



## China Smartpay Group Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 8325)



First Quarterly Report  
2016



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

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*This report, for which the directors (the “Directors”) of China Smartpay Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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.*

## FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to approximately HK\$105.88 million for the three months ended 30 June 2016. The Group's gross profit amounted to approximately HK\$49.87 million, which represented an increase of approximately 184% as compared with the Group's gross profit recorded in the corresponding period in 2015.
- The Group reported a profit amounted to approximately HK\$1.98 million for the three months ended 30 June 2016 as compared with a loss of approximately HK\$34.68 million recorded in the corresponding period in 2015. The Group reported a profit attributable to equity holders of the Company for the period ended 30 June 2016 amounted to approximately HK\$1.27 million (2015: loss approximately HK\$36.96 million).
- The Group recognised share-based compensation cost and convertible bonds interest expenses amounted to approximately HK\$10.6 million and HK\$Nil for the period ended 30 June 2016 respectively (2015: approximately HK\$13.49 million and HK\$5.31 million). Without the recognition of the share-based compensation cost and the convertible bonds interest expenses, the Group reported a profit for the period amounted to approximately HK\$12.58 million (2015: loss approximately HK\$15.88 million).
- Earnings per share for the profit attributable to equity holders of the Company for the three months ended 30 June 2016 was approximately 0.09 HK cents (2015: loss per share of 3.47 HK cents).
- The Board does not recommend payment of interim dividend for the three months ended 30 June 2016 (2015: Nil).



## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors of the Company (the “Board”) is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2016

		<b>Unaudited</b>	
		<b>Three months ended 30 June</b>	
	<i>NOTE</i>	<b>2016</b>	2015
		<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Revenue</b>	2	<b>105,884</b>	72,064
Cost of services rendered and cost of goods sold		<b>(56,016)</b>	(54,490)
<b>Gross profit</b>		<b>49,868</b>	17,574
Other income		<b>706</b>	605
General administrative expenses		<b>(51,414)</b>	(36,388)
Selling and distribution costs		<b>(7,350)</b>	(7,815)
Finance costs	4	<b>(315)</b>	(6,910)
Fair value gain on financial assets at fair value through profit or loss		<b>12,700</b>	–
Share of results of joint ventures		<b>55</b>	(63)
Share of results of associates		<b>(492)</b>	(397)

## CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

For the three months ended 30 June 2016

		<b>Unaudited</b>	
		<b>Three months ended 30 June</b>	
	<i>NOTE</i>	<b>2016</b>	2015
		<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Profit (Loss) before tax</b>	4	<b>3,758</b>	(33,394)
Income tax expenses	5	<b>(1,779)</b>	(1,283)
<b>Profit (Loss) for the period</b>		<b>1,979</b>	(34,677)
<b>Attributable to:</b>			
Equity holders of the Company		<b>1,265</b>	(36,960)
Non-controlling interests		<b>714</b>	2,283
		<b>1,979</b>	(34,677)
<b>Earnings (Loss) per share for profit (loss) attributable to equity holders of the Company</b>			
Basic and diluted	7	<b>0.09 HK cents</b>	(3.47) HK cents



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2016

	<b>Unaudited</b>	
	<b>Three months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Profit (Loss) for the period	<b>1,979</b>	(34,677)
<b>Other comprehensive loss:</b>		
<i>Items that may be reclassified subsequent to profit or loss:</i>		
Exchange difference on translation of foreign subsidiaries	<b>(27,022)</b>	(1,031)
<b>Total comprehensive loss for the period</b>	<b>(25,043)</b>	(35,708)
<b>Attributable to:</b>		
Equity holders of the Company	<b>(25,211)</b>	(37,622)
Non-controlling interests	<b>168</b>	1,914
	<b>(25,043)</b>	(35,708)

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENT

*For the three months ended 30 June 2016*

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

### Corporate information

The Company was incorporated in the Cayman Islands on 12 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares are listed on the GEM of the Stock Exchange on 28 August 2009.

### Basis of preparation

The unaudited condensed first quarterly financial statements of the Company for the three months ended 30 June 2016 (the "First Quarterly Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The preparation of the First Quarterly Financial Statements requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The First Quarterly Financial Statements include an explanation of events and transactions that are significant to an understanding of the financial performances of the Group since 31 March 2016, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They shall be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 March 2016 (the "2015/2016 Annual Financial Statements").

The First Quarterly Financial Statements have been prepared on the historical costs basis except for certain financial instruments which were stated at fair value.

The accounting policies and methods of computation applied in the preparation of the First Quarterly Financial Statements are consistent with those applied in preparing the 2015/2016 Annual Financial Statements.



## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION *(continued)*

### Basis of preparation *(continued)*

#### *New/revised HKFRSs*

The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior accounting period.

At the date of authorisation of the First Quarterly Financial Statements, the Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the current period. The Directors are in the process of assessing the possible impact on the future adoption of these new and revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group's results of operations and financial position.

## 2. REVENUE

Revenue is analysed by category as follows:

	<b>Unaudited</b>	
	<b>Three months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
<b>Prepaid cards and internet payment business</b>		
Card issuing service fee income	<b>150</b>	1,845
Management fee income of prepaid cards	<b>24,264</b>	–
Merchant service fee income	<b>8,604</b>	2,507
Interest income from accumulated unutilised float funds	<b>3,355</b>	7,683
Sales and service fee income of POS machines	<b>889</b>	–
<b>Prestige benefits business</b>		
Issuance income of prestige benefits cards	<b>21,769</b>	–
Hotel booking agency service income	<b>3,534</b>	–
<b>E-commerce and trade financing business</b>		
Sales of goods	<b>18,603</b>	30,738
Loan interest income	<b>1,008</b>	–
<b>Card acceptance business</b>		
Card acceptance transaction fee income	<b>18,421</b>	22,788
Foreign exchange rate discount income	<b>5,287</b>	6,503
	<b>105,884</b>	72,064

### 3. SEGMENT REPORTING

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments. Based on risks and returns and the Group's internal financial reporting, the Directors consider that the operating segments of the Group comprise:

- (i) prepaid cards and internet payment business in the PRC;
- (ii) prestige benefits business in the PRC;
- (iii) e-commerce and trade financing business among Hong Kong and the PRC;
- (iv) card acceptance business in Thailand; and
- (v) securities investment business in Hong Kong.

In addition, the Directors consider that the Group's place of domicile is Hong Kong, where the central management and control is located.

Segment results, which are the measures reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance, represent the profit earned or loss incurred by each segment without allocation of other income, gain or loss, finance costs, general administrative expenses incurred by corporate office, share of results of joint ventures and associates and income tax.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location where services are provided, assets and capital expenditure are attributed to the segments based on the location of the assets. The geographical segment information is reflected within operating segment information as the Group's five distinctive business activities are provided in three different locations.



**3. SEGMENT REPORTING** *(continued)*

Three months ended 30 June 2016 (unaudited)

	Prepaid cards and internet payment business <i>HK\$'000</i>	Prestige benefits business <i>HK\$'000</i>	E-commerce and trade financing business <i>HK\$'000</i>	Card acceptance business <i>HK\$'000</i>	Securities investment business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Segment revenue</b>	<b>37,262</b>	<b>25,302</b>	<b>19,611</b>	<b>23,709</b>	<b>-</b>	<b>105,884</b>
<b>Segment results</b>	<b>6,741</b>	<b>1,373</b>	<b>768</b>	<b>3,664</b>	<b>12,689</b>	<b>25,235</b>
Unallocated other income						706
Unallocated finance costs						(315)
Unallocated other expenses and losses						(21,431)
Share of results of joint ventures						55
Share of results of associates						(492)
Profit before tax						3,758
Income tax expenses						(1,779)
Profit for the period						1,979

3. **SEGMENT REPORTING** (continued)

Three months ended 30 June 2015 (unaudited)

	Prepaid cards and internet payment business <i>HK\$'000</i>	E-commerce and trade financing business <i>HK\$'000</i>	Card acceptance business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Segment revenue</b>	12,035	30,738	29,291	72,064
<b>Segment results</b>	(3,087)	(3,302)	5,145	(1,244)
Unallocated interest and other income				605
Unallocated finance costs				(6,910)
Unallocated other expenses				(25,385)
Share of results of a joint venture				(63)
Share of results of associates				(397)
Loss before tax				(33,394)
Income tax expenses				(1,283)
Loss for the period				(34,677)



**4. PROFIT (LOSS) BEFORE TAX**

	<b>Unaudited</b>	
	<b>Three months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
This is stated after charging:		
<b>Finance costs</b>		
Effective interest expenses on convertible bonds	–	5,315
Finance costs on other long-term liabilities	<b>40</b>	9
Interest expense on interest-bearing borrowings	<b>275</b>	1,586
	<b>315</b>	6,910
<b>Other items</b>		
Amortisation of intangible assets (included in "General administrative expenses")	<b>2,928</b>	84
Cost of goods sold	<b>19,320</b>	29,942
Depreciation of property, plant and equipment	<b>1,429</b>	1,614
Operating lease charges on premises	<b>3,456</b>	1,331
Staff cost including directors' emoluments and share-based compensation cost	<b>34,478</b>	22,144

## 5. TAXATION

	<b>Unaudited</b>	
	<b>Three months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Current tax</b>		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax	<b>993</b>	–
Thailand Enterprise Income Tax	<b>556</b>	1,070
Withholding tax on dividend declared by a foreign subsidiary	–	–
	<b>1,549</b>	1,070
<b>Deferred tax</b>		
Withholding tax on undistributed earnings of a foreign subsidiary	<b>230</b>	213
<b>Income tax expense for the period</b>	<b>1,779</b>	1,283

(i) **Hong Kong Profits Tax**

Hong Kong Profits Tax has not been provided as the Group's operation in Hong Kong had incurred losses for taxation purposes for the periods ended 30 June 2016 and 2015.



## 5. TAXATION *(continued)*

### (ii) Income taxes outside Hong Kong

The Company and its subsidiaries established in the British Virgin Islands (“BVI”) are exempted from the payment of income tax in the Cayman Islands and the BVI respectively.

The Group’s operations in the PRC are subject to enterprise income tax (“PRC Enterprise Income Tax”) of the PRC at 25%, except for Open Union which is subject to PRC Enterprise Income Tax at a preferential rate of 15% for high and new technology enterprises.

The Group’s operations in Thailand are subject to Thailand Enterprise Income Tax at 20% (2015: 20%).

The Group’s operation in Singapore is subject to Singapore income tax at 17%.

Dividends payable by a foreign invested enterprise in the PRC or Thailand to its foreign investors are subject to a 10% withholding tax, unless any foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC or Thailand that provides for a different withholding arrangement.

## 6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2016 (2015: Nil).

## 7. EARNINGS (LOSS) PER SHARE

Basic earnings per share for the three months ended 30 June 2016 is calculated based on the unaudited consolidated profit for the period attributable to the equity holders of the Company of HK\$1,265,000 (2015: loss of HK\$36,960,000) and on the weighted average number of 1,448,263,774 ordinary shares (2015: 1,064,554,008 ordinary shares) in issue during the period.

Diluted earnings (loss) per share is the same as basic earnings (loss) per share as the effect of potential ordinary shares is insignificant/anti-dilutive during the periods ended 30 June 2016 and 30 June 2015 respectively.

## 8. MOVEMENT OF EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Capital redemption reserve	Exchange reserve	Statutory reserve	Share option reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>For the three months ended</b>											
<b>30 June 2016</b>											
At 1 April 2016 (audited)	14,526	1,315,828	6,996	(27,379)	(37,963)	2,545	130,417	(37,709)	1,367,261	22,513	1,389,774
Profit for the period	-	-	-	-	-	-	-	1,265	1,265	714	1,979
<b>Total other comprehensive loss:</b>											
<i>Items that may be reclassified subsequent to profit or loss:</i>											
Exchange difference on translation of foreign subsidiaries	-	-	-	-	(26,476)	-	-	-	(26,476)	(546)	(27,022)
Total comprehensive loss for the period	-	-	-	-	(26,476)	-	-	1,265	(25,211)	168	(25,043)
<b>Transaction with owners:</b>											
<i>Contribution and distributions</i>											
<i>Recognition of share-based compensation cost</i>	-	-	-	-	-	-	10,595	-	10,595	-	10,595
Additional shares issuance expenses	-	(380)	-	-	-	-	-	-	(380)	-	(380)
Cancellation of repurchased shares											
<Remark 2>	(166)	(27,213)	-	27,379	-	-	-	-	-	-	-
	(166)	(27,593)	-	27,379	-	-	10,595	-	10,215	-	10,215
<i>Changes in ownership interests</i>											
Non-controlling interests arising from incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	730	730
<b>At 30 June 2016 (unaudited)</b>	<b>14,360</b>	<b>1,288,235</b>	<b>6,996</b>	<b>-</b>	<b>(64,439)</b>	<b>2,545</b>	<b>141,012</b>	<b>(36,444)</b>	<b>1,352,265</b>	<b>23,411</b>	<b>1,375,676</b>



## 8. MOVEMENT OF EQUITY (continued)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Convertible Capital reserve	Convertible bonds reserve	Exchange reserve	Statutory reserve	Share option reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>For the three months ended</b>											
<b>30 June 2015</b>											
At 1 April 2015 (audited)	10,368	583,562	6,996	-	(840)	766	63,930	(102,284)	562,398	21,970	584,368
Loss for the period	-	-	-	-	-	-	-	(36,960)	(36,960)	2,283	(34,677)
<b>Total other comprehensive loss:</b>											
<i>Items that may be reclassified subsequent to profit or loss:</i>											
Exchange difference on translation of foreign subsidiaries											
	-	-	-	-	(662)	-	-	-	(662)	(369)	(1,031)
Total comprehensive loss for the period	-	-	-	-	(662)	-	-	(36,960)	(37,622)	1,914	(35,708)
<b>Transaction with owners:</b>											
<i>Contribution and distributions</i>											
<i>Recognition of share-based compensation cost</i>											
	-	-	-	-	-	-	13,490	-	13,490	-	13,490
<i>Issue of convertible bonds</i>											
	-	-	-	130,690	-	-	-	-	130,690	-	130,690
<i>Conversion of convertible bonds</i>											
	1,677	313,838	-	(130,690)	-	-	-	-	184,825	-	184,825
<b>At 30 June 2015 (unaudited)</b>	<b>12,045</b>	<b>897,400</b>	<b>6,996</b>	<b>-</b>	<b>(1,602)</b>	<b>766</b>	<b>77,420</b>	<b>(139,244)</b>	<b>853,781</b>	<b>23,884</b>	<b>877,665</b>

## 8. MOVEMENT OF EQUITY *(continued)*

### <Remark 1>

In accordance with the relevant laws and regulations in Thailand, OCG Thailand is required to appropriate not less than 5% of its net profit to the statutory reserve upon each dividend distribution, until the statutory reserve reaches 10% of its registered authorised capital. The statutory reserve is not available for dividend distribution.

### <Remark 2>

On 7 June 2016, the Company cancelled a total of 16,590,000 shares of the Company which had been repurchased on the Stock Exchange during the year ended 31 March 2016. Upon the completion of cancellation of shares, the issued shares of the Company were decreased from 1,452,639,159 shares to 1,436,049,159 shares and the registered share capital of the Company were decreased from approximately HK\$14,526,000 to approximately HK\$14,360,000.

## 9. EVENTS AFTER THE REPORTING PERIOD

- (a) In July 2016, the Company entered into the subscription agreements with three independent third parties to subscribe bonds with coupon interest rate of 9% per annum (the "First Bonds") in the principal amount of US\$32 million (equivalent to approximately HK\$248 million) and convertible bonds with coupon interest rate of 4% per annum (the "First Convertible Bonds") in the principal amount of US\$8 million (equivalent to approximately HK\$62 million) respectively, which will mature on the third anniversary of the issue date of the First Bonds and the First Convertible Bonds. Based on the initial conversion price of HK\$1.90 per share, the holder of the First Convertible Bonds could convert into maximum of 32,631,578 ordinary shares of the Company in any time on or after the date of issuance of the First Convertible Bonds up to and inclusive of the maturity date. The subscription agreement was completed on 1 August 2015. The net proceeds from the First Bonds and the First Convertible Bonds were approximately US\$39.3 million (equivalent to approximately HK\$305 million). The net prices per conversion share under the First Convertible Bonds to be issued are approximately HK\$1.87. Details of the subscription of First Bonds and First Convertible Bonds including their major terms are set out in the announcement of the Company dated 31 July 2016.
- (b) In August 2016, the Company entered into the further subscription agreements with an independent third party to subscribe bonds with coupon interest rate of 9% per annum (the "Second Bonds") in the principal amount of US\$16 million (equivalent to approximately HK\$124 million) and convertible bonds with coupon interest rate of 4% per annum (the "Second Convertible Bonds") in the principal amount of US\$4 million (equivalent to approximately HK\$31 million), respectively, which will mature on the third anniversary of the issue date of the Second Bonds and the Second Convertible Bonds. Based on the initial conversion price of HK\$1.90 per share, the holder of the Second Convertible Bonds could convert into a maximum of 16,315,789 ordinary shares of the Company, in any time on or after the date of issuance of the Second Convertible Bonds up to and inclusive of the maturity date. Completion of the subscription of Second Bonds and the Second Convertible Bonds is subject to fulfillment or waiver of the conditions precedent set out in the agreement. Details of the subscription of Second Bonds and Second Convertible Bonds including their major terms are set out in the announcement of the Company dated 2 August 2016.
- (c) In July 2016, the Company entered into an agreement with an independent third party (the "JV Partner") to form Massnet Microsoft Company (Chongqing) Limited ("Massnet", English translation of 重慶市眾網小額貸款有限公司 for identification purpose only) to be principally engaged in internet microcredit business in the PRC. Pursuant to agreement, the registered capital of Massnet will be RMB300,000,000. The Company and the JV Partner will contribute RMB270,600,000 and RMB29,400,000 respectively representing 90.2% and 9.8% of the registered capital of Massnet. Massnet shall account for as a subsidiary of the Company.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group has been engaged in the following businesses during the three months ended 30 June 2016 (the “Review Period”):

The Company aims to offer a full suite of payment-focused e-commerce services to merchants and consumers, covering prepaid card payment, electronic payment, credit card acceptance, prestige benefit programs, e-commerce and trade financing. For the three months ended 30 June 2016, the Company continues to develop and experience solid growth in all of its core strategic business areas, namely 1) prepaid cards and internet payment services; 2) prestige benefits program; 3) e-commerce and trade financing, 4) card acceptance in Thailand and 5) investment.

For prepaid cards and internet payment services business, the Company controls one of six payment service licences for nationwide prepaid cards and internet payment services in the PRC. This licence enables us to become one of the few companies that can manage and operate large-scale countrywide prepaid programs in the PRC. In the three months ended 30 June 2016, this segment has continued to contribute to our profit growth. We are also working on a number of initiatives which will transform our payment business into a complete internet-based ecosystem.

Through prestige benefits business, the Company designs, sells, and manages benefits packages to banks and card issuing organisations which will in turn offer the packages to their own premium members of cardholders. There is natural synergy between payment and benefits products businesses. Both payment and benefits products are essentially e-commerce services that help merchants to better market their goods and services, while at the same time offer consumers a more convenient and interactive consumption experience. The Company’s prestige benefits products have been steadily integrated with other businesses of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS REVIEW *(continued)*

For e-commerce and trade financing business, the Company has continued to focus on the provision of supply chain financing for other e-commerce trading companies. The Company is now offering lending services along the supply chain to facilitate the trading and payment process, and help upstream suppliers receive payments more efficiently. Instead of profiting from the price difference of the traded goods, the Company now charges interest rates or service fees on the credit services provided to the entire supply chain. This re-adjustment of strategic focus is closely in line with the Group's long-term strategy of becoming a comprehensive internet finance platform. The Company can offer micro-credit and lending services to not only trading companies, but also small businesses and individuals, while leveraging on the Company's small-value, high-frequency payment businesses to provide data and statistics for credit analysis and risk management.

For card acceptance business in Thailand, the transaction volume handled by the Group in Thailand during the Review Period was approximately Thai Baht ("Baht") 6,736 million (approximately HK\$1,496 million), represent a decrease of approximately Baht 979 million or 13% from the same period of last year. The Group was exploring new merchants for a more in-depth development of our business in Thailand. Furthermore, the Group was setting up the indirect system host connection with UnionPay International ("UPI") for our UnionPay card acceptance business based in Thailand as requested by UPI. The indirect system connection is developed to enhance the existing direct system connection established earlier with UPI. The migration from direct connection to indirect connection is expected to be completed in second half of 2016.

In the meantime, we continue to evaluate strategic investment into businesses in industries that are related to our core business, such as payment, technology, financing and internet finance. We expect such investments to not only reap monetary rewards, but also create synergy for the Group's wider business eco-system.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BUSINESS OUTLOOK

For prepaid cards and internet payment business, we will continue to seek major near-term breakthroughs for our electronic payment in different areas including tourism, e-commerce, healthcare to public transportation. We are also evaluating several strategic options, such as investment and/or acquisitions that can rapidly realize our strategic goals.

For prestige benefits program, we will further integrate this business segment into other business segments of the Company and further combine our prepaid and internet payment products, especially in tourist “payment + benefit” business in Singapore and South Korea. In the long term, we will introduce electronic benefits that can run smoothly on mobile platforms and will integrate more seamlessly with our electronic payment solutions.

For e-commerce and trade financing business, the Company will further develop the financing and lending side of the e-commerce business. By establishing an online micro-credit business in Chongqing, we will further integrate e-commerce and trade financing business with the internet finance business. We expect our new projects and collaborations in the lending industry will further utilize our experience in payments and e-commerce business and consolidate the Group’s position as an integrated payment service and internet finance service provider.

For card acceptance business in Thailand, we will put more resources into the promotion and marketing campaigns in order to boost up the revenue generated from that sector. Furthermore, we have been working with UPI to launch UnionPay Quickpass/contactless payment services to both domestic and visiting UnionPay cardholders as soon as practicable in 2016/2017, and will endeavor to further simplify the payment process for Chinese tourists in Thailand with a more comprehensive payment approach. We are also studying the feasibility to implement the UnionPay online payment for the Thai market, in order to further strengthen our local market leadership with diversified payment platforms by UnionPay. With the migration from traditional card acquiring/acceptance business mode to innovative financial technology business platform, we are currently seeking for funding as we expect there exists a need of a significant investments in information technology relating to transaction management system and the connection with UPI, for development of a smarter and sophisticated point-of-sales (“POS”) terminals for ease of payment and for building a quality team of information technology professionals.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **BUSINESS OUTLOOK** *(continued)*

For investment business, we will continue to search for financial investment opportunities in the Company's related industries or markets in order to enhance capital returns and to facilitate future growth of our core business segments.

## **FINANCIAL REVIEW**

### **REVENUE**

The e-commerce and trading financing services business, the card acceptance transaction fee income and the foreign exchange rate discount income from the card acceptance business in Thailand, the prepaid cards and internet payment business and the prestige benefits business all contributed to the growth of the total revenue of the Group for the Review Period. Total revenue of the Group for the Review Period amounted to approximately HK\$106 million, of which approximately HK\$20 million was attributed to the e-commerce and trading financing services business, approximately HK\$37 million was attributed to the prepaid cards and internet payment business, approximately HK\$24 million was attributed to the card acceptance business in Thailand and approximately HK\$25 million was attributed to the prestige benefits business respectively.

The income generated from the prepaid cards and internet payment business and e-commerce and trading financing services business was driven by the increasing volume of prepaid cards and internet payment and cross-border e-commerce trading activities. The revenue of prepaid cards and internet payment business and e-commerce and trading financing services business for the year amounted to approximately HK\$57 million, representing 54% of total revenue of the Group.

For the card acceptance business, revenue was dropped by approximately 19% as compared with the same recorded in the corresponding period of last year. The decrease was mainly resulted from the keen competition in the card acceptance business in Thailand and the devaluation of Baht during the Review Period.



## **FINANCIAL REVIEW** *(continued)*

### **COST OF GOODS SOLD/COST OF SERVICES RENDERED**

Total cost of goods sold and cost of services rendered for the Review Period amounted to approximately HK\$56 million, representing an increase of approximately 3% as compared with the same recorded in the corresponding period of last year. Cost of goods sold for the e-commerce and trading financing services business represents the cost for goods traded. The cost of service rendered comprised the information network cost and costs of licence fee of the card acceptance business in Thailand. The increase in cost of goods sold and cost of services rendered was mainly attributed to the introduction of the prestige benefits business in July 2015.

### **GENERAL ADMINISTRATIVE EXPENSES**

The general administrative expenses of the Group for the Review Period were approximately HK\$51 million, representing an increase of approximately 41% as compared with the same recorded in the corresponding period of last year. The increase was primarily attributable to an increase in overall staff costs, including the recognition of share-based compensation cost of approximately HK\$10.6 million and director's remuneration, and the operating lease charges on premises.

### **SELLING AND DISTRIBUTION COSTS**

The selling and distribution costs for the Review Period amounted to approximately HK\$7 million, representing a decrease of approximately 6% as compared with the same recorded in the corresponding period of last year. The decrease was mainly due to the decrease in overseas travelling expenses of the Group.

### **FINANCE COSTS**

The finance costs for the Review Period amounted to approximately HK\$0.3 million, representing a decrease of approximately 95% as compared with the same recorded in the corresponding period of last year. The decrease was mainly due to the decrease in interest expense on convertible bonds and interest expense from secured interest bearing borrowings.



## **FINANCIAL REVIEW** *(continued)*

### **PROFIT FOR THE PERIOD**

During the Review Period, the Group reported a net profit attributable to equity holders of the Company amounted to approximately HK\$1.3 million, representing an increase of approximately 103% as compared with the same recorded in the corresponding period of last year. Basic earnings per share was approximately 0.09 HK cents compared to basic loss per share of 3.47 HK cents in the corresponding period of last year.

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2016, the interests of the Directors and chief executive of the Company in the shares, underlying shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(a) Long positions in ordinary shares of HK\$0.01 each of the Company ("Shares")

Name	Capacity	Number of Shares	Percentage of shareholding
Dr. Cao Guogi ("Dr. Cao")	Corporate – Interest of controlled corporation <i>(Note 1)</i>	62,890,000	4.38%
	Beneficial owner <i>(Note 2)</i>	11,000,000	0.77%
	Interest of spouse <i>(Note 3)</i>	1,370,000	0.10%
Mr. Fung Weichang ("Mr. Fung")	Beneficial owner <i>(Note 2)</i>	2,000,000	0.14%
Mr. Zhang Huaqiao ("Mr. Zhang")	Beneficial owner	6,460,000	0.45%
	Beneficial owner <i>(Note 2)</i>	26,000,000	1.81%
Mr. Xiong Wensen ("Mr. Xiong")	Beneficial owner <i>(Note 2)</i>	13,600,000	0.95%
Mr. Song Xiangping ("Mr. Song")	Beneficial owner <i>(Note 2)</i>	5,000,000	0.35%

*Notes:*

- These 62,890,000 Shares were held by Probest Limited ("Probest") which in turn is wholly owned by Dr. Cao. As Dr. Cao is the controlling shareholder of Probest, he is deemed to be interested in these 62,890,000 Shares held by Probest under the SFO.
- These Shares represent the options of shares granted to Dr. Cao, Mr. Fung, Mr. Zhang, Mr. Xiong and Mr. Song pursuant to the Company's share option scheme. Accordingly, they are deemed to be interested in these Shares under the SFO.
- These 1,370,000 Shares were held by Ms. Zheng Lu who is the wife of Dr. Cao. Accordingly, Dr. Cao is deemed to be interested in these 1,370,000 Shares held by Ms. Zheng Lu under the SFO.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)*

### **(b) Associated corporations**

Save as disclosed above, as at 30 June 2016, so far as is known to any of the Directors or the chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the SFO) 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the Review Period, the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and in the share option scheme of the Company, at no time during the Review Period was the Company, any of its subsidiaries, its associated companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).



## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO**

As at 30 June 2016, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

### **The Company**

#### *Long positions in Shares*

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Percentage of shareholding</b>
LJF Payment Company Limited	Beneficial owner	184,210,000	12.83%
Tian Li Holdings Limited ("Tian Li") (Note 1)	Beneficial owner	174,500,000	12.15%
Mr. Cheng Nga Ming ("Mr. Cheng")	Corporate – Interest of controlled corporation	174,500,000	12.15%

Save as disclosed above, as at 30 June 2016, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any 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 Divisions 2 and 3 of Part XV of the SFO.

#### *Note:*

1. Tian Li is a company owned as to 70% and 30% by Mr. Cheng and Ms. Cheng Nga Yee ("Ms. Cheng") respectively. Ms. Cheng is the sister of Mr. Cheng. As Mr. Cheng is the controlling shareholder of Tian Li, he is deemed to be interested in these Shares held by Tian Li under the SFO.

## **COMPETING INTERESTS**

During the Review Period, none of the Directors or the controlling shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

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

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

## **CORPORATE GOVERNANCE CODE**

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies and directions for the Group with a view to developing its business and enhancing its corporate value. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for approval by the Board before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. During the Review Period, the Company has complied with all the code provisions as set out in Appendix 15 to the GEM Listing Rules.



## **CORPORATE GOVERNANCE CODE** *(continued)*

Besides, as part of the corporate governance practices, the Board has established a nomination committee, a remuneration committee, an audit committee, an internal control committee and a compliance committee. The Board is responsible for developing and reviewing the Group's policies and practices on corporate governance and reviewing and monitoring the training and continuous professional development of our Directors. The internal control committee is vested with the responsibility of reviewing and monitoring the training and continuous professional development of the Group's senior management whilst the compliance committee is responsible for developing, reviewing and monitoring the code of conduct applicable to our Directors and the Group's employees and reviewing the Company's compliance with Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules and the disclosure in the Company's Corporate Governance Report.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules as the code of conduct regarding the Directors' securities transactions in securities of the Company. Having made specific enquiry of all Directors, the Company not aware of any non-compliance with the required standard of dealings as set out in the adopted code of conduct regarding Directors' securities transactions from 1 April 2016 to 30 June 2016.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises Dr. Yuan Shumin, Mr. Lu Dongcheng and Mr. Wang Yiming, all of whom are independent non-executive Directors. Dr. Yuen Shunmin has been appointed as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are (i) to review the annual report and accounts, half yearly reports and quarterly reports and provide advice, comments thereon to the Board and (ii) review and supervise the financial reporting process and internal control system of the Group.

The Group's unaudited quarterly results for Review Period have been reviewed by the Audit Committee, which was of the opinion that such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures had been made.

On behalf of the Board

**Zhang Huaqiao**

*Chairman*

Hong Kong, 12 August 2016

*As at the date of this report, the Board of Directors of the Company comprise five executive Directors, namely Mr. Zhang Huaqiao, Dr. Cao Guoqi, Mr. Fung Weichang, Mr. Xiong Wensen and Mr. Song Xiangping and four independent non-executive Directors, namely Mr. Wang Yiming, Mr. Lu Dongcheng, Dr. Yuan Shumin and Dr. Zhou Jinhuang.*