppliers accounted 98% (2010: Nil) of the total purchases for the year. Purchases from the Group's largest supplier included therein accounted for 69% (2010: Nil) of the total purchases for the year.

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 five largest customers and suppliers during the year.

## DIRECTORS

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

### Executive directors:

Mr. Yuan Shengjun *(Chairman and Chief Executive Officer)*
Mr. Chan Francis Ping Kuen
Mr. Chan Hin Wing, James
Mr. Hsu Tung Chi
Mr. Hsu Tung Sheng (Resigned on 1 January 2011)

# Report of the Directors

## Independent non-executive directors:

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

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

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 9 and 10 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.

## RELATED AND CONNECTED PARTY TRANSACTION

Except otherwise disclosed in note 33 to the consolidated financial statements the Group had no transactions which need to be disclosed as connected transaction in accordance with the requirements of the GEM Listing Rules.

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

As at 31 March 2011, 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 directors | Nature of interests | Number of the shares held | Approximate percentage of issued share capital |
|---|---|---|---|
| Yuan Shengjun | Beneficial | 7,402,400(L) | 1.18% |
| Hsu Tung Chi | Beneficial | 15,214,800(L) | 2.42% |

(L) denotes Long position

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

| Name of directors | Number of share options outstanding | Approximate percentage of issued share capital |
|---|---|---|
| Yuan Shengjun | 768,000# | 0.12% |
| Chan Francis Ping Kuen | 2,640,000* | 0.42% |
| | 432,000# | 0.07% |
| Chan Hin Wing, James | 768,000# | 0.12% |
| Hsu Tung Chi | 768,000# | 0.12% |

* The exercise price of the share options is HK$2.1665 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$1.9375 per share with exercise period commencing from 21 December 2007 and ending on 20 December 2017.

Save as disclosed above, as at 31 March 2011, 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 2011, 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 | 123,452,341(L) | 19.67% |
| Lau Kim Hung, Jack *(Note 1)* | Interests in controlled corporation | 123,452,341(L) | 19.67% |
| | Beneficial | 2,241,600(L) | 0.36% |
| | Deemed | 240,000(L) | 0.04% |
| Chan Yiu Kan, Katie *(Note 1)* | Deemed | 125,693,941(L) | 20.03% |
| | Beneficial | 240,000(L) | 0.04% |

(L) denotes Long position

*Note:*

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 123,452,341 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 240,000 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 123,452,341 shares held by Starryland Profits Limited and 2,241,600 shares held by Mr. Lau.

Save as disclosed above, as at 31 March 2011, 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 2011.

## 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 2010 | Consolidation of share *(Note 1)* | Granted during the year | Lapsed during the year | Exercised during the year | At 31 March 2011 | Date of grant | Share price of the Company at the grant date | Exercise price | Exercise period of share options |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Yuan Shengjun | 3,840,000 | (3,072,000) | – | – | – | 768,000 | 21 December 2007 | HK$0.465 | HK$1.9375* | 21 December 2007 to 20 December 2017 |
| Chan Francis Ping Kuen | 13,200,000 | (10,560,000) | – | – | – | 2,640,000 | 14 August 2007 | HK$0.520 | HK$2.1665* | 14 August 2007 to 13 August 2017 |
| | 2,160,000 | (1,728,000) | – | – | – | 432,000 | 21 December 2007 | HK$0.465 | HK$1.9375* | 21 December 2007 to 20 December 2017 |
| Chan Hin Wing, James | 3,840,000 | (3,072,000) | – | – | – | 768,000 | 21 December 2007 | HK$0.465 | HK$1.9375* | 21 December 2007 to 20 December 2017 |

| Grantee | At 1 April 2010 | Consolidation of Share *(Note 1)* | Granted during the year | Lapsed during the year | Exercised during the year | At 31 March 2011 | 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 | (3,072,000) | – | – | – | 768,000 | 21 December 2007 | HK$0.465 | HK$1.9375* | 21 December 2007 to 20 December 2017 |
| Hsu Tung Sheng | 3,840,000 | (3,072,000) | – | (768,000) | – | – | 21 December 2007 | HK$0.465 | HK$1.9375* | 21 December 2007 to 20 December 2017 |
| Sub-total | 30,720,000 | (24,576,000) | – | (768,000) | – | 5,376,000 | | | | |
| Other employees In aggregate | 22,800,000 | (18,240,000) | – | – | – | 4,560,000 | 17 December 2007 | HK$0.440 | HK$1.8875* | 17 December 2007 to 16 December 2017 |
| | 3,840,000 | (3,072,000) | – | – | – | 768,000 | 21 December 2007 | HK$0.465 | HK$1.9375* | 21 December 2007 to 20 December 2017 |
| Consultants In aggregate | 24,000,000 | (19,200,000) | – | – | – | 4,800,000 | 17 December 2007 | HK$0.440 | HK$1.8875* | 17 December 2007 to 16 December 2017 |
| Sub-total | 50,640,000 | (40,512,000) | – | – | – | 10,128,000 | | | | |
| Total | 81,360,000 | (65,088,000) | – | (768,000) | – | 15,504,000 | | | | |

*Note:*

1. Pursuant to an ordinary resolution passed in a special general meeting held on 28 January 2011, every five shares of HK$0.05 each in the issued share capital of the Company were consolidated into one issued consolidated share of HK$0.25 each.

* 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$1.8875, HK$1.9375 and HK$2.1665 per share respectively for the effect of the bonus issue and share consolidation 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.

## 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 2011 except that no nomination committee of the Board is established.

# Report of the Directors

## 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. 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 2011 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 consolidated financial statements for the financial year ended 31 March 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
27 June 2011

# Corporate Governance Report

## 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 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 2011 except that no nomination committee of the Board is established.

## 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 2011.

## BOARD OF DIRECTORS AND BOARD MEETINGS

The Board members for the year ended 31 March 2011 were:

### Executive directors:

Mr. Yuan Shengjun *(Chairman and Chief Executive Officer)*
Mr. Chan Francis Ping Kuen
Mr. Chan Hin Wing, James
Mr. Hsu Tung Chi
Mr. Hsu Tung Sheng (Resigned on 1 January 2011)

### Independent non-executive directors:

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

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 9 and 10 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. Yuan Shengjun | | 4/4 |
| Mr. Chan Francis Ping Kuen | | 4/4 |
| Mr. Chan Hin Wing, James | | 4/4 |
| Mr. Hsu Tung Chi | | 4/4 |
| Mr. Hsu Tung Sheng | (Resigned on 1 January 2011) | 3/4 |
| Mr. Kwok Chi Sun, Vincent | | 4/4 |
| Mr. Yeung Kam Yan | | 4/4 |
| Mr. Cheung Chi Hwa, Justin | | 4/4 |

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

Since 1 January 2011, the roles of Chairman and Chief Executive Officer of the Company has been performed by Mr. Yuan Shengjun. The board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership is conducive to making and implementing decisions quickly and consistently The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as chief executive officer when it considers appropriate.

## 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. 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 January 2011. 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 | 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 performed the work of statutory audit and non-audit assignment for the Group for the year ended 31 March 2011 amounted to approximately HK$450,000 and HK$35,000 respectively.

## 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. Cheung Chi Hwa, Justin, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

# Corporate Governance Report

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 | 4/4 |

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 March 2011 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

MAZARS

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
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18 Harbour Road, Wan Chai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
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Website網址: www.mazars.com.hk

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 (together the "Group") set out on pages 27 to 92, which comprise the consolidated and the Company's statement of financial position as at 31 March 2011, 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 information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 of the Group as at 31 March 2011 and of the Group's loss 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, 27 June 2011

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

# Consolidated Statement of Comprehensive Income

*Year ended 31 March 2011*

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 5 | **23,786** | 43,409 |
| Cost of services rendered and cost of goods sold | | **(6,812)** | (4,028) |
| Gross profit | | **16,974** | 39,381 |
| Other revenue | 5 | **19** | 706 |
| Other income | 6 | **3,954** | – |
| Selling and distribution costs | | **(3,145)** | (2,035) |
| Administrative expenses | | **(76,934)** | (19,373) |
| Other operating expenses | | **(268,473)** | – |
| Finance costs | 7 | **(117)** | (615) |
| **(Loss) Profit before taxation** | 7 | **(327,722)** | 18,064 |
| Income tax expenses | 10 | **(1,412)** | (2,201) |
| **(Loss) Profit for the year** | | **(329,134)** | 15,863 |
| **Other comprehensive (loss) income for the year, net of tax** | | | |
| Available-for-sale financial assets | | | |
| Change in fair value | | **(6,163)** | (7,453) |
| Reclassification adjustments for gain on disposals | | **(618)** | – |
| Exchange differences on consolidation | | **5,320** | 221 |
| | | **(1,461)** | (7,232) |
| **Total comprehensive (loss) income for the year** | | **(330,595)** | 8,631 |
| **(Loss) Profit attributable to:** | | | |
| Equity holders of the Company | 11 | **(328,601)** | 13,761 |
| Non-controlling interests | | **(533)** | 2,102 |
| | | **(329,134)** | 15,863 |
| **Total comprehensive (loss) income attributable to:** | | | |
| Equity holders of the Company | | **(330,370)** | 6,470 |
| Non-controlling interests | | **(225)** | 2,161 |
| | | **(330,595)** | 8,631 |
| | | | *(restated)* |
| **(Loss) Earnings per share** | 13 | | |
| Basic | | **(HK60.32 cents)** | HK3.5 cents |
| Diluted | | **(HK60.32 cents)** | HK3.5 cents |

# Consolidated Statement of Financial Position

*At 31 March 2011*

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **5,879** | 12,349 |
| Available-for-sale financial assets | *15* | **389** | 18,870 |
| Intangible assets | *17* | **31,047** | 35,861 |
| Goodwill | *18* | **14,308** | 209,627 |
| | | **51,623** | 276,707 |
| **Current assets** | | | |
| Inventories | *19* | **6,730** | 3,684 |
| Trade and other receivables | *20* | **49,470** | 90,789 |
| Restricted deposits | *21* | **–** | 2,399 |
| Bank balances and cash | *21* | **59,628** | 19,101 |
| | | **115,828** | 115,973 |
| **Current liabilities** | | | |
| Trade and other payables | *22* | **33,164** | 32,161 |
| Tax payable | | **5,892** | 4,640 |
| Convertible bonds | *23* | **–** | 3,083 |
| | | **39,056** | 39,884 |
| **Net current assets** | | **76,772** | 76,089 |
| **Total assets less current liabilities** | | **128,395** | 352,796 |
| **Non-current liabilities** | | | |
| Promissory note | *24* | **4,700** | – |
| **NET ASSETS** | | **123,695** | 352,796 |

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *25* | **31,381** | 117,611 |
| Reserves | | **88,005** | 235,185 |
| Equity attributable to equity holders of the Company | | **119,386** | 352,796 |
| Non-controlling interests | | **4,309** | – |
| **TOTAL EQUITY** | | **123,695** | 352,796 |

*Approved and authorised for issue by the Board of Directors on 27 June 2011*

**Chan Francis Ping Kuen**
*Director*

**Chan Hin Wing James**
*Director*

# Statement of Financial Position

*At 31 March 2011*

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | *16* | **–** | – |
| **Current assets** | | | |
| Other receivables | *20* | **73** | 73 |
| Due from subsidiaries | *16* | **59,586** | 303,822 |
| Bank balances and cash | *21* | **56,010** | 18,806 |
| | | **115,669** | 322,701 |
| **Current liabilities** | | | |
| Other payables | *22* | **799** | 617 |
| Due to subsidiaries | *16* | **4,020** | 4,674 |
| Convertible bonds | *23* | **–** | 3,083 |
| | | **4,819** | 8,374 |
| **Net current assets** | | **110,850** | 314,327 |
| **Total assets less current liabilities** | | **110,850** | 314,327 |
| **Non-current liabilities** | | | |
| Promissory note | *24* | **4,700** | – |
| **NET ASSETS** | | **106,150** | 314,327 |
| **Capital and reserves** | | | |
| Share capital | *25* | **31,381** | 117,611 |
| Reserves | *26* | **74,769** | 196,716 |
| **TOTAL EQUITY** | | **106,150** | 314,327 |

*Approved and authorised for issue by the Board of Directors on 27 June 2011*

**Chan Francis Ping Kuen**
*Director*

**Chan Hin Wing James**
*Director*

# Consolidated Statement of Changes in Equity

*Year ended 31 March 2011*

| | Attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | | | | | |
| | 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 | Statutory reserve HK$'000 | Accumulated (losses) profits HK$'000 | Total reserves HK$'000 | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total HK$'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 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 13,761 | 13,761 | 13,761 | 2,102 | 15,863 |
| **Other comprehensive income (loss)** | | | | | | | | | | | | | | |
| Change in fair value of available-for-sale financial assets | – | – | – | – | – | – | – | (7,453) | – | – | (7,453) | (7,453) | – | (7,453) |
| Exchange difference on consolidation | – | – | – | 162 | – | – | – | – | – | – | 162 | 162 | 59 | 221 |
| Total comprehensive income (loss) for the year | – | – | – | 162 | – | – | – | (7,453) | – | 13,761 | 6,470 | 6,470 | 2,161 | 8,631 |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Share premium reduction | – | (181,041) | 139,111 | – | – | – | – | – | – | 41,930 | – | – | – | – |
| Acquisition of additional interest in subsidiary from non-controlling interests | – | – | – | 7 | – | – | – | – | – | (58) | (51) | (51) | (18,249) | (18,300) |
| Issue of consideration shares | 11,818 | 14,182 | – | – | – | – | – | – | – | – | 14,182 | 26,000 | – | 26,000 |
| Issue of convertible bonds | – | – | – | – | 5,362 | – | – | – | – | – | 5,362 | 5,362 | – | 5,362 |
| Conversion of convertible bonds | 18,975 | 30,496 | – | – | (5,362) | – | – | – | – | – | 25,134 | 44,109 | – | 44,109 |
| Exercise of share options | 3,500 | 6,192 | – | – | – | (2,272) | – | – | – | – | 3,920 | 7,420 | – | 7,420 |
| Lapse of share options | – | – | – | – | – | (813) | – | – | – | 813 | – | – | – | – |
| Issue of unlisted warrants | – | – | – | – | – | – | 750 | – | – | – | 750 | 750 | – | 750 |
| Exercise of unlisted warrants | 5,000 | 9,500 | – | – | – | – | (750) | – | – | – | 8,750 | 13,750 | – | 13,750 |
| Expiry of unlisted warrants | – | – | – | – | – | – | (1,340) | – | – | 1,340 | – | – | – | – |
| Transfer of statutory reserve | – | – | – | – | – | – | – | – | 1,037 | (1,037) | – | – | – | – |
| | 39,293 | (120,671) | 139,111 | 7 | – | (3,085) | (1,340) | – | 1,037 | 42,988 | 58,047 | 97,340 | (18,249) | 79,091 |
| 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 Changes in Equity

*Year ended 31 March 2011*

| | | Attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | | | | | |
| | | 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 | Non-controlling interests | Total |
| | *Note* | 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 2010 | | 117,611 | 60,370 | 145,126 | 3,385 | 443 | 2,923 | – | (9,187) | 1,037 | 31,088 | 235,185 | 352,796 | – | 352,796 |
| Loss for the year | | – | – | – | – | – | – | – | – | – | (328,601) | (328,601) | (328,601) | (533) | (329,134) |
| **Other comprehensive income (loss)** | | | | | | | | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | | | | | | | | |
| Change in fair value | | – | – | – | – | – | – | – | (6,163) | – | – | (6,163) | (6,163) | – | (6,163) |
| Reclassification adjustments for gain on disposal | | – | – | – | – | – | – | – | (618) | – | – | (618) | (618) | – | (618) |
| Exchange difference on consolidation | | – | – | – | 5,012 | – | – | – | – | – | – | 5,012 | 5,012 | 308 | 5,320 |
| Total comprehensive income (loss) for the year | | – | – | – | 5,012 | – | – | – | (6,781) | – | (328,601) | (330,370) | (330,370) | (225) | (330,595) |
| **Transaction with owners** | | | | | | | | | | | | | | | |
| Issue of shares upon private placing | *25(i)* | 10,350 | 27,945 | – | – | – | – | – | – | – | – | 27,945 | 38,295 | – | 38,295 |
| Issue of unlisted warrants | *27(i)* | – | – | – | – | – | – | 621 | – | – | – | 621 | 621 | – | 621 |
| Exercise of unlisted warrants | *27(i)* | 6,350 | 15,915 | – | – | – | – | (381) | – | – | – | 15,534 | 21,884 | – | 21,884 |
| Redemption of convertible bonds | *23(i)* | – | – | – | – | (443) | – | – | – | – | 443 | – | – | – | – |
| Share consolidation and capital reduction | *25(iii)* | (107,450) | – | 107,450 | – | – | – | – | – | – | – | 107,450 | – | – | – |
| Issue of consideration shares | *25(iv)* | 4,520 | 31,640 | – | – | – | – | – | – | – | – | 31,640 | 36,160 | – | 36,160 |
| Lapse of share options | *28(i)* | – | – | – | – | – | (138) | – | – | – | 138 | – | – | – | – |
| Transfer of statutory reserve | *26(viii)* | – | – | – | – | – | – | – | – | 1,384 | (1,384) | – | – | – | – |
| Acquisition of subsidiaries | *34* | – | – | – | – | – | – | – | – | – | – | – | – | 4,534 | 4,534 |
| | | (86,230) | 75,500 | 107,450 | – | (443) | (138) | 240 | – | 1,384 | (803) | 183,190 | 96,960 | 4,534 | 101,494 |
| **At 31 March 2011** | | **31,381** | **135,870** | **252,576** | **8,397** | **-** | **2,785** | **240** | **(15,968)** | **2,421** | **(298,316)** | **88,005** | **119,386** | **4,309** | **123,695** |

# Consolidated Statement of Cash Flows

*Year ended 31 March 2011*

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| (Loss) Profit before taxation | | **(327,722)** | 18,064 |
| Allowances for bad and doubtful debts | | **48,282** | 4,236 |
| Depreciation of property, plant and equipment | | **5,341** | 4,592 |
| Gain on disposal of available-for-sale financial assets | | **(1,523)** | – |
| Impairment loss of property, plant and equipment | | **5,670** | – |
| Impairment loss of intangible assets | | **11,176** | – |
| Impairment loss of goodwill | | **251,627** | – |
| Interest income | | **(19)** | (4) |
| Finance costs | | **117** | 615 |
| Property, plant and equipment written-off | | **–** | 51 |
| Other receivables written-off | | **1,404** | – |
| Other payables written-back | | **(2,431)** | – |
| Changes in working capital | | | |
| Inventories | | **(1,390)** | (3,684) |
| Trade and other receivables | | **13,294** | (10,421) |
| Trade and other payables | | **(8,608)** | 10,193 |
| Exchange difference | | **147** | – |
| **Cash (used in) generated from operations** | | **(4,635)** | 23,642 |
| Income taxes paid | | **(1,170)** | (465) |
| **Net cash (used in) from operating activities** | | **(5,805)** | 23,177 |
| **INVESTING ACTIVITIES** | | | |
| Interest received | | **19** | 4 |
| Acquisition of subsidiaries | *34* | **(19,703)** | – |
| Acquisition of additional interest in subsidiaries | | **–** | (7,000) |
| Purchase of property, plant and equipment | | **(687)** | (1,516) |
| Purchase of intangible assets | | **(4,471)** | (25,066) |
| Disposal of available-for-sale financial assets | | **11,019** | – |
| **Net cash used in investing activities** | | **(13,823)** | (33,578) |

# Consolidated Statement of Cash Flows

*Year ended 31 March 2011*

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Proceeds from issue of unlisted warrants | **621** | 750 |
| Proceeds from shares issued upon private placing | **38,295** | – |
| Proceeds from shares issued upon exercise of unlisted warrants | **21,884** | 13,750 |
| Proceeds from shares issued under share-based payment scheme | **–** | 7,420 |
| Redemption of convertible bonds | **(3,200)** | – |
| **Net cash from financing activities** | **57,600** | 21,920 |
| **Net increase in cash and cash equivalents** | **37,972** | 11,519 |
| **Cash and cash equivalents at beginning of reporting period** | **21,500** | 9,985 |
| Effect on foreign exchange rate changes, net | **156** | (4) |
| **Cash and cash equivalents at end of reporting period** | **59,628** | 21,500 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Restricted deposits | **–** | 2,399 |
| Bank balances and cash | **59,628** | 19,101 |
| | **59,628** | 21,500 |

*Note:*

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, the Group entered into the following non-cash investing activity:

- During the year, the Group disposed of part of its available-for-sale financial assets at a total consideration of HK$13,223,000. Sales proceeds of HK$2,204,000 had not been received in cash at the end of the reporting period.

# Notes to the Consolidated Financial Statements

*Year ended 31 March 2011*

## 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 are 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 consolidated financial statements.

## 2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2010 consolidated financial statements except for the adoption of certain new / revised HKFRSs effective from the current year that are relevant to the Group as detailed in note 3 to the consolidated financial statements.

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

## 3. PRINCIPAL ACCOUNTING POLICIES

### Adoption of new / revised HKFRSs

Amendments to HKFRS 2: *Group Cash-settled Share-based Payment Transactions*
The Amendments incorporate the guidance in HK(IFRIC) – Int 8: *Scope of HKFRS 2* and HK(IFRIC) – Int 11: *HKFRS 2 – Group and Treasury Share Transactions*. In addition to this, the Amendments provide further guidance on the accounting for share-based payment transactions among group entities. It states that the entity receiving the goods or services should recognise the transaction as an equity-settled share-based transaction only if:

- the awards granted are its own equity instruments; or

- it has no obligation to settle the transaction.

In all other circumstances, the entity should measure the transaction as a cash-settled share-based payment. The adoption of the Amendments does not have a significant impact to the Group.

HKFRS 3 (Revised): *Business Combinations / Improvements to HKFRSs 2009 with amendments to HKFRS 3 (Revised)*
The revised Standard introduces a number of major changes including the following:

- acquisition-related transaction costs, other than share and debt issue costs, to be expensed as incurred;

- existing interest in the acquiree to be remeasured at fair value, with the gain or loss recognised in profit or loss, upon subsequent changes in ownership interests;

- non-controlling interests in the acquiree to be measured at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree;

- contingent consideration to be recognised at fair value at the acquisition date; and

- goodwill to be measured at the excess of the aggregate of the acquisition-date fair value of the acquirer's interest in the acquiree and the amount of any non-controlling interests over the net of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed from the acquisition.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 or HKAS 37, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

The Improvements to HKFRSs 2009 contain amendments to clarify the measurement of the fair value of an intangible asset acquired in a business combination and to permit the grouping of intangible assets as a single asset if each asset has a similar useful economic life.

The Group amended its accounting policies in relation to business combinations in order to bring them in line with the requirements under HKFRS 3 (Revised). The new accounting policies are set out in the notes below. In accordance with the relevant transitional provisions in HKFRS 3 (Revised), the Group has applied these new policies prospectively to business combinations for which the acquisition date is on or after 1 April 2010.

HKAS 27 (Revised): *Consolidated and Separate Financial Statements*
The revised Standard requires accounting for changes in ownership interests in a subsidiary, while maintaining control, to be recognised as an equity transaction. It also requires, when the group loses control of a subsidiary, any interest retained in the former subsidiary to be remeasured at fair value with the gain or loss recognised in profit or loss.

The revised Standard also requires that total comprehensive income is attributed to the equity holders of the Company and non-controlling interests even if it results in the non-controlling interests having a deficit balance. This revised Standard affects the Group's accounting policy for total comprehensive income attributable to the non-controlling interests. As the Group has applied the amendment prospectively, the previously reported results of the Group are not restated on the adoption of this revised Standard.

HK – Int 5: *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*
The Interpretation concludes that, if a term loan (i.e. a loan that is repayable on a specified date or in installments over a specified period, usually in excess of one year) has a demand clause (i.e. a clause that gives the lender an overriding right to demand repayment without notice or with notice period of less than 12 months at its sole discretion) in its terms, the loan shall be classified by the borrower as a current liability in the statement of financial position. Similarly, the amounts repayable under such a term loan shall be classified in the earliest time bracket in the contractual maturity analysis as required to be disclosed under HKFRS 7: *Financial Instruments: Disclosures*. The adoption of this Interpretation has not resulted in the Group reclassifying its term loans.

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

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

Improvements to HKFRSs 2009
Improvements to HKFRSs 2009 contain improvements to a number of Standards aiming to remove inconsistencies and clarify wording in the Standards.

- Amendments to HKAS 1 (Revised): *Current / non-current classification of convertible instruments*
  The Amendments clarify that the terms of a liability that could result, at any time, in its settlement by the issue of equity instruments at the option of the counterparty do not affect its classification.

- Amendments to HKAS 7: *Classification of expenditures on unrecognised assets*
  The Amendments provide that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

- Amendments to HKFRS 5: *Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations*
  The Amendments clarify that the disclosures required in respect of non-current assets or disposal groups classified as held for sale or discontinued operations are only those set out in HKFRS 5. The disclosure requirements of other HKFRSs only apply if specifically required for such non-current assets or discontinued operations.

- Amendments to HKAS 36: *Unit of accounting for goodwill impairment test*
  The Amendments clarify that the largest unit permitted for allocating goodwill acquired in a business combination for impairment testing is an operating segment, as defined in HKFRS 8 before aggregation for reporting purposes.

- Amendments to HKFRS 8: *Disclosure of information about segment assets*
  The Amendments clarify that the disclosure of segment assets is required only if that measure is regularly reported to the chief operating decision maker.

The adoption of the Improvements does not have a significant impact to the Group.

### Basis of measurement

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

### 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 ceases.

# 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Basis of consolidation *(Continued)*

Non-controlling interests 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. For each business combination occurs on or after 1 April 2010, the non-controlling interests in the acquiree are measured initially either at fair value or at their proportionate share of the acquiree's net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. For each business combination occurred prior to 1 April 2010, the non-controlling interests in the acquiree were measured at their proportionate share of the acquiree's net assets.

*Allocation of total comprehensive income*

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. From 1 April 2010, total comprehensive income is attributed to the equity holders of the Company and the non-controlling interests even if it results in the non-controlling interests having a deficit balance. Prior to 1 April 2010, losses applicable to the non-controlling interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

*Changes in ownership interest*

From 1 April 2010, changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

From 1 April, 2010, when the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary is recognised on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary is accounted for as a financial asset, associate, jointly controlled entity or others as appropriate from the date when control is lost.

Prior to 1 April 2010, the Group applied a policy of treating transactions with non-controlling interests as transactions with parties external to the Group and thus the excess amount of any consideration paid over the carrying value of the non-controlling interests acquired was recognised as goodwill. For decreases in the Group's ownership interest in a subsidiary, regardless of whether the disposals would result in a loss of control, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss.

## 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

From 1 April 2010, goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary. Prior to 1 April 2010, goodwill represented the excess of the cost of 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 a 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.

From 1 April 2010, in respect of a subsidiary, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as a bargain purchase. Prior to 1 April 2010, any excess of the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary over the related cost of acquisition, after reassessment, was recognised immediately in profit or loss.

### Intangible assets (other than goodwill)

The initial cost of acquiring intangible assets is capitalised. Intangible assets that have indefinite useful lives or that are not yet available for use are carried at cost less accumulated impairment losses and 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.

# 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Intangible assets (other than goodwill) *(Continued)*

*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 profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised over a period determined by its useful life.

## 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 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.

| | |
|---|---|
| Plant and machinery | 10% |
| 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.

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

### 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.

*Loans and receivables*

Loans and receivables including bank balances and cash, 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.

# 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

## Financial instruments *(Continued)*

*Impairment of financial assets (Continued)*

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.

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 is 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 trade and other payables, convertible bonds and promissory note. 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 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 services is recognised when services are rendered.

Sale of goods is recognised on transfer of risk and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

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 dollars, 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. Foreign exchange gains and losses resulting from the retranslation of non-monetary items carried at fair value are recognised in profit or loss except for those arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the gains or losses are also recognised directly in equity.

# 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, cost of conversion and 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.

## Impairment of other assets

At the end of each reporting period, internal and external sources of information will be reviewed to determine whether property, plant and equipment, intangible assets 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).

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

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

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. All other leases are classified as finance leases.

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

Lease incentives are recognised in profit or loss as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

### 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

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.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

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.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

## 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 consolidated 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.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### Related 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;
(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.

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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.

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

### Segment reporting *(Continued)*

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 consolidated 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 trade receivables. 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. At the end of the reporting period, the carrying amount of trade receivables after provision for impairment amounted to HK$38,185,000 *(2010: HK$87,867,000)*.

*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 entities 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.

*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 consolidated financial statements.

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

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

*Impairment of other 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 HKFRSs

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

| | |
|---|---|
| Amendments to HKFRS 1 (Revised) | *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[1] |
| HK(IFRIC) – Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[1] |
| HKAS 24 (Revised) | *Related Party Disclosures*[2] |
| Amendments to HK(IFRIC) – Int 14 | *Prepayments of a Minimum Funding Requirement*[2] |
| Improvements to HKFRSs 2010 | *Improvements to HKFRSs 2010*[3] |
| Amendments to HKFRS 7 | *Disclosures – Transfer of Financial Assets*[4] |
| Amendments to HKFRS 1 (Revised) | *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4] |
| Amendments to HKAS 12 | *Deferred Tax: Recovery of Underlying Assets*[5] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKAS 27 (2011) | *Separate Financial Statements*[6] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[6] |
| HKFRS 10 | *Consolidated Financial Statements*[6] |
| HKFRS 11 | *Joint Arrangements*[6] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[6] |
| HKFRS 13 | *Fair Value Measurement*[6] |

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

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

[1] Effective for annual periods beginning on or after 1 July 2010

[2] Effective for annual periods beginning on or after 1 January 2011

[3] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

[4] Effective for annual periods beginning on or after 1 July 2011

[5] Effective for annual periods beginning on or after 1 January 2012

[6] Effective for annual periods beginning on or after 1 January 2013

The directors are in the process of assessing the possible impact on the future adoption of these new / revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group's consolidated 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:

- Payment gateway services segment providing e-payment services; and

- Telecommunication optic fiber segment manufacturing and trading of products related to optimal optical fibers, electric power network systems and equipment and providing associated services.

### (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 allocated assets with the exception of available-for-sale financial assets and other corporate assets. Segment liabilities include trade and other payables attributable to the sales / 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 arise from the depreciation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

## 4. SEGMENTAL INFORMATION *(Continued)*

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

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 2011 and 2010 is set out below.

| | Payment gateway business | | Telecommunication optic fiber business | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenue** | | | | | | |
| Sale / Services to external customers | **17,510** | 43,409 | **6,276** | – | **23,786** | 43,409 |
| **Segment results** | **(282,677)** | 26,911 | **(37,884)** | – | **(320,561)** | 26,911 |
| Unallocated income | | | | | **1,530** | 704 |
| Unallocated expenses | | | | | **(8,574)** | (8,936) |
| Unallocated finance costs | | | | | **(117)** | (615) |
| **(Loss) Profit before taxation** | | | | | **(327,722)** | 18,064 |
| Income tax expenses | | | | | **(1,412)** | (2,201) |
| **(Loss) Profit for the year** | | | | | **(329,134)** | 15,863 |
| **Assets and liabilities** | | | | | | |
| Segment assets | **67,533** | 342,583 | **41,118** | – | **108,651** | 342,583 |
| Unallocated assets | | | | | **58,800** | 50,097 |
| Consolidated total assets | | | | | **167,451** | 392,680 |
| Segment liabilities | **18,655** | 28,176 | **8,929** | – | **27,584** | 28,176 |
| Unallocated liabilities | | | | | **16,172** | 11,708 |
| Consolidated total liabilities | | | | | **43,756** | 39,884 |

## 4. SEGMENTAL INFORMATION *(Continued)*

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

| | Payment gateway business | | Telecommunication optic fiber business | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Other segment information** | | | | | | |
| Depreciation | | | | | | |
| – Segment | **5,041** | 3,975 | **300** | – | **5,341** | 3,975 |
| – Unallocated | | | | | **–** | 617 |
| | | | | | **5,341** | 4,592 |
| Capital expenditure | | | | | | |
| – Segment | **5,158** | 23,575 | **3,375** | – | **8,533** | 23,575 |
| – Unallocated | | | | | **–** | 3,007 |
| | | | | | **8,533** | 26,582 |
| Goodwill – additions | **–** | 64,035 | **56,308** | – | **56,308** | 64,035 |
| Impairment loss of goodwill | **209,627** | – | **42,000** | – | **251,627** | – |
| Impairment loss of intangible assets | **11,176** | – | **–** | – | **11,176** | – |
| Impairment loss of property, plant and equipment | **5,670** | – | **–** | – | **5,670** | – |
| Research and development costs | **12,200** | – | **–** | – | **12,200** | – |
| Allowance for bad and doubtful debts | **48,282** | 4,236 | **–** | – | **48,282** | 4,236 |

### (b) Geographical information

The Group's operations are primarily derived from external customers based in the PRC and all segment assets are located in the PRC. Accordingly, no geographical information is presented in accordance with HKFRS 8: *Operating Segments*.

## 4. SEGMENTAL INFORMATION *(Continued)*

### (c) Information about major customers

For the year ended 31 March 2011, there were five *(2010: one)* customers that individually accounted for over 10% of total revenue of the Group as set out below:

| | Payment gateway business | | Telecommunication optic fiber business | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Major customer A | **4,303** | 40,588 | **–** | – | **4,303** | 40,588 |
| Major customer B | **6,170** | – | **–** | – | **6,170** | – |
| Major customer C | **4,471** | – | **–** | – | **4,471** | – |
| Major customer D | **–** | – | **3,502** | – | **3,502** | – |
| Major customer E | **–** | – | **2,774** | – | **2,774** | – |
| | **14,944** | 40,588 | **6,276** | – | **21,220** | 40,588 |

## 5. TURNOVER AND REVENUE

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

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Rendering of services | **17,510** | 43,409 |
| Sale of goods | **6,276** | – |
| **Turnover** | **23,786** | 43,409 |
| Dividend income | **–** | 702 |
| Interest income | **19** | 4 |
| **Other revenue** | **19** | 706 |
| **Total turnover and revenue** | **23,805** | 44,115 |

## 6. OTHER INCOME

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Gain on disposal of available-for-sale financial assets | **1,523** | – |
| Other payables written-back | **2,431** | – |
| | **3,954** | – |

## 7. (LOSS) PROFIT BEFORE TAXATION

This is stated after charging:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Finance costs** | | |
| Interest on convertible bonds | **117** | 615 |
| **Other items** | | |
| Employee benefit expenses | | |
| (including directors' remuneration) | | |
| Salaries, allowances and benefits in kind | **5,387** | 6,136 |
| Contribution to defined contribution schemes | **1,071** | 1,555 |
| | **6,458** | 7,691 |
| Auditor's remuneration | | |
| Current year | **450** | 350 |
| Underprovision in previous year | **83** | 146 |
| Cost of goods sold (including relevant employee benefit expenses and depreciation) | **1,265** | – |
| Cost of services rendered (including relevant employee benefit expenses and depreciation) | **5,547** | 4,028 |
| Depreciation of property, plant and equipment | **5,341** | 4,592 |
| Property, plant and equipment written-off | **–** | 51 |
| Exchange losses, net | **103** | 24 |
| Impairment loss of goodwill* | **251,627** | – |
| Impairment loss of intangible assets* | **11,176** | – |
| Impairment loss of property, plant and equipment* | **5,670** | – |
| Research and development costs | **12,200** | – |
| Operating lease payments for premises | **1,426** | 296 |
| Write-off of other receivables | **1,404** | – |
| Allowance for bad and doubtful debts | | |
| Trade receivables | **47,908** | 4,236 |
| Other receivables | **374** | – |

* Included in other operating expenses.

## 8. DIRECTORS' REMUNERATION

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

| | 2011 | | | | |
|---|---|---|---|---|---|
| | 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** | **464** | **–** | **–** | **584** |
| Hsu Tung Sheng (resigned on 1 January 2011) | **90** | **–** | **–** | **–** | **90** |
| Yuan Shengjun | **120** | **336** | **–** | **–** | **456** |
| | **570** | **800** | **12** | **–** | **1,382** |
| ***Independent non-executive directors*** | | | | | |
| Cheung Chi Hwa, Justin | **60** | **–** | **–** | **–** | **60** |
| Kwok Chi Sun, Vincent | **60** | **–** | **–** | **–** | **60** |
| Yeung Kam Yan | **60** | **–** | **–** | **–** | **60** |
| | **180** | **–** | **–** | **–** | **180** |
| | **750** | **800** | **12** | **–** | **1,562** |

## 8. DIRECTORS' REMUNERATION *(Continued)*

| | | | 2010 | | |
|---|---|---|---|---|---|
| | 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 | – | 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 director*** | | | | | |
| 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 |

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 March 2011 and 2010. 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 years ended 31 March 2011 and 2010.

## 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three *(2010: three)* directors, details of whose remuneration are set out in note 8 to the consolidated financial statements above. Details of the remuneration of the remaining two *(2010: two)* highest paid individuals, who are employees of the Group, are as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **876** | 629 |
| Contribution to defined contribution scheme | **24** | 21 |
| | **900** | 650 |

The two highest paid individuals' remuneration falls within the following band:

| | Number of employees | |
|---|---|---|
| | **2011** | 2010 |
| 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 a compensation for loss of office *(2010: Nil)*.

There was no arrangement under which any of the five highest paid individuals waived or agreed to waive any remuneration for the years ended 31 March 2011 and 2010.

## 10. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the years ended 31 March 2011 and 2010.

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 | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Current year provision | | |
| PRC enterprise income tax | **1,412** | 2,201 |

***Reconciliation of effective tax rate***

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **%** | % |
| Applicable tax rate | **(18.3)** | 28.2 |
| Effect of tax concession | **(0.2)** | (26.1) |
| Non-deductible expenses | **18.6** | 9.6 |
| Non-taxable revenue | **(0.1)** | (2.3) |
| Unrecognised tax losses | **0.3** | 2.8 |
| Others | **0.1** | – |
| Effective tax rate for the year | **0.4** | 12.2 |

The applicable tax rate is the weighted average of tax rates prevailing in the territories in which the Group's entities operate. The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

## 11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 March 2011 includes a loss of HK$305,137,000 *(2010: HK$14,299,000)* 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 *(2010: Nil)*.

## 13. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the (loss) 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:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| (Loss) Profit attributable to equity holders of the Company | **(328,601)** | 13,761 |

| | **Number of shares** | |
|---|---|---|
| | **2011** | 2010 |
| | | *(restated)* |
| Weighted average number of ordinary shares in issue during the year | **544,755,226** | 393,553,538 |

For the years ended 31 March 2011 and 2010, diluted (loss) earnings per share is the same as basic (loss) earnings per share as the potential ordinary shares issuable under the convertible bonds, unlisted warrants and share options have anti-dilutive effects on the basic (loss) earnings per share.

The weighted average number of ordinary shares for calculating basic and diluted earnings per share for the year ended 31 March 2010 has been restated as a result of the share consolidation by the Company as disclosed in note 25(iii) to the consolidated financial statements.

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Plant and machinery HK$'000 | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Computer and office equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2009 | – | 182 | 96 | 21,955 | 22,233 |
| Additions | – | – | – | 1,516 | 1,516 |
| Write-off | – | (182) | – | – | (182) |
| Exchange realignment | – | – | 1 | 56 | 57 |
| At 31 March 2010 and 1 April 2010 | – | – | 97 | 23,527 | 23,624 |
| Additions | – | 446 | 96 | 145 | 687 |
| Acquisition of subsidiaries | 3,030 | 99 | 73 | 173 | 3,375 |
| Exchange realignment | – | – | 6 | 1,417 | 1,423 |
| **At 31 March 2011** | **3,030** | **545** | **272** | **25,262** | **29,109** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 April 2009 | – | 91 | 33 | 6,673 | 6,797 |
| Depreciation | – | 40 | 22 | 4,530 | 4,592 |
| Write-off | – | (131) | – | – | (131) |
| Exchange realignment | – | – | – | 17 | 17 |
| At 31 March 2010 and 1 April 2010 | – | – | 55 | 11,220 | 11,275 |
| Depreciation | 246 | 178 | 46 | 4,871 | 5,341 |
| Impairment loss | – | – | – | 5,670 | 5,670 |
| Exchange realignment | 6 | 4 | 4 | 930 | 944 |
| **At 31 March 2011** | **252** | **182** | **105** | **22,691** | **23,230** |
| **Net book value** | | | | | |
| **At 31 March 2011** | **2,778** | **363** | **167** | **2,571** | **5,879** |
| At 31 March 2010 | – | – | 42 | 12,307 | 12,349 |

During the year, as a result of the implementation of the new regulations by the PRC government as detailed in note 18 to the consolidated financial statements, the Group carried out a review of the recoverable amount of the computer and office equipment which are used in the Group's payment gateway business segment. The review led to the recognition of an impairment loss of HK$5,670,000, which has been recognised in profit or loss. The recoverable amount is expected to be minimal. The impairment loss has been included in the "other operating expenses" line item in the consolidated statement of comprehensive income.

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Unlisted equity investments, at fair value** | | |
| At beginning of the reporting period | **18,870** | 26,323 |
| Disposals | **(12,318)** | – |
| Change in fair value | **(6,163)** | (7,453) |
| **At end of the reporting period** | **389** | 18,870 |

At the end of the reporting period, the fair value of unlisted equity investments was revalued on the market value basis by the management using a valuation technique based on assumptions that are not supported by observable market prices or rates including the estimation of future cash flows of expected dividends and terminal value. The directors believe that the estimated fair values, 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$6,163,000 *(2010: HK$7,453,000)*.

## 16. INTERESTS IN SUBSIDIARIES

| | | Company | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | | **–** | – |
| Due from subsidiaries | *(i)* | **59,586** | 303,822 |
| Due to subsidiaries | *(i)* | **(4,020)** | (4,674) |
| | | **55,566** | 299,148 |

## 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 Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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$15,000,000 | – | 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% | Investment holding |
| Multi Channel Technology Limited | Hong Kong | HK$100 | – | 100% | Investment holding |
| PalmPay Technology Company Limited * 北京互聯視通科技有限公司 | The PRC | RMB21,000,000 | – | 100% | Provision of payment gateway services |
| Brilliant Ally Limited | British Virgin Islands | US$1 | – | 100% *(2010: Nil)* | Investment holding |
| China Optic Communication Technology Limited | British Virgin Islands | US$1,000 | – | 50.1% *(2010: Nil)* | Investment holding |
| China Optic Communication Technology Limited | Hong Kong | HK$1 | – | 50.1% *(2010: Nil)* | Investment holding |
| Huanggang Optical Communication Technology Limited* 黃岡奧泰科通訊科技有限公司 | The PRC | RMB5,500,000 | – | 50.1% *(2010: Nil)* | Manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment |
| Shenzhen JiaYeTongHui Technology Limited* 深圳佳業同輝科技有限公司 | The PRC | RMB2,000,000 | – | 50.1% *(2010: Nil)* | Trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment |

* English translation of company names is for identification purpose only. Those companies are registered as wholly foreign-owned enterprise under the PRC law.

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

In February 2011, Brilliant Ally Limited, a wholly-owned subsidiary of the Company acquired 50.1% equity interest of China Optic Communication Technology Limited ("China Optic") at a consideration of HK$60,860,000. The details of the acquisition are set out in note 34 to the consolidated financial statements.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period, or at any time during the year.

### (i) Due from (to) subsidiaries

The amounts due are unsecured, interest-free and have no fixed repayment term. The carrying values of the amounts due approximate their fair values.

## 17. INTANGIBLE ASSETS

**Group**

| | Technical know-how | Computer software | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Reconciliation of carrying amount - year ended 31 March 2010** | | | |
| At 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 |
| **Reconciliation of carrying amount - year ended 31 March 2011** | | | |
| At 1 April 2010 | 10,795 | 25,066 | 35,861 |
| Additions | – | 4,471 | 4,471 |
| Impairment | (11,176) | – | (11,176) |
| Exchange realignment | 381 | 1,510 | 1,891 |
| **At 31 March 2011** | **–** | **31,047** | **31,047** |
| At 31 March 2010 | | | |
| Cost | 10,795 | 25,066 | 35,861 |
| Accumulated impairment losses | – | – | – |
| | 10,795 | 25,066 | 35,861 |
| **At 31 March 2011** | | | |
| Cost | 11,176 | 31,047 | 42,223 |
| Accumulated impairment losses | (11,176) | – | (11,176) |
| | **–** | **31,047** | **31,047** |

## 17. INTANGIBLE ASSETS *(Continued)*

**Group**

### Technical know-how

The technical know-how, named 通用消息服務系統技術, is a developed technology for Short Message Sub-Gateway Services. The technical know-how was treated as having an indefinite useful life and is tested for impairment annually.

During the year, the PRC government authorities had tightened the governance to eliminate the irregular activities in the payment by deduction market (including existing mobile payment gateway business) in the PRC. On the other hand, with capital and licensing requirements being imposed under the new regulations which aim to provide protections to the customers, the market sentiment of the payment industry, particularly for small to medium players, has also become difficult. The management expected that the recoverable amounts of the technical know-how would become minimal. Accordingly, the technical know-how was fully impaired during the year. The impairment loss has been included in the "other operating expenses" line item in the consolidated statement of comprehensive income.

### Computer software

The computer software is related to the new generation of payment gateway platform based on the Near Field Communication Technology. The computer software 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 computer software may be used to generate cash flows to the Group. It is tested for impairment annually.

More details of the impairment of the intangible assets are set out in note 18 to the consolidated financial statements.

## 18. GOODWILL

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **At cost less accumulated impairment losses** | | |
| At beginning of the reporting period | **209,627** | 145,592 |
| Additions | **56,308** | 64,035 |
| Impairment loss | **(251,627)** | – |
| **At end of the reporting period** | **14,308** | 209,627 |

The amounts of the goodwill capitalised were arisen from the acquisitions of subsidiaries, Media Magic Technology Limited ("Media Magic") and China Optic respectively.

In February 2011, the Group acquired 50.1% equity interests in China Optic at an aggregate consideration of HK$60,860,000. The excess of the sum of the consideration transferred and the amount of any non-controlling interests in the acquiree over the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed of HK$56,308,000 is recognised as goodwill.

Last year, the Group acquired additional 25% equity interests in Media Magic at an aggregate consideration of HK$82,335,000. The excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the acquiree of HK$64,035,000 was recognised as goodwill.

Goodwill acquired through business combinations is allocated to the Group's cash-generating units ("CGUs") for impairment test as follows:

| | | Group | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | **HK$'000** | HK$'000 |
| **CGU** | | | |
| Payment gateway business | *(i)* | **209,627** | 209,627 |
| Telecommunication optic fiber business | *(ii)* | **56,308** | – |
| **Cost** | | **265,935** | 209,627 |

## 18. GOODWILL *(Continued)*

| | Note | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| **CGU** | | | |
| Payment gateway business | *(i)* | **209,627** | – |
| Telecommunication optic fiber business | *(ii)* | **42,000** | – |
| **Accumulated impairment losses** | | **251,627** | – |

| | Note | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| **CGU** | | | |
| Payment gateway business | *(i)* | **–** | 209,627 |
| Telecommunication optic fiber business | *(ii)* | **14,308** | – |
| **Net book value** | | **14,308** | 209,627 |

The intangible assets with indefinite useful lives are allocated to the Group's CGUs for impairment test as follows:

| | Note | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| **CGU** | | | |
| Payment gateway business | *(i)* | **42,223** | 35,861 |
| Telecommunication optic fiber business | | **–** | – |
| **Cost** | | **42,223** | 35,861 |

| | Note | Group 2011 HK$'000 | Group 2010 HK$'000 |
|---|---|---|---|
| **CGU** | | | |
| Payment gateway business | *(i)* | **11,176** | – |
| Telecommunication optic fiber business | | **–** | – |
| **Accumulated impairment losses** | | **11,176** | – |

## 18. GOODWILL *(Continued)*

| | Note | Group 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **CGU** | | | |
| Payment gateway business | *(i)* | **31,047** | 35,861 |
| Telecommunication optic fiber business | | **–** | – |
| **Net book value** | | **31,047** | 35,861 |

### (i) Payment gateway business

At the end of the reporting period, the Group assessed the recoverable amount of the goodwill, and determined that the goodwill and certain of the Group's intangible assets and property, plant and equipment allocated to the payment gateway business were impaired by HK$226,473,000 *(2010: HK$Nil)*.

The directors consider the major factor contributing to the impairment of those assets allocated to the payment gateway business was the fact that the PRC government authorities tightened the governance to eliminate the irregular activities in the mobile payment gateway business in the PRC. The capital and licensing requirements are imposed under the new regulations to provide protections to the customers. However, the directors consider that no write-down of the carrying amounts of other assets except for intangible assets and property, plant and equipment used in the mobile payment gateway business (the details are set out in notes 14 and 17 to the consolidated financial statements) was necessary as these assets can be used for other payment gateway business and recovered. The impairment loss recognised on the goodwill of HK$209,627,000 has been included in the "other operating expenses" line item in the consolidated statement of comprehensive income.

# 18. GOODWILL *(Continued)*

## (ii) Telecommunication optic fiber business

The Group has appointed independent professional valuers, BMI Appraisals Limited, to perform an appraisal of the value of the telecommunication optic fiber business as at 31 March 2011. The recoverable amount of the CGU has been determined based on a value-in-use calculation. 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 3% long-term growth rate per annum. 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.

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

| | % |
|---|---|
| Gross margin | 32-66 |
| Average growth rate (per annum) | 3-14 |
| Long-term growth rate (per annum) | 3 |
| Discount rate (per annum) | 30 |

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

The recoverable amount of the CGU is less than its carrying amount. Accordingly, the goodwill allocated to the telecommunication optic fiber business was impaired by HK$42,000,000 during the year.

The impairment loss has been included in the "other operating expenses" line item in the consolidated statement of comprehensive income. As the CGU has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment loss.

## 19. INVENTORIES

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Raw materials | **1,033** | – |
| Work-in-progress | **307** | – |
| Finished goods | **5,390** | 3,684 |
| | **6,730** | 3,684 |

## 20. TRADE AND OTHER RECEIVABLES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011** | 2010 |
| | *Note* | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Trade receivables from third parties** | *(i)* | **94,251** | 94,473 | **–** | – |
| Allowance for bad and doubtful debts | *(ii)* | **(56,066)** | (6,606) | **–** | – |
| | | **38,185** | 87,867 | **–** | – |
| **Other receivables** | | | | | |
| Prepayments, deposits and other receivables | | **11,262** | 2,922 | **73** | 73 |
| Due from non-controlling interests | *(iii)* | **23** | – | **–** | – |
| | | **49,470** | 90,789 | **73** | 73 |

### (i) Aging of trade receivables

The Group normally grants credit term of 90 days to its customers upon the delivery of products or when the services are rendered. The aging of trade receivables (net of allowances of bad and doubtful debts) based on invoice date is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| 1 – 90 days | **7,688** | 4,541 |
| 91 – 180 days | **10,927** | 8,941 |
| 181 – 270 days | **3,213** | 13,811 |
| 271 – 365 days | **5,239** | 14,675 |
| Over 1 year | **11,118** | 45,899 |
| | **38,185** | 87,867 |

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

### (ii) Allowance for bad and doubtful debts

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| At beginning of reporting period | **6,606** | 2,389 |
| Increase in allowance | **47,908** | 4,236 |
| Amount written-off | **–** | (25) |
| Exchange realignment | **1,552** | 6 |
| **At end of reporting period** | **56,066** | 6,606 |

Included in the Group's trade receivables balance are debtors with a carrying amount of HK$30,497,000 *(2010: HK$83,326,000)*, 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.

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| 1 – 90 days past due | **10,927** | 8,941 |
| 91 – 180 days past due | **3,213** | 13,811 |
| 181 – 270 days past due | **5,239** | 14,675 |
| 271 – 365 days past due | **11,118** | 20,546 |
| Over 1 year past due | **–** | 25,353 |
| | **30,497** | 83,326 |

### (iii) Due from non-controlling interests

The amounts due are unsecured, interest-free and have no fixed repayment term.

## 21. RESTRICTED DEPOSITS / BANK BALANCES AND CASH

Restricted deposits held by the Group as of 31 March 2010 represented marginal deposits placed with a bank for the issue of the irrevocable letter of credit to a vendor, which were restricted as to use and were released during the year.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

## 22. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables | **792** | – | **–** | – |
| Accruals and other payables | **20,306** | 18,664 | **799** | 617 |
| Due to non-controlling interests | **4,050** | 4,050 | **–** | – |
| Due to a shareholder | **675** | 636 | **–** | – |
| Due to directors | **7,341** | 8,811 | **–** | – |
| | **33,164** | 32,161 | **799** | 617 |

The amounts due to non-controlling interests, a shareholder and directors are unsecured, interest-free and have 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* | **2011** | 2010 |
| | | **HK$'000** | HK$'000 |
| **Liability component** | | | |
| At beginning of the reporting period | *(i)* | **3,083** | 2,933 |
| Nominal value of convertible bonds issued | | **–** | 49,335 |
| Equity component at the issue date | | **–** | (5,362) |
| At the issue date | | **–** | 43,973 |
| Conversion of convertible bonds | | **–** | (44,108) |
| Interest expenses | | **117** | 615 |
| Redemption of convertible bonds | *(i)* | **(3,200)** | – |
| Interest paid / payable | | **–** | (330) |
| | | **(3,083)** | (43,823) |
| **At end of the reporting period** | | **–** | 3,083 |
| **Equity component** | | | |
| At beginning of the reporting period | *(i)* | **443** | 443 |
| Convertible bonds issued | | **–** | 5,362 |
| Conversion of convertible bonds | | **–** | (5,362) |
| Redemption of convertible bonds | *(i)* | **(443)** | – |
| **At end of the report period** | | **–** | 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 would mature on the third anniversary from the date of issue.

During the year ended 31 March 2011, the convertible bonds with a nominal value of HK$3,200,000 were redeemed in full.

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% per annum. The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

## 24. PROMISSORY NOTE

| | **Group and Company** HK$'000 |
|---|---|
| At 1 April 2009, 31 March 2010 and 1 April 2010 | – |
| Issued during the year | 4,700 |
| **At 31 March 2011** | **4,700** |

The amount represents a promissory note with principal amount of HK$5,000,000 issued to a vendor on 18 February 2011 as part of the consideration for the acquisition of 50.1% equity interest in China Optic (the "Acquisition") as detailed in note 34 to the consolidated financial statements. The promissory note is interest-free and repayable on 17 February 2013. The Company has the right to repay the principal amount either in full or in partial payments of the multiples of HK$1,000,000, from the issue date to the day before the maturity date with a prior written notice of not less than 5 working days to the vendor.

Pursuant to the agreements entered into in January 2011 in relation to the Acquisition, a vendor and its shareholder have guaranteed that the audited consolidated net profit after taxation of China Optic for the financial year ending 31 December 2011 shall not be less than HK$12,000,000 (the "Profit Guarantee 2011").

As a security for the Profit Guarantee 2011, the promissory note will be escrowed by the Company and will only be released to the vendor upon fulfillment of the Profit Guarantee 2011. In case the Profit Guarantee 2011 is not fulfilled, all or part of the promissory note will be set off against to make up any shortfall which is calculated as 50.1% of the difference between the Profit Guarantee 2011 and the audited consolidated net profit after taxation of China Optic for the year ending 31 December 2011 (the "Shortfall"). In case if there is loss, the profit should be treated as zero. If the principal amount of the promissory note is insufficient to cover the Shortfall, the vendor should pay to the Group in cash the remaining Shortfall. The details of the arrangement have been set out in the announcements of the Company dated 25 January 2011 and 27 January 2011.

## 24. PROMISSORY NOTE *(Continued)*

On the completion of the Acquisition, 18 February 2011, the fair value of the promissory note was valued 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 fair value estimated is based on a discount rate of 3% per annum, and assumed probability-adjusted consolidated net profit after taxation of China Optic ranging from HK$10,000,000 to HK$15,000,000. As of 18 February 2011 and 31 March 2011, the fair value of the contingent consideration is estimated to be approximately HK$4,700,000 because the parameters and factors considered in the valuation did not change significantly during the period from the acquisition date to the end of the reporting period.

## 25. SHARE CAPITAL

| | | Group and Company | |
|---|---|---|---|
| | *Note* | **No. of shares** | **HK$'000** |
| **Authorised:** | | | |
| **At 1 April 2009, 31 March 2010 and 31 March 2011, ordinary shares of HK$0.05 each** | | 4,000,000,000 | 200,000 |
| **Issued and fully paid:** | | | |
| At 1 April 2009, ordinary shares of HK$0.05 each | | 1,566,375,508 | 78,318 |
| Issue of consideration shares | | 236,363,636 | 11,818 |
| Conversion of convertible bonds | | 379,499,999 | 18,975 |
| Shares issued upon exercise of share options | | 70,000,000 | 3,500 |
| Shares issued upon exercise of unlisted warrants | | 100,000,000 | 5,000 |
| At 31 March 2010 and 1 April 2010, ordinary shares of HK$0.05 each | | 2,352,239,143 | 117,611 |
| Shares issued upon private placing | *(i)* | 207,000,000 | 10,350 |
| Shares issued upon exercise of unlisted warrants | *(ii)* | 127,000,000 | 6,350 |
| Share consolidation and capital reduction | *(iii)* | (2,148,991,315) | (107,450) |
| Issue of consideration shares | *(iv)* | 90,400,000 | 4,520 |
| **At 31 March 2011, ordinary shares of HK$0.05 each** | | 627,647,828 | 31,381 |

## 25. SHARE CAPITAL *(Continued)*

*Note:*

(i) In March 2010, the Company entered into 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. Further details of the share subscription agreements have been set out in the announcement of the Company dated 23 March 2010. The transaction was completed in April 2010.

(ii) Details of the Company's unlisted warrants are included in note 27 to the consolidated financial statements.

(iii) Pursuant to an ordinary resolution passed in a special general meeting held on 28 January 2011, every five shares of HK$0.05 each in the issued share capital of the Company were consolidated into one issued consolidated share (the "Consolidated Share") of HK$0.25 in the issued share capital of the Company and each of the issued Consolidated Shares was reduced to the extent of HK$0.20 each so that the nominal value of each issued Consolidated Share would be reduced from HK$0.25 to HK$0.05. The credit of approximately HK$107,450,000 arising from the capital reduction was transferred to the contributed surplus account of the Company.

(iv) In February 2011, the Company acquired 50.1% equity interests of China Optic at a consideration of HK$60,860,000 by cash of HK$20,000,000, allotment and issue of 90,400,000 ordinary shares of the Company of HK$0.05 each at an issue price of HK$0.4 each in the amount of HK$36,160,000 and the issue of promissory note with the principal amount of HK$5,000,000. Further details of the transaction were set out in the announcements of the Company dated 25 January 2011 and 27 January 2011. The transaction was completed on 18 February 2011.

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

## 26. 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 2009 | | 181,041 | 6,015 | 443 | 6,008 | 1,340 | (41,930) | 152,917 |
| Share premium reduction | | (181,041) | 139,111 | – | – | – | 41,930 | – |
| Issue of consideration shares | | 14,182 | – | – | – | – | – | 14,182 |
| Issue of convertible bonds | | – | – | 5,362 | – | – | – | 5,362 |
| Conversion of convertible bonds | | 30,496 | – | (5,362) | – | – | – | 25,134 |
| Exercise of share options | | 6,192 | – | – | (2,272) | – | – | 3,920 |
| Lapse of share options | | – | – | – | (813) | – | 813 | – |
| Issue of unlisted warrants | | – | – | – | – | 750 | – | 750 |
| Exercise of unlisted warrants | | 9,500 | – | – | – | (750) | – | 8,750 |
| Expiry of unlisted warrants | | – | – | – | – | (1,340) | 1,340 | – |
| Total comprehensive loss for the year | | – | – | – | – | – | (14,299) | (14,299) |
| At 31 March 2010 and at 1 April 2010 | | 60,370 | 145,126 | 443 | 2,923 | – | (12,146) | 196,716 |
| Issue of consideration shares | *25(iv)* | 31,640 | – | – | – | – | – | 31,640 |
| Issue of shares upon private placing | *25(i)* | 27,945 | – | – | – | – | – | 27,945 |
| Redemption of convertible bonds | *23(i)* | – | – | (443) | – | – | 443 | – |
| Lapse of share options | *28(i)* | – | – | – | (138) | – | 138 | – |
| Issue of unlisted warrants | *27(i)* | – | – | – | – | 621 | – | 621 |
| Exercise of unlisted warrants | *27(i)* | 15,915 | – | – | – | (381) | – | 15,534 |
| Share consolidation and capital reduction | *25(iii)* | – | 107,450 | – | – | – | – | 107,450 |
| Total comprehensive loss for the year | | – | – | – | – | – | (305,137) | (305,137) |
| **At 31 March 2011** | | **135,870** | **252,576** | **–** | **2,785** | **240** | **(316,702)** | **74,769** |

## 26. RESERVES *(Continued)*

*Note:*

(i) Share premium represents the excess of the net proceeds or consideration from issuance of the Company's shares over their par value.

(ii) Contributed surplus represents (i) 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, (ii) the reduction of the share premium, and (iii) the reduction of the share capital.

Under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders subject to the requirements of the Companies Act of Bermuda.

(iii) Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(iv) Convertible bonds reserve represents the equity component (conversion rights) of the convertible bonds issued.

(v) Employee share-based payment reserve represents the fair value of share options granted under the Company's share option scheme which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated profits or losses should the related options expire or be forfeited.

(vi) Warrant reserve relates to the private placing of unlisted warrants.

(vii) Available-for-sale financial assets reserve comprises the accumulated gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of the amounts reclassified to profit or loss when those investments are disposed of or are determined to be impaired.

(viii) 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 the 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.

## 26. RESERVES *(Continued)*

*Note: (Continued)*

(viii) (Continued)

During the year, the subsidiaries in the PRC had generated profits, HK$1,384,000 *(2010: HK$1,037,000)* of which has been transferred to the statutory reserve.

(ix) As at 31 March 2011, the aggregate amount of reserves available for distribution to the equity holders of the Company comprising the contributed surplus and accumulated losses amounted to NIL *(2010: HK$132,980,000)*.

## 27. WARRANTS

(i) In March 2010, the Company as issuer entered into three warrant subscription agreements with each of the subscribers and each of the guarantors pursuant to which the subscribers or their respective nominees have conditionally agreed to subscribe for and the Company has conditionally agreed to place in aggregate 207,000,000 warrants in cash at the warrant issue price of HK$0.003 per warrant. The warrants entitle the subscribers or their respective nominees to subscribe for the shares of the Company at the subscription price of HK$0.182 per new share for a period of 3 years commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share.

During the year ended 31 March 2011, 127,000,000 unlisted warrants were exercised for a total consideration before expenses of HK$23,114,000.

(ii) Upon the share consolidation and capital reduction as mentioned in note 25(iii) to the consolidated financial statements, pursuant to the terms and conditions of the warrants, the subscription price of the outstanding warrants has been adjusted from the original subscription price of HK$0.182 per share to HK$0.91 per share with effect from 31 January 2011.

## 28. 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.

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

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.

Upon the share consolidation and the capital reduction as mentioned in note 25(iii) to the consolidated financial statements becoming effective on 31 January 2011, the exercise price, the share price, the fair value at grant date and the number of the outstanding share options for the years ended 31 March 2011 and 2010 had been adjusted accordingly in the following analyses.

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

| | | Number of options (adjusted) | |
|---|---|---|---|
| | *Note* | **2011** | 2010 |
| At beginning of the reporting period | | **16,272,000** | 32,912,000 |
| Exercised during the year | | **–** | (14,000,000) |
| Lapsed during the year | *(i)* | **(768,000)** | (2,640,000) |
| **At end of the reporting period** | | **15,504,000** | 16,272,000 |

*Note:*

(i) In January 2011, the share options to subscribe 768,000 shares *(adjusted)* of the Company were lapsed due to the resignation of a director, Mr. Hsu Tung Sheng.

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

Details of share options outstanding during the years ended 31 March 2011 and 2010 are as follows:

| Date of grant | Exercise period | Exercise price *(adjusted)* HK$ | Fair value at grant date *(adjusted)* HK$ |
|---|---|---|---|
| 14 August 2007 | 14 August 2007 to 13 August 2017 | 2.1665* | 0.30815 |
| 17 December 2007 | 17 December 2007 to 16 December 2017 | 1.8875* | 0.14355 |
| 21 December 2007 | 21 December 2007 to 20 December 2017 | 1.9375* | 0.1793 |
| 1 December 2008 | 1 December 2008 to 30 November 2013 | 0.53 | 0.1625 |

* Apart from the share consolidation and capital reduction as mentioned above, the exercise price of these share options had been adjusted for the effect of the bonus issue of the Company's shares in August 2008.

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$) *(adjusted)* | 2.165 | 1.8333 | 1.9375 | 0.53 |
| Exercise price (HK$) *(adjusted)* | 2.165 | 1.8875 | 1.9375 | 0.53 |
| 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% |

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

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.

No share options were granted by the Company during the years ended 31 March 2011 and 2010.

As at 31 March 2011, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 15,504,000 *(2010: 16,272,000)* (adjusted), representing 2.47% *(2010: 3.46%)* (adjusted) of the shares of the Company in issue at that date.

The following table discloses movements of the Company's share options during the years ended 31 March 2011 and 2010:

**Year ended 31 March 2011**

| Grant date | Exercise period | Exercise Price HK$ *(adjusted)* | Outstanding at 1 April 2010 *(adjusted)* | Lapsed during the year *(adjusted)* | Outstanding at 31 March 2011 *(adjusted)* |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| 14 Aug 2007 | 14 Aug 2007 to 13 Aug 2017 | 2.1665 | 2,640,000 | – | **2,640,000** |
| 21 Dec 2007 | 21 Dec 2007 to 20 Dec 2017 | 1.9375 | 3,504,000 | (768,000) | **2,736,000** |
| | | | 6,144,000 | (768,000) | **5,376,000** |
| **Employees** | | | | | |
| 17 Dec 2007 | 17 Dec 2007 to 16 Dec 2017 | 1.8875 | 4,560,000 | – | **4,560,000** |
| 21 Dec 2007 | 21 Dec 2007 to 20 Dec 2017 | 1.9375 | 768,000 | – | **768,000** |
| | | | 5,328,000 | – | **5,328,000** |
| **Consultants** | | | | | |
| 17 Dec 2007 | 17 Dec 2007 to 16 Dec 2017 | 1.8875 | 4,800,000 | – | **4,800,000** |
| | | | 16,272,000 | (768,000) | **15,504,000** |
| Exercisable at end of reporting period | | | | | **15,504,000** |
| Weighted average exercise price *(adjusted)* | | HK$ | 1.9459 | 1.9375 | **1.9463** |

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

**Year ended 31 March 2010**

| Grant date | Exercise period | Exercise Price HK$ *(adjusted)* | Outstanding at 1 April 2009 *(adjusted)* | Transfer during the year *(adjusted)* | Lapsed during the year *(adjusted)* | Exercised during the year *(adjusted)* | Outstanding at 31 March 2010 *(adjusted)* |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| 14 Aug 2007 | 14 Aug 2007 to 13 Aug 2017 | 2.1665 | 5,280,000 | – | (2,640,000) | – | 2,640,000 |
| 21 Dec 2007 | 21 Dec 2007 to 20 Dec 2017 | 1.9375 | 2,736,000 | 768,000 | – | – | 3,504,000 |
| 01 Dec 2008 | 1 Dec 2008 to 30 Nov 2013 | 0.53 | 9,200,000 | 2,200,000 | – | (11,400,000) | – |
| | | | 17,216,000 | 2,968,000 | (2,640,000) | (11,400,000) | 6,144,000 |
| **Employees** | | | | | | | |
| 17 Dec 2007 | 17 Dec 2007 to 16 Dec 2017 | 1.8875 | 4,560,000 | – | – | – | 4,560,000 |
| 21 Dec 2007 | 21 Dec 2007 to 20 Dec 2017 | 1.9375 | 1,536,000 | (768,000) | – | – | 768,000 |
| 01 Dec 2008 | 1 Dec 2008 to 30 Nov 2013 | 0.53 | 4,800,000 | (2,200,000) | – | (2,600,000) | – |
| | | | 10,896,000 | (2,968,000) | – | (2,600,000) | 5,328,000 |
| **Consultants** | | | | | | | |
| 17 Dec 2007 | 17 Dec 2007 to 16 Dec 2017 | 1.8875 | 4,800,000 | – | – | – | 4,800,000 |
| | | | 32,912,000 | – | (2,640,000) | (14,000,000) | 16,272,000 |
| Exercisable at end of reporting period | | | | | | | 16,272,000 |
| Weighted average exercise price *(adjusted)* | | HK$ | 1.3613 | N/A | 2.1665 | 0.5300 | 1.9459 |

The weighted average share price at the date of exercise of share options exercised during the year ended 31 March 2010 was HK$0.83 *(adjusted)*.

The share options outstanding at 31 March 2011 have an exercise price ranging from HK$1.8875 to HK$2.1665 *(2010: HK$1.8875 to HK$2.1665) (adjusted)* and a weighted average remaining contractual life of 6.66 years *(2010: 7.67 years)*.

## 29. 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' monthly contributions are subject to a cap of HK$1,000.

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$1,071,000 *(2010: HK$1,555,000)*.

## 30. DEFERRED TAXATION

As at 31 March 2011, the tax losses of the Company of HK$929,000 *(2010: 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:

| | **Group** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Year of expiry | | |
| 2012 | **10** | 10 |
| 2013 | **360** | 339 |
| 2014 | **544** | 511 |
| 2015 | **1,703** | 1,602 |
| 2016 | **4,386** | – |
| | **7,003** | 2,462 |

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

At 31 March 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is probable that the earnings will not be distributed in the foreseeable future. Unremitted earnings totalled HK$21,496,000 at 31 March 2011 *(2010: HK$9,645,000)*.

## 31. 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Within one year | **1,564** | 88 |
| In the second to fifth years inclusive | **263** | – |
| | **1,827** | 88 |

## 32. CAPITAL EXPENDITURE COMMITMENTS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided net of deposit paid for acquisition of property, plant and equipment | **–** | 455 |

## 33. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

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

| | | Group | |
|---|---|---|---|
| **Related party relationship** | **Nature of transaction** | **2011** | 2010 |
| | | **HK$'000** | HK$'000 |
| Key management personnel (excluding directors) | Salaries, allowances and benefits in kind | **450** | 437 |
| | Contribution to defined contribution scheme | **12** | 12 |
| | | **462** | 449 |

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

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 ended 31 March 2010. There was no such arrangement in the year ended 31 March 2011.

None of the above are connected transactions or continuing connected transactions under the GEM 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 was 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, HK$18,600,000 had been utilised against this facility. During the year ended 31 March 2010, loan interest income of HK$935,000 in respect of this facility was received by the Company.

The facility granted by the Company to its subsidiary constituted continuing connected transactions under the GEM Listing Rules and the relevant disclosures were made in the Directors' Report of the annual report for the year ended 31 March 2010.

## 34. ACQUISITION OF SUBSIDIARIES

**Acquisition during the year ended 31 March 2011**

In February 2011, Brilliant Ally Limited, a wholly-owned subsidiary of the Company acquired 50.1% equity interests of China Optic. The principal activities of China Optic and its subsidiaries (together "China Optic Group") are the provision of technologies, services and products related to optimal optical fibers, telecommunications, electric power network systems and equipment in the PRC.

The Group has selected to measure the non-controlling interests at their proportionate interest in the identifiable assets and liabilities of the acquiree.

The following summarises the consideration transferred and the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interests recognised at the date of acquisition:

| | HK$'000 |
|---|---|
| **Consideration:** | |
| Cash paid | **20,000** |
| Shares issued, at fair value | **36,160** |
| Contingent consideration – Promissory note | **4,700** |
| **Total consideration transferred** | **60,860** |
| **Recognised amounts of identifiable assets acquired and liabilities assumed:** | |
| Property, plant and equipment | **3,375** |
| Cash and cash equivalents | **297** |
| Trade and other receivables | **15,118** |
| Inventories | **1,434** |
| Trade and other payables | **(10,407)** |
| Tax payables | **(731)** |
| **Total identifiable net assets** | **9,086** |
| **Non-controlling interests** | **(4,534)** |
| **Goodwill arising on acquisition** | **56,308** |
| | **60,860** |
| **Net cash flow on acquisition:** | |
| Cash and cash equivalents acquired | **297** |
| Consideration paid in cash | **(20,000)** |
| | **(19,703)** |

## 34. ACQUISITION OF SUBSIDIARIES *(Continued)*

The contingent consideration requires the Group to release a promissory note with a principal amount of HK$5,000,000 to a vendor as part of the consideration transferred if the profitability condition is satisfied. A detailed discussion of the arrangement and measurement basis of the contingent consideration is set out in note 24 to the consolidated financial statements.

The Company issued 90,400,000 ordinary shares as part of the consideration transferred for the acquisition. The fair value of the shares issued was determined by applying a market approach and was based on the published share price available at the date of acquisition.

The transaction costs of HK$156,000 have been excluded from the consideration transferred and included in the "administrative expenses" line item in the consolidated statement of comprehensive income.

In respect of the acquired subsidiary, the fair value of trade and other receivables acquired includes trade receivables and other receivables with a fair value of HK$8,256,000 and HK$6,862,000 respectively. The total gross contractual amount of the trade receivables and other receivables is HK$8,256,000 and HK$6,862,000 respectively, of which no balance is expected to be uncollectible.

The goodwill arising from the acquisition is attributable to the expected high growth and high profit potential as a result of benefiting from the acceleration of the policy of "3-Network Convergence" reiterated by the PRC Government. Besides, the business of China Optic Group is expected to complement with the Group's existing payment gateway business in the PRC. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since acquisition, the acquired business has contributed HK$6,276,000 and HK$3,253,000 to the revenue and results of the Group respectively. If the business combination effected during the year had been taken place at the beginning of the year, the revenue and loss of the Group would have been approximately HK$31,502,000 and HK$329,230,000 respectively.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale financial assets, bank balances and cash, convertible bonds and promissory note. 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 payables, which arise directly from its business activities.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

| | Available-for-sale financial assets at fair value | | Loans and receivables at amortised cost | | | |
|---|---|---|---|---|---|---|
| | Group | | Group | | Company | |
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial assets** | | | | | | |
| Available-for-sale financial assets | **389** | 18,870 | **–** | – | **–** | – |
| Trade and other receivables | **–** | – | **49,470** | 90,789 | **73** | 73 |
| Due from subsidiaries | **–** | – | **–** | – | **59,586** | 303,822 |
| Restricted deposits | **–** | – | **–** | 2,399 | **–** | – |
| Bank balances and cash | **–** | – | **59,628** | 19,101 | **56,010** | 18,806 |
| Total | **389** | 18,870 | **109,098** | 112,289 | **115,669** | 322,701 |

| | Financial liabilities at fair value | | Financial liabilities at amortised cost | | | |
|---|---|---|---|---|---|---|
| | Group and Company | | Group | | Company | |
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial liabilities** | | | | | | |
| Trade and other payables | **–** | – | **33,164** | 32,161 | **799** | 617 |
| Due to subsidiaries | **–** | – | **–** | – | **4,020** | 4,674 |
| Convertible bonds | **–** | – | **–** | 3,083 | **–** | 3,083 |
| Promissory note | **4,700** | – | **–** | – | **–** | – |
| Total | **4,700** | – | **33,164** | 35,244 | **4,819** | 8,374 |

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.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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 consolidated financial statements. The Group trades only with recognised, creditworthy third parties. Management closely monitors all outstanding debts and reviews the collectability of trade debtors periodically. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated 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 43% *(2010: 99%)* and 89% *(2010: 100%)* of the total trade receivables were made up by the Group's largest customer's and the five *(2010: two)* largest customers' outstanding balances 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.

### 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:

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

*Group*

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Over 1 year HK$'000 | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Less than 1 year HK$'000 |
| Trade and other payables | 33,164 | 33,164 | 33,164 | – | 32,161 | 32,161 | 32,161 | – |
| Convertible bonds | – | – | – | – | 3,083 | 3,200 | – | 3,200 |
| Promissory note | 4,700 | 4,700 | – | 4,700 | – | – | – | – |
| | 37,864 | 37,864 | 33,164 | 4,700 | 35,244 | 35,361 | 32,161 | 3,200 |

*Company*

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Over 1 year HK$'000 | Total carrying value HK$'000 | Total contractual undiscounted cash flow HK$'000 | On demand HK$'000 | Less than 1 year HK$'000 |
| Other payables | 799 | 799 | 799 | – | 617 | 617 | 617 | – |
| Due to subsidiaries | 4,020 | 4,020 | 4,020 | – | 4,674 | 4,674 | 4,674 | – |
| Convertible bonds | – | – | – | – | 3,083 | 3,200 | – | 3,200 |
| Promissory note | 4,700 | 4,700 | – | 4,700 | – | – | – | – |
| | 9,519 | 9,519 | 4,819 | 4,700 | 8,374 | 8,491 | 5,291 | 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 respective fair values as at 31 March 2011 and 2010.

## 36. FAIR VALUE DISCLOSURES

The following presents the carrying value of financial instruments measured at fair value at 31 March 2011 and 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.

### Group

**Financial assets measured at fair value**

| | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 March 2011** | | | | |
| Available-for-sale financial assets *(note 15)* | **389** | **–** | **–** | **389** |
| At 31 March 2010 | | | | |
| Available-for-sale financial assets *(note 15)* | 18,870 | – | – | 18,870 |

During the years ended 31 March 2011 and 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 movement in the Level 3 equity shares since 1 April 2010 was (i) a disposal of preference shares amounted to HK$12,318,000 and (ii) a fair value decrease of approximately HK$6,163,000, which has been recorded in other comprehensive income.

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

### Group

**Movements in Level 3 fair value measurements of financial assets:**

| | **Available-for-sale financial assets** |
|---|---|
| **Year ended 31 March 2011** | HK$'000 |
| Opening balance | 18,870 |
| Disposals | (12,318) |
| Change in fair value recognised in other comprehensive income | (6,163) |
| Closing balance | 389 |
| Total gain or loss recognised in profit or loss for the year for assets held at the end of the reporting period | – |
| Year ended 31 March 2010 | |
| Opening balance | 26,323 |
| Change in fair value recognised in other comprehensive income | (7,453) |
| Closing balance | 18,870 |
| Total gain or loss recognised in profit or loss for the year for assets held at the end of the reporting period | – |

The tables above only include financial assets. The only financial liability that is subsequently measured at fair value is the contingent consideration of the acquisition of China Optic. Such a financial liability is classified as Level 3. The details of the measurement basis are set out in note 24 to the consolidated financial statements. No gain or loss relating to this contingent consideration has been recognised in the consolidated statement of comprehensive income for the year.

## 37. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group'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 2011 and 2010.