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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Palmpay China (Holdings) Limited.

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

**If you have sold** all your shares in Palmpay China (Holdings) Limited, you should at once hand this circular and the accompanied proxy form to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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**PALMPAY CHINA (HOLDINGS) LIMITED****中國掌付(集團)有限公司\****(Incorporated in Bermuda with limited liability)*

(Stock Code: 8047)

**MAJOR TRANSACTION  
INVOLVING THE  
ACQUISITION OF 55% EQUITY INTERESTS IN  
BOOMTECH LIMITED  
AND  
NOTICE OF SPECIAL GENERAL MEETING****Financial adviser to the Company****INCU Corporate Finance Limited**

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A notice convening the special general meeting of the Company to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 21 May 2012 at 10:30 a.m. is set out on pages 105 to 106 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the special general meeting in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

4 May 2012

\* *For identification purpose only*

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

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

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

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the expressions as stated below will have the following meanings:*

“Acquisition”	the proposed acquisition of the 55% equity interests of the Target Company through the purchase of the Sale Shares and the Sale Loan by the Purchaser as contemplated under the Agreement
“Actual Net Profit”	the actual audited consolidated net profit before taxation and extraordinary items of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards for the 15 months ending 31 March 2013
“Agreement”	the conditional agreement dated 13 January 2012 entered into among the Purchaser, the Vendor and the Guarantors in relation to the Acquisition (as supplemented by an extension letter dated 30 April 2012 to extend the Long Stop Date from 30 April 2012 to 30 May 2012)
“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“Board”	the board of Directors or a duly authorised committee thereof
“Boomtech Group”	the Target Company, the HK Company and Reese Compaq
“business day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Bye-laws”	Bye-laws of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“CEPA”	the Mainland and Hong Kong Closer Economic Partnership Arrangement
“Company”	Palmpay China (Holdings) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules

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## DEFINITIONS

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“Consideration”	the consideration for the Acquisition, being HK\$60,400,000
“Consideration Shares”	the 345,000,000 new Shares to be issued and allotted to the Vendor to settle part of the Consideration
“Control Agreements”	collectively, the loan agreement dated 30 December 2011, share charge dated 30 December 2011 entered into among the shareholders of Outwitting Huanyu and Reese Compaq; exclusive share purchase agreement dated 30 December 2011, management appointment agreement dated 30 December 2011, exclusive consultancy service agreement dated 30 December 2011 entered into among the shareholders of Outwitting Huanyu, Outwitting Huanyu and Reese Compaq; the directors’ undertakings dated 30 December 2011 provided by the director of Outwitting Huanyu, the shareholders’ undertakings dated 30 December 2011 and the power of attorney dated 16 April 2012 provided by the shareholders of Outwitting Huanyu; together with the supplemental agreements to the above agreements and undertakings
“Director(s)”	the director(s) of the Company from time to time
“Enlarged Group”	the Group as enlarged by the Acquisition
“First Guarantor”	Mr. Ng Yui Wah Sonny
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantors”	together, the First Guarantor and the Second Guarantor
“HK Company”	Fantastic Limited, a company incorporated in Hong Kong with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Issue Price”	HK\$0.07 per Consideration Share
“Latest Practicable Date”	30 April 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“Licenses”	the licenses granted to Outwitting Huanyu by Beijing Meteorological Bureau, namely Class C qualification in lightning protection professional design (防雷工程專業設計資質證) and Class C qualification in lightning protection professional construction (防雷工程專業施工資質證), both are valid until 2 August 2014
“Long Stop Date”	30 May 2012 (or such later date as the Purchaser and the Vendor may agree), being the last day for the fulfillment or waiver of the conditions precedent of the Agreement
“MOU”	the non-legally binding memorandum of understanding dated 1 November 2011 entered into between the Purchaser and the Vendor setting out the preliminary understanding in relation to the Acquisition
“New Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Outwitting Huanyu”	北京智勝環宇科技有限公司 (unofficial English name as Beijing Outwitting Huanyu Technology Company Limited), a limited company established in the PRC, engaging in the Restricted Business
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Profit Guarantee”	the profit guarantee that the audited consolidated net profit before taxation of the Target Company for the 15 months ending 31 March 2013 will not be less than HK\$15,000,000
“Promissory Note”	a promissory note in a principal sum of HK\$8,250,000 to be issued by the Company to the Vendor upon Completion to satisfy in part of the Consideration
“Purchaser”	Power Chance Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
“Reese Compaq”	北京瑞斯康柏科技有限公司 (unofficial English name as Beijing Reese Compaq Technology Company Limited), a limited company established in the PRC
“Reorganization”	the reorganization of the Target Group, as contemplated under the Agreement which had been completed

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## DEFINITIONS

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“Restricted Business”	the conduct of business in the lightning protection professional design and construction in the PRC by Outwitting Huanyu which is currently a PRC enterprise; the business is permissible for the PRC enterprises with appropriate qualifications, but for which the projects that can be undertaken by foreign invested enterprises with appropriate qualifications will be substantially restricted (details of which are discussed in the content of this circular)
“Sale Loan”	any and all obligations, indebtedness or liabilities due by the Target Group to the Vendor on Completion, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion, of which will be assigned by the Vendor to the Purchaser upon Completion by way of loan assignment agreement
“Sale Shares”	55 ordinary shares of the Target Company, representing 55% of the total issued share capital of the Target Company as at the date of the Agreement
“Second Guarantor”	Mr. Wu Zhi Nan
“SGM”	a special general meeting of the Company to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong, on Monday, 21 May 2012 at 10:30 a.m. to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.05 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Boomtech Limited, a company incorporated in the British Virgin Islands with limited liability
“Target Company Shares”	the ordinary shares of US\$1.00 each in the share capital of the Target Company
“Target Group”	the Target Company and its subsidiaries, after completion of the Reorganization
“Vendor”	Brilliant Bloom Investments Limited, a company incorporated in the British Virgin Islands with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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LETTER FROM THE BOARD

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**PALMPAY CHINA (HOLDINGS) LIMITED**

**中國掌付(集團)有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 8047)

*Executive Directors:*

Mr. Yuan Shengjun (*Chairman and Chief Executive Officer*)

Mr. Chan Francis Ping Kuen (*Deputy chairman*)

Mr. Chan Hin Wing, James

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Independent non-executive Directors:*

Mr. Kwok Chi Sun, Vincent

Mr. Yeung Kam Yan

Mr. Cheung Chi Hwa, Justin

*Principal place of business*

*in Hong Kong:*

Unit 1601, Ruttonjee House

Ruttonjee Centre

11 Duddell Street

Central, Hong Kong

4 May 2012

*To Shareholders of the Company*

Dear Sir or Madam,

**MAJOR TRANSACTION  
INVOLVING THE  
ACQUISITION OF 55% EQUITY INTERESTS IN  
BOOMTECH LIMITED  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

On 13 January 2012 (after trading hours of the Stock Exchange), the Purchaser entered into the Agreement with the Vendor and the Guarantors, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares and the Sale Loan at a total consideration of HK\$60,400,000.

\* *For identification purpose only*



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, information of the Acquisition and to give you a notice of the SGM at which a resolution will be proposed to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder.

### THE AGREEMENT

**Date:** 13 January 2012

**Parties:**

**Purchaser:** the Purchaser, a wholly-owned subsidiary of the Company

**Vendor:** Brilliant Bloom Investments Limited

**Guarantors:** Mr. Ng Yui Wah Sonny and Mr. Wu Zhi Nan

**Target:** The Target Company

The Vendor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The entire issued share capital in the Vendor is wholly and beneficially owned by the First Guarantor. The Second Guarantor is one of the directors of the Target Company as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Guarantors are merchants who have extensive experience in conducting businesses in Hong Kong and the PRC.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and the Guarantors and their respective associates is an Independent Third Party.

### Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares and the Sale Loan.

The Sale Shares represent 55% of the issued share capital of the Target Company. As at the Latest Practicable Date, the Target Company is beneficially owned as to 55% by the Vendor and 45% by Gold Vicinity Limited, a company incorporated in the British Virgin Islands with limited liability and its principal business as investment holding the entire shares of Gold Vicinity Limited are held by Ms. Hui Mei Lan Kitty, an Independent Third Party. As at 31 December 2011, there was a shareholders' loan of HK\$1,379,175 due to the Vendor from the Target Company and the Sale Loan will be assigned to the Purchaser upon Completion.

Upon Completion, the Target Company will be beneficially owned as to 55% by the Purchaser and 45% by Gold Vicinity Limited.

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## LETTER FROM THE BOARD

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### Consideration

The total consideration of HK\$60,400,000, which has been or shall be settled in the following manner:

- i. HK\$7,500,000 has been paid by the Purchaser to the Vendor within three business days after signing the MOU (the “**First Deposit**”) and part payment of the Consideration;
- ii. HK\$8,000,000 has been paid by the Purchaser to the Vendor within three business days after signing the Agreement (the “**Second Deposit**”, together with the First Deposit, the “**Deposits**”) and part payment of the Consideration;
- iii. HK\$12,500,000 by the Purchaser in cash on Completion;
- iv. HK\$24,150,000 by the Purchaser by procuring the Company to allot and issue the Consideration Shares to the Vendor at the Issue Price and credited as fully paid on Completion; and
- v. the balance of HK\$8,250,000 by the Purchaser by procuring the Company to issue the Promissory Note to the Vendor on Completion.

As a security for the repayment refund of the Deposits by the Vendor pursuant to the Agreement as disclosed in the section headed “Long Stop Date” below, (i) a share charge (the “**Share Charge**”) in respect of 55% equity interests in the Target Company; and (ii) a deed of assignment by way of security (the “**Deed of Assignment as Security**”) in respect of the Sale Loan have been executed by the Vendor in favour of the Purchaser immediately upon signing of the Agreement.

The Consideration represents approximately 7.32 price-earnings multiple of the Profit Guarantee (as disclosed in the following section) and equity interests to be acquired in the Target Company (i.e.  $\text{HK\$}15,000,000 \times 55\% = \text{HK\$}8,250,000$ ). The total consideration represents approximately 9.76 price-earnings multiple of the Profit Guarantee after tax and equity interests to be acquired in the Target Company (i.e.  $\text{HK\$}15,000,000 \times 75\% \times 55\% = \text{HK\$}6,187,500$ ). The Directors consider that such 9.76 price-earnings multiple is a reasonable price-earnings ratio considering the prevailing price-earnings multiple of listed companies in the PRC engaged in similar business of the Target Group (i.e. provision of integrated solutions for lightning electromagnetic pulse protection, grounding technology), which include Suzhou New Sea Union Telecom Technology Company Limited (蘇州新海宜通信科技股份有限公司) (SHE002089), MIG Technology Inc. (廣東明家科技股份有限公司) (SHE300242) and WuHan Yangtze Communication Industry Group Company Limited (武漢長江通信產業集團股份有限公司) (SHA600345) (the “**Comparables**”) and have price-earnings ratios range from approximately 16 times to approximately 30 times. These Comparables are mainly engaging in the business of provision of integrated solutions for lightning electromagnetic pulse protection and its related engineering design, construction and technical services etc.. The Directors consider that the price-earnings ratio of 9.76 times for the Acquisition is fair and reasonable as it is lower than that of the Comparables.

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## LETTER FROM THE BOARD

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As security for the Profit Guarantee, the Promissory Note, once issued, will be escrowed by the Company or its nominee and will only be released to the Vendor upon fulfillment of the Profit Guarantee. In case the Profit Guarantee is not fulfilled, all or part of the Promissory Note will be set off against or sold to make up the Shortfall.

The total consideration was agreed between the Purchaser and the Vendor after arm's length negotiations.

Having considered that (i) the business development and prospects of the Target Group in the medium to long term; (ii) the Profit Guarantee; (iii) in case the Profit Guarantee is not fulfilled, the Consideration will be adjusted downwards; and (iv) the escrow arrangement of the Promissory Note, the Directors consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The cash portion of the Consideration is intended to be funded by the internal resources of the Group (including the net proceeds of the open offer of the Company of approximately HK\$28.87 million which was completed on 19 September 2011). Approximately HK\$19 million of the net proceeds of the open offer remains unutilized as at the Latest Practicable Date.

### **Conditions precedent**

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (1) all necessary consents and approvals required to be obtained on the part of the Vendor and the Guarantors in respect of the sale of Sale Shares and the Sale Loan having been obtained;
- (2) all necessary consents and approvals required to be obtained on the part of the Purchaser and the Company in respect of the acquisition of Sale Shares and the Sale Loan having been obtained;
- (3) there does not exist any matter, fact or circumstance which constitutes, or may constitute a breach of the warranties provided by the Vendor or the terms of the Agreement;
- (4) the passing by the Shareholders at the SGM to be convened and held of ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and the issue of the Promissory Note;
- (5) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (6) completion of the Reorganization;

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## LETTER FROM THE BOARD

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- (7) the obtaining of a PRC legal opinion from the PRC legal advisors in form and substance satisfactory to the Purchaser in relation to the legality and validity of the Agreement and the transactions contemplated thereunder, the establishment and subsistence of Reese Compaq and Outwitting Huanyu, the Reorganization, the legality, validity and enforceability of the Control Agreements;
- (8) the Purchaser being satisfied with the results of the due diligence review to be conducted on the Target Group; and
- (9) the execution of a deed of release by the Purchaser to take effect simultaneously upon Completion in relation to the Share Charge and the Deed of Assignment as Security.

Conditions (3) and (8) above are waivable by the Purchaser under the Agreement while all the other conditions are incapable of being waived. The Purchaser has no current intention to waive such conditions as at the Latest Practicable Date. As at the Latest Practicable Date, condition (6) above has been fulfilled.

### **Completion**

Completion shall take place within three (3) Business Days after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

Upon Completion, the Company will be interested in 55% equity interests in the Target Company and members of the Target Group will be accounted for as indirect non wholly-owned subsidiaries of the Company.

The Group will appoint directors to take majority control of the board of directors of each of the companies in the Target Group upon Completion. The Company does not have intention to change the board composition of the Company upon Completion. In particular, the Guarantors will not be appointed as directors of the Company.

### **Long Stop Date**

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, the Agreement shall cease and terminate and neither party shall have any obligations towards each other save and except for any antecedent breach of the Agreement. In such event, the Vendor shall forthwith return the Deposits to the Purchaser.

If all of the conditions are fulfilled (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, but Completion does not take place as a result of the sole default of the Purchaser, the Vendor shall be entitled to forfeit the Deposits paid by the Purchaser (not as penalty) and neither party shall have any obligations and liabilities towards each other and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies.

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## LETTER FROM THE BOARD

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If all of the conditions are fulfilled (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, but Completion does not take place as a result of other than the sole default of the Purchaser, the Vendor shall forthwith refund the Deposits paid by the Purchaser together with a sum equivalent to the Deposits as liquidated damages (and not as penalty) to the Purchaser and neither party shall have any obligations or liabilities towards each other and neither party shall take any action to claim for damages or to enforce specific performance or any other rights or remedies.

### **PROFIT GUARANTEE**

Pursuant to the Agreement, the Vendor and the Guarantors have covenanted and guaranteed to the Purchaser that the audited consolidated net profit before taxation and extraordinary items of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and to be audited by an accounting firm approved by the Purchaser for the 15 months ending 31 March 2013 shall not be less than HK\$15,000,000.

### **Consideration Adjustment:**

In the event the Actual Net Profit is less than the Profit Guarantee, the Vendor shall compensate the Purchaser an amount (the “**Shortfall**”) equivalent to:

$$\text{Shortfall} = (\text{Profit Guarantee} - \text{Actual Net Profit}) \times 55\%$$

For the avoidance of doubt, if there is loss for the Target Group for the 15 months ending 31 March 2013, the profit shall be treated as zero and the Shortfall shall be:

$$\text{Shortfall} = \text{Profit Guarantee} \times 55\%$$

The Shortfall shall be set off against the face value of the Promissory Note on a dollar for dollar basis.

If the Profit Guarantee is fulfilled, the Promissory Note would be returned to the Vendor.

The Profit Guarantee was arrived at after arm’s length negotiation between the Purchaser and the Vendor and the Guarantor with reference to the business prospects and business development of the Target Group.

As shown in the audited financial information of Outwitting Huanyu, the turnover and the net loss for the year ended 31 December 2011 was approximately HK\$6.55 million and HK\$3.05 million respectively. As compared with the Profit Guarantee of HK\$15 million for a 15-month period ending 31 March 2013 (for illustration and on a pro-rata basis, HK\$12 million for 12-month period), the turnover for the year ended 31 December 2011 may not substantiate the Profit Guarantee. As advised by the management of the Target Group, (i) there are projects initially supposed to be completed in the year 2011, but were subsequently delayed due to bad weather conditions, revenue from such projects will be recognized in the year 2012 when the project is completed; (ii) the Target Group has secured project with billed/expected bill amount of approximately HK\$4.78 million since 1 January 2012 up to the Latest Practicable Date; (iii) after obtaining the Licenses in August 2011, with the

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## LETTER FROM THE BOARD

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proven track record established since then, the large customer secured such as China Unicom, and the expansion in operation scale, the Target Group will be able to secure more projects in addition to its existing customers to form a more solid customer base; and (iv) with the increasingly emphasis on lightning protection in the PRC, there is much market potential in the Target's Group business in the years to come; and (v) the Target Group will also diversify into projects for power stations and wind power stations to generate a more diversified source of revenue in near future, the management of the Target Group are confident that the Profit Guarantee can be achieved.

The Target Group has secured contracts with an aggregated amount of approximately RMB3.89 million (approximately HK\$4.78 million) for the four-month period commencing 1 January 2012. Taken into account the expected increase in operating scale and turnover of the Target Group in the coming quarters in 2012 following the expected entering into a contract with a large scale provincial utility company, the Board is confident that the Profit Guarantee is achievable.

As for the calculation of the compensation in the event of profit shortfall, the Directors are of the view that the determination of such compensation ratio was commercial decision after arm's length negotiation and is fair and reasonable having considered the reasons for the Acquisition. Furthermore,

- (i) the Group is able to negotiate with the Vendor for a better settlement terms, such as (a) part of the Consideration are paid by the issue of the Shares rather than in immediate financial resources of the Group, where this payment may not be appealing for some vendor as he/she needs to bear the risk of decrease in share price and overall Consideration to be received; (b) part of the Consideration is to be paid by the issue of the promissory note with a term of 2 years, and during which no interest will be paid, the delay in payment in full of the Consideration reserves more capital resources now and/or save interest cost; and (c) under the Agreement, part of the Promissory Note is to be escrowed by the Company or its nominee for the Profit Guarantee, thereby providing more security to the Group;
- (ii) after Completion, the future performance of the Target Group is not relied solely on the effort of the Vendor, as the Group (being the beneficial owner) will also participate in the decision making of the Target Group and have the power to control on all important decision such as business strategies and development which may affect the profitability and performance of the Target Group;
- (iii) in case if the Profit Guarantee cannot be met, on top of the compensation to be made by Vendor to the Purchaser, the Group is still entitled to the equity interest and assets of the Target Group, such as the Licenses, customer sources, industry expertises and technology etc.
- (iv) the price-earning ratio determining the Consideration was lower than that of the Comparables which mean the Group is able to diversify into the business in a relative lower price; and
- (v) the diversified into the new business will form part of the business service of the Group in providing wide range of support to telecommunication sectors which will further tighten the long term cooperation with telecommunication operators;

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## LETTER FROM THE BOARD

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the Directors considered that such compensation mechanism balances the benefits of both the Purchaser and the Vendor and is fair and reasonable.

### CONSIDERATION SHARES

The Consideration Shares will be allotted and issued at the Issue Price, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

- (i) a discount of approximately 25.53% to the closing price of HK\$0.094 per Share as quoted on the Stock Exchange on 12 January 2012, being the last trading day immediately prior to the entering into of the Agreement;
- (ii) a discount of approximately 25.69% to the average of the closing prices of HK\$0.0942 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 12 January 2012, being the last trading day immediately prior to the entering into of the Agreement;
- (iii) a discount of approximately 25.85% to the average of the closing prices of HK\$0.0944 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 12 January 2012, being the last trading day immediately prior to the entering into of the Agreement; and
- (iv) a discount of approximately 22.22% to the net asset value per Share of HK\$0.09 based on the audited consolidated financial statements of the Group as at 31 March 2011 divided by 1,380,795,656 Shares.

The Issue Price was determined by the Board after taking into consideration of the prevailing Share prices at the time of entering into the Agreement and the Directors consider that the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 24.99% of the existing issued share capital of the Company and approximately 19.99% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued on the date of Completion.

In addition, the Vendor undertakes to and covenants with the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling 6 months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of the Consideration Shares, or any interests therein or grant any options or rights in respect of more than such amount of Consideration Shares without prior approval from the Purchaser.

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## LETTER FROM THE BOARD

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### APPLICATION FOR LISTING

Application has been made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares. All necessary arrangements have been made for the Consideration Shares to be admitted into CCASS and dealing in the Shares and the Consideration Shares may be settled through CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

### TERMS OF THE PROMISSORY NOTE

The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

#### Issuer

The Company

#### Principal amount

HK\$8,250,000

#### Interest

The Promissory Note does not carry any interest.

#### Maturity

A fixed term of two years from the date of issue of the Promissory Note.

#### Early repayment

After the Target Group has achieved the Profit Guarantee, the Company may, at its option, repay the Promissory Note in whole or in part (in multiples of HK\$1,000,000) by giving a prior written notice to the Vendor, commencing from the date after the Profit Guarantee has been achieved up to the date immediately prior to the maturity date of the Promissory Note. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment.

#### Assignment

After the Target Group has achieved the Profit Guarantee, the Promissory Note may be transferred or assigned by the holder of the Promissory Note to any party (other than a connected person of the Company) in integral multiples of HK\$1,000,000.



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## LETTER FROM THE BOARD

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### CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and before Completion; (ii) immediately after Completion and the allotment and issue of the Consideration Shares:

Shareholders	As at the Latest Practicable Date and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Starryland Profits Limited <sup>Note 1</sup>	346,404,682	25.09	346,404,682	20.07
Mr. Lau Kim Hung, Jack <sup>Note 1</sup>	4,483,200	0.32	4,483,200	0.26
Ms. Chan Yiu Kan Katie <sup>Note 1</sup>	1,480,000	0.11	1,480,000	0.09
Other associates	<u>2,000,000</u>	<u>0.14</u>	<u>2,000,000</u>	<u>0.12</u>
Sub-total	354,367,882	25.66	354,357,882	20.54
Other concert parties of Starryland	13,848,532	1.01	13,848,532	0.80
<b>Director</b>				
Mr. Yuan Shengjun <sup>Note 2</sup>	14,804,800	1.07	14,804,800	0.86
<b>Vendor</b>	–	–	345,000,000	19.99
<b>Public Shareholders</b>	<u>997,774,442</u>	<u>72.26</u>	<u>997,774,442</u>	<u>57.81</u>
<b>Total</b>	<u><u>1,380,795,656</u></u>	<u><u>100.00</u></u>	<u><u>1,725,795,656</u></u>	<u><u>100.00</u></u>

*Notes:*

1. Starryland Profits Limited (“Starryland”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Starryland beneficially owns 346,404,682 Shares. Under the SFO, Mr. Lau is deemed to be interested in 346,404,682 Shares. Mr. Lau also beneficially owns 4,483,200 Shares.

Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is deemed to be interested in their respective shareholding in the Company under the SFO.

2. Mr. Yuan Shengjun is an executive Director, chairman and chief executive officer of the Company.

There will not be any change of control of the Company resulting from the Completion.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE TARGET GROUP

#### (a) Industry overview

Lightning protection and grounding technology is a protective measure adopted to protect electrical or electronic equipment from lightning strike. This technology is able to transfer electric current from lightning strike to the ground, thus providing protection to the equipment. With the development of electronic communication and other digital sectors, there has been ever-growing demand for protective measures that shield information network systems from lightning strike. The lack of protection against lightning for certain equipment in information network systems may often cause substantial economic losses especially in rainy and storming seasons. Therefore, lightning protection is of significant importance. Lightning protection equipment is generally used in following industries, the development of which is crucial to the lightning protection business of the Target Group.

#### *Telecom Industry*

With the rapid development of telecom industry, an increasing number of telecom base stations have been constructed. The base stations are widely distributed at high altitudes, thus the telecom equipments are prone to be damaged by lightning strike and resulting in the interruption of telecommunication signals, which in turn imposing material economic impact on the society. The lightning protection and grounding technology may be widely applied at such base stations where lightning protection is essential. The Group also aims to primarily retain and/or develop such business in this industry sector in the future.

Three telecom operators in the PRC have been investing heavily in the construction of 3G network since the PRC government issued the first 3G license in 2009. According to the latest statistics released by the Ministry of Industry and Information Technology of the PRC, during the 11-month period from January 2011 to November 2011, the three major telecommunication operators in the PRC, namely China Mobile, China Unicom and China Telecom has invested in total RMB94.1 billion for the construction of 3G specialized facilities, and there is a total of approximately 792,000 3G base stations in the PRC in November 2011. Although the three major telecom operators started the construction of 3G networks just a few years ago, another round of construction of 4G networks will unfold soon. Demand for lightning protection and grounding system technology for lighting is expected to surge as the construction of a number of new base stations is lined up.

#### *Electricity Industry*

With the development of the economy of the PRC, there is continuous growth in the demand of electricity. Lightning protection as a safety measure will certainly be considered while there is expanding power sales market and continuously developing electricity production.

Electrical substation is an integral part of electric power systems. Lightning accidents at electrical substations will result in widespread electricity outage and great damage to electrical grids, and imposing material impact on the society and electricity generation companies. Therefore, lightning protection at electrical substations is of significant importance.

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## LETTER FROM THE BOARD

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According to the statistics released by the National Energy Association of the PRC, in 2011, the investment in electricity projects in China amounted to approximately RMB739 billion (including investment in electrical grid of RMB368 billion and electricity source of RMB371 billion). It is expected that the substantial investment in electrical source projects and electrical grid projects will positively enhance the demand for lightning protection and grounding system and technology.

### *Wind Power Industry*

Given the environmental-friendliness of wind power, it has become one of the mainstream of the development of clean energy nowadays. With its rich source and great potential of development, at least 70 countries worldwide have utilized wind energy, and wind power is the major application of wind energy. According to article released by the China Climate Change Info-Net at the end of 2011, the cumulative installed wind power capacity in China reached more than 45,000,000 kW and according to the statistics released by the National Energy Association of the PRC, in 2011, the investment in wind power project amount to approximately RMB82.9 billion. With the continuous expansion of wind power plants, the issue of lightning protection has become increasingly prominent. As wind turbines are located at open fields and are vulnerable to lightning strike, the development of wind power has opened up new markets for lightning protection and grounding.

### **(b) Regulations of the industry**

#### *Business and Operations*

Outwitting Huanyu holds the Licenses (i.e. Class C qualification in lightning protection professional design and Class C qualification in lightning protection professional construction) (防雷工程專業設計丙級資質及防雷工程專業施工丙級資質) for its business operation in the PRC. The Target Group's business is subject to the regulation of laws and regulations including the Construction Law of the People's Republic of China 《中華人民共和國建築法》, the Bidding Law of the People's Republic of China 《中華人民共和國招標投標法》, the Regulation on Quality Management of Construction Projects 《建設工程質量管理條例》, the Provisions on the Administration of Qualifications of Enterprises in Construction Industry 《建築業企業資質管理規定》, the Criteria for Grading of Construction Enterprises Qualifications 《建築業企業資質等級標準》, the Rules on Administration of Foreign-Invested Construction Enterprises 《外商投資建築業企業管理規定》, and the Supplementary Provisions to the Rules on Administration of Foreign-Invested Construction Enterprises 《外商投資建築業企業管理規定補充規定》, the Implementing Measures of Ministry of Construction Related to the Administration of the Qualifications in the Administrative Rules of Foreign-Invested Construction Enterprises 《建設部關於外商投資建築業企業管理規定中有關資質管理的實施辦法》 and the Measures on the Administration of Professional Qualification of Lightning Protection Engineering Projects 《防雷工程專業資質管理辦法》.

Pursuant to the Measures on the Administration of Professional Qualification of Lightning Protection Engineering Projects 《防雷工程專業資質管理辦法》, and entity engaging in lightning protection professional design and construction in the PRC must apply for the design of lightning protection or qualification in construction in accordance with the measures. The professional

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## LETTER FROM THE BOARD

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qualifications of lightning protection are divided into 2 categories as design qualification and construction qualification and are then sub-divided into 3 classes as. Classes A, B and C. The license holder can only, in accordance with the category and class of the qualification as stated in the license, take part in the design or construction of the lightning protection project. The competent meteorological department under the State Council is responsible for management and verification on Class A qualification in lightning protection professional design and construction, while the provincial, autonomous region and municipal meteorological department is responsible for management and verification on Class B and Class C qualification in lightning protection professional design and construction.

The Licenses currently held by Outwitting Huanyu were granted by Beijing Meteorological Bureau. Beijing Meteorological Bureau is the competent authority for administration of meteorological services within the territory of Beijing and is authorized to perform the duties of administrative management related to meteorological services within the territory of Beijing, including but not limited to, formulating the planning and schedules for meteorological services of the city, coordinating and implementing the construction of meteorological business, and examining and approving the construction of major meteorological facilities in the city.

For the application for the Class C qualification in lightning protection professional design or construction, the applicant must be a corporate legal person established in China with a minimum registered capital of RMB500,000 and possesses equipment and facilities for lightning protection professional design or construction and technicians specialized in lightning protection together with the Certificate of Qualification for Lightning Protection 《防雷工程資格證書》 to set up a quality assurance system (with one or above senior technical officer in related discipline of lightning protection and three intermediate technical officers and shall have a number of supporting technical officers; maintain records on specifications and standards for professional design or construction of lightning protection engineering projects and have a file archive system in place), the basic conditions for safety production and a complete set of rules and regulations. After obtaining the license, the holder is subject to annual review. The qualifications shall automatically lapse if the license holders do not take part in the annual review for the qualifications within the specified period as required and no application within one year thereafter, if the annual review result was fail for a consecutive of two years, the qualification will be downgraded or disqualified. The qualifications in lightning protection professional design and construction are valid for three years and application to renew the qualifications can be made three months before its expiry.

Also, pursuant to the Criteria for Grading of Construction Enterprises Qualifications 《建築業企業資質等級標準》, lightning protection is within the scope of specialized construction subcontracting of special professional construction, enterprises undertaking such specialized subcontracting must meet the criteria of qualification by (i) having completed at least two special construction projects of this type with satisfactory quality, (ii) the enterprise shall possess the relevant technical and operating staff for special construction projects, (iii) the enterprise shall have a registered capital of over RMB1,000,000 and net assets of over RMB1,200,000 and (iv) the enterprise possesses the relevant special technology, equipment and diagnosis tools. Currently specialized contractors of lightning protection can undertake projects of the same profession which single contract amount does not exceed 5 times of the registered capital.

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## LETTER FROM THE BOARD

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In accordance with the Regulations on Administration of Foreign-Invested Construction Enterprises and its Supplementary Rules 《外商投資建築業企業管理規定的補充規定》 and the Implementing Measures of Ministry of Construction Related to the Administration of the Qualifications in the Administrative Rules of Foreign-Invested Construction Enterprises 《建設部關於外商投資建築業企業管理規定中有關資質管理的實施辦法》, a foreign investor who establishes a foreign-invested construction enterprise in the PRC to engage in construction activities, shall obtain the approval certificate for foreign-invested enterprises issued by competent authorities of foreign trade and economic cooperation according to laws, register with the State Administration for Industry and Commerce or its authorized local offices and obtain the qualification certificate for construction enterprises issued by competent construction authorities. Where a foreign enterprise invests in a domestic construction enterprise, the corporate nature of that domestic construction enterprise will be changed into foreign-invested construction enterprise. As such, the qualification held by the investee, including lightning protection professional design and construction shall be re-verified according to the actual standards achieved. In addition, as a foreign-invested construction enterprise, the scope of the construction projects that are permitted to be undertaken is subject to numerous restrictions. Pursuant to such regulations, foreign investors are allowed only to conduct operations within the approved scope set out in their qualification certificates:

- (1) Construction projects that are wholly funded by foreign investments and/or foreign donations;
- (2) Construction projects that are financed by loans from international financial institutions and are seized through international tender according to the terms of loans;
- (3) Sino-foreign joint construction projects with foreign investment equal to or more than 50% of total investment; and with foreign investment less than 50% but cannot be implemented independently by domestic construction enterprises due to technical difficulties; and such sino-foreign joint construction projects approved by competent construction authorities of the people's governments of provinces, autonomous regions and municipals;
- (4) Construction projects that are funded by domestic investment but cannot be implemented independently by domestic construction enterprises due to technical difficulties and are approved by competent construction authorities of the people's governments of provinces, autonomous regions and municipals to be jointly undertaken by domestic and foreign construction enterprises.

Pursuant to the "Mainland and Hong Kong Closer Economic Partnership Arrangement "(CEPA)" entered into between Hong Kong and Mainland China in 2003 and the Supplementary Provisions of the Rules on Administration of Foreign-Invested Construction Enterprises 《外商投資建築業企業管理規定》 which came into force on 1 January 2004, the above restrictions on foreign investment have been eased to some degree. The supplementary provisions stipulate that 1) Hong Kong service suppliers (within the meaning under CEPA) are allowed to wholly

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## LETTER FROM THE BOARD

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acquire construction enterprises in mainland China on its own; 2) the construction enterprises in Mainland China established and invested by Hong Kong service suppliers are exempted from restrictions on the proportion of foreign investment when undertaking sino-foreign joint construction projects; 3) Hong Kong service suppliers who have acquired construction qualification are permitted in accordance with laws to bid for construction projects across the country. To qualify as Hong Kong service suppliers defined under CEPA, service enterprises shall be incorporated or established in Hong Kong, and have been engaged in substantive business operations for 3 to 5 years or more. In particular, Hong Kong service suppliers providing construction and related engineering services shall have been engaged in substantive business operations for 5 years or more.

Pursuant to the Construction Law of the People's Republic of China, the contractors of construction projects shall obtain certificates of qualifications according to laws and shall only contract the construction projects commensurate with the business scope set out in their certificate of qualifications. Construction enterprises are prohibited from contracting projects beyond the business scope as permitted by their level of qualifications or in the name of other construction enterprises in any form. Construction enterprises are prohibited from authorizing other entities or individuals to use their certificates of qualifications, business licenses or their trade names in any form to contract construction projects. The enterprises contracting projects beyond the approved level of qualifications shall be ordered to stop illegal activities and shall be fined thereon, and may be ordered to suspend business for rectification or be downgraded to a lower level of qualifications. For serious violation, the business licenses of the enterprises shall be revoked with all of illegal income confiscated. The enterprises contracting projects without certificates of qualifications shall be outlawed and be fined thereon with all of illegal income confiscated.

### **(c) Information on the Target Group**

The Target Company is incorporated in the British Virgin Islands on 28 July 2010 and is principally an investment holding company. The HK Company is a company incorporated in Hong Kong with limited liability and is also an investment company holding the entire equity interests in Reese Compaq. Reese Compaq is a wholly-foreign owned enterprise established in the PRC with registered capital of RMB2,000,000 with the principal activity as trading of lightning rod materials. Upon completion of the Reorganization, the Target Group, through Outwitting Huanyu which holds the Licenses (i.e. Class C qualification in lightning protection design and construction (防雷工程專業設計丙級資質及防雷工程專業施工丙級資質)) to principally engage in the provision of integrated solutions for lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection and its related engineering design, construction and technical services, including the telecommunication operators and electricity providers, in the PRC. The business that Outwitting Huanyu is engaging is a Restricted Business to foreign investors.

As advised by the management of Outwitting Huanyu, there is no impediments for the annual review or renewal of the Licenses at expiry (i.e. 2 August 2014).

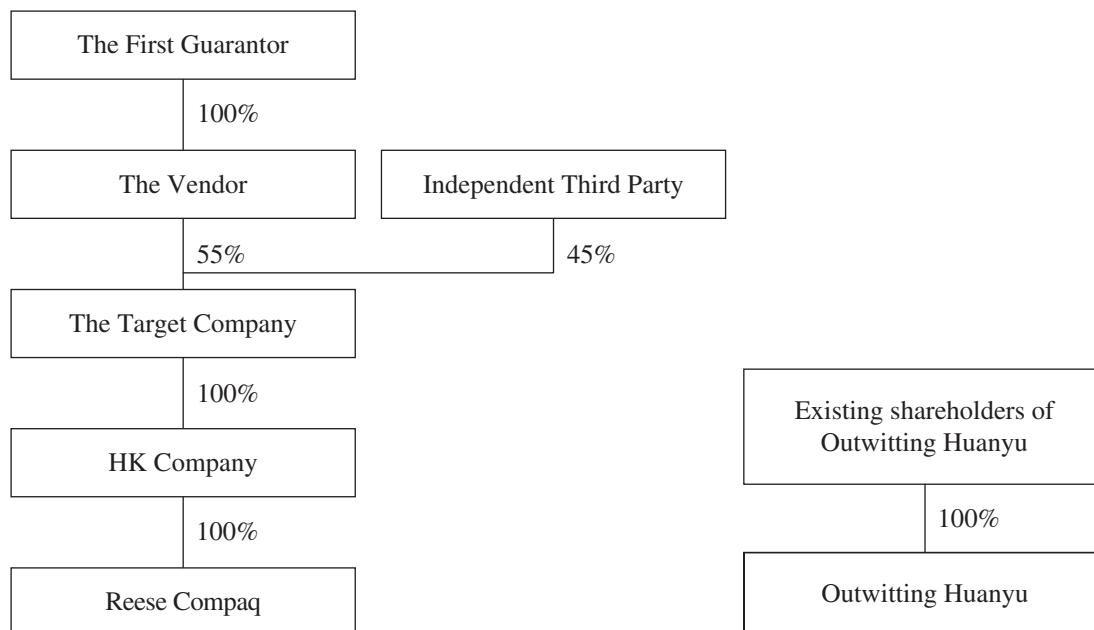
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## LETTER FROM THE BOARD

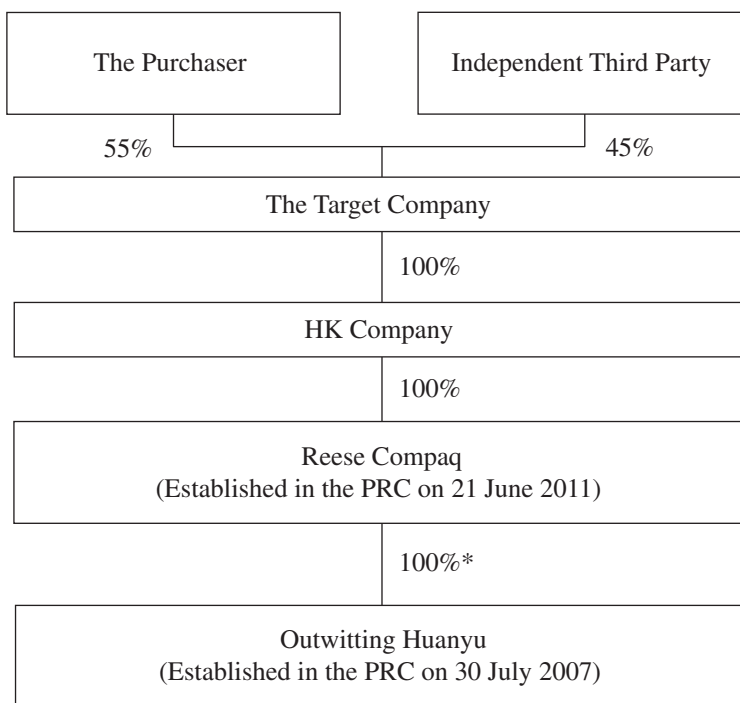
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### *Target Group structure*

Set out below is the group structure of the Target Group immediately prior to the completion of the Reorganization:



Set out below is the group structure of the Target Group immediately after completion of the Reorganization and Completion:



\* Under contractual arrangements

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## LETTER FROM THE BOARD

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### *The contractual arrangements*

#### *i) Reasons for the contractual arrangements*

Outwitting Huanyu obtain the Licenses (i.e. Class C qualification in lightning protection professional design and construction (防雷工程專業設計丙級資質及防雷工程專業施工丙級資質)) for its business operation in the PRC. Under the current structure of the contractual arrangement, the interest in Outwitting Huanyu is held through the Control Agreements instead of direct interest. As advised by the PRC legal advisors of the Company, if Reese Compaq directly acquired the interest in Outwitting Huanyu, the enterprise nature of Outwitting Huanyu will be changed to wholly-foreign owned construction enterprise, in which 1) such merger and acquisition arrangement is subject to approval by the provincial competent authorities of foreign trade and economic cooperation, and seeks opinions from provincial competent construction authorities before obtaining approval from competent authorities of foreign trade and economic cooperation; 2) after completion of the merger and acquisition, Outwitting Huanyu should apply to relative administrative authorities for re-verification of its qualification in lightning protection according to the actual standards achieved, and continue of business operation is subject to the approval of relative foreign-invested construction enterprise and obtaining the certificate of qualification.

As advised by the PRC legal advisors, there will not be any legal impediments in obtaining the relevant approvals on the acquisition of direct interest the Outwitting Huanyu. However, after completion of the direct acquisition of Outwitting Huanyu by Reese Compaq, there will be change in enterprise nature of Outwitting Huanyu and that the project that Outwitting Huanyu is eligible to participate will be restricted to the foreign invested projects and other projects as discussed under the section “regulation on the industry”, therefore the existing construction projects that Outwitting Huanyu could undertake beyond the permitted scope mentioned above will probably be affected and its future customers will be limited. Even though there is preferential arrangement under the CEPA, none of the members of the Target Group can benefit from the arrangement in the near future.



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## LETTER FROM THE BOARD

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To illustrate the effect of the direct acquisition of equity interest of Outwitting Huanyu on the business operation on Outwitting Huanyu and its Restricted Business, set out below is the breakdown of contract amount/expected billed amount of the projects undertaken by Outwitting Huanyu since first obtained the Licenses in lightning protection professional design and construction in August 2011 as advised by the management of Outwitting Huanyu:

	<b>The contract amounts recognized for the period between 1 August 2011 and 31 December 2011</b>		<b>The contracts amount secured/ expected bill amount (Note 1) for the period since 1 January 2012</b>	
	<i>Approximate amount</i>	<i>approximate percentage (%)</i>	<i>Approximate amount</i>	<i>approximate percentage (%)</i>
<i>i) Projects that require the qualifications in lightning protection design and construction:</i>				
The projects which are allowed to be undertaken by both the wholly foreign-owned enterprise and PRC domestic enterprise	RMB0 million	0%	RMB0 million	0%
Restricted Business: the projects that are only allowed to be undertaken by PRC domestic enterprise	RMB2.82 million	85.98%	RMB3.81 million	97.94%
<i>ii) Projects that do not require the qualifications in lightning protection design and construction</i>	<u>RMB0.46 million</u>	<u>14.02%</u>	<u>RMB0.08 million</u>	<u>2.06%</u>
Total contract amount	<u>RMB3.28 million</u>	<u>100%</u>	<u>RMB3.89 million</u>	<u>100%</u>
Equivalent to approximately	HK\$4.03 million		HK\$4.78 million	(Note 1)

*Note:*

- 1 The expected bill amount was approximately RMB1.5 million (approximately HK\$1.85 million). This represent the projects that are completed and the final bill amount is to be subject to final inspection.
- 2 As advised by the management of the Target Group the business of the Target Group is affected by seasonality factor, such as weather condition and holidays especially the Chinese new years in January 2012, in which there will be long holidays with no project in progress, therefore, contracts billed during that period is comparatively lower than other months.

As advised by the management of Outwitting Huanyu, as at the Latest Practicable Date, all the lightning protection professional design and construction under negotiation are allowed to be undertaken by the PRC domestic enterprise only and are all Restricted Business.

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## LETTER FROM THE BOARD

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As shown from the above figures, in the event Reese Compaq directly acquired the equity interests in Outwitting Huanyu, it will convert from a domestic enterprise to a wholly-foreign owned enterprise, there will be various restrictions and significant reduction on the contracts to be obtained by Outwitting Huanyu. Currently, there is no alternative way to maintain the feasibility in project selection of the Target Group after change in enterprise nature. Accordingly, the Control Agreements are entered into so as to minimize the potential disruption to the existing business while effectively obtain 100% interests in Outwitting Huanyu and interests in the Restricted Business. The contractual arrangement can minimize the potential restriction on the prevailing relevant PRC laws and regulation and minimize the significant negative effect on the revenue sources and profitability, the Directors considered that such contractual arrangement preserves more feasibility of project selection to be undertaken by Outwitting Huanyu, which is in the interest of the Company and the Shareholders as a whole.

*ii) Terms of the Control Agreements*

Since 30 December 2011, Reese Compaq has entered into a set of Control Agreements with Outwitting Huanyu and its respective shareholders holding the entire equity interests of Outwitting Huanyu (held as to 85% by Ms. Chen Jiao and 15% by Mr. Jia Jun Long). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Ms. Chen Jiao and Mr. Jia Jun Long and their respective associates is an Independent Third Party. Ms. Chen Jiao is the director and the legal representative of Outwitting Huanyu. As advised by the Vendor, completion of the Control Agreements, as part of the Reorganization which is one of the conditions precedent to the Agreement, has been taken place as at the Latest Practicable Date.

Pursuant to and immediately upon the completion of the Reorganization, the Target Company, through Reese Compaq obtained the rights to have effective control over the operation of Outwitting Huanyu and the right to enjoy the economic benefits in the business and/or asset of Outwitting Huanyu, and that Outwitting Huanyu will be accounted for as a 100% owned subsidiary of the Target Group in which their financial results be consolidated with that of the Target Group after completion of the Reorganization.

Set out below are the major terms and other relevant information of the Control Agreements executed amongst Reese Compaq, Outwitting Huanyu and its respective shareholders and directors:

1) Loan agreement

Pursuant to the loan agreement executed on 30 December 2011, an interest free loan in the aggregate amount of not more than RMB12 million will be provided by Reese Compaq to the existing shareholders of Outwitting Huanyu, of which RMB2 million has been utilized for the exclusive use for repaying their contributions in the registered capital of Outwitting Huanyu and a facility of RMB10 million will be utilized for future general working capital purpose of Outwitting Huanyu if and when required. The loan is for a term of five (5) years from the date of the loan agreement.

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## LETTER FROM THE BOARD

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It is specified in the loan agreement that if the event if there is liquidation of Outwitting Huanyu and there is still outstanding loan amount, the existing shareholder will repay Reese Compaq with all the assets obtained from the liquidation as repayment.

2) Share charge

Pursuant to the share charge executed on 30 December 2011, all existing shareholders of Outwitting Huanyu pledged their entire equity interests in Outwitting Huanyu to Reese Compaq, in which each of them will convey to Reese Compaq all their interests in the dividends, distribution, capital bonus and other assets distributed, payable or paid by Outwitting Huanyu for securing the repayment obligations of the shareholders of Outwitting Huanyu under the loan agreement.

Pursuant to the PRC rules, in the events Outwitting Huanyu liquidates, Reese Compaq as the beneficial owner of the charged share interest have the priority in recovering the repayment of the loan.

3) Exclusive share purchase agreement

For the purposes of obtaining the rights to purchase all (or part) of the equity interest in Outwitting Huanyu, Reese Compaq entered into the exclusive share purchase agreement on 30 December 2011 with the shareholders of Outwitting Huanyu pursuant to which, an irrevocable and exclusive right was granted by the shareholders to Outwitting Huanyu (or its nominee) to purchase all (or part) of the shareholders' equity interest in Outwitting Huanyu for a period of five (5) years from the date of the agreement (extendable at the option of Reese Compaq). The consideration will be determined based on the higher of the outstanding loan amount under the loan agreements and the minimum amount of consideration as permissible under the then PRC laws and regulations.

Pursuant to the exclusive share purchase agreement, unless with a prior written consent from Reese Compaq, the board of Outwitting Huanyu would not vote in favour of any resolutions in relation to any decision on any dividend payment or declaration. If there is any relevant dividend distribution (including but not limited to the dividend, distribution and bonus issues and other asset distribution), the shareholders of Outwitting Huanyu undertook to transfer such amount received to Reese Compaq.

4) Management appointment agreement

Pursuant to the management appointment agreement executed on 30 December 2011, Outwitting Huanyu shall appoint the person(s) nominated by Reese Compaq as directors to the board of directors of Outwitting Huanyu thereby creating an effective control on the board of directors of Outwitting Huanyu. In addition, Reese Compaq has the right to remove directors, the general manager and legal representatives of each of Outwitting Huanyu and replace them with its nominees as it thinks fit.

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## LETTER FROM THE BOARD

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5) Exclusive consultancy service agreement

Pursuant to the exclusive consultancy service agreement executed on 30 December 2011, Reese Compaq will provide consultancy services to Outwitting Huanyu in return for service fees for a term of five (5) years. Under the service agreement, the service charge will be agreed by Reese Compaq and Outwitting Huanyu each year after negotiation. The service charge will be agreed with reference to, among other, the amount of revenue and net profit of Outwitting Huanyu and the scope of the service to be provided and involvement.

6) Directors' undertakings

The existing director of Outwitting Huanyu undertakes to pass a copy of all notices of directors' meetings received from Outwitting Huanyu to Reese Compaq and to vote in accordance with the voting instructions given by Reese Compaq on any directors' resolutions proposed at the directors' meeting respectively. The directors also procure that such other new directors to be introduced will provide the same undertakings.

7) Shareholders' undertakings and power of attorney

The existing shareholders of Outwitting Huanyu undertake to Reese Compaq that as the shareholders of Outwitting Huanyu, he/she irrevocably assign their voting right to Reese Compaq (or such other person as directed by Reese Compaq) and to vote in accordance with the directions of Reese Compaq on any resolution proposed at a general meeting of the shareholders of Outwitting Huanyu.

On 16 April 2012, each of the shareholders of Outwitting Huanyu entered into power of attorney, pursuant to which Reese Compaq is authorised to exercise the shareholders' rights in Outwitting Huanyu including exercise of voting rights, rights to nominate directors of Outwitting Huanyu, the rights to sell or transfer all or any of their respective shareholding in Outwitting Huanyu, participation in the liquidation process and the right to receive the residual assets upon dissolution of Outwitting Huanyu and all other rights as a shareholder.

8) Supplemental agreement

On 12 April 2012, the parties to the loan agreement entered into the first supplemental agreement, pursuant to which (i) the existing shareholders of Outwitting Huanyu irrevocably authorizes Reese Compaq that in the event there is liquidation of Outwitting Huanyu and there is outstanding loan amount owing by them to Reese Compaq, Reese Compaq can act on behalf of them as agent in the liquidation procedure and to receive the assets after liquidation; and (ii) all the assets after liquidation of Outwitting Huanyu will be deemed as the shareholders' repayment to the loan, Reese Compaq will become the owner of all the assets of Outwitting Huanyu after liquidation. Accordingly in the event of liquidation of Outwitting Huanyu, Reese Compaq can act on the loan agreement and the supplemental agreement to obtain all the assets after liquidation of Outwitting Huanyu for its benefits.

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## LETTER FROM THE BOARD

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9) Second supplemental agreement

On 16 April 2012, the shareholders of Outwitting Huanyu, Outwitting Huanyu and Reese Compaq entered into the second supplemental agreement, pursuant to which (i) the parties agreed that in case of a dispute, if necessary in any arbitration proceedings under the agreed-upon arbitration clause of the relevant agreement under the Control Agreements, the arbitral tribunal has the power to effect arbitration actions or awards on any shares or land or assets of Outwitting Huanyu including the grant of compensation orders, restraining orders, or winding up order; (ii) to ensure the effective performance of arbitral awards, either party has the right, when pending for establishment of the arbitral tribunal or as necessary, to apply to the arbitration commission for effective measures for property preservation. The arbitration commission shall pursuant to relevant laws submit the application to the People's Court in the jurisdiction where Outwitting Huanyu is domiciled or its property is located, for consideration and ruling by the People's Court to take appropriate measures for property preservation.

It is also set out in the loan agreement, share charge, exclusive share purchase agreement, management appointment agreement and exclusive consultancy service agreement that in case of arguments, contentions, or compensation claims between the parties thereto in relation to the interpretation and performance of the terms of these agreements, the parties shall settle the dispute through friendly negotiation. If the dispute relating to these agreement cannot be settled within thirty (30) days after one party suggested solving the same through negotiation, any party may refer the dispute to the China International Economic and Trade Arbitration Commission for arbitration according to the Commission's effective rules which prevail at the time of application. The commission's decision shall be final and binding on the parties concerned. The decision by the commission will be accepted by the court and is legally enforceable, and binding on both parties.

*(iii) Legality of the contractual arrangement*

The Company has reviewed the Control Agreements provided by the Vendor and discussed with the PRC legal advisers. As advised by the PRC legal advisers, the Control Agreements entered into among the Target Group with Outwitting Huanyu and its respective shareholders are legal, effective, binding and enforceable and in compliance with the relevant rules and regulations of the PRC.

As advised by our PRC legal advisers, the use of the Control Agreements as part of the Reorganization does not involve any merger or acquisition of domestic entities by foreign investors by way of equity or business acquisition as stipulated in The Rules on Acquisition of Domestic Enterprises by Foreign Investors in the PRC 《關於外國投資者併購境內企業的規定》 issued by the PRC Government in August 2006 and as the Control Agreements are only governed by contract laws, guarantee laws and related PRC laws and regulations.

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## LETTER FROM THE BOARD

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Our PRC legal advisers have attempted to liaise with Beijing Municipal Commission of Commerce (北京市商務委員會) for the purpose of making enquiries on the issues relating to the Control Agreements. As of the Latest Practicable Date, no feedback or confirmation relating to the legality of the Control Agreements has been received from the relevant governmental authority. Nevertheless, the PRC Legal Advisers confirm that the lack of confirmation or feedback from Beijing Municipal Commission of Commerce (北京市商務委員會) will not affect the legality and validity of the Control Agreements.

As advised by the PRC legal advisers, pursuant to 《關於外商投資企業境內投資的暫行規定》 (The Provisions on the Temporary Implementation of the Domestic Investment by Foreign-funded Enterprises), foreign-funded enterprises investing in non-restricted business should report to the relevant government authority which approved its establishment. Pursuant to 《中華人民共和國外資企業法》 (The Foreign-funded Enterprises Law of the PRC), the government authority who is responsible for approving the establishment, change and other important matters of foreign-funded enterprises includes the Ministry of Commerce or the provincial government bureaus who is responsible for commerce related matters. Based on the above, the PRC legal advisers are of the view, that Beijing Municipal Commission of Commerce (北京市商務委員會) is the appropriate authority for consultation in relation to the Control Agreements.

Taking into account that (1) the Company has sought legal advice from the PRC legal advisers on the legality of the Control Agreements; (2) our PRC legal advisers have attempted to liaise with the appropriate authority for consultation in relation to the Control Agreements even though no confirmation or feedback has been received; and (3) the PRC legal advisers have been appointed to assist us to deal with specific issues arising from the Control Agreements, the Board is of the view that we have taken all appropriate actions and steps in obtaining the necessary level of regulatory assurance in respect of the Control Agreements.

As advised by the PRC legal advisers, the share pledge under the share charge shall be registered with the administration for industry and commerce and there is no legal impediment in the registration, such registration is a routine procedural for other similar share charge in the PRC. As at the Latest Practicable Date, the share pledge under the share charge had been registered.

*iv) Effectiveness of the Control Agreements*

The Control Agreements taken as a whole, upon completion the Target Group will be able to govern the financial and operating policies of Outwitting Huanyu and the Target Group enjoys all of the economic benefits of Outwitting Huanyu because (i) the board of directors of Outwitting Huanyu will be controlled by Reese Compaq pursuant to the management appointment agreements and the directors' undertakings; (ii) the general meeting of Outwitting Huanyu will be controlled by Reese Compaq pursuant to the shareholders' undertakings and the directors' undertakings; and (iii) all the benefits arising from entire equity interests in Outwitting Huanyu will be entirely conveyed to Reese Compaq pursuant to the share charge, exclusive consultancy service agreement and loan agreement.

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## LETTER FROM THE BOARD

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In addition, the terms under the Control Agreements also provide protection for the benefit of Reese Compaq especially on dividend entitlement, prevention of leakage of assets, right to decide board's member and other senior management appointment and removal, entitlement of remaining value in case of liquidation of Outwitting Huanyu:

- i) it is set out under the exclusive share purchase agreements that unless with a prior written consent from Reese Compaq, the board of Outwitting Huanyu would not vote in favour of any resolutions in relation to any decision on any dividend payment or declaration, and even there is dividend distribution, such dividend will be paid to Reese Compaq. Therefore it preserves the right of Reese Compaq as a shareholder to receive all the dividend distribution of Outwitting Huanyu;
- ii) it is set out under the directors' undertakings that the directors of Outwitting Huanyu will vote in accordance with the voting instruction by Reese Compaq and that under the management appointment agreement, Outwitting Huanyu will nominate the person(s) nominated by Reese Compaq, therefore Reese Compaq is able to control all the board decision of Outwitting Huanyu, an effective control on the board of directors of Outwitting Huanyu by Reese Compaq is established;
- iii) it is specified in the loan agreement and the first supplemental agreement that in the event Outwitting Huanyu liquidates and there is still outstanding loan amount, the existing shareholders of Outwitting Huanyu will repay Reese Compaq with all the assets obtained from the liquidation as repayment. Therefore, Reese Compaq as a shareholder is eligible to the remaining value of Outwitting Huanyu after liquidation; and
- (iv) under the share charge, the entire equity interest in Outwitting Huanyu was charged for the benefit of Reese Compaq. The transfer of equity interest is subject to the release of charge. Therefore Reese Compaq has the control over the transfer of the equity interest in Outwitting Huanyu and ensure the interest of Outwitting Huanyu will not be transferred.

In view of (i) the execution of the respective Control Agreements will ensure the consolidation of the financial results of Outwitting Huanyu to the Target Group as advised by the auditors of the Company; (ii) the Control Agreements are legal, effective, binding and enforceable and in compliance with the relevant rules and regulations of the PRC as advised by the PRC legal advisors; (iii) as confirmed by the management of Reese Compaq and Outwitting Huanyu and after appropriate verification by the PRC legal advisor, Outwitting Huanyu has complied in good faith with all relevant PRC laws and regulations and have obtained the approvals, permits, records, registration and other procedures in relation to their establishment, operation and subsistence before and after the entering into of the aforesaid control agreements and is not contravene with the PRC laws; (iv) the Control Agreements are entered amongst the parties thereto on normal commercial terms; (v) the potential benefits from the Acquisition, and (vi) there are clauses under the Control Agreements to protect the shareholder's right of Reese Compaq, including the dividend entitlement, prevention of leakage of assets, right to decide board's member and

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## LETTER FROM THE BOARD

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other senior management appointment and removal, entitlement of remaining value in case of liquidation etc., the Directors considered that such contractual arrangements are fair and reasonable and in the interest of the Group and the Shareholders as a whole.

In addition, it is the Group's intention to nominate new or additional representatives to board of Outwitting Huanyu and other senior management, such as legal representative so as to maintain a more effective management control on the day to day proper operation of Outwitting Huanyu after Completion, especially to prevent leakage of assets and value of Outwitting Huanyu.

v) *Conduct of operations in ensuring implementation of the Control Agreements*

The Group and the Target Group will adopt the following measures to ensure sound and effective operation of the implementation of the Control Agreements after Completion so as to protect the Group's interests under the Control Agreements:

1. the Group will nominate new or additional and representatives to the board of Outwitting Huanyu to ensure that there is a continue and effective control over the operation and management of Outwitting Huanyu;
2. suitable management will be assigned to Outwitting Huanyu to report regularly to the Board for review in relation to major issues arising from implementation of the Control Agreements, including but not limit to the compliance and performance of the Control Agreements;
3. suitable reporting system in line with the Group's financial reporting practice in the PRC will be in place to ensure that the Group would be full access and control over the book and record of Outwitting Huanyu and to obtain periodic financial information to ensure proper financial record are kept;
4. the proper record system for shareholders' meeting and directors' meeting of Outwitting Huanyu will continue to be in place, and a copy of these notice for meeting and resolution will also be passed to Reese Compaq and the Group before and after the meeting to kept the Group informed on all important development of Outwitting Huanyu; and
5. the Group will work closely with the PRC legal advisors and the management of the Outwitting Huanyu on the update of rules and regulations of the PRC to monitor the continue compliance of the rules and regulations by Outwitting Huanyu as to its conduct of business and contractual arrangement.

The Company considers that the Group would have sufficient financial resources and human resources to oversee proper implementation of the above measures effectively.



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## LETTER FROM THE BOARD

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vi) *Future development*

In the event if the PRC government further release the restriction on project to be undertaken by foreign construction company, the Target Group will as soon as possible exercise the exclusive right under the Control Agreements to acquire the direct equity interest in Outwitting Huanyu and unwind the contractual structure.

As advised by the PRC legal advisers, it is (i) legal for the Group to obtain the entire equity interest in Outwitting Huanyu by exercising the exclusive right to acquire the equity interest of Outwitting Huanyu pursuant to the exclusive share purchase agreement, there is no legal impediments for the exercise of the exclusive acquisition rights and acquire the direct interest in Outwitting Huanyu, and the acquisition is subject to the Provisional Rules for Investment in China by Enterprises with Foreign Investment 《關於外商投資企業境內投資的暫行規定》, obtaining prior approval from the provincial competent authorities of foreign trade and economic cooperation of the PRC and registration with the administration for industry and commerce. It is expected that there is no legal impediments to obtain approval and such approval can be obtained usually within 60 days. As to whether Outwitting Huanyu can successfully apply for the re-verification of the qualification in lightning protection professional design and construction and continue of business, it is subject to the fulfilment of the relevant requirements under the qualification at the time of application. Provided that the specified standard are fulfilled under the Measures on the Administration of Professional Qualification of Lightning Protection Engineering Projects 《防雷工程專業資質管理辦法》, there is no legal impediment in obtaining the qualification under re-verification.

vii) *Other information*

Having considered that (i) the terms of the Control Agreements, (ii) the opinion from the PRC legal advisers on the legality of the Control Agreements, (iii) the Control Agreements enable the Group to control and obtain the economic benefit form Outwitting Huanyu and the Restricted Business, the Board considered that such contractual arrangement is fair and reasonable.

**(d) Management expertise**

Wu Zhinan (吳智南), aged 37, joined the Target Group in 2009 as the General Manager. He is responsible for the coordination of the company's overall business planning and operation. He was graduated from the Electrical Engineering Faculty of Jilin University of Technology of China (now known as Jilin University). He is the holder of the Certificate for the Qualifications of Lightning Prevention Design and Construction issued by the Beijing Meteorology Bureau, with 11 years of experience in the sales of electromagnetic security products. He was the Deputy General Manager of Beijing Allday Science and Technology Co., Ltd. (北京歐地安科技有限公司), responsible for the sales of electromagnetic security products to telecommunications companies, power companies and government. He was also the Chief Marketing Officer of Beijing Comtest Co., Ltd. (北京通測科技有限責任公司), responsible for the sales of communication testing gauges to telecommunication operators across the country.

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## LETTER FROM THE BOARD

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Zhang Qian (張騫), aged 31, joined the Target Group in 2009. He is the Standing Deputy General Manager of the Target Group and is responsible for engineering technology and the coordination of market distribution. He was graduated from the Faculty of Applied Electrical Technology of the Zhengzhou University of Light Industry. He is the holder of the Certificate for the Qualifications of Lightning Prevention Design and Construction issued by the Beijing Meteorology Bureau with 8 years of experience in the sales of electromagnetic security products and project management. He was the Deputy General Manager of the System Integration Department of the Beijing Allday Science and Technology Co., Ltd. (北京歐地安科技有限公司), and was responsible for the sales of electromagnetic security products and project management for the telecommunications, electricity and oil and petrochemical markets. He was also the General Manager of Pedaro International Holdings Limited Beijing Branch (香港標定國際集團北京分公司) and the Deputy General Manager of the Engineering Department of its group companies, responsible for the sales and promotion of lightning prevention products and the management of construction projects of the national market.

**(e) Financial information of the Target Group**

Set out below is the summary of the audited consolidated financial information of the Target Company as extracted the accountants' report on Boomtech set out in Appendix II and the accountant's report on Outwitting Huanyu set out in Appendix III prepared in accordance with the Hong Kong accounting standards:

	<b>From 28 July 2010 (date of incorporation) to 31 March 2011 (audited) HK\$'000</b>	<b>Nine months from 1 April 2011 to 31 December 2011 (audited) HK\$'000</b>
Turnover	–	1,660
Net profit/(loss) before taxation	(25)	75
Net profit/(loss) after taxation	(25)	18
	<b>As at 31 March 2011 (audited) HK\$'000</b>	<b>As at 31 December 2011 (audited) HK\$'000</b>
Net (liability) value	(24)	(6)

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## LETTER FROM THE BOARD

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Set out below is the audited financial information of Outwitting Huanyu prepared in accordance with the Hong Kong accounting standards:

	<b>For the year ended 31 December 2010 (audited) HK\$'000</b>	<b>For the year ended 31 December 2011 (audited) HK\$'000</b>
Turnover	9,062	6,553
Net profit/(loss) before taxation	824	(3,052)
Net profit/(loss) after taxation	824	(3,052)
	<b>As at 31 December 2010 (audited) HK\$'000</b>	<b>As at 31 December 2011 (audited) HK\$'000</b>
Net asset/(liability) value	865	(2,192)

### *Management discussion and analysis of the results of the Target Group*

Set out below is the management discussion and analysis of the Target Group

(i) *Financial and business performance*

(a) The Boomtech Group

*For the period from 28 July 2010 (date of incorporation of the Target Company) to 31 March 2011*

There was no consolidated turnover and direct cost of sales for the period from 28 July 2010 (date of incorporation of the Target Company) to 31 March 2011 as the Boomtech Group did not commence its operation during the period.

(i) For the period from 1 April 2011 to 31 December 2011

The Boomtech Group commenced its operation through its indirect wholly-owned subsidiary i.e. Reese Compaq since its incorporation on 21 June 2011. The Boomtech Group recognized turnover of approximately HK\$1.66 million and cost of goods sold of approximately HK\$1.26 million from 1 April 2011 to 31 December 2011.

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## LETTER FROM THE BOARD

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(b) Outwitting Huanyu

*For the year ended 31 December 2009*

Turnover of Outwitting Huanyu amounted to approximately HK\$1.23 million and the cost of goods sold incurred in the year ended 31 December 2009 was approximately HK\$0.53 million.

*For the year ended 31 December 2010*

Turnover of Outwitting Huanyu amounted to approximately HK\$9.06 million, an significant increase of approximately HK\$7.83 million as compared to approximately HK\$1.23 million for the year ended 31 December 2009, represented an increase of approximately 636.59%. Cost of goods sold was approximately HK\$7.14 million for the year ended 31 December 2010 as compared to HK\$0.53 million for the year ended 31 December 2009. The increase of cost of goods sold was in line with the increase in turnover.

*For the year ended 31 December 2011*

Turnover of Outwitting Huanyu for the year was moderately reduced by 27.7% from approximately HK\$9.06 million for the year ended 31 December 2010 to approximately HK\$6.55 million for the year ended 31 December 2011, a decrease of approximately HK\$2.51 million. As advised by the management of Outwitting Huanyu the decrease was mainly due to the fact that completion of some of the project were delayed to 2012.

Cost of goods sold was approximately HK\$5.72 million for the financial year ended 31 December 2011 as compared to approximately HK\$7.14 million for the year ended 31 December 2010.

(ii) *Capital structure*

(a) The Boomtech Group

The Target's capital structure as at 31 March 2011 and 31 December 2011 consisted of shareholders' equity of approximately HK\$1,000. The accumulated losses was approximately HK\$25,000 and HK\$7,000 at 31 March 2011 and 31 December 2011 respectively.

(b) Outwitting Huanyu

The registered capital of Outwitting Huanyu was RMB2,000,000 (equivalent to approximately HK\$2,064,000) as at 31 December 2009, 31 December 2010 and 31 December 2011.

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## LETTER FROM THE BOARD

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(iii) *Liquidity and financial resources*

(a) The Boomtech Group

As at 31 March 2011 and 31 December 2011, the consolidated cash and bank balances of the Boomtech Group amounted to approximately HK\$2.43 million and HK\$3.71 million respectively. As at 31 March 2011 and 31 December 2011, the Boomtech Group had no long-term liability and bank borrowings.

(b) Outwitting Huanyu

The cash and bank balances of Outwitting Huanyu as at 31 December 2009, 31 December 2010 and 31 December 2011 was approximately HK\$0.52 million, HK\$0.61 million and HK\$1.61 million respectively.

(iv) *Significant investments*

(a) The Boomtech Group

As at 31 March 2011, the Boomtech Group did not have any significant investment. On 30 December 2011, Reese Compaq entered into the Control Agreements with the existing shareholders of Outwitting Huanyu. Save as disclosed, there was no significant investment of the Boomtech Group as at 31 December 2011.

(b) Outwitting Huanyu

As at 31 December 2009, 31 December 2010 and 31 December 2011, Outwitting Huanyu did not have any significant investment.

(v) *Material acquisitions or disposals of subsidiaries and affiliated companies*

(a) The Boomtech Group

On 30 December 2011, Reese Compaq entered into the Control Agreements with the existing shareholders of Outwitting Huanyu. Save as disclosed, there was no material acquisition and disposal of subsidiaries and affiliated companies of the Boomtech Group since the incorporation of the Target.

(b) Outwitting Huanyu

There was no material acquisition and disposal of subsidiaries and affiliated companies for each of the year ended 31 December 2009, 31 December 2010 and 31 December 2011 respectively.

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## LETTER FROM THE BOARD

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(vi) *Segment information*

(a) The Boomtech Group

Boomtech Group commenced business in the since 21 June 2011, during the period from 1 April 2011 to 31 December 2011, the Boomtech Group recorded turnover from trading of lightning rod materials, accordingly, no segment information were prepared.

(b) Outwitting Huanyu

For each of the year ended 31 December 2009, 31 December 2010 and 31 December 2011 of Outwitting Huanyu, turnover and operating assets were attributable to the provision of integrated solutions for lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection and its related engineering design, construction and technical services, including the telecommunication operators and electricity providers, in the PRC. Accordingly, no analysis by either business or geographical segment was noted.

(vii) *Number of employees and remuneration policies*

For the periods ended 31 March 2011 and 31 December 2011, the Boomtech Group have nil employees and about 5 employees respectively, total salary, allowances and other benefits in kinds and contributions to retirement scheme amounted to approximately HK\$0 and HK\$72,000.

For the years ended 31 December 2009, 31 December 2010 and 31 December 2011, Outwitting Huanyu had about 4, 11 and 17 employees respectively, total salary, allowances and other benefits in kinds and contributions to retirement scheme amounted to about HK\$343,000, HK\$817,000 and HK\$1,180,000.

Employee remuneration is determined with reference to market terms, performance, qualifications and experience of each employee.

(viii) *Charges on Target's assets*

There was no charge on the Boomtech Group's assets as at 31 March 2011 and 31 December 2011 as well as Outwitting Huanyu's assets as at 31 December 2009, 31 December 2010 and 31 December 2011.

(ix) *Future plans for material investments*

As at the Latest Practicable Date, there are no proposed material investments of the Boomtech Group and Outwitting Huanyu.

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## LETTER FROM THE BOARD

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(x) *Exposure to exchange rates*

Most of the transactions of the Boomtech Group and Outwitting Huanyu were denominated in Renminbi. As the exchange of Renminbi to Hong Kong Dollars were fairly stable, no hedging or other arrangements to reduce the currency risk were implemented.

(xi) *Contingent liabilities*

There were no contingent liabilities of the Boomtech Group as at 31 March 2011 and 31 December 2011. There were no contingent liabilities of Outwitting Huanyu as at 31 December 2009, 31 December 2010 and 31 December 2011.

(xii) *Gearing*

There were no bank borrowings of the Boomtech Group as at 31 March 2011 and 31 December 2011.

There were no bank borrowings of Outwitting Huanyu as at 31 December 2009, 31 December 2010 and 31 December 2011.

(xiii) *Capital commitment*

There were no significant capital commitment of the Boomtech Group as at 31 March 2011 and 31 December 2011.

There were no significant capital commitment of Outwitting Huanyu as at 31 December 2009, 31 December 2010 and 31 December 2011.

**(f) Risk factor**

As advised by the management of the Target Group, the followings are key business risk factors of the Target Group:

***Risks relating to the reliance on customers***

The Target Group currently provides lightning protection design and construction services to China United Network Communications Group Co., Ltd. (“**China Unicom**”) and Liaoning Electric Power Company Limited (“**Liaoning Electric**”) on a project basis, there is no assurance that the Target Group will be able to successfully identify, secure or operate additional projects. If the Target Group fails to successfully identify new projects in the future from its existing customers or new customers, the Target Group’s business may not be sustainable, and its results of operation, financial condition and prospects may be materially and adversely affected.

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## LETTER FROM THE BOARD

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To overcome the reliance of major customers, the Target Group will not only expanding its customer base by participating in more public tender offer of China Unicom as well as other telecommunication operators but also diversifying into the lightning protection design and construction project for power stations and wind power stations that involving private negotiation among parties only. Leveraging on the historical experiences and solid co-operation relationship between China Unicom and Liaoning Electric, the management of the Target Group is optimistic that the Target Group can secure additional new customers.

### *Risks relating to the reliance on the key management and expertise of the Target Group*

The future success of the Target Group's business relies significantly on the continuing services of its key management and technician for the formulation of its business strategies, development of existing and new business, maintenance of business relationships with customers and overseeing the operation of business. The loss of a significant number of the senior management of the Target Group may materially and adversely affect the operation and business of the Target Group if the Target Group cannot find a suitable replacement in a timely manner.

Based on the discussion between the management of the Company and the Target Group, the key personnel of the Target Group intend to continue their employments with the Enlarged Group. As such, the Directors consider the risk in relation to the human resources is not high and the Company will also look for suitable personnel if and when necessary.

### *Risks relating to the change in the government policies, rules and regulations and other regulatory control may affect the business and prospects of the Target Group*

Apart from the business license, the Target Group is required to obtain the Licenses in lightning protection design and construction for the operation of the Target Group's business. Any changes in government policies, rules and regulations in relation to the grant of Licenses in lightning protection design and construction the industry especially in the PRC may affect the operation of the Target Group, such as the introduction of new government policies, rules and regulations and qualification required to conduct the business of the Target Group.

As advised by the management of the Target Group, the Licenses in lightning protection design and construction granted by Beijing Meteorological Bureau is valid from 3 August 2011 to 2 August 2014, the Licenses entitle the Target Group to carry out its business for the coming two years and apply for renewal of Licenses thereafter. Leveraging on proven track record and experienced personnel, in case that the PRC government introduced new license for lightning protection design and construction business, the management of the Target Group is optimistic that the Target Group can successfully apply for a new license to continue its operation.

### *Risks relating to the contractual arrangements*

The Target Company has no equity ownership interest in Outwitting Huanyu and it relies on contractual arrangements to control and operate the business of Outwitting Huanyu under the Control Agreements. Though the Group are advised by the PRC legal advisers that the



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## LETTER FROM THE BOARD

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Control Agreements entered into among Reese Compaq with each of Outwitting Huanyu and its respective shareholders and director are legal, effective, binding and enforceable and in compliance with the relevant rules and regulations of the PRC, these contractual arrangements may not be as effective in providing control over Outwitting Huanyu as compared with direct ownership since (i) there is no assurance that the Control Agreements could comply with future changes in the regulatory requirements in the PRC; (ii) these contractual arrangements will not preserve Reese Compaq's control in the occurrence of certain events which may be outside the control of Outwitting Huanyu and its respective shareholders; and (iii) potential conflicts of interest between the Target Company and Outwitting Huanyu and its respective shareholders exists and whether the shareholders and directors of Outwitting Huanyu will act completely in the interest of the Target Company is outside the control of the Target Company. Any of the above may materially and adversely affect the validity, effectiveness and enforceability of the control of Reese Compaq on Outwitting Huanyu and its respective shareholders. Any inability, or limitation on Reese Compaq's ability to enforce the contractual arrangements with the Outwitting Huanyu and its respective shareholders or to take any legal remedies under the PRC law could disrupt the business of the Target Group and have a material adverse effect on the financial position, results of operations and prospects of the Target Group. Whether such conflicts of interest could be effectively managed or otherwise be resolved in the favour of the Target Group will be crucial to the effectiveness of contractual arrangements. In the event the disagreement and dispute cannot be resolved under friendly negotiation and proceed to arbitration, there is no guarantee that the final decision under arbitration would be in favour of the Group.

The above risks are inherent in the contractual structure. Nevertheless the Group will mitigate the risk by closely monitor the operation of the Target Group. Under the Control Agreements, (i) the interest of Outwitting Huanyu is charged for the benefit of the Target Group; (ii) exclusive right was granted by the shareholders of Outwitting Huanyu to Reese Compaq (or its nominee) to purchase all (or part) of the equity interest in Outwitting Huanyu and; (iii) Reese Compaq have the right to nominate an individual and/or remove any individual as director of Outwitting Huanyu pursuant to the management appointment agreement. In the event that Outwitting Huanyu and its respective shareholders and directors do not act in the interest of the Target Group, Reese Compaq will either exercise the right to purchase the interest as soon as practicable (provided that such decision will not have material disruption to the existing business operation to the Target Group) or assign another suitable individual who is a PRC citizen and is trustworthy to hold the equity in Outwitting Huanyu for Reese Compaq. Accordingly, the Board considered the risk associated with the contractual arrangement is reasonably minimize to an acceptable level.

As disclosed in the previous section, in the event that the PRC government further releases the restrictions on project to be undertaken by foreign construction company, the Target Group will exercise the exclusive right under the Control Agreements to acquire the direct equity interest in Outwitting Huanyu and unwind the contractual structure as soon as possible.

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## LETTER FROM THE BOARD

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### *Risk relating to competition*

The lightning protection design and construction is fragmented with a number of industry players, the Target Group faces competitions from many existing industry players in terms of services innovation and cost efficiency. The Target Group's ability to compete depends in part on a number of factors beyond its control, including price at which comparable services are offered by competitors, the extent of competitors' responsiveness to changes of customers need and the ability of competitors to attract and retain skillful employees. There is no assurance that the Target Group will be able to retain its customers while competing against its competitors but the Target Group will try to mitigate the risk by maintaining consistent good quality of service and better after sale service to retain customers.

### **FINANCIAL EFFECT OF THE ACQUISITION ON ASSETS, EARNINGS AND LIABILITIES OF THE COMPANY**

#### **(1) Assets**

Based on the unaudited pro forma financial information of the Enlarged Group as shown in Appendix IV to this circular, the unaudited pro forma net assets value of the Enlarged Group is about HK\$174,575,000 as if completion of the Acquisition could have taken place on 30 September 2011. The increase in unaudited net assets value of the Enlarged Group is mainly attributable to the goodwill arising from the acquisition of the Target Group and the increase in share capital and reserves as a result of the issue of 345,000,000 Consideration Shares.

#### **(2) Earnings**

As described under the sections "INFORMATION OF THE TARGET GROUP" and "REASONS FOR THE ACQUISITION", it is expected that upon completion of the Acquisition, the Target Group will become an indirect wholly-owned subsidiary of the Company and the Enlarged Group will account for all profit derived from the business of the Target Group.

#### **(3) Liabilities**

Based on the unaudited pro forma financial information of the Enlarged Group as shown in the Appendix IV to this circular, the unaudited pro forma total liabilities of the Enlarged Group will be increased to approximately HK\$60,999,000 as if completion of the Acquisition could have taken place on 30 September 2011. The increase is mainly due to the issue of the Promissory Note of HK\$8,250,000 in relation to the Acquisition.

### **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Group is principally engaged in the provision of energy and other resources management and conservation system and integrated solutions and telecommunication optic fiber business in the PRC.

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## LETTER FROM THE BOARD

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The Board considers that the Acquisition represents a significant step forward on development of the Group's telecommunication related enhancement, maintenance, security and value-added peripheral business in the PRC. According to the Twelve Five Years Plan launched by the PRC National Council, enhance construction of conservancy and disaster prevention and mitigation system are among the top priority projects of the PRC Government, of which lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection is a key part in natural disaster prevention and mitigation system. The Acquisition is in line with the PRC Government policy and will also capitalize the existing business connections and scope of business activities of the Group.

As informed by the management of the Target Group, Outwitting Huanyu has successfully granted the Licenses (i.e. Class C qualification in lightning protection professional design and Class C qualification in lightning protection professional construction (防雷工程專業設計丙級資質及防雷工程專業施工丙級資質)) from the Beijing Meteorological Bureau in August 2011 and since then, the Target Group has already recorded turnover of approximately RMB3,340,000 from August 2011 to December 2011. Leveraging on the experiences and connections of management of the Target Group as well as the increase in emphasis of the lightning protection as a result of the Wenzhou railway accident in the PRC, the Target Group has secured several lightning protection projects for operation in 2012. With the expected increase in operation scale and customer base after obtaining the Licenses to secure more projects, the management of the Target Group and the Board are optimistic about the business development of the Target Group and achieve the Profit Guarantee.

The Directors view that the Acquisition is in the interest of the Group and the Shareholders as a whole in view of its profitability potential in the future.

### FINANCIAL AND TRADING PROSPECTS

Prior to the Completion, the Group is principally engaged in the provision of energy and other resources management and conservation system and integrated solutions (“**Resources/Energy Conservation Business**”) and telecommunication optic fiber business (“**Optic Business**”) and payment by deduction business (“**Payment Business**”) in the PRC. After Completion, the Enlarged Group will also engage in the new business of provision of integrated solutions for lightning electromagnetic pulse protection for telecommunication operators and electricity providers in the PRC.

#### **Resources/Energy Conservation Business**

Upon completion of the acquisition of 51% equity interests of Viva Champion Limited in November 2011, the Group commenced provision of energy and other resources management and conservation system and integrated solutions to optimize usage for enterprises, including the telecommunication operators, in the PRC. The Resources/Energy Conservation Business is in line with the Twelve Five Years Plan launched by the PRC National Council and will also capitalize the existing business connections and scope of business activities of the Group.

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## LETTER FROM THE BOARD

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### **Optic Business**

Upon completion of the acquisition of 50.1% equity interests of China Optic Telecommunication Technology Limited in February 2011, the Group commenced provision of technologies, services and products related to optimal optical fibers, telecommunications, electric power network systems and equipment in the PRC. The Optic Business entitled a strategic opportunity to the Group to penetrate into business of optimizing telecommunications, optical fibers, electric power network systems and equipment in the PRC, which is of high growth and high profit potential as a result of benefiting from the acceleration of the policy of “3-Network Convergence (the telecommunication, broadcast TV and the Internet)” (三網融合) (the “**Policy**”) reiterated by the PRC Government. According to the PRC National Council, the Policy was classified as one of the major developments under the Twelve Five Years Plan and will be the major investment theme in the telecommunications and optic fibers industry with conservative estimation of market value of RMB600 billion. The Optic Business will complement with the Group’s existing value added service for telecommunication service provider in the PRC.

### **Payment Business**

As stated in the annual report of the Company for the financial year ended 31 March 2011, during the year, the payment by deduction business of the Group was adversely affected by the prevailing rules and regulations in the PRC, the Board does not foresee any improvements on the payment by deduction business as a whole in the coming future.

### **Lightning electromagnetic pulse protection and construction business**

Upon completion of the Acquisition, the Group will diversify in the business of provision of integrated solutions for lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection and its related engineering design, construction and technical services in the PRC. With the expected increase in operation scale and broader customer base after obtaining the Licenses and the achieve of Profit Guarantee under the Agreement, the Directors are confident about the prospect of the new business and are of the view that it will provide a new source of income and profit contribution to the Enlarged Group which will be in the interest of the Company and the Shareholders as a whole.

### **GEM LISTING RULES IMPLICATIONS**

As the applicable percentage ratios in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction for the Company under Rule 19.06 of the GEM Listing Rules, which is subject to the reporting, announcement and shareholders’ approval requirements under the GEM Listing Rules.

To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, no Shareholder has an interest in the Agreement which is materially different from the other Shareholders. Therefore no Shareholder is required to abstain from voting on the ordinary resolution to be proposed at the SGM.

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## LETTER FROM THE BOARD

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To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

### THE SGM

A notice convening the SGM is set out on pages 105 to 106 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to be present at the SGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the SGM. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

### RECOMMENDATION

The Directors consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares.

By order of the Board  
**Palmpay China (Holdings) Limited**  
**Yuan Shengjun**  
*Chairman*

**1. THREE-YEAR FINANCIAL INFORMATION**

Financial information of the Group for three years from 1 April 2008 to 31 March 2011 are disclosed in the annual reports of the Company for the years 31 March 2009, 2010 and 2011 respectively, which are published on both the GEM website (www.hkgem.com) and the website of the Company (www.palmpaychina.com).

**2. INDEBTEDNESS STATEMENT****Borrowings**

As at the close of business on 31 March 2012, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$28,511,000, details of which are set out below:

	<i>HK\$'000</i>
Current liabilities	
Other payables (Unsecured and unguaranteed)	16,117
Amount due to a director (Unsecured and unguaranteed)	<u>3,394</u>
	<u>19,511</u>
Non-current liabilities	
Promissory Note (Unsecured and unguaranteed)	<u>9,000</u>
	<u>9,000</u>
Total borrowings	<u><u>28,511</u></u>

**Contingent liabilities**

As at 31 March 2012, the Enlarged Group had no material contingent liabilities.

**Commitments**

As at 31 March 2012, the Enlarged Group had no commitments.

**Disclaimer**

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 March 2012, the Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Group since 31 March 2012 and up to the Latest Practicable Date.

**3. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the existing cash and bank balances and other internal resources available and also the effect of the Acquisition, the Enlarged Group has sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

**4. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2011, being the date to which the latest published audited financial statements of the Group was made up.

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Mazars CPA Limited, Certified Public Accountants.*

The Board of Directors  
Palmpay China (Holdings) Limited  
Unit 1601, 16/F., Ruttonjee House  
Ruttonjee Centre, 11 Duddell Street  
Central  
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Boomtech Limited (“Boomtech”) and its subsidiaries (collectively referred to as “Boomtech Group”) for inclusion in the circular of Palmpay China (Holdings) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) dated 4 May 2012 (the “Circular”) in connection with the proposed acquisition of 55% equity interest of Boomtech as disclosed in the Company’s announcement dated 13 January 2012. The Financial Information comprises the consolidated statements of financial position of Boomtech Group as at 31 March 2011 and 31 December 2011, and the the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of Boomtech Group for the period from 28 July 2010 (date of incorporation) to 31 March 2011 and the period from 1 April 2011 to 31 December 2011 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information.

Boomtech is a limited liability company incorporated in the British Virgin Islands (the “BVI”) on 28 July 2010. Pursuant to the written resolution of the sole director on 20 January 2011, the name of Boomtech was changed from Shengshi Dongfang Group Limited to Boomtech Limited. The principal activity of Boomtech is investment holding and the principal activity of its major operating subsidiaries are the provision of integrated solutions for lightning electromagnetic pulse protection and its related engineering design, construction and technical services in the People’s Republic of China (the “PRC”).

Boomtech and its Hong Kong incorporated subsidiary have adopted 31 March as their financial year end date for financial reporting purposes and the PRC subsidiaries of Boomtech Group have adopted 31 December as their financial year end date for statutory financial reporting purposes.

The statutory financial statements of the PRC subsidiaries of Boomtech Group for the year/period ended 31 December 2010 and 2011 prepared under the generally accepted accounting principles in the PRC were audited by Beijing Hong Tian Zhong Dao Certified Public Accountants Company Limited. There were no other statutory financial statements issued by these subsidiaries for any periods prior to the year/period ended 31 December 2010. No audited financial statements have been issued for Boomtech Limited and its Hong Kong incorporated subsidiary since their respective dates of incorporation.



The Financial Information as set out in this report has been prepared based on the unaudited management accounts of Boomtech for the Relevant Periods (hereinafter collectively referred to as the "Underlying Financial Statements") prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), after making such adjustments as are appropriate for the purpose of preparing the Financial Information for inclusion in the Circular.

The directors of Boomtech are responsible for preparing the Financial Information which gives a true and fair view in accordance with HKFRS. In preparing the Financial Information of Boomtech Group which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable, and that the reasons for any significant departure/non-applicable accounting standards are stated. It is our responsibility to form an independent opinion, on such information in respect of the Relevant Periods, and to report our opinion to you.

#### **PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS**

For the purpose of this report, we have examined the Underlying Financial Statements of Boomtech Group for the Relevant Periods and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline No. 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA, after making such adjustments as are appropriate for the purpose of preparing the Financial Information for inclusion in the Circular.

#### **OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS**

In our opinion, the Financial Information of Boomtech Group, for the purpose of this report, gives a true and fair view of the results and cash flows of Boomtech Group for the Relevant Periods and of the state of affairs of Boomtech Group as at 31 March 2011 and 31 December 2011 in accordance with HKFRS.

## A. FINANCIAL INFORMATION

**Consolidated statements of comprehensive income**

The following is a summary of the results of Boomtech Group for the Relevant Periods, which have been prepared on the basis set out in Section B.

		<b>Period from 28 July 2010 (date of incorporation) to 31 March 2011 HK\$'000</b>	<b>Period from 1 April 2011 to 31 December 2011 HK\$'000</b>
	<i>Note</i>		
<b>Turnover</b>	3	–	1,660
Cost of goods sold		–	(1,259)
Gross profit		–	401
Administrative expenses		(25)	(326)
<b>(Loss) Profit before taxation</b>	4	(25)	75
Taxation charges	7	–	(57)
<b>(Loss) Profit for the period</b>		(25)	18
<b>Other comprehensive income</b>		–	–
<b>Total comprehensive (loss) income for the period</b>		<u>(25)</u>	<u>18</u>

**Consolidated statements of financial position**

The following is a summary of the financial position of Boomtech Group as at the end of each of the Relevant Periods which have been prepared on the basis set out in Section B.

	<i>Note</i>	<b>31 March 2011 HK\$'000</b>	<b>31 December 2011 HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	–	66
Goodwill	<i>11</i>	–	4,633
		<u>–</u>	<u>4,699</u>
<b>Current assets</b>			
Trade and other receivables	<i>12</i>	–	4,977
Bank balances and cash		2,433	3,706
		<u>2,433</u>	<u>8,683</u>
<b>Current liabilities</b>			
Due to a shareholder	<i>13</i>	2,457	2,508
Trade and other payables	<i>14</i>	–	8,382
Taxation		–	57
		<u>2,457</u>	<u>10,947</u>
<b>Net current liabilities</b>		<u>(24)</u>	<u>(2,264)</u>
<b>Non-current liabilities</b>			
Loan from a director	<i>15</i>	–	2,441
<b>NET LIABILITIES</b>		<u><u>(24)</u></u>	<u><u>(6)</u></u>
<b>Capital and reserves</b>			
Share capital	<i>16</i>	1	1
Accumulated losses		(25)	(7)
<b>TOTAL DEFICIT</b>		<u><u>(24)</u></u>	<u><u>(6)</u></u>

**Consolidated statements of changes in equity**

The movements in the consolidated statements of changes in equity of Boomtech Group for the Relevant Periods, which have been prepared on the basis set out in Section B, are as follows.

	<b>Share capital</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Issue of share capital	1	–	1
Loss for the period and total comprehensive loss for the period	–	(25)	(25)
As at 31 March 2011 and 1 April 2011	1	(25)	(24)
Profit for the period and total comprehensive income for the period	–	18	18
<b>As at 31 December 2011</b>	<b><u>1</u></b>	<b><u>(7)</u></b>	<b><u>(6)</u></b>

*Note on reserves of Boomtech Group:*

**(a) Distributable earnings**

The statutory financial statements of the People's Republic of China (the "PRC") subsidiaries of Boomtech Group are prepared under generally accepted accounting principles in the PRC which differ from Hong Kong Financial Reporting Standards. Any dividends paid by the PRC subsidiaries of Boomtech Group will be based on profits as reported in their statutory financial statements. Accordingly, the distributable earnings would be limited to the amounts of available accumulated profits as recorded in the statutory financial statements of the PRC subsidiaries of Boomtech Group.

**(b) Statutory reserve**

In accordance with the relevant laws and regulations, the enterprise established in the PRC must maintain statutory reserve for specific purposes. The directors of the PRC subsidiaries of Boomtech Group would determine on an annual basis the amount of the annual appropriations to statutory reserve.

No appropriation of reserves during the Relevant Periods had been made.

**Consolidated statements of cash flows**

The following is a summary of the cash flows of Boomtech Group for the Relevant Periods, which have been prepared on the basis set out in Section B.

	<b>Period from 28 July 2010 (date of incorporation) to 31 March 2011 HK\$'000</b>	<b>Period from 1 April 2011 to 31 December 2011 HK\$'000</b>
<i>Note</i>		
<b>OPERATING ACTIVITIES</b>		
(Loss) Profit before taxation	(25)	75
Changes in working capital:		
Trade and other receivables	–	(86)
Trade and other payables	–	2,072
<b>Net cash (used in) from operating activities</b>	<u>(25)</u>	<u>2,061</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	–	(6)
Net cash outflow on acquisition of subsidiary	20	(833)
<b>Net cash used in investing activities</b>	<u>–</u>	<u>(839)</u>
<b>FINANCING ACTIVITIES</b>		
Advance from the shareholder	2,457	51
Issue of share capital	1	–
<b>Net cash from financing activities</b>	<u>2,458</u>	<u>51</u>
<b>Net increase in cash and cash equivalents</b>	2,433	1,273
<b>Cash and cash equivalents at beginning of period</b>	<u>–</u>	<u>2,433</u>
<b>Cash and cash equivalents at end of period, represented by bank balances and cash</b>	<u>2,433</u>	<u>3,706</u>

## B. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

Boomtech Limited (“Boomtech”) is a limited company incorporated in the British Virgin Islands (the “BVI”). Boomtech’s principal place of business is located at 2702, Block A, R&F Gemini, No. 59 East Third Ring Road, Chaoyang District, Beijing, China, P.C. 100022. In the opinion of the directors, the ultimate holding company of Boomtech is Brilliant Bloom Investments Limited (“Brilliant Bloom”), which is incorporated in the British Virgin Islands.

Pursuant to the written resolution of the sole director on 20 January 2011, the name of Boomtech was changed from Shengshi Dongfang Group Limited to Boomtech Limited.

The principal activity of Boomtech is investment holding and the principal activities of its subsidiaries are detailed as follows:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued ordinary share/paid-up registered capital	Percentage of equity attributable to Boomtech				Principal activity
			31 March 2011		31 December 2011		
			Direct	Indirect	Direct	Indirect	
Fantastic Limited	Hong Kong	1 share of HK\$1 each	100%	–	100%	–	Investment holding
北京瑞斯康柏科技有限 公司 (transliterated as Beijing Reese Compaq Technology Company Limited) (“Reese Compaq”) (Note i)	The PRC	RMB2,000,000	–	–	–	100%	Trading of lightning rod materials
北京智勝環宇科技有限 公司 (transliterated as Beijing Outwitting Huanyu Technology Company Limited) (“Outwitting Huanyu”)	The PRC	RMB2,000,000	–	–	–	100% (Note ii)	Provision of integrated solutions for lightning electromagnetic pulse protection and its related engineering design, construction and technical services

#### Note i

It is a foreign wholly-owned enterprise established in the PRC.

#### Note ii

Under the prevailing laws and regulations in the PRC, companies with foreign ownership are restricted from holding Class C qualification in lightning protection design and construction. Before the reorganisation on 30 December 2011 (the “Reorganisation”), Outwitting Huanyu was held as to 85% by Ms. Chen Jiao and 15% by Mr. Jia Jun Long (the “former shareholders”) and they are independent third parties to the Company.

In order to obtain the effective control on Outwitting Huanyu and the right to enjoy the economic benefits in the business and assets of Outwitting Huanyu, as part of the Reorganisation, Reese Compaq has entered into a set of control agreements including two supplemental agreements (the “Control Agreements”) with Outwitting Huanyu and its former shareholders since 30 December 2011. Major terms of the Control Agreements are detailed in the section headed “LETTER FROM THE BOARD” in the Circular.

In accordance with the terms of the Control Agreements, Reese Compaq is able to govern the financial and operating policies of Outwitting Huanyu and Reese Compaq can enjoy all of the economic benefits of Outwitting Huanyu because:

- (i) the board of directors of Outwitting Huanyu is controlled by Reese Compaq pursuant to the management appointment agreements and the directors' undertakings;
- (ii) the general meeting of Outwitting Huanyu is controlled by Reese Compaq pursuant to the shareholders' undertakings and the directors' undertakings; and
- (iii) all the benefits arising from the entire equity interests in Outwitting Huanyu is entirely conveyed to Reese Compaq pursuant to the share charge, exclusive consultancy service agreement and loan agreement.

Boomtech believes that, notwithstanding the lack of equity ownership, the Control Agreements give Boomtech control over Outwitting Huanyu in substance. Accordingly, Outwitting Huanyu is accounted for as a wholly-owned subsidiary of Boomtech.

## 2. PRINCIPAL ACCOUNTING POLICIES

### Statement of compliance

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and applicable disclosure requirements under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

### Application of HKFRS

Throughout the Relevant Periods, Boomtech Group has applied all of the new/revised HKFRS issued by the HKICPA that are relevant to its operations and effective for the Relevant Periods.

At the date of this report, Boomtech Group has not early adopted the following new/revised HKFRSs issued by the HKICPA that are not yet effective:

Amendments to HKFRS 1 (Revised)	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>(1)</sup>
Amendments to HKFRS 7	<i>Disclosures – Transfer of Financial Assets</i> <sup>(1)</sup>
Amendments to HKAS 12	<i>Deferred Tax: Recovery of Underlying Assets</i> <sup>(2)</sup>
Amendments to HKAS 1 (Revised)	<i>Presentation of items of other comprehensive income</i> <sup>(3)</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>(4)</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>(4)</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>(4)</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>(4)</sup>
HKFRS 10	<i>Consolidated financial statements</i> <sup>(4)</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>(4)</sup>
HKFRS 12	<i>Disclosures of Interests with Other Entities</i> <sup>(4)</sup>
HKFRS 13	<i>Fair value measurement</i> <sup>(4)</sup>
HK (IFRIC) – Int 20	<i>Stripping Costs in the Production Phase of A Surface Mine</i> <sup>(4)</sup>
Amendments to HKFRS 7	<i>Disclosure – Offsetting Financial Assets and Financial Liabilities</i> <sup>(4)</sup>
Amendments to HKAS 32	<i>Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>(5)</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>(6)</sup>

- (1) Effective for annual periods beginning on or after 1 July 2011
- (2) Effective for annual periods beginning on or after 1 January 2012
- (3) Effective for annual periods beginning on or after 1 July 2012
- (4) Effective for annual periods beginning on or after 1 January 2013
- (5) Effective for annual periods beginning on or after 1 January 2014
- (6) Effective for annual periods beginning on or after 1 January 2015

Boomtech Group is in the process of assessing the possible impact on the adoption of these new/revised HKFRS in future periods. So far it has concluded that the adoption is unlikely to have a material impact on Boomtech Group's results or financial position in future periods.

A summary of the principal accounting policies adopted by Boomtech Group is set out below.

#### **Going concern**

The Financial Information has been prepared in conformity with the principle applicable to a going concern basis. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the net current liabilities and capital deficiency as at 31 December 2011. A director of Boomtech has confirmed his intention to make available adequate funds to Boomtech Group as and when required to maintain Boomtech Group as a going concern.

#### **Basis of measurement**

The measurement basis used in the preparation of the Financial Information is historical cost.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Boomtech and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as Boomtech using consistent accounting policies.

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

#### **Subsidiary**

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

#### **Goodwill**

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.

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.



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.

### **Property, plant and equipment**

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

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below 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:

Computer and office equipment	5 years
Furniture and fixtures	5 years

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

### **Financial instruments**

#### ***Recognition and derecognition***

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

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

#### ***Classification and measurement***

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

#### ***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 any impairment loss. Amortised cost is calculated by taking into account any discounts or premiums 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.

#### *Impairment of financial assets*

At the end of each reporting period, Boomtech Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities*

Boomtech Group's financial liabilities include trade and other payables. All financial liabilities 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.

#### **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.

#### **Revenue recognition**

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

Trading of lightning rod materials is recognised on transfer of risks and rewards of ownership, which generally coincides with time when the goods are delivered to customers and title has been passed.

#### **Foreign currency translation**

Items included in the financial statements of each of Boomtech Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information are presented in the currency of Hong Kong dollars, which is Boomtech'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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all Boomtech 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; and
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of Boomtech 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.

#### **Impairment of non-financial assets**

At the end of each reporting period, Boomtech Group reviews internal and external sources of information to determine whether its property, plant and equipment have suffered impairment losses or that impairment losses previously recognised no longer exist 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, Boomtech Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A 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 recognised as an expense on the straight-line basis over the term of the relevant leases.

#### **Employee benefits**

##### *Short-term employee benefits*

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### *Defined contribution plans*

Pursuant to the law and regulations of the PRC, contributions to the defined contribution retirement schemes for Boomtech Group's 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.

**Taxation**

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, any deferred tax arising from initial recognition of an 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 the 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 it is probable that future taxable profits 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 Boomtech Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**Related parties**

A related party is a person or entity that is related to Boomtech Group.

- (a) A person or a close member of that person's family is related to Boomtech Group if that person:
- (i) has control or joint control over Boomtech Group;
  - (ii) has significant influence over Boomtech Group; or
  - (iii) is a member of the key management personnel of Boomtech Group or of the parent of Boomtech Group.
- (b) An entity is related to Boomtech Group if any of the following conditions applies:
- (i) The entity and Boomtech Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either Boomtech Group or an entity related to Boomtech Group. If Boomtech Group is itself such a plan, the sponsoring employers are also related to Boomtech Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

#### **Critical accounting estimates and judgements**

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the Financial Information. They affect the application of Boomtech 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 Boomtech Group is based on the evaluation of collectability of the trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of receivables, including 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.

### **3. TURNOVER AND REVENUE**

	<b>Period from 28 July 2010 (date of incorporation) to 31 March 2011 HK\$'000</b>	<b>Period from 1 April 2011 to 31 December 2011 HK\$'000</b>
Trading of lightning rod materials	—	1,660

## 4. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation is stated after charging the following:

	Period from 28 July 2010 (date of incorporation) to 31 March 2011 <i>HK\$'000</i>	Period from 1 April 2011 to 31 December 2011 <i>HK\$'000</i>
Staff salaries, allowances and other benefits in kind (including the directors)	–	72
Contributions to retirement scheme	–	–
Total staff costs	<u>–</u>	<u>72</u>
Operating lease payments on premises	–	191

## 5. DIRECTORS' REMUNERATION

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

	Director's fees <i>HK\$'000</i>	Other emoluments <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Period from 28 July 2010 (date of incorporation) to 31 March 2011</b>			
<i>Executive directors</i>			
Kwok Siu Keung (appointed on 28 July 2010 and resigned on 28 January 2011)	–	–	–
Ng Yui Wah Sonny (appointed on 28 January 2011)	–	–	–
Zhou Meiyu (appointed on 28 July 2010 and resigned on 1 December 2010)	–	–	–
Zhang Mingrui (appointed on 28 July 2010 and resigned on 1 December 2010)	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>
	<b>Director's fees</b> <i>HK\$'000</i>	<b>Other</b> <b>emoluments</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Period from 1 April 2011 to 31 December 2011</b>			
<i>Executive directors</i>			
Ng Yui Wah Sonny	–	–	–
Wu Zhi Nan (appointed on 1 November 2011)	–	36	36
	<u>–</u>	<u>36</u>	<u>36</u>
	<u>–</u>	<u>36</u>	<u>36</u>

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

#### 6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the Relevant Periods included one director for the Relevant Periods, details of whose remuneration are set out in note 5 to the Financial Information above. Details of the remuneration of the remaining four highest paid individuals, who are employees of Boomtech Group, are as follows:

	<b>Period from 28 July 2010 (date of incorporation) to 31 March 2011 HK\$'000</b>	<b>Period from 1 April 2011 to 31 December 2011 HK\$'000</b>
Staff salaries, allowances and other benefits in kind	–	32
Contributions to retirement scheme	–	–
	<u>–</u>	<u>32</u>

Those highest paid individuals whose remuneration fell within the following band:

	<b>Number of employees 31 March 2011</b>	<b>31 December 2011</b>
Nil to HK\$1,000,000	<u>–</u>	<u>4</u>

During the Relevant Periods, no remuneration was paid by Boomtech Group to any of the five highest paid individuals as an inducement to join or upon joining Boomtech Group, or as compensation for loss of office.

There was no arrangement under which any of the five highest paid individuals waived or agreed to waive any remuneration during the Relevant Periods.

#### 7. TAXATION

Boomtech Group is subject to PRC Enterprise Income Tax ("EIT") at a statutory rate of 25%.

For the period ended 31 March 2011, EIT had not been provided as Boomtech Group incurred a loss for taxation purposes.

For the period ended 31 December 2011, EIT had been provided at the statutory rate on Boomtech Group's estimated assessable profits.

	Period from 28 July 2010 (date of incorporation) to 31 March 2011 <i>HK\$'000</i>	Period from 1 April 2011 to 31 December 2011 <i>HK\$'000</i>
<b>Current tax</b>		
EIT	—	57

**Reconciliation of effective tax rate**

	Period from 28 July 2010 (date of incorporation) to 31 March 2011 %	Period from 1 April 2011 to 31 December 2011 %
Applicable tax rate	(25.0)	25.0
Non-deductible expenses	25.0	51.0
Effective tax rate for the period	—	76.0

**Unrecognised deferred tax assets**

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

	31 March 2011 <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
Year of expiry		
2013	—	73
2014	—	—
2015	—	—
2016	—	1,812
	—	1,885

Boomtech Group has not recognised deferred tax asset in respect of above tax losses due to unpredictability of future profit streams.

**8. DIVIDENDS**

No dividends were declared nor paid during the Relevant Periods.

**9. (LOSS) EARNINGS PER SHARE**

(Loss) Earnings per share have not been presented as such information is not considered meaningful for the purpose of this report.



## 10. PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>			
At 28 July 2010 (date of incorporation), 31 March 2011 and 1 April 2011	–	–	–
Additions	6	–	6
Acquisition of subsidiary	36	24	60
	<u>42</u>	<u>24</u>	<u>66</u>
At 31 December 2011	<u>42</u>	<u>24</u>	<u>66</u>
<b>Accumulated depreciation and impairment</b>			
At 28 July 2010 (date of incorporation), 31 March 2011 and 31 December 2011	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net book value</b>			
At 31 December 2011	<u>42</u>	<u>24</u>	<u>66</u>
At 31 March 2011	<u>–</u>	<u>–</u>	<u>–</u>

## 11. GOODWILL

	31 March 2011 <i>HK\$'000</i>	31 December 2011 <i>HK\$'000</i>
<b>At cost</b>		
Additions and at end of the reporting period	<u>–</u>	<u>4,633</u>

The goodwill capitalised was arisen from the acquisition of Outwitting Huanyu as mentioned in note 20 to the Financial Information.

Goodwill acquired through business combination is allocated to Boomtech Group's cash-generating units ("CGUs") for impairment test. 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 directors of Boomtech 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	40
Average growth rate (per annum)	18
Long-term growth rate (per annum)	3
Discount rate (per annum)	<u>15</u>

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.

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

The recoverable amounts of the CGU exceed its carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the period ended 31 December 2011.

## 12. TRADE AND OTHER RECEIVABLES

		<b>31 March 2011</b>	<b>31 December 2011</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade receivables</b>			
From third parties	(a)	–	4,457
<b>Other receivables</b>			
Deposits, prepayments and other receivables		–	520
		<u>–</u>	<u>520</u>
		<u>–</u>	<u>4,977</u>

(a) Boomtech Group normally grants credit terms ranging from 60 days to 120 days upon presentation of the invoices. Included in Boomtech Group's trade receivables balance are debtors with carrying amounts of HK\$Nil and HK\$1,153,000 as at 31 March 2011 and 31 December 2011 respectively, which are past due at the end of the reporting period but not impaired as there has not been a significant change in their credit quality and management believes that the amounts are recoverable. These relate to certain major customers for whom there is no recent history of default. Boomtech Group does not hold any collateral over these balances.

The ageing analysis of trade receivables by due date which are not yet due and past due but not impaired are as follows:

	<b>31 March 2011</b>	<b>31 December 2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	–	3,304
1 month to 3 months past due	–	963
3 months past due	–	190
	<u>–</u>	<u>4,457</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there has been no history of defaults.

## 13. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed repayment term.

## 14. TRADE AND OTHER PAYABLES

	<i>Note</i>	<b>31 March 2011</b> <i>HK\$'000</i>	<b>31 December 2011</b> <i>HK\$'000</i>
<b>Trade payables</b>			
To third parties	(a)	—	1,238
<b>Other payables</b>			
Accrual and other creditors	(b)	—	7,144
		<u>—</u>	<u>8,382</u>

(a) The aging analysis by invoice day of trade payables to third parties are as follow:

	<b>31 March 2011</b> <i>HK\$'000</i>	<b>31 December 2011</b> <i>HK\$'000</i>
Less than 1 month	—	337
1 month to 3 months	—	901
	<u>—</u>	<u>1,238</u>

(b) Accruals and other creditors included advances from third parties of HK\$Nil and HK\$4,882,000 (equivalent to RMB4,000,000) as at 31 March 2011 and 31 December 2011 respectively, which was unsecured, interest-free and repayable on demand.

## 15. LOAN FROM A DIRECTOR

The amount due is unsecured, interest-free and repayable on 30 December 2016.

## 16. SHARE CAPITAL

	<b>31 March 2011</b>		<b>31 December 2011</b>	
	<i>No. of ordinary share</i>	<i>HK\$'000</i>	<i>No. of ordinary share</i>	<i>HK\$'000</i>
<b>Authorised</b>				
50,000 shares with US\$1 each	<u>50,000</u>	<u>390</u>	<u>50,000</u>	<u>390</u>
<b>Issued and fully paid</b>				
100 shares with US\$1 each	<u>100</u>	<u>1</u>	<u>100</u>	<u>1</u>

Boomtech was incorporated in the BVI with limited liability on 28 July 2010 with US\$50,000 authorised share capital of 50,000 ordinary shares of US\$1 each. On incorporation, 1 ordinary share of US\$1 each was issued at par for cash consideration as initial subscription capital of the Company.

On 10 February 2011, the issued share capital of the Company was increased to US\$100 by allotting 99 ordinary shares of US\$1 each, for cash at par, to provide for additional working capital. These shares rank pari passu with the existing shares in all respects.

#### 17. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Financial Information, during the Relevant Periods, Boomtech Group had the following transactions with related parties:

Relationship	Nature of transactions	Period from	Period from
		28 July 2010 (date of incorporation) to 31 March 2011 HK\$'000	1 April 2011 to 31 December 2011 HK\$'000
Key management personnel including director	Salaries, allowances and other benefits in kind	—	36
Subsidiary	Sale of lightning rod materials	—	1,660

During the period ended 31 December 2011, Boomtech Group provided office premises to the subsidiary for free.

Pursuant to the Control Agreements, Reese Compaq shall provide an interest-free loan in the aggregate amount of not more than RMB10 million for general working capital of Outwitting Huanyu, which had not been drawdown as of the date of this report.

#### 18. CONTRIBUTION TO RETIREMENT SCHEME

Boomtech Group participated in defined contribution retirement schemes covering its PRC employees. The schemes are administered by the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of Boomtech Group.

During the Relevant Periods, no employer's contributions were made by Boomtech Group to the defined contribution plans.

#### 19. OPERATING LEASE COMMITMENTS

Boomtech Group leases premises under operating lease commitments. A lease for premises is negotiated for a term of 2 years.

At the end of each of the Relevant Periods, Boomtech Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	<b>31 March 2011</b> <i>HK\$'000</i>	<b>31 December 2011</b> <i>HK\$'000</i>
Within one year	–	256
In the second to fifth years inclusive	–	64
	<u>–</u>	<u>320</u>
	<u><u>–</u></u>	<u><u>320</u></u>

## 20. ACQUISITION OF SUBSIDIARY

### Acquisition during the period ended 31 December 2011

On 30 December 2011, Reese Compaq entered into the Control Agreements with the existing shareholders of Outwitting Huanyu. In the opinion of the directors of Boomtech, notwithstanding the lack of equity ownership, Boomtech through Reese Compaq had power to control the financial and operating policies of Outwitting Huanyu so as to obtain benefits from its activities. Accordingly, the financial results and position of Outwitting Huanyu have been consolidated into Boomtech Group as a wholly-owned subsidiary when the Control Agreements has come into effect, using the purchase method of accounting in accordance with HKFRS 3 (Revised) *Business Combination*.

The following summarises the consideration transferred and the amounts of the assets acquired and liabilities assumed at the date of acquisition:

	<i>HK\$'000</i>
<b>Consideration:</b>	
Loan utilised under the Control Agreements	<u>2,441</u>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed:</b>	
Property, plant and equipment	60
Bank balances and cash	1,608
Trade and other receivables	4,891
Trade and other payables	<u>(8,751)</u>
<b>Total identifiable net liabilities</b>	(2,192)
<b>Goodwill arising on acquisition (Note 11)</b>	<u>4,633</u>
	<u><u>2,441</u></u>
<b>Net cash flow on acquisition:</b>	
Bank balances and cash acquired from the subsidiary	1,608
Consideration satisfied by loan utilised under the Control Agreements	<u>(2,441)</u>
	<u><u>(833)</u></u>

The goodwill arising from the acquisition is attributable to the expected growth and profit potential as a result of benefiting from the PRC government policies. According to the Twelve Five Years Plan launched by the PRC National Council, enhanced construction of disaster prevention and mitigation system are among the top priority projects of the PRC Government, of which lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection is a key part in natural disaster prevention and mitigation system.

Since acquisition, the acquired business did not contribute any revenue and results to Boomtech Group. If the business combination effected during the period ended 31 December 2011 had been taken place at the beginning of the period (i.e. 1 April 2011), the revenue and loss of Boomtech Group for the period ended 31 December 2011 would have been approximately HK\$5,387,000 and HK\$3,877,000 respectively.

## **21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Boomtech Group's principal financial instruments comprise bank balances and cash. The main purpose of these financial instruments is to raise or maintain financial resources for Boomtech Group's operations. Boomtech Group has various other financial instruments such as trade and other receivables and trade and other payables which arise directly from its business activities.

The main risks arising from Boomtech Group's financial instruments are credit risk and liquidity risk. Boomtech Group does not have any written risk management policies and guidelines. However, the management of Boomtech Group generally adopts conservative strategies on Boomtech Group's risk management and limits Boomtech Group's exposure to these risks to a minimum. The management of Boomtech Group reviews and agrees policies for managing each of these risks and they are summarised below.

### **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. Boomtech Group's credit risk is primarily attributable to trade and other receivables and bank balances and cash.

A detailed discussion of Boomtech Group's credit risk in respect of trade and other receivables is set out in note 12 to the Financial Information. 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. Boomtech Group does not hold any collateral over these assets.

As at 31 December 2011, Boomtech Group had a concentration of credit risk as 33% and 66% of the total trade receivables were made up by Boomtech Group's largest customer's and the five largest customers' outstanding balances respectively.

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

### **Liquidity risk**

Management of Boomtech Group aims at maintaining sufficient level of bank balances and cash to finance its operations and expected expansion. Boomtech Group's primary cash requirements include payments for operating expenses.

All of the financial liabilities of Boomtech Group, based on the earliest date on which Boomtech Group is required to settle the financial liabilities at the end of each of the Relevant Periods is summarised below:

	31 March 2011			31 December 2011			
	Total carrying value <i>HK\$'000</i>	contractual undiscounted cash flow <i>HK\$'000</i>	On demand or repayable within 1 year <i>HK\$'000</i>	Total carrying value <i>HK\$'000</i>	contractual undiscounted cash flow <i>HK\$'000</i>	On demand or repayable within 1 year <i>HK\$'000</i>	1 to 5 years <i>HK\$'000</i>
Due to a shareholder	2,457	2,457	2,457	2,508	2,508	2,508	-
Trade and other payables	-	-	-	8,382	8,382	8,382	-
Loan from a director	-	-	-	2,441	2,441	-	2,441
	<u>2,457</u>	<u>2,457</u>	<u>2,457</u>	<u>13,331</u>	<u>13,331</u>	<u>10,890</u>	<u>2,441</u>

#### Fair value

The carrying values of all financial instruments approximated their fair values as at the end of each of the Relevant Periods.

#### 22. CAPITAL MANAGEMENT

The objectives of Boomtech Group's capital management are to safeguard its ability to continue as a going concern and to provide returns for shareholders. Boomtech Group manages its capital structure and makes adjustments, including payment of dividends to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in Boomtech Group's objectives, policies or processes in managing capital during the Relevant Periods.

#### 23. SEGMENT INFORMATION

In a manner consistent with the way in which information is reported to Boomtech Group's chief operating decision maker for the purposes of resource allocation and performance assessment, Boomtech Group has only one operating segment of provision of integrated solutions for lightning electromagnetic pulse protection and its related engineering design, construction and technical services in the PRC. Boomtech Group's revenue from external customers and non-current assets are located in the PRC. Therefore, no operating segment or geographical segment information is presented.

#### 24. SUBSEQUENT EVENTS

Subsequent to the Relevant Periods, Brilliant Bloom has entered into an agreement with a wholly-owned subsidiary (the "Purchaser") of Palmpay China (Holdings) Limited pursuant to which the Purchaser has conditionally agreed to acquire and Brilliant Bloom has conditionally agreed to sell, among all, 55% of the issued share capital of Boomtech at a total consideration of approximately HK\$60 million.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Boomtech Group in respect of any periods subsequent to 31 December 2011.

Yours faithfully,

**Mazars CPA Limited**

*Certified Public Accountants*

Hong Kong, 4 May 2012

**Eunice Y M Kwok**

Practising Certificate number: P04604



*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Mazars CPA Limited, Certified Public Accountants.*

The Board of Directors  
Palmpay China (Holdings) Limited  
Unit 1601, 16/F., Ruttonjee House  
Ruttonjee Centre, 11 Duddell Street  
Central  
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of 北京智勝環宇科技有限公司 (transliterated as Beijing Outwitting Huanyu Technology Company Limited) ("Outwitting Huanyu") for inclusion in the circular of Palmpay China (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") dated 4 May 2012 (the "Circular") in connection with the proposed acquisition of 55% equity interest of Boomtech Limited as disclosed in the Company's announcement dated 13 January 2012. Outwitting Huanyu is one of the principal operating subsidiaries of Boomtech Limited upon the completion of the reorganisation as mentioned in the LETTER FROM THE BOARD in the Circular. The Financial Information comprises the statements of financial position of Outwitting Huanyu as at 31 December 2009, 2010 and 2011, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of Outwitting Huanyu for the years ended 31 December 2009, 2010 and 2011 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information.

Outwitting Huanyu is a limited liability company incorporated in the People's Republic of China (the "PRC") on 30 July 2007. At a shareholders' meeting held on 7 May 2009, the name of Outwitting Huanyu was changed from 世紀微影影院技術有限公司 to 北京智勝環宇科技有限公司. The principal activity of Outwitting Huanyu is the provision of integrated solutions for lightning electromagnetic pulse protection and its related engineering design, construction and technical services in the PRC. It has adopted 31 December as its financial year end date for statutory financial reporting purposes.

The statutory financial statements of Outwitting Huanyu for the years ended 31 December 2010 and 2011 prepared under the generally accepted accounting principles in the PRC were audited by Beijing Hong Tian Zhong Dao Certified Public Accountants Company Limited. There were no other audited statutory financial statements issued by Outwitting Huanyu for any periods prior to the year ended 31 December 2010.

The Financial Information as set out in this report has been prepared based on the unaudited management accounts of Outwitting Huanyu for the Relevant Periods (hereinafter collectively referred to as the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), after making such adjustments as are appropriate for the purpose of preparing the Financial Information for inclusion in the Circular.

The directors of Outwitting Huanyu are responsible for preparing the Financial Information which gives a true and fair view in accordance with HKFRS. In preparing the Financial Information of Outwitting Huanyu which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable, and that the reasons for any significant departure/non-applicable accounting standards are stated. It is our responsibility to form an independent opinion, on such information in respect of the Relevant Periods, and to report our opinion to you.

**PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS**

For the purpose of this report, we have examined the Underlying Financial Statements of Outwitting Huanyu for the Relevant Periods and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline No. 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA, after making such adjustments as are appropriate for the purpose of preparing the Financial Information for inclusion in the Circular.

**OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS**

In our opinion, the Financial Information of Outwitting Huanyu, for the purpose of this report, gives a true and fair view of the results and cash flows of Outwitting Huanyu for the Relevant Periods and of the state of affairs of Outwitting Huanyu as at 31 December 2009, 2010 and 2011 in accordance with HKFRS.

## A. FINANCIAL INFORMATION

## Statements of comprehensive income

The following is a summary of the results of Outwitting Huanyu for the Relevant Periods, which have been prepared on the basis set out in Section B.

	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2009</b>	<b>2010</b>	<b>2011</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	3	1,229	9,062	6,553
Cost of goods sold		<u>(525)</u>	<u>(7,141)</u>	<u>(5,724)</u>
Gross profit		704	1,921	829
Other revenue	3	18	1	9
Administrative expenses		<u>(2,587)</u>	<u>(1,098)</u>	<u>(3,890)</u>
<b>(Loss) Profit before taxation</b>	4	(1,865)	824	(3,052)
Taxation charges	7	<u>—</u>	<u>—</u>	<u>—</u>
<b>(Loss) Profit for the year</b>		(1,865)	824	(3,052)
<b>Other comprehensive (loss) income</b>				
Exchange differences on translation to presentation currency		<u>(6)</u>	<u>23</u>	<u>(5)</u>
<b>Total comprehensive (loss) income for the year</b>		<u><u>(1,871)</u></u>	<u><u>847</u></u>	<u><u>(3,057)</u></u>

**Statements of financial position**

The following is a summary of the financial position of Outwitting Huanyu as at the end of each of the Relevant Periods which have been prepared on the basis set out in Section B.

	<i>Note</i>	<b>As at 31 December</b>		
		<b>2009</b>	<b>2010</b>	<b>2011</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	<i>10</i>	<u>67</u>	<u>60</u>	<u>60</u>
<b>Current assets</b>				
Trade and other receivables	<i>11</i>	859	5,287	4,891
Bank balances and cash		<u>519</u>	<u>613</u>	<u>1,608</u>
		<u>1,378</u>	<u>5,900</u>	<u>6,499</u>
<b>Current liabilities</b>				
Trade and other payables	<i>12</i>	<u>1,427</u>	<u>5,095</u>	<u>8,751</u>
<b>Net current (liabilities) assets</b>		<u>(49)</u>	<u>805</u>	<u>(2,252)</u>
<b>NET ASSETS (LIABILITIES)</b>		<u><u>18</u></u>	<u><u>865</u></u>	<u><u>(2,192)</u></u>
<b>Capital and reserves</b>				
Paid-up capital	<i>13</i>	2,064	2,064	2,064
Reserves		<u>(2,046)</u>	<u>(1,199)</u>	<u>(4,256)</u>
<b>TOTAL EQUITY (DEFICIT)</b>		<u><u>18</u></u>	<u><u>865</u></u>	<u><u>(2,192)</u></u>

**Statements of changes in equity**

The movements in the statements of changes in equity of Outwitting Huanyu for the Relevant Periods, which have been prepared on the basis set out in Section B, are as follows.

	<b>Paid-up capital</b>	<b>Reserves</b>		<b>Total reserves</b>	<b>Total</b>
	<i>HK\$'000</i>	<b>Exchange reserve</b>	<b>Accumulated losses</b>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>		
As at 1 January 2009	2,064	208	(383)	(175)	1,889
Loss for the year	-	-	(1,865)	(1,865)	(1,865)
<b>Other comprehensive loss:</b>					
Exchange differences on translation to presentation currency	-	(6)	-	(6)	(6)
Total comprehensive loss for the year	-	(6)	(1,865)	(1,871)	(1,871)
As at 31 December 2009 and 1 January 2010	2,064	202	(2,248)	(2,046)	18
Profit for the year	-	-	824	824	824
<b>Other comprehensive income:</b>					
Exchange differences on translation to presentation currency	-	23	-	23	23
Total comprehensive income for the year	-	23	824	847	847
As at 31 December 2010 and 1 January 2011	2,064	225	(1,424)	(1,199)	865
Loss for the year	-	-	(3,052)	(3,052)	(3,052)
<b>Other comprehensive loss:</b>					
Exchange differences on translation to presentation currency	-	(5)	-	(5)	(5)
Total comprehensive loss for the year	-	(5)	(3,052)	(3,057)	(3,057)
<b>As at 31 December 2011</b>	<b>2,064</b>	<b>220</b>	<b>(4,476)</b>	<b>(4,256)</b>	<b>(2,192)</b>

*Note on reserves of Outwitting Huanyu:*

**(a) Distributable earnings**

The statutory financial statements of Outwitting Huanyu are prepared under generally accepted accounting principles in the People's Republic of China (the "PRC") which differ from Hong Kong Financial Reporting Standards. Any dividends paid by Outwitting Huanyu will be based on profits as reported in its statutory financial statements. Accordingly, distributable earnings would be limited to the amounts of available accumulated profits as recorded in the statutory financial statements of Outwitting Huanyu.

**(b) Statutory reserve**

In accordance with the relevant laws and regulations, the enterprise established in the PRC must maintain statutory reserve for specific purposes. The directors of Outwitting Huanyu would determine on an annual basis the amount of the annual appropriations to the statutory reserve.

No appropriation of reserves during the Relevant Periods had been made.

**(c) Exchange reserve**

Exchange difference relating to the translation of the net assets or net liabilities of Outwitting Huanyu's operation from its functional currency to the presentation currency is recognised directly in other comprehensive income and accumulated in the exchange reserve.

**Statements of cash flows**

The following is the summary of the cash flows of Outwitting Huanyu for the Relevant Periods, which have been prepared on the basis set out in Section B.

	<b>Year ended 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>			
(Loss) Profit before taxation	(1,865)	824	(3,052)
Depreciation	6	13	16
Interest income	–	(1)	(9)
Other receivable written-off	1,724	–	–
Exchange difference	(3)	24	(35)
Changes in working capital:			
Trade and other receivables	(619)	(4,396)	591
Trade and other payables	1,318	3,613	(1,415)
	<u>561</u>	<u>77</u>	<u>(3,904)</u>
Cash generated from (used in) operations	561	77	(3,904)
Interest received	–	1	9
	<u>–</u>	<u>1</u>	<u>9</u>
<b>Net cash from (used in)</b>			
<b>operating activities</b>	<u>561</u>	<u>78</u>	<u>(3,895)</u>
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment	(73)	(4)	(14)
	<u>(73)</u>	<u>(4)</u>	<u>(14)</u>
<b>Net cash used in investing activities</b>	<u>(73)</u>	<u>(4)</u>	<u>(14)</u>
<b>FINANCING ACTIVITIES</b>			
Advance from a third party	–	–	4,882
	<u>–</u>	<u>–</u>	<u>4,882</u>
<b>Net cash from financing activities</b>	<u>–</u>	<u>–</u>	<u>4,882</u>
<b>Net increase in cash     and cash equivalents</b>	488	74	973
<b>Cash and cash equivalents     at beginning of year</b>	31	519	613
<b>Effect of change     in foreign currency rate</b>	–	20	22
	<u>–</u>	<u>20</u>	<u>22</u>
<b>Cash and cash equivalents     at end of year, represented     by bank balances and cash</b>	<u>519</u>	<u>613</u>	<u>1,608</u>

**B. NOTES TO FINANCIAL INFORMATION****1. CORPORATE INFORMATION**

北京智勝環宇科技有限公司 (transliterated as Beijing Outwitting Huanyu Technology Company Limited) (“Outwitting Huanyu”) is a limited liability company incorporated in the PRC. Its principal place of business is located at 2702, Block A, R&F Gemini, No. 59, East Third Ring Road, Chaoyang District, Beijing, China, P.C.100022. The principal activity of Outwitting Huanyu is the provision of integrated solutions for lightning electromagnetic pulse protection and its related engineering design, construction and technical services in the PRC.

Upon the completion of the reorganisation on 30 December 2011 as mentioned in the LETTER FROM THE BOARD of the Circular, 北京瑞斯康柏科技有限公司 (“Reese Compaq”) had entered into a set of control agreements (the “Control Agreements”) with Outwitting Huanyu and the existing shareholders of Outwitting Huanyu. In accordance with the terms of the Control Agreements, Reese Compaq is able to govern the financial and operating policies of Outwitting Huanyu. As Reese Compaq enjoys all of the economic benefits of Outwitting Huanyu and accordingly, Reese Compaq is the immediate parent of Outwitting Huanyu. In the opinion of the director of Outwitting Huanyu, its intermediate and ultimate parents are Boomtech Limited (“Boomtech”) and Brilliant Bloom Investments Limited (“Brilliant Bloom”), respectively both of which are incorporated in the British Virgin Islands.

The Financial Information of Outwitting Huanyu is presented in Hong Kong dollar (“HK\$”), whereas the functional currency of Outwitting Huanyu is Renminbi (“RMB”).

**2. PRINCIPAL ACCOUNTING POLICIES****Statement of compliance**

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and applicable disclosure requirements under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

**Application of HKFRS**

Throughout the Relevant Periods, Outwitting Huanyu has applied all of the new/revised HKFRS issued by the HKICPA that are relevant to its operations and effective during the Relevant Periods.

At the date of this report, Outwitting Huanyu has not early adopted the following new/revised HKFRS issued by the HKICPA that are not yet effective:

Amendments to HKFRS 1 (Revised)	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters<sup>(1)</sup></i>
Amendments to HKFRS 7	<i>Disclosures – Transfer of Financial Assets<sup>(1)</sup></i>
Amendments to HKAS 12	<i>Deferred Tax: Recovery of Underlying Assets<sup>(2)</sup></i>
Amendments to HKAS 1 (Revised)	<i>Presentation of items of other comprehensive income<sup>(3)</sup></i>
HKAS 19 (2011)	<i>Employee Benefits<sup>(4)</sup></i>
HKFRS 9	<i>Financial Instruments<sup>(4)</sup></i>
HKFRS 12	<i>Disclosures of Interests with Other Entities<sup>(4)</sup></i>
HKFRS 13	<i>Fair value measurement<sup>(4)</sup></i>
HK (IFRIC) – Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine<sup>(4)</sup></i>
Amendments to HKFRS 7	<i>Disclosure – Offsetting Financial Assets and Financial Liabilities<sup>(4)</sup></i>
Amendments to HKAS 32	<i>Presentation – Offsetting Financial Assets and Financial Liabilities<sup>(5)</sup></i>
HKFRS 9	<i>Financial Instruments<sup>(6)</sup></i>



- (1) Effective for annual periods beginning on or after 1 July 2011
- (2) Effective for annual periods beginning on or after 1 January 2012
- (3) Effective for annual periods beginning on or after 1 July 2012
- (4) Effective for annual periods beginning on or after 1 January 2013
- (5) Effective for annual periods beginning on or after 1 January 2014
- (6) Effective for annual periods beginning on or after 1 January 2015

Outwitting Huanyu is in the process of assessing the possible impact on the adoption of these new/revised HKFRS in future periods. So far it has concluded that the adoption is unlikely to have a material impact on Outwitting Huanyu's results or financial position in future periods.

A summary of the principal accounting policies adopted by Outwitting Huanyu is set out below.

#### **Going concern**

The Financial Information has been prepared in conformity with the principle applicable to a going concern basis. The applicability of the going concern basis is dependent upon continued availability of adequate finance or attaining profitable operation in the future in view of the net current liabilities and capital deficiency. A director of Boomtech has confirmed his intention to make available adequate funds to Outwitting Huanyu as and when required to maintain Outwitting Huanyu as a going concern.

#### **Basis of measurement**

The measurement basis used in the preparation of the Financial Information is historical cost.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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 period 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 as set out below 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:

Computer and office equipment	5 years
Furniture and fixtures	5 years

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 period in which the item is derecognised.

#### **Financial instruments**

##### ***Recognition and derecognition***

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

A financial asset is derecognised when and only when (i) Outwitting Huanyu's contractual rights to future cash flows from the financial asset expire or (ii) Outwitting Huanyu transfers the financial asset and Outwitting Huanyu

has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

#### *Classification and measurement*

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

#### *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 any impairment loss. Amortised cost is calculated by taking into account any discounts or premiums 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.

#### *Impairment of financial assets*

At the end of each reporting period, Outwitting Huanyu assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities*

Outwitting Huanyu's financial liabilities include trade and other payables. All financial liabilities 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.

#### **Cash equivalents**

For the purpose of the 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.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to Outwitting Huanyu and when the revenue can be measured reliably and on the following bases:

Service income from the provision of integrated solutions for lightning electromagnetic pulse protection and related services is recognised when the services are provided in accordance with the underlying contracts.

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

**Foreign currency translation**

For the purposes of presenting the Financial Information, the assets and liabilities of Outwitting Huanyu are translated into the presentation currency (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

**Impairment of non-financial assets**

At the end of each reporting period, Outwitting Huanyu reviews internal and external sources of information to determine whether its property, plant and equipment have suffered impairment losses or that impairment losses previously recognised no longer exist 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, Outwitting Huanyu estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of impairment loss is recognised as income immediately.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the term of the relevant leases.

**Employee benefits*****Short-term employee benefits***

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

***Defined contribution plan***

Pursuant to the law and regulations of the PRC, contributions to the defined contribution retirement schemes for Outwitting Huanyu's 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.

**Taxation**

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, any deferred tax arising from initial recognition of an 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 the 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 it is probable that future taxable profits will be available against which the deductible temporary differences, tax losses and credits can be utilised.

#### **Related parties**

A related party is a person or entity that is related to Outwitting Huanyu.

- (a) A person or a close member of that person's family is related to Outwitting Huanyu if that person:
  - (i) has control or joint control over Outwitting Huanyu;
  - (ii) has significant influence over Outwitting Huanyu; or
  - (iii) is a member of the key management personnel of Outwitting Huanyu or of the parent of Outwitting Huanyu.
- (b) An entity is related to Outwitting Huanyu if any of the following conditions applies:
  - (i) The entity and Outwitting Huanyu are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either Outwitting Huanyu or an entity related to Outwitting Huanyu. If Outwitting Huanyu is itself such a plan, the sponsoring employers are also related to Outwitting Huanyu.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

#### **Critical accounting estimates and judgements**

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the financial statements. They affect the application of Outwitting Huanyu'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 Outwitting Huanyu is based on the evaluation of collectability of the trade receivables. A considerable amount of judgement is required in assessing the ultimate realisation of receivables, including 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.

### **3. TURNOVER AND REVENUE**

	<b>Year ended 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>			
Service income	1,229	9,062	6,553
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Other revenue</b>			
Interest income	–	1	9
Other income	18	–	–
	<u>          </u>	<u>          </u>	<u>          </u>
	18	1	9
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total revenue</b>	<u>1,247</u>	<u>9,063</u>	<u>6,562</u>

## 4. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation is stated after charging the following:

	Year ended 31 December		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and other benefits in kind (including the directors)	252	612	892
Contributions to retirement scheme	91	205	288
	<u>343</u>	<u>817</u>	<u>1,180</u>

	Year ended 31 December		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Depreciation charge	6	13	16
Operating lease charges on premises	58	82	22
Other receivable written-off	1,724	–	–
	<u>1,788</u>	<u>97</u>	<u>38</u>

## 5. DIRECTORS' REMUNERATION

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

	Director's fees HK\$'000	Salaries, allowances and other benefits in kind HK\$'000	Contributions to defined retirement scheme HK\$'000	Total HK\$'000
<i>Executive directors</i>				
– Gu Feng (resigned on 7 May 2009)	–	–	–	–
– Wu Zhi Nan (appointed on 5 May 2009)	–	86	2	88
	<u>–</u>	<u>86</u>	<u>2</u>	<u>88</u>
<b>Year ended 31 December 2010</b>				
<i>Executive director</i>				
– Wu Zhi Nan	–	220	8	228
	<u>–</u>	<u>220</u>	<u>8</u>	<u>228</u>

	Director's fees <i>HK\$'000</i>	Salaries, allowances and other benefits in kind <i>HK\$'000</i>	Contributions to defined retirement scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2011</b>				
<i>Executive directors</i>				
– Wu Zhi Nan (resigned on 19 August 2011)	–	108	3	111
– Chen Jiao (appointed on 19 August 2011)	–	14	3	17
	<u>–</u>	<u>122</u>	<u>6</u>	<u>128</u>

There was no arrangement under which a director waived or agreed to waive any remuneration for the Relevant Periods. In addition, no emoluments were paid by Outwitting Huanyu to any of the directors as an inducement to join, or upon joining Outwitting Huanyu or as a compensation for loss of office for the Relevant Periods.

#### 6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the Relevant Periods included one, one and two directors for the year ended 31 December 2009, 2010 and 2011 respectively, details of whose remuneration are set out in note 5 to the Financial Information above. Details of the remuneration of the remaining four, four and three highest paid individuals, who are employees of Outwitting Huanyu, are as follows:

	<b>Year ended 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and other benefits in kind	95	204	249
Contributions to retirement scheme	–	8	8
	<u>95</u>	<u>212</u>	<u>257</u>

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

	<b>Number of individuals</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>3</u>

During the year, no remuneration was paid by Outwitting Huanyu to any of the five highest paid individuals as an inducement to join or upon joining Outwitting Huanyu, or as a compensation for loss of office.

There was no arrangement under which any of the five highest paid individuals waived or agreed to waive any remuneration for the Relevant Periods.

## 7. TAXATION

Outwitting Huanyu is subject to PRC Enterprise Income Tax ("EIT") at a statutory rate of 25%.

For the years ended 31 December 2009 and 2010, EIT had not been provided as Outwitting Huanyu's assessable profits for the years were wholly absorbed by unrelieved tax losses brought forward from previous years.

For the year ended 31 December 2011, EIT had not been provided as Outwitting Huanyu incurred a loss for taxation purpose.

	Year ended 31 December		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
<b>Current tax</b>			
EIT	—	—	—

**Reconciliation of effective tax rate**

	Year ended 31 December		
	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
Applicable tax rate	(25.0)	25.0	(25.0)
Non-deductible expenses	26.0	15.0	14.0
Non-taxable revenues	—	(37.0)	(4.0)
Unrecognised tax losses	—	—	15.0
Utilisation of tax losses	(1.0)	(3.0)	—
Effective tax rate for the year	—	—	—

**Unrecognised deferred tax assets**

The unrecognised tax losses arising in the PRC at the end of each of the Relevant Periods can be offset against future taxable profits for a maximum of 5 years. These losses will expire as follows:

Year of expiry	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000
2012	102	—	—
2013	68	71	73
2014	—	—	—
2015	—	—	—
2016	—	—	1,812
	170	71	1,885

Outwitting Huanyu has not recognised deferred tax asset in respect of the above tax losses due to the unpredictability of future profit streams.



**8. DIVIDENDS**

No dividends were declared or paid during the Relevant Periods.

**9. (LOSS) EARNINGS PER SHARE**

(Loss) Earnings per share has not been presented as such information is not considered meaningful for the purpose of this report.

**10. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computer and office equipment</b> <i>HK\$'000</i>	<b>Furniture and fixtures</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Cost</b>			
As at 1 January 2009	–	–	–
Additions	45	28	73
As at 31 December 2009 and 1 January 2010	45	28	73
Additions	4	–	4
Exchange realignment	2	1	3
As at 31 December 2010 and 1 January 2011	51	29	80
Additions	6	8	14
Exchange realignment	2	1	3
As at 31 December 2011	<u>59</u>	<u>38</u>	<u>97</u>
<b>Accumulated depreciation</b>			
As at 1 January 2009	–	–	–
Depreciation	3	3	6
As at 31 December 2009 and 1 January 2010	3	3	6
Depreciation	9	4	13
Exchange realignment	–	1	1
As at 31 December 2010 and 1 January 2011	12	8	20
Depreciation	10	6	16
Exchange realignment	1	–	1
As at 31 December 2011	<u>23</u>	<u>14</u>	<u>37</u>
<b>Net book value</b>			
As at 31 December 2009	<u>42</u>	<u>25</u>	<u>67</u>
As at 31 December 2010	<u>39</u>	<u>21</u>	<u>60</u>
As at 31 December 2011	<u>36</u>	<u>24</u>	<u>60</u>

## 11. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2011</b> <i>HK\$'000</i>
<b>Trade receivables from third parties</b>	(a)	633	5,188	4,457
<b>Other receivables</b>				
Deposits, prepayments and other receivables		<u>226</u>	<u>99</u>	<u>434</u>
		<u>859</u>	<u>5,287</u>	<u>4,891</u>

- (a) Outwitting Huanyu normally grants credit term ranging from 60 days to 120 days upon presentation of the invoices. Included in Outwitting Huanyu's trade receivables balance are debtors with carrying amounts of HK\$Nil, HK\$465,000 and HK\$1,153,000 as at 31 December 2009, 2010 and 2011 respectively, which are past due at the end of the reporting period but not impaired as there has not been a significant change in their credit quality and management believes that the amounts are recoverable. These relate to certain major customers for whom there is no recent history of default. Outwitting Huanyu does not hold any collateral over these balances.

The ageing analysis of trade receivables by due date which are not yet due and past due but not impaired are as follows:

	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2011</b> <i>HK\$'000</i>
Current	633	4,723	3,304
1 month to 3 months past due	–	171	963
Over 3 months past due	<u>–</u>	<u>294</u>	<u>190</u>
	<u>633</u>	<u>5,188</u>	<u>4,457</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there has been no history of defaults.

## 12. TRADE AND OTHER PAYABLES

	<i>Note</i>	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2011</b> <i>HK\$'000</i>
<b>Trade payables</b>				
To third parties	(a)	170	3,242	163
To immediate parent		<u>–</u>	<u>–</u>	<u>1,697</u>
		<u>170</u>	<u>3,242</u>	<u>1,860</u>
<b>Other payables</b>				
Accruals and other creditors	(b)	698	1,156	6,891
Due to a director	(c)	<u>559</u>	<u>697</u>	<u>–</u>
		<u>1,257</u>	<u>1,853</u>	<u>6,891</u>
		<u>1,427</u>	<u>5,095</u>	<u>8,751</u>

- (a) Included in trade payables to third parties are creditors with the following ageing analysis by invoice date:

	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2011</b> <i>HK\$'000</i>
Less than 1 month	<u>170</u>	<u>3,242</u>	<u>1,860</u>

- (b) Accruals and other creditors included advance from a third party of HK\$Nil, HK\$Nil and HK\$4,882,000 (equivalent to RMB\$4,000,000) as at 31 December 2009, 2010 and 2011 respectively, which is unsecured, interest-free and repayable on demand.

- (c) The amount due is unsecured, interest-free and has no fixed term of repayment.

### 13. PAID-UP CAPITAL

	<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2011</b> <i>HK\$'000</i>
<b>Registered and paid-up capital</b>			
At beginning and end of reporting period	<u>2,064</u>	<u>2,064</u>	<u>2,064</u>

### 14. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Financial Information, during the Relevant Periods, Outwitting Huanyu had the following transactions with related parties:

Relationship	Nature of transactions	Year ended 31 December		
		<b>2009</b> <i>HK\$'000</i>	<b>2010</b> <i>HK\$'000</i>	<b>2011</b> <i>HK\$'000</i>
Key management personnel including directors	Salaries, allowances and other benefits in kind	86	220	122
	Contributions to defined retirement scheme	<u>2</u>	<u>8</u>	<u>6</u>
		<u>88</u>	<u>228</u>	<u>128</u>
Immediate parent	Purchase of materials	<u>-</u>	<u>-</u>	<u>1,660</u>

During the year ended 31 December 2011, Outwitting Huanyu shared the office premises of immediate parent for free.

During the year ended 31 December 2011, a subsidiary of Palmpay China (Holdings) Limited (the "Company") provided administrative support service to Outwitting Huanyu at a fee of HK\$1,206,000.

Pursuant to the Control Agreements, the immediate parent shall provide an interest-free loan in the aggregate amount of not more than RMB10 million for general working capital of Outwitting Huanyu, which had not been drawdown as of the date of this report.

Subsequent to the Relevant Periods, Brilliant Bloom has entered into an agreement with a wholly-owned subsidiary (the "Purchaser") of the Company pursuant to which the Purchaser has conditionally agreed to acquire and Brilliant Bloom has conditionally agreed to sell, among all, 55% of the issued share capital of Boomtech at a total consideration of approximately HK\$60 million.

#### 15. CONTRIBUTION TO RETIREMENT SCHEME

Outwitting Huanyu participated in defined contribution retirement schemes covering its PRC employees. The schemes are administered by the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of Outwitting Huanyu.

During the years ended 31 December 2009, 2010 and 2011, the amount of employer's contributions made by Outwitting Huanyu to the defined contribution plans was approximately HK\$91,000, HK\$205,000 and HK\$288,000 respectively.

#### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Outwitting Huanyu's principal financial instruments comprise bank balances and cash. The main purpose of these financial instruments is to raise or maintain financial resources for Outwitting Huanyu's operations. Outwitting Huanyu has various other financial instruments such as trade and other receivables and trade and other payables which arise directly from its business activities.

The main risks arising from Outwitting Huanyu's financial instruments are credit risk and liquidity risk. Outwitting Huanyu does not have any written risk management policies and guidelines. However, the management of Outwitting Huanyu generally adopts conservative strategies on Outwitting Huanyu's risk management and limits Outwitting Huanyu's exposure to these risks to a minimum. The management of Outwitting Huanyu reviews and agrees policies for managing each of these risks and they are summarised below.

##### **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. Outwitting Huanyu's credit risk is primarily attributable to trade and other receivables and bank balances and cash.

A detailed discussion of Outwitting Huanyu's credit risk in respect of trade and other receivables is set out in note 11 to the Financial Information. Outwitting Huanyu 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 statement of financial position. Outwitting Huanyu's does not hold any collateral over these assets.

As at the end of each of the Relevant Periods, Outwitting Huanyu had a concentration of credit risk as 33%, 62% and 83% of the total trade receivables were made up by the largest customer's outstanding balances respectively and 66%, 70% and 96% of the total trade receivables were made up by the five, five and two largest customers' outstanding balances respectively.

Outwitting Huanyu's bank balances are placed with credit-worthy banks in the PRC.

##### **Liquidity risk**

Management of the Outwitting Huanyu aims at maintaining sufficient level of bank balances and cash to finance Outwitting Huanyu operations and expected expansion. Outwitting Huanyu primary cash requirements include payments for operating expenses.

All of the financial liabilities of Outwitting Huanyu, based on the earliest date on which Outwitting Huanyu is required to settle the financial liabilities at the end of each of the Relevant Periods, are payable on demand or repayable within 1 year.

**Fair value**

The carrying values of all financial instruments approximate their fair values as at the end of each of the Relevant Periods.

**17. CAPITAL MANAGEMENT**

The objectives of Outwitting Huanyu's capital management are to safeguard its ability to continue as a going concern and to provide returns for shareholders. Outwitting Huanyu manages its capital structure to maintain a balance between liquidity, investment and borrowings, and makes adjustments, including payment of dividends to shareholders or issues new shares in the light of changes in the economic environment. No changes were made in Outwitting Huanyu's objectives, policies or processes in managing capital during the Relevant Periods.

**18. SEGMENTAL INFORMATION**

In a manner consistent with the way in which information is reported to Outwitting Huanyu's chief operating decision maker for the purposes of resource allocation and performance assessment, Outwitting Huanyu has only one operating segment of integrated solutions for lightning electromagnetic pulse protection and related services in the PRC. Outwitting Huanyu's revenue from external customers and non-current assets are located in the PRC. Therefore, no operating segment or geographical segment information is presented.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Outwitting Huanyu in respect of any periods subsequent to 31 December 2011.

Yours faithfully,

**Mazars CPA Limited**

*Certified Public Accountants*

Hong Kong, 4 May 2012

**Eunice Y M Kwok**

Practising Certificate number: P04604

*The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Mazars CPA Limited, Certified Public Accountants.*

**A. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

The Board of Directors  
Palmpay China (Holdings) Limited  
Unit 1601, 16/F., Ruttonjee House  
Ruttonjee Centre, 11 Duddell Street  
Central  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Palmpay China (Holdings) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which has been prepared by the directors for illustrative purpose only and set out in Section B of Appendix IV to the circular dated 4 May 2012 (the “Circular”) in connection with the proposed acquisition of 55% equity interest in Boomtech Limited and its subsidiaries (collectively referred to as “Boomtech Group”, and together with the Group hereinafter collectively referred to as the “Enlarged Group”) might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section B of Appendix IV to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 7.31 (7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31 (1) of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2011 or any future date.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31 (1) of the GEM Listing Rules.

**Mazars CPA Limited***Certified Public Accountants*

Hong Kong, 4 May 2012

**Eunice Y M Kwok**

Practising Certificate number: P04604

**B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP****1. Introduction**

Pursuant to the Agreement as described in the announcement of the Company dated 13 January 2012 (the “Announcement”), the Group will acquire 55% of equity interest of Boomtech Limited and its subsidiaries (collectively referred to as “Boomtech Group”) (hereinafter referred to as the “Acquisition”).

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 September 2011 is prepared as if the Acquisition had been completed on 30 September 2011 and is based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2011, which has been extracted from the interim report of the Company for the period then ended; and (ii) the consolidated statement of financial position of Boomtech Group as at 31 December 2011 as extracted from the accountants’ report thereon as set out in Appendices II to the Circular, after making pro forma adjustments that are directly attributable to the Acquisition, factually supportable and clearly identified as to those have/have no continuing effect on the Group.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the financial position of the Enlarged Group will be on completion of the Acquisition.

**2. Unaudited pro forma consolidated statement of financial position of the enlarged group**

	The Group as at 30 September 2011 HK\$’000 (Note 1)	Boomtech Group as at 31 December 2011 HK\$’000 (Note 2)	Pro forma adjustments			Pro forma Enlarged Group as at 30 September 2011 HK\$’000 (Note 5)
			HK\$’000 (Note 3)	HK\$’000 (Note 4)	HK\$’000 (Note 5)	
<b>Non-current assets</b>						
Property, plant and equipment	5,253	66	–	–	–	5,319
Available-for-sale financial assets	389	–	–	–	–	389
Intangible assets	31,250	–	–	–	–	31,250
Goodwill	14,308	4,633	56,939	–	–	75,880
	<u>51,200</u>	<u>4,699</u>	<u>56,939</u>	<u>–</u>	<u>–</u>	<u>112,838</u>



	The Group as at 30 September 2011 HK\$'000 (Note 1)	Boomtech Group as at 31 December 2011 HK\$'000 (Note 2)	Pro forma adjustments			Pro forma Enlarged Group as at 30 September 2011 HK\$'000
			HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000 (Note 5)	
<b>Current assets</b>						
Inventories	7,806	-	-	-	-	7,806
Trade and other receivables	53,393	4,977	-	-	-	58,370
Bank balances and cash	81,854	3,706	(28,000)	(1,000)	-	56,560
	143,053	8,683	(28,000)	(1,000)	-	122,736
<b>Current liabilities</b>						
Trade and other payables	30,214	8,382	-	-	(1,232)	37,364
Due to a shareholder of Boomtech	-	2,508	(1,379)	-	-	1,129
Taxation	7,058	57	-	-	-	7,115
	37,272	10,947	(1,379)	-	(1,232)	45,608
<b>Net current assets (liabilities)</b>	105,781	(2,264)	(26,621)	(1,000)	1,232	77,128
<b>Total assets less current liabilities</b>	156,981	2,435	30,318	(1,000)	1,232	189,966
<b>Non-current liabilities</b>						
Loan from a director of Boomtech	-	2,441	-	-	-	2,441
Promissory note	4,700	-	8,250	-	-	12,950
	4,700	2,441	8,250	-	-	15,391
<b>NET ASSETS (LIABILITIES)</b>	<b>152,281</b>	<b>(6)</b>	<b>22,068</b>	<b>(1,000)</b>	<b>1,232</b>	<b>174,575</b>
<b>Capital and reserves</b>						
Share capital	62,763	1	17,249	-	-	80,013
Reserves	82,358	(7)	6,907	(1,000)	1,232	89,490
Equity attributable to equity holders of the Company	145,121	(6)	24,156	(1,000)	1,232	169,503
Non-controlling interests	7,160	-	(2,088)	-	-	5,072
<b>TOTAL EQUITY (DEFICIT)</b>	<b>152,281</b>	<b>(6)</b>	<b>22,068</b>	<b>(1,000)</b>	<b>1,232</b>	<b>174,575</b>

*Notes to the Unaudited Pro Forma Financial Information*

1. The unaudited statement of financial position of the Group as at 30 September 2011 is extracted from the interim report of the Company for the period ended 30 September 2011.
2. The statement of financial position of Boomtech Group as at 31 December 2011 is extracted from the accountants' report of Boomtech as set out in Appendix II to this circular.
3. The identifiable assets and liabilities of Boomtech Group will be accounted for in the consolidated financial statements of the Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations*. For the purpose of determining goodwill arising from the Acquisition in the Unaudited Pro Forma Financial Information, it is assumed that the carrying values of Boomtech Group are recorded in the Unaudited Pro Forma Financial Information at their fair values as if the acquisition was completed on 30 September 2011.

For the purpose of this Unaudited Pro Forma Financial Information, the Company has ensured the steps taken on the assessment of impairment on goodwill has been properly performed in accordance with Hong Kong Accounting Standard No. 36 *Impairment of Assets* which is consistent with the accounting policy of the Group. Based on the management's assessment on the business plan to be executed and the recoverable amount of the business to be acquired, the management considers that there is no impairment on the goodwill arising from the Acquisition as at 30 September 2011 as if the Acquisition was completed on the same date. On that basis, the directors concluded that no impairment in the value of goodwill is considered necessary.

Goodwill arising from the Acquisition is estimated as follows:

	<i>HK\$'000</i>
Consideration for the Acquisition:	
Cash	28,000
345,000,000 shares of HK\$0.05 each of the Company at an issue price of HK\$0.07	24,150
Promissory note as contingent consideration ( <i>Note i</i> )	8,250
	60,400
Add/(Less): Fair value of the net identifiable liabilities of Boomtech Group acquired ( <i>Note ii</i> )	2,551
Shareholders' loan of Boomtech assigned to the Company	(1,379)
Goodwill arising from the Acquisition	61,572
Goodwill arising from the Acquisition	61,572
Less: Non-identifiable goodwill recognised under Boomtech Group	(4,633)
Net impact of goodwill under pro forma adjustment	56,939

(Note i)

The fair value of the contingent consideration in promissory note is estimated at its carrying amount in the preparation of Unaudited Pro Forma Financial Information.

(Note ii)

The fair value of the net identifiable liabilities of Boomtech Group acquired is as follow:

	HK'000
Net liabilities of Boomtech Group as at 31 December 2011	(6)
Non-identifiable goodwill recognised under Boomtech Group	<u>(4,633)</u>
Net identifiable liabilities of Boomtech Group as at 31 December 2011	<u><u>(4,639)</u></u>
Percentage of equity interest of Boomtech Group acquired	55%
Net identifiable liabilities of Boomtech Group acquired	<u><u>(2,551)</u></u>

4. The adjustment reflects the estimated expenses (including legal and professional fees, printing charges, etc) of approximately HK\$1.0 million that are directly attributable to the Acquisition and will be settled by cash. This adjustment will not have continuing profit or loss effect to the Enlarged Group.
5. The adjustment reflects the elimination of management fee charged to Beijing Outwitting Huanyu Technology Company Limited, a subsidiary of Boomtech Group by 北京市互聯視通科技有的公司, a subsidiary of the Group during the period ended 31 December 2011 amounted to RMB1.0 million (equivalent to HK\$1.23 million). This adjustment will not have continuing profit or loss effect to the Enlarged Group.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. SHARE CAPITAL**

<i>Authorised</i>	<i>HK\$</i>
<u>4,000,000,000</u> Shares	<u>200,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid</i>	
1,380,795,656 Shares in issue as at the Latest Practicable Date	69,039,783
<u>345,000,000</u> Consideration Shares to be allotted and issued under the Agreement	<u>17,250,000</u>
<u>1,725,795,656</u> Shares	<u>86,289,783</u>

### 3. DISCLOSURE OF INTERESTS

#### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were 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 they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 and 5.47 of the GEM Listing Rules for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

#### (i) *Interests in Shares:*

Name of Director	Number of the Shares held	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Mr. Yuan Shengjun ( <i>Note 1</i> )	14,804,800 (L)	Beneficial	1.07

*(L) denotes long position*

*Note:*

- Mr. Yuan Shengjun is an executive Director, chairman and chief executive officer of the Company.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Starryland Profits Limited <i>(Note 1)</i>	346,404,682 (L)	Beneficial	25.09
Lau Kim Hung, Jack <i>(Note 1)</i>	346,404,682 (L)	Interests in controlled corporation	25.09
	4,483,200 (L)	Beneficial	0.32
	1,480,000 (L)	Deemed	0.11
Chan Yiu Kan, Katie <i>(Note 1)</i>	350,887,882 (L)	Deemed	25.41
	1,480,000 (L)	Beneficial	0.11

*(L) denotes long position*

*Note:*

1. Starryland Profits Limited (“Starryland”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Starryland beneficially owns 346,404,682 Shares. Under the SFO, Mr. Lau is deemed to be interested in 346,404,682 Shares. Mr. Lau also beneficially owns 4,483,200 Shares.

Ms. Chan Yiu Kan Katie (“Ms. Chan”), the wife of Mr. Lau, is deemed to be interested in their respective shareholding in the Company under the SFO.

(c) **Substantial shareholders of other members of the Group**

As at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 member of the Group.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**4. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Enlarged Group or any of its subsidiaries or the Group within the two years immediately preceding the date of this circular and are or may be material:

- (i) the conditional share subscription agreement dated 23 March 2010 and the conditional warrant subscription agreement dated 23 March 2010, entered into among the Company, Magic Galaxy Limited and Mr. To Yuen Cheong August in relation to the subscription of 120,000,000 Shares at the subscription price of HK\$0.185 per Share and 120,000,000 warrants at the issue price of HK\$0.003 per warrant entitling the holder to subscribe Share at HK\$0.182 for a period of three (3) years from the date of issue by Magic Galaxy Limited;
- (ii) the conditional share subscription agreement dated 23 March 2010 and the conditional warrant subscription agreement dated 23 March 2010, entered into among the Company, Ampio Investments Limited and Mr. Ho Wing Hang in relation to the subscription of 47,000,000 Shares at the subscription price of HK\$0.185 per Share and 47,000,000 warrants at the issue price of HK\$0.003 per warrant entitling the holder to subscribe Share at HK\$0.182 for a period of three (3) years from the date of issue by Ampio Investments Limited;
- (iii) the conditional share subscription agreement dated 23 March 2010 and the conditional warrant subscription agreement dated 23 March 2010, entered into among the Company, Max Achieve Limited and Mr. Lao Kuai Hong in relation to the subscription of 40,000,000 Shares at the subscription price of HK\$0.185 per Share and 40,000,000 warrants at the issue price of HK\$0.003 per warrant entitling the holder to subscribe Share at HK\$0.182 for a period of three (3) years from the date of issue by Max Achieve Limited;

- (iv) the conditional sale and purchase agreement dated 25 January 2011 (as supplemented by a supplemental agreement dated 26 January 2011) entered into among Brilliant Ally Limited a wholly owned subsidiary of the Company as purchaser, Keen Success Investments Limited, Elite Option Limited and Big Well Investments Limited as vendors and Mr. Zou Meiyu, Mr. Ho Wing Hang and Ms. Tam Yuk Ching Jenny as guarantors in relation to the acquisition of the 50.1% equity interests in China Optic Communication Technology Limited at a total consideration of HK\$67,036,000;
- (v) the underwriting agreement dated 12 July 2011 and entered into among Starryland Profits Limited, whose entire issued share capital is wholly owned by Mr. Lau and one of the Underwriters of the open offer, Partners Capital Securities Limited and Phoenix Capital Securities Limited in relation to the proposed open offer of 627,647,848 offer shares at the subscription price of HK\$0.05 per Offer Share;
- (vi) the sale and purchase agreement dated 4 October 2011 and entered into with Beaming Investments Limited, a wholly-owned subsidiary of the Company as a purchaser, Green Delight International Limited as a vendor, and Mr. Wong Kin Chung Michael as a guarantor who is the ultimate beneficial owner of 100% equity interests in the vendor in relation to the acquisition of 51% equity interests in Viva Champion Limited for a consideration of HK\$31,295,000;
- (vii) the Control Agreements; and
- (viii) the Agreement.

## 5. DIRECTORS' SERVICE CONTRACTS

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

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Enlarged Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

## 6. EXPERTS

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
Mazars CPA Limited (“ <b>Mazars</b> ”)	Certified Public Accountants
Deheng Fuzhou Law Office (“ <b>Deheng</b> ”)	PRC legal advisors



Each of Mazars and Deheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Mazars and Deheng does not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, each of Mazars and Deheng has no direct or indirect interests in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to member of the Enlarged Group since 31 March 2011, the date to which the latest published audited financial statements of the Enlarged Group were made up.

## **7. LITIGATION**

So far as the Directors are aware, no member of the Enlarged Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

## **8. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

## **9. MISCELLANEOUS**

- (a) There is no contract or arrangement entered into by any member of the Enlarged Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 March 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (c) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the head office and principal place of business in Hong Kong is at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road Central East, Wanchai, Hong Kong.
- (e) The company secretary of the Company is Mr. Law Ho Ming. He is currently an associate member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (f) The compliance officer of the Company is Mr. Chan Francis Ping Kuen, who is 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.
- (g) The audit committee of the Company was set up for the purpose of renewing and providing supervision over the financial reporting and internal control of the Group, comprises the three independent non-executive Directors, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan, and Mr. Cheung Chi Hwa, Justin. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges.

**Kwok Chi Sun, Vincent**, aged 48, who was appointed as an independent non-executive Director and as an audit committee member on 16 August 2005, 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 (stock code: 253), Shun Ho Technology Holdings Limited (stock code: 219), Magnificent Estates Limited (stock code: 201), Emperor Capital Group Limited (stock code: 717), Evergreen International Holdings Limited (stock code: 238) and China Digital Licensing (Group) Limited (stock code: 8175), the former five named companies are listed on main board of the Stock Exchange while the last named company is listed on GEM in the last three years.

**Yeung Kam Yan**, aged 58, who was appointed as an independent non-executive Director and as an audit committee member on 16 August 2005, 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 appointed as an independent non-executive Director and as an audit committee member on 15 January 2010, 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.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of the Company at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 31 March 2010 and 31 March 2011 and the interim report of the Company for the six months ended 30 September 2011;
- (c) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (d) the written consents of the experts referred to in the paragraph headed “Experts” in this Appendix;
- (e) the accountants’ report on Boomtech prepared by Mazers, the text of which is set out in Appendix II to this circular;
- (f) the accountants’ report of Outwitting Huanyu, prepared by Mazers, the text of which is set out in Appendix III to this circular.
- (g) the letter from Mazers in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular; and
- (h) the legal opinion issued by Deheng, the Company’s legal advisers as to the PRC laws, relating to the Control Agreements;
- (i) this circular.

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## NOTICE OF SGM

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### PALMPAY CHINA (HOLDINGS) LIMITED

### 中國掌付(集團)有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 8047)

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of the shareholders of Palmpay China (Holdings) Limited (the “**Company**”) will be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 21 May 2012 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**“THAT**

- (a) the conditional sale and purchase agreement (the “**Agreement**”) dated 13 January 2012 and entered into between Power Chance Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser, Brilliant Bloom Investments Limited as vendor (the “**Vendor**”) and Mr. Ng Yui Wah Sonny and Mr. Wu Zhi Nan as guarantors in relation to the acquisition of 55% equity interests in Boomtech Limited, at a total consideration of HK\$60,400,000 (a copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement and the transactions contemplated thereunder; and
- (c) the allotment and issue of an aggregate of 345,000,000 shares (the “**Consideration Shares**” and each a “**Consideration Share**”) of HK\$0.05 each in the share capital of the Company to be credited as fully paid at an issue price of HK\$0.07 per Consideration Share to the Vendor in accordance with the terms and conditions of the Agreement and the transactions contemplated thereunder be and is hereby approved.”

By order of the Board  
**Palmpay China (Holdings) Limited**  
**Yuan Shengjun**  
*Chairman*

Hong Kong, 4 May 2012

\* *For identification purpose only*

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## NOTICE OF SGM

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*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

*Notes:*

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.