



Palmpay

anytime, anywhere, anything

PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 8047)

First Quarterly Report 2010-2011

* For identification purpose only

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

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

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This report, for which the directors of Palmpay China (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

For the three months ended 30 June 2010

- the turnover of the Group was approximately HK\$9,624,000 as compared to the turnover of approximately HK\$13,118,000 recorded in the corresponding period last year.
- the profit attributable to equity holders of the Company was approximately HK\$3,973,000 (2009: approximately HK\$5,148,000).
- the directors do not recommend the payment of any dividend (2009: Nil).
- the earnings per share of the Company was approximately HK0.15 cents (2009: approximately 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 (the “Group”) for the three months ended 30 June 2010 together with the comparative unaudited figures for the corresponding period in 2009 as follows:

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	Notes	Three months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover	3	9,624	13,118
Cost of services rendered		(2,555)	(1,383)
Gross profit		7,069	11,735
Other revenue	3	2	176
Distribution costs		(796)	(826)
Administrative expenses		(1,879)	(3,111)
Finance costs		(38)	(37)
Profit before taxation		4,358	7,937
Income tax expenses	4	(385)	(677)
Profit for the period		3,973	7,260
Other comprehensive income			
Exchange differences on consolidation		663	211
Total comprehensive income for the period		4,636	7,471
Profit attributable to:			
Equity holders of the Company		3,973	5,148
Minority interests		–	2,112
		3,973	7,260

Condensed Consolidated Statement of Comprehensive Income (Unaudited) *(continued)*

	Notes	Three months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Total comprehensive income attributable to:			
Equity holders of the Company		4,636	5,305
Minority interest		–	2,166
		<u>4,636</u>	<u>7,471</u>
Dividends	7	–	–
Earnings per share			
– Basic (cent)	5	<u>0.15</u>	<u>0.32</u>
– Diluted (cent)		<u>0.15</u>	<u>0.31</u>

Notes to the Financial Statements

Notes:

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are provision of payment gateway services.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2010.

Notes to the Financial Statements

3. TURNOVER AND REVENUE

An analysis of the Group's turnover and revenue during the period is as follow:

	Three months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Payment gateway services	9,624	13,118
Turnover	9,624	13,118
Dividend income	–	176
Interest income	2	–
Other revenue	2	176
Total turnover and revenue	9,626	13,294

4. TAXATION

Hong Kong Profit Tax has not been provided as the Group incurred a loss for taxation purposes for the period (2009: Nil).

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

Deferred tax had not been provided for the Group because the Group had no significant temporary differences at the balance sheet date (2009: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 30 June 2010 was based on the unaudited net profit attributable to equity holders of the Company of approximately HK\$3,973,000 (2009: approximately HK\$5,148,000) and the weighted average number of 2,628,184,198 (2009: 1,606,652,305) ordinary shares of the Company.

Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months ended 30 June 2010, the Company had three categories of dilutive potential ordinary shares: share options, warrants and convertible bonds.

	Three months ended 30 June	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Profit used to determine diluted earnings per share	3,973	5,148
Weighted average number of ordinary shares in issue	2,628,184,198	1,606,652,305
Adjustments for assumed exercise of share options, warrants and convertible bonds	22,951,469	43,150,661
Weighted average number of ordinary shares of diluted earnings per share	2,651,135,667	1,649,802,966
	2010	2009
Diluted earnings per share	HK0.15 cents	HK0.31 cents

Notes to the Financial Statements

6. RESERVES

	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Employee convertible share-based		Warrant reserve (Unaudited) HK\$'000	Available-for-sale investment reserve (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	Retained profits/ losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
				notes reserve (Unaudited) HK\$'000	payment reserve (Unaudited) HK\$'000							
At 1 April 2009	181,041	6,015	3,216	443	6,008	1,340	(1,734)	-	(25,661)	170,668	16,088	186,756
Issue of consideration shares	14,182	-	-	-	-	-	-	-	-	14,182	-	14,182
Issue of convertible notes	-	-	-	5,362	-	-	-	-	-	5,362	-	5,362
Conversion of convertible notes	9,578	-	-	(1,692)	-	-	-	-	-	7,886	-	7,886
Acquired on acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	(18,476)	(18,476)
Total comprehensive income for the period	-	-	157	-	-	-	-	-	5,148	5,305	2,166	7,471
At 30 June 2009	204,801	6,015	3,373	4,113	6,008	1,340	(1,734)	-	(20,513)	203,403	(222)	203,181
At 1 April 2010	60,370	145,126	3,385	443	2,923	-	(9,187)	1,037	31,088	235,185	-	235,185
Issue of consideration share	26,715	-	-	-	-	-	-	-	-	26,715	-	26,715
Issue of unlisted warrants	-	-	-	-	-	621	-	-	-	621	-	621
Exercise of unlisted warrants	17,145	-	-	-	-	(381)	-	-	-	16,764	-	16,764
Total comprehensive income for the period	-	-	663	-	-	-	-	-	3,973	4,636	-	4,636
At 30 June 2010	104,230	145,126	4,048	443	2,923	240	(9,187)	1,037	35,061	283,921	-	283,921

7. DIVIDENDS

The directors do not propose the payment of any dividend for the three months ended 30 June 2010 (2009: Nil).

REVIEW AND PROSPECT

OPERATIONAL REVIEW

The payment industry is undergoing adverse changes in the PRC. Recently, the relevant Government authorities have tightened the governance in an effort to eliminate the irregular activities in the payment by deduction market in the PRC. On the other hand, with capital and licensing requirements being imposed under the new regulations which aims to provide protections to the customers, the market sentiment of the payment industry, particularly for the small to medium players, has become difficult.

Payment by deduction business

In view of the adverse changes of the payment industry, the Group has re-aligned its business focus to development and provision of electronic payment management platform (“Payment Platform”) for service providers of the telecommunication industry and Internet industry in the PRC.

The Group is in final negotiation with an Internet service provider for the development of Payment Platform in relation to its operation with the telecommunication operators in the PRC.

The Group has also reached an agreement with a mobile/Internet game developer for development of the Payment Platform in relation to the operation between its customers and the network carriers.

The PalmPay online platform and the related consultancy services

With the recent adoption by China Mobile and its already wide acceptance in telecommunication industry (by China Unicom and China Telecom), banking and finance industry (by UnionPay) and public transport, 13.26MHz NFC Technology has become the main contactless payment system technology in the PRC.

The co-operation with Beijing Huatong Toyota Sales & Services Co. Limited has already commenced early this month. The pilot run of the Toyota online membership system (based on Sony FeliCa, a NFC technology developed by Sony) received positive feedback in Beijing. Such membership system will be expanded to nationwide in the coming quarters.

The Group has also made inroads on the introduction of PalmPay online platform. As a pilot run, during the period, the Group entered into an agreement with a distributor in Guangdong province for development of the PalmPay online payment platform and the provision of related consultancy service. First batch of PalmPay online system tools were distributed to such corporation. The Group is in negotiation with such corporation for delivery of additional batches in the coming quarters.

In addition, the Group is in negotiation with a well known online travel booking internet portal and a major marketing/e-commerce organization in the PRC to develop its respective membership systems into e-payment platforms with the incorporation of Sony FeliCa.

FINANCIAL REVIEW

For the period ended 30 June 2010, the Group recorded a turnover of approximately HK\$9,624,000 (2009: approximately HK\$13,118,000) from its payment gateway business. The decrease was due to the adverse change in PRC.

During the period, the Group's net profit and profit attributable to equity holders of the Company decreased from approximately HK\$7,260,000 and HK\$5,148,000 of previous corresponding period to approximately HK\$3,973,000 and HK\$3,973,000 respectively. The administrative expenses decreased by approximately 40% as compared to the previous corresponding period mainly due to the effective cost control during this period.

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

As at 30 June 2010, the interests and short position of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in shares:

Name of director	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Hsu Tung Sheng	Beneficial	11,900,000(L)	0.44%
Hsu Tung Chi (<i>Note 1</i>)	Beneficial	78,694,087(L)	2.93%
Yuan Shengjun	Beneficial	37,012,000(L)	1.38%

(L) denotes long position

Note:

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

(ii) Interests in share options:

Name of director	Number of share options outstanding	Approximate percentage of issued share capital
Chan Francis Ping Kuen	13,200,000 *	0.49%
	2,160,000 #	0.08%
Hsu Tung Sheng	3,840,000 #	0.14%
Hsu Tung Chi	3,840,000 #	0.14%
Yuan Shengjun	3,840,000 #	0.14%
Chan Hin Wing, James	3,840,000 #	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 June 2010, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by directors to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

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

Categories of grantees	Date of grant	Exercisable period	Share price of the Company at the grant date HK\$	Exercise price per share HK\$	Outstanding as at 31/3/2010	Granted during the period	Exercised during the period	Outstanding as at 30/06/2010
Directors								
Mr. Chan Francis Ping Kuen	14/08/2007	14/08/2007 – 13/08/2017	0.520	0.4333*	13,200,000	-	-	13,200,000
	21/12/2007	21/12/2007 – 20/12/2017	0.465	0.3875*	2,160,000	-	-	2,160,000
Mr. Hsu Tung Sheng	21/12/2007	21/12/2007 – 20/12/2017	0.465	0.3875*	3,840,000	-	-	3,840,000
Mr. Hsu Tung Chi	21/12/2007	21/12/2007 – 20/12/2017	0.465	0.3875*	3,840,000	-	-	3,840,000
Mr. Yuan Shengjun	21/12/2007	21/12/2007 – 20/12/2017	0.465	0.3875*	3,840,000	-	-	3,840,000
Mr. Chan Hin Wing, James	21/12/2007	21/12/2007 – 20/12/2017	0.465	0.3875*	3,840,000	-	-	3,840,000
Employees								
	17/12/2007	17/12/2007 – 16/12/2017	0.440	0.3775*	22,800,000	-	-	22,800,000
	21/12/2007	21/12/2007 – 20/12/2017	0.465	0.3875*	3,840,000	-	-	7,680,000
Consultants								
	17/12/2007	17/12/2007 – 16/12/2017	0.440	0.3775*	24,000,000	-	-	24,000,000
					<u>81,360,000</u>	-	-	<u>81,360,000</u>

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

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

As at 30 June 2010, other than the interests of a director of the Company as disclosed under the heading “Directors and chief executive’s interests in shares, underlying shares and debentures” above, the interests and short positions of persons, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Starryland Profits Limited (<i>Note 1</i>)	Beneficial	617,261,706(L)	22.98%
Lau Kim Hung, Jack (<i>Note 1</i>)	Interests in controlled corporation	617,261,706(L)	22.98%
	Beneficial	11,208,000(L)	0.42%
	Deemed	1,200,000(L)	0.04%
Chan Yiu Kan, Katie (<i>Note 1</i>)	Deemed	628,469,706(L)	23.40%
	Beneficial	1,200,000(L)	0.04%

(L) denotes long position

Notes:

1. Starryland Profits Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Mr. Lau is deemed to be interested in 617,261,706 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 617,261,706 shares held by Starryland Profits Limited and 11,208,000 shares held by Mr. Lau.

Save as disclosed above, as at 30 June 2010, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading “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 director 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 three months ended 30 June 2010, there were no purchases, sales or redemptions of the Company's listed securities 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) has any interest in a business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata 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 June 2010, 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 June 2010 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. Cheung Chi Hwa, Justin 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 18 October 2001, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee currently comprises the three independent non-executive directors of the Company, namely, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Cheung Chi Hwa, Justin. The financial statements of the Group for the period ended 30 June 2010 have been reviewed by the Committee, which is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

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

Hong Kong, 10 August 2010

As at the date of this report, the executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi, Mr. Chan Hin Wing, James and Mr. Yuan Shengjun. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Cheung Chi Hwa, Justin.