

PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 8047



IDD Calling Cards



Virtual Game Cards



PICC's Travel Accident Insurance



Music



08-09 Interim Report

*For identification purpose only

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

HIGHLIGHTS

For the six months ended 30 September 2008

- the turnover of the Group was approximately HK\$25,702,000 as compared to the turnover of approximately HK\$69,890,000 recorded in the corresponding period.
- the profit attributable to equity holders of the Company was approximately HK\$6,345,000 (2007: HK\$3,545,000).
- the directors do not recommend the payment of an interim dividend (2007: Nil).
- the earnings per share of the Company was approximately HK0.47 cents (2007: HK0.32 cents).

FINANCIAL RESULTS

The board of directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (together the “Group”) for the three months and six months ended 30 September 2008 together with the comparative unaudited figures for the corresponding periods in 2007 respectively as follows:

Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2008

	Notes	Six months ended 30 September		Three months ended 30 September	
		2008	2007	2008	2007
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	3	25,702	69,890	12,625	37,971
Cost of sales		(3,743)	(50,135)	(1,923)	(29,225)
Gross profit		21,959	19,755	10,702	8,746
Other revenue		453	2,134	405	1,210
Distribution costs		(2,970)	(2,598)	(1,453)	(2,412)
Administrative expenses		(5,623)	(9,704)	(3,175)	(3,993)
Profit from operating activities		13,819	9,587	6,479	3,551
Gain on disposal of subsidiaries		-	2,850	-	2,850
Finance costs		(70)	(3,674)	(35)	(1,874)
Profit before income tax	4	13,749	8,763	6,444	4,527
Income tax	5	(4,092)	(1,489)	(2,016)	(773)
Profit for the period		9,657	7,274	4,428	3,754
Attributable to:					
Equity holders of the company		6,345	3,545	2,443	1,835
Minority interests		3,312	3,729	1,985	1,919
Dividends	7	-	-	-	-
Earnings per share	6				
- Basic (cent)		0.47	0.32	0.17	0.16
- Diluted (cent)		N/A	N/A	N/A	N/A

Unaudited Consolidated Balance Sheet

As at 30 September 2008

	Notes	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		14,244	16,045
Available-for-sale investments		28,057	–
Intangible assets		232,973	232,931
Total non-current assets		<u>275,274</u>	<u>248,976</u>
CURRENT ASSETS			
Trade receivables	8	49,102	28,739
Prepayments, deposits and other receivables		6,631	3,494
Cash and cash equivalents		16,359	31,752
Total current assets		<u>72,092</u>	<u>63,985</u>
CURRENT LIABILITIES			
Accrued expenses and other payables		6,797	6,730
Amount due to a director		6,255	253
Amount due to a director of a subsidiary		–	5,859
Tax payable		9,090	1,813
Total current liabilities		<u>22,142</u>	<u>14,655</u>
NET CURRENT ASSETS		<u>49,950</u>	<u>49,330</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>325,224</u>	<u>298,306</u>
NON-CURRENT LIABILITIES			
Convertible notes	9	2,862	2,791
Other payables	10	76,800	76,800
Total non-current liabilities		<u>79,662</u>	<u>79,591</u>
NET ASSETS		<u>245,562</u>	<u>218,715</u>
EQUITY			
Issued capital		78,318	64,117
Reserves		156,632	147,748
		<u>234,950</u>	<u>211,865</u>
MINORITY INTERESTS		<u>10,612</u>	<u>6,850</u>
TOTAL EQUITY		<u>245,562</u>	<u>218,715</u>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2008

	Issued	Share	Contributed	Convertible			Warrant	Accumulated	Sub-total	Minority	Total
	share	premium	surplus	Exchange	notes	Share option	reserve	losses		interests	
	capital	(Unaudited)	(Unaudited)	reserve	reserve	reserve	(Unaudited)	(Unaudited)		(Unaudited)	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	48,471	57,163	6,015	1,205	-	2,480	-	(26,973)	88,361	4,567	92,928
Issue of shares under placing	5,500	46,200	-	-	-	-	-	-	51,700	-	51,700
Share issue expenses	-	(1,853)	-	-	-	-	-	-	(1,853)	-	(1,853)
Exercise of share options	1,977	12,763	-	-	-	(2,480)	-	-	12,260	-	12,260
Issue of warrants	-	-	-	-	-	-	1,441	-	1,441	-	1,441
Disposal of subsidiaries	-	-	-	(96)	-	-	-	-	(96)	(1,987)	(2,083)
Arising on consolidation of subsidiaries	-	-	-	(77)	-	-	-	-	(77)	92	15
Net profit for the period	-	-	-	-	-	-	-	3,545	3,545	3,729	7,274
At 30 September 2007	55,948	114,273	6,015	1,032	-	-	1,441	(23,428)	155,281	6,401	161,682
At 1 April 2008	64,117	179,624	6,015	2,314	443	3,736	1,340	(45,724)	211,865	6,850	218,715
Issue of consideration shares	1,148	14,470	-	-	-	-	-	-	15,618	-	15,618
Issue of bonus shares	13,053	(13,053)	-	-	-	-	-	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	450	450
Arising on consolidation of subsidiaries	-	-	-	1,122	-	-	-	-	1,122	-	1,122
Net profit for the period	-	-	-	-	-	-	-	6,345	6,345	3,312	9,657
At 30 September 2008	78,318	181,041	6,015	3,436	443	3,736	1,340	(39,379)	234,950	10,612	245,562

On 25 June 2008, the director recommended a bonus issue of share (“Bonus Issue”) and approved in Company’s annual general meeting held on 1 August 2008. The Bonus Issue has been completed on 12 August 2008 on the basis of 1 share, credited as fully paid, for every 5 existing shares.

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2008

	Six months ended 30 September 2008 (Unaudited) HK\$'000	Six months ended 30 September 2007 (Unaudited) HK\$'000
Net cash (outflow)/inflow from operating activities	(4,958)	17,304
Net cash outflow from investing activities	(11,557)	(10,805)
Net cash inflow from financing activities	–	53,046
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(16,515)	59,545
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	31,752	4,677
	15,237	64,222
Effect of foreign exchange rate changes	1,122	15
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16,359	64,237
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	16,359	93,689
Bank overdrafts	–	(29,452)
	16,359	64,237

Notes to the Financial Statements

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on GEM.

The Group is principally engaged in the provision of mobile payment gateway services.

2. BASIS OF PRESENTATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value and promissory notes which have been measured at amortised cost. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2008.

3. TURNOVER

Turnover represents the net invoiced services rendered. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group’s turnover and segment results by business and geographical segments is as follows:

Notes to the Financial Statements

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Six months ended 30 September											
	Continuing operation		Discontinued operations								Consolidated	
	Mobile payment gateway services		Internet appliances and related products		Electronic devices and components		Design and engineering services					
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007		
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000		
Turnover	25,702	13,663	-	-	-	55,607	-	620	25,702	69,890		
Segment results	21,959	12,042	-	-	-	8,477	-	(764)	21,959	19,755		
Other revenue									453	2,134		
Net unallocated expenses									(8,593)	(12,302)		
Profit from operating activities									13,819	9,587		
Gain on disposal of subsidiaries									-	2,850		
Finance costs									(70)	(3,674)		
Profit before income tax									13,749	8,763		
Income tax									(4,092)	(1,489)		
Profit for the period									9,657	7,274		

	Continuing operation		As at 30 September							
			Discontinued operations							
	Mobile payment gateway services		Internet appliances and related products		Electronic devices and components		Design and engineering services		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets										
Segment assets	63,346	27,418	-	-	-	67,310	-	15,592	63,346	110,320
Unallocated assets									284,020	194,545
Total assets									347,366	304,865
Liabilities										
Segment liabilities	-	-	-	-	-	33,419	-	-	-	33,419
Unallocated liabilities									101,804	109,764
Total liabilities									101,804	143,183
Other segment information:										
Depreciation	1,822	594	-	17	-	1,830	-	-	1,822	2,441
Depreciation – unallocated									-	724
Capital expenditure – unallocated									21	6,716

Notes to the Financial Statements

(b) Geographical segments

A summary of the geographical segments for the six months ended 30 September 2008 and the corresponding period in 2007 is as follows:

	China		Middle East		United State of America		United Kingdom		Europe		Others		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover														
External sales	25,702	13,925	-	15,287	-	3,410	-	21,390	-	15,618	-	280	25,702	69,890

4. PROFIT BEFORE INCOME TAX

The Group's profit before taxation is arrived at after charging the following:

	Six months ended 30 September 2008		Three months ended 30 September 2008	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on overdrafts and bank loans	-	3,132	-	1,603
Amortisation of product development costs	540	1,072	270	537
Depreciation of property, plant and equipment	1,822	3,165	911	1,597

5. INCOME TAX

Hong Kong profits tax has not been provided (2007: 17.5%) as there was no assessable income in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	Six months ended		Three months ended	
	30 September		30 September	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax	4,092	1,051	2,016	335
Deferred tax	–	438	–	438
	<hr/>			
Tax charge for the period	4,092	1,489	2,016	773

Deferred tax is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the unaudited net profit attributable to equity holders of the Company for the three months and six months ended 30 September 2008 of approximately HK\$2,443,000 and HK\$6,345,000 respectively (three months and six months ended 30 September 2007: unaudited net profit of approximately HK\$1,835,000 and HK\$3,545,000 respectively) and the weighted average number of 1,441,519,490 and 1,359,125,123 ordinary shares of the Company (three months and six months ended 30 September 2007: 1,117,866,957 and 1,093,510,779 shares).

Notes to the Financial Statements

No diluted earnings per share had been presented for the three months and six months ended 30 September 2008 and the corresponding period in 2007 as the exercise price of the Company's share options, warrants and convertible bonds were higher than the average market price for the share.

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

8. TRADE RECEIVABLES

The aging analysis of trade receivables (net of impairment allowances for bad and doubtful debts) at the balance sheet date, based on date of services rendered, is as follows:

	As at 30 September 2008 (Unaudited) HK\$'000	As at 31 March 2008 (Audited) HK\$'000
Within 30 days	5,017	4,490
31 to 60 days	4,058	4,453
61 to 90 days	4,454	4,722
91 to 120 days	6,174	3,971
Over 120 days	29,399	11,103
	<hr/> 49,102	<hr/> 28,739

9. CONVERTIBLE NOTES

On 21 December 2007, the Company issued the convertible bonds in the principal amount of HK\$3,200,000. These bonds were interest free. The Company shall repay such principal amount outstanding under the convertible bonds to the holders of convertible bonds on the respective maturity dates of the convertible bonds. The holders of convertible bonds will have the right to convert the whole or any part of the principal amount of the convertible bonds into shares at any time and from time to time at conversion price of HK\$0.55 except for the convertible bond which is subject to achievement of the profit guarantee under the sale and purchase agreements in respect of the audited consolidated net profit after tax and exceptional items of Media Magic Technology Limited and its subsidiaries for the year ending 31 March 2009 which will not be less than HK\$33,000,000. As a result of the bonus issue of Share of the Company in August 2008, the conversion price has been adjusted to HK\$0.458 per Share. The fair value of the liability component and the equity conversion component were determined at the date of issuance of the convertible bonds based on the discounted rate of 5% per annum.

10. OTHER PAYABLES

Other payables represent the amount of convertible bonds to be issued by the Company if the vendor can fulfill the profit requirements of the Earned Out Periods for the years ending 31 March 2009 and 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW AND PROSPECT

Overview

The mobile payment gateway business of the Group continued to grow in the first half of the financial year ending 2009. The Group recorded an increase of turnover on mobile payment gateway business of approximately 88% as compared to the same in the previous corresponding period. The Group has consolidated itself as one of the leading providers of mobile payment gateway in the PRC with high profitability and strong growth. Net profit of approximately HK\$6,345,000 was recorded and represents an increase of 79% as compared to the previous corresponding period. During the first half of the financial year ending 2009, the Group has established a strong financial position with no bank borrowings and achieved substantial decrease of finance costs and administrative expenses.

Financial review

For the six months ended 30 September 2008, the Group's turnover, which represents revenue from its mobile payment gateway business increased from approximately HK\$13,663,000 of previous corresponding period to approximately HK\$25,702,000. Such substantial increase was in line with the consolidation of the Group as one of the leading providers of mobile payment gateway in the PRC.

The gross profit margin of the Group increased from approximately 28% in the previous corresponding period to approximately 85% in the current period, which was mainly due to the focus of the Group on mobile payment gateway business with higher profit margin during the period.

For the six months ended 30 September 2008, the Group's net profit attributable to equity holders, increased from approximately HK\$3,545,000 of previous corresponding period to approximately HK\$6,345,000. Administrative expenses decreased by approximately 42% as compared to the previous corresponding period as a result of the cessation of the electronic devices business in March 2008.

Operation review

The Group is authorized by China Unicom (中國聯通), on an exclusive basis, for the provision of the Company's mobile payment gateway system to the subscribers of China Unicom (中國聯通) in over 20 major provinces/municipal cities in the PRC through which a variety of virtual and service products, including the IP Cards of China Unicom (中國聯通), virtual game cards of Baidu (百度) and Shanda (盛大), accident insurance products of PICC Life Insurance Company Limited (中國人民人壽保險股份有限公司), could be purchased by the subscribers of China Unicom (中國聯通) through mobile phone.

The Group has achieved significant progress on its mobile payment gateway business during the period. As at 30 September 2008, the Group has commenced operation of such business in 14 provinces/municipal cities whilst the same in 5 provinces/municipal cities as at 30 September 2007. In particular, the IP card product has penetrated from 5 provinces/municipal cities into 12 provinces/municipal cities, the virtual game card product has penetrated from 4 provinces/municipal cities into 9 provinces/municipal cities and the insurance product has penetrated from nil province/municipal cities into 10 provinces/municipal cities, for the previous corresponding period up to 30 September 2008.

As stated in the first quarterly report of the Group, the growth of the mobile payment business of the Group during the financial year ending 2009 has been affected by the occurrence of several events in the PRC, i.e. the restructuring of the telecommunication industry, the earthquake of Sichuan (四川) and the implementation of stringent restrictions on marketing and promotion activities of the telecommunication and Internet industries in view of the Beijing Olympic Games.

As a result, the turnover of the Group for the three months ended 30 September 2008 recorded a slight decrease of approximately 3% as compared to the same for the three months ended 30 June 2008.

With all the aforesaid one-off incidents taken place, the Board anticipates resumption of strong growth of the Group's business in the second half of the financial year ending 2009.

Prospects

In an effort to establish a complete payment gateway solution in the PRC, the Group is developing another advanced form of payment gateway based on the Near Field Communication Technology ("NFC"). The Group has entered into a preliminary agreement with China Network Communications Group Corporation (中國網絡通信集團公司) for the introduction and operation of such NFC payment gateway in Jiangsu (江蘇), the PRC and the trial run of which is expected to commence next quarter.

The development of such NFC payment gateway will compliment the mobile payment gateway business of the Group and consolidate the Group's leading position in the payment gateway industry in the PRC. Hence, the Board is optimistic that the Group will achieve good performance in the medium to long terms.

Liquidity, financial resources and capital structure

As at 30 September 2008, the Group had total assets of approximately HK\$347 million (31 March 2008: approximately HK\$313 million), including cash and bank balances of approximately HK\$16 million (31 March 2008: approximately HK\$32 million).

For the period ended 30 September 2008, the Group financed its operations mainly with its own working capital and there were no general banking facilities. There was no charge on the Group's assets as at 30 September 2008 (31 March 2008: Nil).

As at 30 September 2008, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero (31 March 2008: zero). The Group had no bank borrowings as at 30 September 2008 (31 March 2008: Nil).

Most of the transactions of the Group are denominated in Hong Kong Dollars and Renminbi. As the exchange rate of Renminbi to Hong Kong Dollars are fairly stable, the Board is of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

Material acquisitions or disposal of subsidiaries and affiliated companies

There was no material acquisition or disposal of subsidiaries and affiliated companies for the six months ended 30 September 2008.

Contingent liabilities

The Group had no contingent liability as at 30 September 2008 (31 March 2008: Nil)

Employees and remuneration policies

As at 30 September 2008, the Group had 51 (31 March 2008: 51) employees including directors. Total staff-costs (excluding directors' emoluments) amounted to approximately HK\$2,815,000 for the six months ended 30 September 2008, as compared to approximately HK\$5,825,000 in the previous corresponding period. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme for its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to the employees in the PRC.

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

As at 30 September 2008, the interests and short position of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in shares:

Name of director	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Hsu Tung Chi (<i>Note 1</i>)	Beneficial	162,176,183(L)	10.35%
Hsu Tung Sheng	Beneficial	1,400,000(L)	0.09%
Ho Hoi Lap	Beneficial	2,544,000(L)	0.16%

(L) denotes long position

Note:

- Mr. Hsu Tung Chi ("Mr. Hsu") is interested in 96,674,000 shares. According to the sale and purchase agreement entered into between Upper Power Limited ("Upper Power"), a wholly-owned subsidiary of the Company and Mr. Hsu on 5 November 2007, the Company has allotted 2,181,818 convertible bonds to Mr. Hsu on 21 December 2007; subject to fulfillment of certain conditions, the Company will further allot 52,363,636 convertible bonds to Mr. Hsu. The Company has made the adjustment to the convertible bonds in accordance with the bonus issue approved by the shareholders of the Company on 1 August 2008. The numbers of convertible bonds are adjusted to 2,620,087 and 62,882,096 respectively. As at 30 September 2008, Mr. Hsu has not converted any convertible bonds.

(ii) Interests in share options:

Name of director	Number of share options outstanding	Approximate percentage of issued share capital
Hsu Tung Sheng	3,840,000 [#]	0.25%
Hsu Tung Chi	3,840,000 [#]	0.25%
Ho Hoi Lap	13,200,000 [*]	0.84%
Chan Hin Wing, James	3,840,000 [#]	0.25%
Chan Francis Ping Kuen	13,200,000 [*]	0.84%
	2,160,000 [#]	0.14%

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

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

Save as disclosed above, as at 30 September 2008, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by directors to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Scheme”) on 18 October 2001 pursuant to a written resolution of the Company. The Company has made the adjustment to the outstanding share options in accordance with the bonus issue. Details of the movements in the number of share options during the year under the scheme were as follows:

Categories of grantees	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding as at 31/3/2008	Granted during the period	Exercised during the period	Outstanding as at 30/9/2008
Directors							
Mr. Chan Hin Wing, James	21/12/2007	21/12/2007 – 20/12/2017	0.3875	3,840,000	-	-	3,840,000
Mr. Chan Francis Ping Kuen	14/08/2007	14/08/2007 – 13/08/2017	0.4333	13,200,000	-	-	13,200,000
	21/12/2007	21/12/2007 – 20/12/2017	0.3875	2,160,000	-	-	2,160,000
Mr. Hsu Tung Sheng	21/12/2007	21/12/2007 – 20/12/2017	0.3875	3,840,000	-	-	3,840,000
Mr. Hsu Tung Chi	21/12/2007	21/12/2007 – 20/12/2017	0.3875	3,840,000	-	-	3,840,000
Dr. Ho Hoi Lap	14/08/2007	14/08/2007 – 13/08/2017	0.4333	13,200,000	-	-	13,200,000
Employees							
	17/12/2007	17/12/2007 – 16/12/2017	0.3775	22,800,000	-	-	22,800,000
	21/12/2007	21/12/2007 – 20/12/2017	0.3875	7,680,000	-	-	7,680,000
Consultants							
	17/12/2007	17/12/2007 – 16/12/2017	0.3775	24,000,000	-	-	24,000,000
				94,560,000	-	-	94,560,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2008, other than the interests of a director of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Starryland Profits Limited (<i>Note 1</i>)	Beneficial	351,354,000(L)	22.43%
Lau Kim Hung, Jack (<i>Note 1</i>)	Interests in controlled corporation	351,354,000(L)	22.43%
	Beneficial	11,208,000(L)	0.72%
	Deemed	1,200,000(L)	0.08%

Name	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Chan Yiu Kan, Katie (Note 1)	Deemed	362,562,000(L)	23.15%
	Beneficial	1,200,000(L)	0.08%
Big Well Investments Limited (Note 2)	Beneficial owner	267,304,635(L)	17.07%
Chong Tin Lung (Note 2)	Interests in controlled corporation	267,304,635(L)	17.07%
Lo Yee Man (Note 2)	Deemed	267,304,635(L)	17.07%
Pang Hong Tao (Note 3)	Beneficial	214,387,639(L)	13.69%
Wang Jing (Note 3)	Deemed	214,387,639(L)	13.69%
Hsu Tung Chi (Note 4)	Beneficial	166,016,183(L)	10.60%
Chuang Meng Hua (Note 4)	Deemed	166,016,183(L)	10.60%

(L) denotes long position

Notes:

1. Starryland Profits Limited, a company incorporated in BVI, is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("**Mr. Lau**"). Mr. Lau is deemed to be interested in 351,354,000 shares held by Starryland Profits Limited. In addition, by virtue of being the spouse of Ms. Chan Yiu Kan Katie, he is also deemed to be interested in 1,200,000 shares held by Ms. Chan Yiu Kan Katie.

Ms. Chan Yiu Kan Katie, being the spouse of Mr. Lau, is deemed to be interested in 351,354,000 shares held by Starryland Profits Limited and 11,208,000 shares held by Mr. Lau.

2. Big Well Investments Limited ("**Big Well**") is a company incorporated in the British Virgin Islands which is a subscriber of 223,000,000 non-listed warrants under the private placing of non-listed warrants as disclosed in the announcements of the Company dated 27 August 2007 and 1 September 2007 conferring rights to Big Well to subscribe for 223,000,000 shares. After the bonus issue adjustment, the number of non-listed warrants is adjusted to 267,304,635. Big Well is wholly-owned by Mr. Chong Tin Lung and he is therefore deemed to be interested in those shares. By virtue of Ms. Lo Yee Man being the spouse of Mr. Chong Tin Lung, she is also deemed to be interested in those 267,304,635 shares as well.

3. Mr. Pang Hong Tao ("**Mr. Pang**") is interested in 105,217,333 shares. According to the sale and purchase agreement entered into between Upper Power and Mr. Pang on 5 November 2007, the Company has allotted 3,636,364 convertible bonds to Mr. Pang on 21 December 2007. Subject to fulfillment of certain conditions, the Company will further allot 87,272,727 convertible bonds to Mr. Pang. After the bonus issue adjustment, the number of convertible bonds are adjusted to 4,366,812 and 104,803,494 respectively. As at the Latest Practicable Date, Mr. Pang has not converted any convertible bonds. Ms. Wang Jing is deemed to be interested in 105,217,333 shares and 109,170,306 convertible bonds of the Company by virtue of her being the spouse of Mr. Pang.

4. Mr. Hsu Tung Chi ("Mr. Hsu") is interested in 96,674,000 shares. According to the sale and purchase agreement entered into between Upper Power and Mr. Hsu on 5 November 2007, the Company has allotted 2,181,818 convertible bonds to Mr. Hsu Tung Chi on 21 December 2007. Subject to fulfillment of certain conditions, the Company will further allot 52,363,636 convertible bonds to Mr. Hsu. After the bonus issue adjustment, the number of convertible bonds are adjusted to 2,620,087 and 62,882,096 respectively. Mr. Hsu is also interested in 3,840,000 share options. As at the Latest Practicable Date, Mr. Hsu Tung Chi has not converted any convertible bonds nor exercised any share options.

Ms. Chuang Meng Hua is deemed to be interested in 96,674,000 shares, 65,502,183 convertible bonds and 3,840,000 share options of the Company by virtue of her being the spouse of Mr. Hsu.

Save as disclosed above, as at 30 September 2008, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 September 2008, there were no purchases, sales or redemptions of the Company's listed shares by the Company or any of its subsidiaries.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHT

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Throughout the period ended 30 September 2008, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions.

CODE ON CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 September 2008 except that no nomination committee of the Board is established.

REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Kai Wing and one executive director being Mr. Chan Francis Ping Kuen. Mr. Kwok Chi Sun, Vincent is the chairman of the Remuneration Committee. The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 18th October 2001, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises the three independent non-executive directors of the Company, namely, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Kai Wing. The unaudited financial statements of the Group for the period ended 30 September 2008 have been reviewed by the Committee, which is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange requirements, and that adequate disclosures have been made.

By order of the Board
Palmpay China (Holdings) Limited
Chan Francis Ping Kuen
Executive Director

Hong Kong, 10 November 2008

As at the date of this report, the executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi and Mr. Chan Hin Wing, James. The non-executive Director and the chairman of the Company is Dr. Ho Hoi Lap. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Kai Wing.