# GINSMS INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Three Months ended June 30, 2012 and 2011**

**3**

**Prepared August 28, 2012**

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## SECTION 1.1:DATE AND GENERAL INFORMATION

This management's discussion and analysis ("MD&A") of GINSMS ("GINSMS" or the "Company") has been prepared by management and should be read in conjunction with the unaudited consolidated financial statements and related notes thereto of the Company for the period ending June 30, 2012 which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Specifically they have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. The unaudited interim condensed consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2012 which have been prepared in accordance with IFRS. The Company's Audit Committee has reviewed and approved this MD&A.

This MD&A was prepared as of August 28, 2012. Additional information regarding the Company is available on SEDAR at www.sedar.com. All monetary amounts set forth in the MD&A are expressed in Canadian dollars, except where otherwise stated.

### Caution Regarding Forward-Looking Information

Certain information included in this MD&A may contain forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "believe", or "continue" or the negative thereof or variations thereon or similar terminology. These statements are not historical facts, but reflect management's current beliefs and are based on information currently available to management regarding future results and events. Particularly, these forward-looking statements are based on management's estimate of future events based on technological advances relating to the Company's services, current market conditions and past experiences of management in relation to how certain contracts will affect revenues. Forward-looking statements, by their very nature, involve significant risks, uncertainties and assumptions.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to dependence on major customers ,system failures, delays and other problems, increasing competition, security and privacy breaches, dependence on third-party software and equipment, adequacy of network reliance, network diversity and backup systems, loss of significant information, insurance coverage, capacity limits, rapid technology changes, market acceptance, decline in volume of attractions, retention of key members of the management team, success of expansion into Chinese markets, credit risk, consolidation of existing customers, dependence on required licenses, Hong Kong's economy and politics, conflicts of interest and residency of directors and officers. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the Company cannot assure the reader that actual results will be consistent with these forward-looking statements.

In particular, forward-looking statements include the following assumptions:

- the Company’s belief that the availability of 3G services in China will boost the demand for data related services
- the Company’s belief that its IOSMS technology offers the best alternative for efficient and low-cost delivery of SMS as it allows businesses and organizations to reach mobile telephone users via its current SMS platform without having to build a new web-based gateway;
- management’s belief that it is able to maintain a relatively stable pricing for customers
- management’s belief that the Company is able to generate sufficient amounts of cash to fulfill the working capital requirements of its present operations and
- management’s belief that, notwithstanding unforeseen events, based on past experience, there is a certain level of short term predictability in regard to SMS traffic going through GINSMS’ platform in Hong Kong and it is therefore reasonable to expect management to extrapolate on traffic numbers because of this from time to time.

These forward-looking statements are made as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by law. Accordingly, readers should not place undue reliance on the forward-looking statements. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

## Preface

GINSMS Inc. was incorporated on March 20, 2009 and owns through its wholly-owned subsidiary, Global Edge Technology Ltd. (“GET”), all of the issued and outstanding shares of GIN International Ltd. (“GIN”). GIN is a technology services company, focused on providing inter-operator short messaging services (“IOSMS”) to mobile telecom operators in Hong Kong. GIN was founded in 2002 and received a public non-exclusive telecommunications service license (“PNETS”) from the Office of the Telecommunications Authority (“OFTA”), the governing body for the telecommunications sector in Hong Kong, to provide IOSMS in Hong Kong.

IOSMS is a short message services (“SMS”) gateway providing connections between all mobile and fixed line operators. The gateway identifies the recipient’s operator ID and delivers the message to the corresponding operator’s SMS gateway. IOSMS’ function is to identify and deliver an SMS correctly. GINSMS has agreements with various telecommunications operators in Hong Kong. These operators are charged a fee based on traffic relayed through GIN’s IOSMS gateway.

## SECTION 1.2:OVERALL PERFORMANCE – DESCRIPTION OF THE BUSINESS

The Company is dedicated to becoming a significant IOSMS company in key regions of Asia, mainly Hong Kong and China, through its hub centre located in Hong Kong. In late 2008, GIN carried out a series of system upgrades to improve business efficiency and system capability. The new system became fully operational in the first quarter of fiscal year 2010 and is capable of handling 10 times as much traffic as compared to the previous IOSMS system. The acquisition of this new system was funded through internally generated funds.

After raising approximately $1.7 million in December 2009 through an Initial Public Offering (“IPO”) of common shares, the Company has predicated on capturing a growing share of the Hong Kong market and penetrating the China market for inbound traffic into the country. With the formation of a Wholly-Owned Foreign Enterprise (“WOFE”) in China in July 2010, the Company has positioned itself to benefit from the advantages and the flexibility such a vehicle offers to expand into the China market either directly or through partners or through acquisitions. On July 22, 2010, the Company opened an office in Guangzhou**,** China and in so doing, acquired some equipment for the office. Capturing additional market share in Hong Kong, however, has proven to be more difficult than expected because of aggressive pricing on the part of Company’s competitor. More efforts will therefore be devoted toward growth through mergers and acquisitions via the WOFE or as is now the case with the planned acquisition of Inphosoft (see information below) more directly, in international markets.

There are only two IOSMS hubs in Hong Kong, namely GINSMS and CITIC Telecom International (:CITIC”) (formerly CITIC 1616 Holdings Limited). CITIC is a subsidiary of CITIC Pacific Limited, a large and strongly capitalized public company with a large portfolio of diversified businesses operating around the world. GINSMS’ market share over the past several years has generally declined due to CITIC’s strong human and financial resources. However, GINSMS has been able to operate profitably for the most part since its formation in 2002 but starting in fiscal 2011 when expenses relative to the acquisition of Inphosoft started to accumulate, combined with the recent decline in SMS traffic, particularly in the last two quarters of fiscal 2012, the Company reported losses both in fiscal 2011 and fiscal 2012 Starting in 2010, however, when traffic started to decline due to the emergence of web-based services, the Company began to experience losses as margins could not compensate for the drop in traffic. GINSMS’ customers include all the mobile operators and a major fixed line operator in Hong Kong.

GINSMS has always maintained a close relationship with its customers who find substantial benefits in routing SMS through the two hubs in spite of the dominating position of our competitor. In the past, however, management of GINSMS’ predecessor company had not been aggressive in the marketing of its IOSMS platform due to limited financial resource. Given a strong expansion of global SMS transmission and taking into account the opportunities brought about by the coming on stream of 3G technology and the potential of this for value-added services (VAS), management had planned to increase its attention on marketing and enhancing the quality of services. Expansion through VAS, however, has proven more difficult than predicted. One new platform, namely the K Matrix platform, a marketing tool acquired in January 2010 to create bulk SMS and email campaigns and a new revenue stream, had to be abandoned as the platform’s future economic benefits were deemed minimal. By the fourth quarter of the previous fiscal year, the investment in the K Matrix software had been fully expensed with a considerable impact on gross profit margin. K Matrix was supposed to work together in a compatible mode with the Nice Plan platform which had just been acquired in December 2009.

Along with the demise of the K Matrix platform but not because of it, the Nice Plan platform, as mentioned in the previous MD&A, also had to be abandoned. Nice Plan was expected to provide front-end, web interface extension of the Company’s SMS gateway allowing the Company to serve corporate clients over the internet. The Company later notified Nice Plan that it was not satisfied with the system and required Nice Plan to make certain modifications to the system software to optimize its performance. As at year end 2011, Nice Plan had yet to fully complete and deliver the requested modifications. Consequently, the Company requested and obtained a full refund of its deposit of HK$3,500,000 (CDN $436,899). Such refund was received by the Company in June 2011.

## SECTION 1.3: PERFORMANCE HIGHLIGHTS FOR THE THREE MONTHS ENDED JUNE 30, 2012

- A decline in revenue, an increase in professional fees, salaries and notably professional and consultancy fees due its planned acquisition of Inphosoft Group Pte Ltd, resulted in a loss of $48,035 for the three-month period ended June 30, 2012. This represents a drop of 391% compared to a net income of $16,509 for the corresponding quarter the previous year. EBITDA was also affected dropping by 146.6% to a negative $22,544.
- The decline in revenue combined with an increase in the cost of sales resulted in a drop in gross margin to 55% in the three-month period ended June 30, 2012, compared to 64.4% in the same quarter the previous year.
- Volume of inter-SMS traffic for the three-month period ended June 30, 2012 was down by 29.4% to 23,784,375 million from the same period the previous year. When compared to the previous quarter ended March 31, 2012, traffic is down 4.9%. GINSMS believes that this downward trend in SMS traffic is partly caused by cellphone users migrating to mobile instant messaging ("MIM") applications such as Research in Motion's BlackBerry Messenger ("BBM"), Apple's Imessage or other cross-platform mobile messaging applications such as WhatsApp. This migration enables smart phone users to send MIM using device data channel or WI-FI.
- Despite the loss for the last quarter, liquidity was only mildly affected with a working capital of $609,457 as at June, 30 2012, compared to a working capital of $614,907 as at March 31, 2012. With the substantial change in the balance between current assets and current liabilities, principally the result of accounts payable dropping by 70%, the working capital ratio improved from 5.1 times to one to 15 times to one.

## SECTION 1.4: RESULTS OF OPERATIONS

| **Financial Highlights** | **Three-month period ended June 30, (Unaudited)** | | **Year ended March 31, (Audited)** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Revenues $** | **157,089** | **181,810** | **686,934** | **785,615** |
| Cost of sales $ | (70,724) | (64,689) | (268,454) | (347,184) |
| Gross profit $ | 86.365 | 117,121 | 418,480 | 438,431 |
| Gross margin | 55.0% | 64.4% | 60.9% | 55.8% |
| **EBITDA** (1) **$** | **(22,544)** | **48,372** | **(345,348)** | **15,847** |
| EBITDA margin | (14.4)% | 26.6% | (50.3)% | 2.0% |
| **Net earnings $** | **(48,035)** | **16,509** | **(493,704)** | **(96,536)** |
| **Net earnings margin** | (30.6)% | 9.1% | (71.9)% | (12.3)% |

(1) EBITDA is a non-GAAP measure related to cash earnings and is defined for these purposes as earnings before income taxes, depreciation and amortization (share-based compensation included).

| | Consolidated as at June 30, 2012 (Unaudited)(1 | Consolidated as at March 31, 2012 (Audited)(1) |
|---|---|---|
| **Total assets $** | **749,000** | **883,952** |
| **Total liabilities $** | **47,515** | **157,577** |
| **Shareholders' equity $** | **701,485** | **726,375** |
| Net earnings (loss) per share $ | | |
| Basic | 0.00 | 0.00 |
| Diluted | 0.00 | 0.00 |

(1) The figures reported above are based on the consolidated interim financial statements of the Company which have been prepared in accordance with international Financial Reporting.

## Financial Review for the Three-Month Period ended June 30, 2012

The table below outlines the changes in the major categories:

| | Three month June 30, 2012 $ | Three month June 30, 2011 $ | Twelve month March 31, 2012 $ | Twelve month March 31, 2011 $ |
|---|---|---|---|---|
| Selling, General & Admin | 108,909 | 68,749 | 763,828 | 422,584 |
| Amortization | 26,381 | 25,092 | 103,077 | 105,906 |
| Net Earnings (loss) per share | | | | |
| Basic | (0.00) | (0.00) | (0.01) | 0.00 |
| Diluted | (0.00) | (0.00) | (0.01) | 0.00 |

Revenue for the first quarter ending June 30, 2012 was $157,089, representing a reduction of 13.6% over revenue of $181,810 reported during the same three-month period the previous year. The reduction in revenue is due essentially to a 29.4% drop in SMS traffic during the quarter, compared to the corresponding quarter the previous year. Note that in comparison with the immediately preceding quarter ending March 31, 2012, revenue is virtually unchanged dropping by only 1% as traffic continued to show a slight downward bias.

As explained in more detail below under "Summary of Quarterly Results", GINSMS believes that the lower trend in SMS traffic is partly caused by cellphone users migrating to MIM applications such as Research in Motion's BBM, Apple's Imessage or other cross-platform mobile messaging applications such as WhatsApp, IM+, Skype or Google Talk. This migration enables smart phone users to send MIM using device data channel or WI-FI. Given that most smart phone users now have inclusive data plans they can forward their MIM at a fraction of the cost required to send an SMS. Also, as reported in previous quarters, during the last two years, Hong Kong MNOs have been upgrading their networks from 2G to 3G causing network down time and interruptions. Finally, aggressive relay fee promotions adopted by GINSMS' competitors added additional downward pressure on SMS traffic volume (more details under Summary of quarterly results on page 10).

As mentioned in the previous MD&A, management anticipated this downward trend in SMS traffic and took steps to encourage SMS usage through, in part, the implementation of a new pricing structure and the introduction of bundled fees. GINSMS' management also believed that the addition of VAS to its service offering would create new revenue streams and stimulate growth. To this end, GINSMS initially decided in 2010 to acquire an e-mail marketing platform called K-Matrix eM developed by K-Matrix Group, a Hong Kong based developer of analytics tools and systems for gathering digital intelligence. This platform, however, eventually proved to be too onerous to implement and was later abandoned.

Following GINSMS’ decision not to proceed with the acquisition of the K-Matrix marketing platform, GINSMS initiated discussions with Inphosoft Group Pte Ltd (“Inphosoft”), a Singapore IT mobile middleware solutions developer for MNOs, financial institutions, media companies and enterprises which provides innovative mobile data services and solutions. These discussions led on January 12, 2012 to a definitive agreement between the two parties whereby GINSMS will, subject to regulatory and exchange approval, acquire 100% of the shares of Inphosoft for a consideration of $11.3 million (see section 1.16 for additional details about this transaction).

With the addition of Inphosoft, the Company will be able to immediately introduce a series of VAS that will enhance GINSMS’ product offering and transform it into an innovative revenue-powering mobile service and solution provider. GINSMS expects that the acquisition will boost its revenue in Hong Kong and create renewed interest on its IOSMS platform. The acquisition of Inphosoft will result in synergies and immediate cost savings as Inphosoft is expected to take over software maintenance work associated by the Company’s IOSMS platform.

**Comparisons of Traffic (Inter-SMS) and Total Charges for Past Eight Quarters**

| | Q2/FY11 | Q3/FY11 | Q4/FY11 | Q1/FY12 | Q2/FY12 | Q3/FY12 | Q4/FY12 | Q1/FY13 |
|---|---|---|---|---|---|---|---|---|
| Traffic | 34,007,952 | 32,678,329 | 31,431,278 | 33,701,750 | 34,371,080 | 28,232,252 | 25,013,562 | 23,784,375 |
| % variance | -.1.0% | -.96% | -.96% | 7.2% | 1.9%. | -17.9% | -17.9% | -4.9% |

Net income for the quarter dropped by 391% to a loss of $48,035.This is due to three main factors (i) a 3.5 fold increase in professional fees (ii) an increase of 67.4% in consultancy fees and (iii) an increase in salaries and wages of 40.2%. The length and complexity of the negotiations leading to the acquisition of Inphosoft and the requirements and conditions imposed by the TSXV on GINSMS to complete the acquisition of Inphosoft have resulted in a substantial increase in the professional fees of GINSMS over the past several quarters. No direct consultancy fees related to the planned acquisition were recorded during quarter ended June 30, 2012 but with the retention of the services of an agent, namely Raymond James Ltd, and a business valuation firm, namely BDO Canada LLP, as required by the TSX Venture Exchange, consultancy fees are expected to increase during the current quarter as they become due. Salaries and wages were up by 40.2%, the result principally of an increase in the workload due to the planned acquisition of Inphosoft, necessitating an adjustment in compensation. Finally cost of sales was up by 9.3% reflecting higher costs for the operation and maintenance of the IOSMS platform.

EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful indicator in measuring the Company’s ability to sustain long term viable operations while resources are used to grow the Company in a difficult environment. EBITDA for the three-month period ended June 30, 2012 amounted to a negative $22,544 compared to a positive EBITDA of $48,372 for the corresponding period the previous year. The incidence on net earnings resulting from the increase in both professional and consultancy as well as the increase in salaries and wages this past quarter is the main reason for the drop in EBITDA.

## SELECTED BALANCE SHEET INFORMATION

Total assets, including cash, accounts receivable, prepaid expenses, property and equipment and other assets as at June 30, 2012 totalled $749,000, representing a decline of 15.3% or $134,952 over the assets reported at the end of fiscal year 2012. Lower total assets reflect a 14.6% decline in current assets which amounted to $653,071, and a decline of 19.6% in fixed assets to $95,929 as further depreciation took effect. Lower current assets principally reflect a much lower cash position due in large part to the cost of the transaction for the acquisition of Inphosoft.

With the lower cash position, liquidity contracted, albeit moderately, with working capital dropping by $5,450 to $609,457 as at June 30, 2012. The working capital ratio improved to 15 times to one from 5.1 times to one, the result mainly of the drop off in accounts payable which amounted to $43,614, compared to $149,742 at year end.

Current assets continues to be well distributed with cash on hand representing 69.7%, accounts receivable 20.7% and prepaid expenses 9.6%.

Shareholders' equity as at June 30, 2012, stood at $701,485 and is down by 3.4% over fiscal year end 2012. With the loss for the year, the deficit increased by $48,035 to $656,832. With the improvement in the relation between the Canadian and the Hong Kong dollar, the comprehensive loss amounted to only $500, compared to a comprehensive loss of $23,645 at year end.

The table below sets out the Company's assets, liabilities and shareholders' equity based on the unaudited financial statements of the Company as at June 30, 2012, compared with the audited financial statements as at March 31, 2012.

| | June 30, 2012 (Unaudited) $ | March 31, 2012 (Audited) $ |
|---|---|---|
| **Current assets** | | |
| Cash | 455,010 | 548,752 |
| Accounts receivable | 135,204 | 146,238 |
| Prepaid expense | 62,857 | 69,659 |
| | 653,071 | 764,649 |
| **Fixed Assets** | | |
| Property & equipment | 95,929 | 119,303 |
| **Total Assets** | 749,000 | 883,952 |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 43,614 | 149,742 |
| Income taxes payable | - | - |
| | 43,614 | 149,742 |
| Future income tax liability | 3,901 | 7,835 |
| **Total liabilities** | 47,515 | 157,577 |
| **Shareholders' Equity** | | |
| Share capital | 929,386 | 929,386 |
| Reserve | 429,431 | 429,431 |
| Warrants | - | - |
| Accumulated comprehensive loss | (500) | (23,645) |
| Retained earnings | (656,832) | (608,797) |
| | 701,485 | 726,735 |
| **Total shareholders' equity** | 749,000 | 883,952 |

The following table summarizes the accounts payable and receivable overdue as at June 30, 2012 compared to March 31, 2012 and March 31, 2011

| **Accounts payable** | **Total $** | **30 Days $** | **31 to 90 Days $** | **Over 90 Days $** |
|---|---|---|---|---|
| As at June 30, 2012 | 43,614 | 5,305 | 28,090 | 10,218 |
| As at March 31, 2012 | 146,242 | 112,903 | 23,406 | 9,932 |
| As at March 31, 2011 | 67,116 | 55,984 | 1,477 | 9,655 |
| **Accounts receivable** | **Total $** | **30 Days $** | **31 to 90 Days $** | **Over 90 Days $** |
| As at June 30, 2012 | 135,204 | 135,204 | - | - |
| As at March 31, 2011 | 146,238 | 146,238 | - | - |
| As at March 31, 2011 | 148,277 | 60,851 | 87,280 | 146 |

Accounts payable arise in the normal course of business, and all amounts are due within three months or less of the statement of financial position date except for $10,218 as of June 30, 2012 (March 31, 2012 – $9,932) which are due between three and twelve months of the statement of financial position date. Income taxes payable are due within twelve months of the statement of financial position date.

Of significant individual accounts receivable as at June 30, 2012 approximately 75 percent was owed from four customers (March 31, 2011 – 74 percent was owed from four customers).

The Company manages its risk of not meeting its financial obligations through management of its capital structure, and annual budgeting of its revenues, expenditures and cash flows. The carrying amount of cash and cash equivalents and accounts receivable represents the Company's maximum credit exposure.

Management reviews the ageing of trade accounts receivable and other factors relating to the risk that customer accounts may not be paid in full and, when appropriate, reduces the carrying value to provide for possible loss. No loss has been charged to earnings in the current period.

## SECTION 1.5: SUMMARY OF QUARTERLY RESULTS

The quarterly information set forth below has been presented on the same basis as the audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes thereto.

| $ | Q2/FY11 | Q3/FY11 | Q4FY11 | Q1/FY12 | Q2/FY12 | Q3/FY12 | Q4/FY12 | Q1/FY13 |
|---|---|---|---|---|---|---|---|---|
| Sales | 202,065 | 195,221 | 179,542 | 181,810 | 182,444 | 164,028 | 158,652 | 157,089 |
| Operating Expenses* | 260,157 | 216,968 | 239,367 | 158,530 | 226,016 | 254,326 | 540,216 | 206,014 |
| Net Earnings Before Income Taxes | (58,092) | (21,747) | (59,825)) | 23,280 | (43,572) | (90.298) | (381,564) | (48,925) |
| Income Taxes | 8,686 | (13,057) | 791 | 6,771 | 621 | (9,725) | 14,325 | (890) |
| Net Earnings | (66,778) | (8,690) | (60,616) | 16,509 | (42,951) | (100,023) | (367,239) | (48,035) |
| Net Earnings (per share) | | | | | | | | |
| Basic | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Diluted | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

* Represent the sum of cost of sales selling, general and administrative expenses, amortization and unrealized foreign exchange.

GINSMS charges its customers based on the number of SMS sent, subject to monthly minimum bundle fees. On March 1, 2008, GIN reduced its charge per SMS but increased bundle fees to protect its business against idle or minimal usage system capacity. In the fourth quarter of fiscal 2011, there have been some changes in charges per SMS and bundle fees to encourage usage so that when SMS traffic reaches beyond a certain threshold the result is, expectedly, an increase in the level of net charges collected at no additional cost to operating the IOSMS platform.

| Comparisons of Traffic (Inter-SMS) and Total Charges for Past Eight Quarters | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q2/FY11 | Q3/FY11 | Q4/FY11 | Q1/FY12 | Q2/FY12 | Q3/FY12 | Q4/FY12 | Q1/FY13 |
| Traffic | 34,007,952 | 32,678,329 | 31,431,278 | 33,701,750 | 34,371,080 | 28,232,252 | 25,013,562 | 23,784,375 |
| % increase | -.1.0% | -.96% | -.96% | 7.2% | 1.9%. | -17.9% | -11.4% | -4.9% |

Traffic volume for the three months ended June 30, 2012 was 23,784,375, down by 29.4%.over the 33,701,750 reported for the corresponding period the previous year. As compared to the previous quarter, traffic was down 4.9%. Over the past several months traffic GINSMS was directly impacted by technical problems experienced by one of the mobile operators which affected the automatic re-routing of traffic as configured by a system of redundancy set to handle abnormal traffic burst. The problem has been fixed and the mobile operator has recently resumed normal traffic.

As can be seen from the above table, to date the new formula has not produced the anticipated results as traffic remained range-bound without momentum. As a result, it was not possible to break away from the lethargic level from which growth in revenue could be recorded. As previously reported, in addition to the slowdown in traffic caused by network upgrades, the Company was challenged by its much larger competitor who offered aggressive relay fee promotion which resulted in a drop in traffic principally from two of its largest customers. Special Day Traffic, as disclosed by the Office of the Telecommunications Authority in Hong Kong, which comprises New Year's Day, Chinese New Year's Day, Christmas and Valentine's day traditionally provided considerable boosts to traffic numbers but did not work their usual magic with traffic actually declining by 2.6% during the 2011 Chinese calendar year. In the previous four years, SMS traffic sent and received during these holidays, which account for about 20% of average monthly traffic, experienced double-digit growth well over 20%. By way of an example, on Valentine day in 2010, SMS sent increased to 28.3 million, up 54.2% compared to the previous year. In 2011, they declined by 7.1% from the previous year.

Recent key statistics from the Office of the Communications Authority shows that Hong Kong's usage base for both activated pre-paid and post-paid users, although up overall during the past calendar year, experienced one monthly decline in February this year and in the four-month period ended April, 2012 is up only 2.6%. This compares to a year-over-year increase in 2011 versus 2010 of 11.3%. For all of 2011, the average traffic sent and received per mobile customers averaged 46 and 55 messages respectively. This is down from 53 and 73 messages respectively for all of 2010. These statistics declined further in the first four months of the current year reaching a low of 38 and 45 respectively in April 2012.

As indicated in the previous MD&A, it is interesting to note that mobile data usage or the number of bytes in messages continues to increase unabated reaching 4.1 trillion bytes (2010 = 1.8 trillion bytes) or 508.7 million bytes (2010 = 295.6 million bytes) per customer. What those numbers reflect is that mobile customers are increasingly using SMS as a means of communication either through the hub (i.e. GINSMS hub) or any other gateways (see paragraph below), a trend over which the Company expects to be able to capitalize on once the merger is completed.

As a result of the above trend, GINSMS over the last two fiscal years has experienced a downward trend in SMS traffic going through its Hong Kong gateway and this is attributable in large part to the adoption of new smartphones by cell phone users and their subsequent migration to new mobile instant messaging ("MIM") applications such as Research in Motion's BlackBerry Messenger ("BBM"), Apple's Imessage or other cross-platform mobile messaging applications such as WhatsApp. This migration enables smart phone users to send MIM at a fraction of the cost required to send an SMS. GINSMS expects this downward trend in SMS traffic volume to continue. As a result, GINSMS has decided to diversify its service offering by adding VAS. To achieve this new product strategy GINSMS decided to team up with Inphosoft, a Singapore-based mobile data services and solutions provider.

Management considers Inphosoft to be a strategic fit for the Company. It operates in the same information and communication technology ("ICT") space with complementary marketing goals and technology. Through Inphosoft, the Company will be able to offer high-quality VAS to its customers and possibly attract new ones. GINSMS believes that the acquisition of Inphosoft will result in substantial enhancement to its marketing platform, increase the relevancy of its products and services offering, potentially allowing it to grab a greater share of the Hong Kong IOSMS market. GINSMS expects to benefit from Inphosoft's extensive experience in developing and managing large mobile portals, managing solutions for MNOs, financial institutions, media companies and others, and good understanding of the various cellphone and smartphone models and respective functionalities and characteristics. Most importantly, Inphosoft will allow GINSMS to expand its market immediately outside of Honk Kong and into South East Asia where Inphosoft's operations are based, and subsequently into North East Asia, including China.

## SECTION 1.6/7: LIQUIDITY & CAPITAL RESOURCES

GINSMS is in a good financial position with current assets of $653,071 as at June 30, 2012, compared to $764,649 as at March 31, 2012. Current assets are very well distributed with cash on hand of $455,010 – 69.7%, accounts receivable of $135,204 – 20.7% and prepaid expenses of $62,857– 9.6%. Other than trade payable of $43,614 and deferred income tax of $3,901, the Company has no debt.

Cash flow from operations during the quarter ended June 30, 2012 was a deficit of $25,749, compared to a positive $38,001 during corresponding period the previous year. The largest item affecting cash flow was the loss $48,035 for the period due to both lower revenue and an increase in expenses due largely to higher professional and consultancy fees incurred in preparation for the planned acquisition of Inphosoft. A negative working capital change of $83,649, attributable mostly to the substantial reduction in accounts payable, contributed to lowering the Company's cash position at the end of the quarter which stood at $455,010, compared to $548,752 at year end.

| | Three month ended June 30 2012 $ | 2011 $ | Twelve month ended March 31 2012 $ | 2011 $ |
|---|---|---|---|---|
| **Cash, beginning of period** | **548,752** | **422,871** | **422,871** | **444,271** |
| Net income (loss) for the period | (48,035) | 16,509 | (493,704) | (96,536) |
| Future income tax expense (recovery) | (4,095) | (3,600) | (16,197) | (38,309) |
| Amortization | 26,381 | 25,092 | 103,077 | 105,906 |
| Changes in non-cash working capital | (83,649) | 415,691 | 471,564 | 29,214 |
| **Cash flow from operations** | (25,749) | 38,001 | (363,095) | (28.939) |
| Financing activity | - | - | - | (22,661) |
| Investing activity | - | - | (1,385) | (7,287) |
| Effect of exchange rate | 15,656 | 4,551 | 18,797 | 8,273 |
| **Cash, end of period** | **455,010** | **881,114** | **548,752** | **422,871** |
| **Total Cash Used (Provided)** | **93,742** | **458,243** | **(125,881)** | **21,400** |

GINSMS is not subject to any liquidity risks associated with any financial instruments and any balance sheet items that might affect liquidity. The company does not have any long term debt, capital lease obligations, operating lease obligations, purchase obligations, or other long term obligations except for the lease of its office space, data lines and data centre facilities to host the IOSMS system totaling approximately $30,000 per month.

## SECTION 1.8: OFF BALANCE SHEET ARRANGEMENS

GINSMS does not utilize off-balance sheet arrangements.

## SECTION 1.9: TRANSACTIONS WITH RELATED PARTIES

The Corporation had the following related party transactions that have been recorded at their exchange amounts for the twelve-month periods ended March 31, 2012 and 2011:

| **Three month period ended June 30** | **2012** | **2011** |
|---|---|---|
| Consulting fees paid to a company controlled by a director or a shareholder | **$ 20,719** | $ 17,211 |
| Consulting fees paid to directors | **6,936** | 3,919 |
| Management salaries paid to an officer | **15,853** | 4,006 |
| Rent charged by a family member of a director | **7,652** | 7,841 |

Included in accounts payable and accrued liabilities is an amount of $4,234 (March 31, 2012 - $4,959) owed to a company controlled by a director.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## SECTIONS 1.10, 1.11, AND 1.12: NOT APPLICABLE

## SECTION 1.13: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CHANGES) AND BASIS OF PRESENTATIONAND ADOPTION OF IFRS

The significant accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are described in Note 3 of the audited consolidated financial statements for the year ended March 31, 2012. There have been no changes to our accounting policies since March 31, 2012.

## SECTION 1.14: FINANCIAL INSTRUMENTS

Financial instruments of GINSMS consist of cash, account receivables, accounts payable and accrued liabilities. GINSMS limits exposure to credit loss by placing its cash with high credit quality financial institutions.

The carrying amounts of cash, accounts receivable and other accounts payable and accrued liabilities approximate their values due to the short-term nature of these instruments. The functional currency of GET is the HKD. In accordance with the Canadian GAAP, the consolidated financial statements of GINSMS, which are prepared using the functional currency, have been translated into Canadian dollars. Assets and liabilities are translated at exchange rates applicable at the balance sheet dates; revenues and expenses are translated at the average exchange rates applicable during the period covered by the financial statements; and capital and statutory capital reserves are translated at historical exchange rates.

## SECTION 1.15: SHAREHOLDERS' EQUITY & DISCLOSURE OF OUTSTANDING SHARE DATA

**Share Capital**

| | **June 30, 2012** | **March 31, 2012** |
|---|---|---|
| Share capital | **929,386** | 929,386 |
| Warrants | **429,431** | 429,431 |
| Reserve | | |
| Accumulated comprehensive loss | **(500)** | (23,645) |
| Deficit | **(656,832)** | (608,797) |
| | **701,485** | 726,375 |

Shareholders' equity as at June 30, 2012 totaled $701,485 compared to $726,375 as at March 31, 2011.The decrease in shareholder's equity principally reflects the loss of $48,035 during the year partly offset by a foreign currency adjustment of $23,145. GINSMS is authorized to issue an unlimited number of common shares in its capital.

As of the date of this MD&A, GINSMS had 43,337,499 common shares issued and outstanding. Information on the Company's capital, including the numbers of common shares issued outstanding is detailed in the Company's audited consolidated financial statements which is available at www.sedar.com.

**Authorized**

Unlimited common shares, unlimited preferred shares, non-voting, non-participating, non-cumulative dividends, redeemable and retractable. The table below summarizes the issued and outstanding shares of the Company for the three months ended June 30, 2012 versus the March 31, 2012 year-end totals:

| Issued | June 30, 2012 | | March 31, 2012 | |
|---|---|---|---|---|
| | **Shares** | **Amount ($)** | **Shares** | **($)** |
| **Balance, beginning of period** | **43,337,499** | **929,386** | **43,337,499** | **929,386** |
| - Issued on initial public offering | | | | |
| - Issued to directors and officers | | | | |
| - Value assigned to warrants | | | | |
| - Share issue costs | | | | |
| **Balance, end of period** | **43,337,499** | **929,386** | **43,337,499** | **929,386** |

During fiscal year 2010, the Company completed its IPO by issuing 11,337,500 units at $0.15 per unit with each unit consisting of one common share and one-half of one common share purchase warrant. During the three month period ended December 31, 2011, 5,668,750 share purchase warrants exercisable into common shares at a price of $0.20 per share and 907,000 broker warrants exercisable into common shares at a price of $0.15 per share expired unexercised.

In addition, during fiscal year 2010, 233,333 shares were issued to directors and officers for gross proceeds of $35,000. No additional shares were issued during the first nine months of fiscal year 2012.

**Escrow**

As at June 30, 2012, the Company had 4,293,499 common shares subject to an escrow agreement whereby an additional 15% of the escrowed common shares will be released on each six-month anniversary of the listing date of December 18, 2009 thereafter unless otherwise permitted by the securities regulators. By December 18, 2012 all shares will have been released from escrow.

**Share purchase warrants**

A summary of warrants as at June 30, 2012 and March 31, 2012, and the changes during the periods then ended is as follows:

| | June 30, 2012 | March 31, 2012 |
|---|---|---|
| **Balance, beginning of the year** | **$ -** | $ 385,702 |
| Transfer to reserves on expiry of warrants | **-** | (385,702) |

| | | |
|---|---|---|
| **Balance, end of period** | **$ -** | $ - |

During the three month period ended December 31, 2011, 5,668,750 share purchase warrants exercisable into common shares at a price of $0.20 per share and 907,000 broker warrants exercisable into common shares at a price of $0.15 per share expired unexercised.

**Stock-based compensation plan**

On May 13, 2009, the Company adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the TSX Venture Exchange requirements, grant to directors, officers, employees and consultants of the Company and its subsidiaries, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the total issued and outstanding common shares of the Company, for a period of up to ten years from the date of the grant. It is at the discretion of the Board of Directors of the Company to determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.

Options granted to consultants performing investor relations activities will contain vesting provisions such that vesting occurs over at least twelve months with no more than ¼ of the options vesting in any three month period. The number of common shares reserved for issuance to any individual director or officer of the Company will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants, if any, will not exceed 2% of the issued and outstanding common shares.

If an optionee ceases to be a director, officer, or technical consultant of the Company for any reason other than death, the optionee may exercise options at the date of the cessation of the optionee's position or arrangement with the Company, provided that if the cessation of such position or arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

During the period ended March 31, 2012, the Corporation granted 1,375,000 options at $0.10 per share to directors and officers of the Corporation exercisable for a period of 10 years. The fair value is recognized as share-based compensation over the related vesting period of the options which is one half on each of the first two anniversary date of the options. On January 5, 2012, the Corporation passed a resolution making all 1,375,000 outstanding directors and officers options immediately vested and exercisable. All other terms of the options remained unchanged from the original grant.

| | | | **June 30, 2012** |
|---|---|---|---|
| | **Exercise Price** | **Number of options** | **Fair value recorded** |
| **Balance, March 31, 2011** | | **-** | **$ -** |
| Issued to directors and officers | $0.10 | 1,375,000 | 43,729- |
| Transfer on expiry of warrants | | - | 385,702 |
| **Balance, March 31 and June 30, 2012** | | 1,375,000 | $ 429,431 |

As of June 30, 2012, the weighted average remaining contractual life for the 1,375,000 options outstanding to directors and officers is 9.1 years with all options being fully exercisable.

## SECTION 1.16 BUSINESS ACQUISITION

The Corporation has announced that it has entered into an arm’s length share purchase agreement with Inphosoft Pte. Ltd. (“Inphosoft”), a private corporation governed by the laws of Singapore, to acquire all of the issued and outstanding shares of Inphosoft’s wholly owned subsidiary, Inphosoft Group Pte. Ltd. for a total consideration of $11.3 million. The purchase consideration consists of $0.4 million in cash (payable at closing), $0.4 million as a non-interest bearing promissory note (payable after the first anniversary date of closing) and the issuance of non-interest-bearing convertible debentures in the principal amount of $10.5 million (due three years after closing). This transaction will be accounted for as a business combination applying the acquisition method in which the net assets will be measured at their fair value at the date of acquisition and any excess of the purchase price over the fair value of the net assets acquired will be recognized as goodwill. The closing of the transaction is subject to a number of closing conditions.

Each debenture shall be issued for a term of three years and may not be converted at any time if as a result the debenture holder will hold more than 10% of the issued and outstanding shares or with any person or group acting jointly or in concert will hold more than 20% of the issued and outstanding common shares of the Corporation.

In addition, debentures in the principal amount of $4,000,000 will be deposited at closing in escrow and will be released upon the achievement of certain established profit levels over the next two years.

### Consulting agreement

A director of the Corporation, Mr. Raymond Richard, has entered on July 12, 2012 into a consulting agreement with the Company (the “**Consulting Agreement**”) for the purposes of providing consultancy services with respect to finalizing and supervising the documentation and regulatory filings required for the Closing of the Transaction. Under the Consulting Agreement, the Corporation has paid Mr. Richard a fee of $15,000 on July 31, 2012 and has agreed to pay Mr. Richard a monthly fee of $4,000 during the term of the Agreement. In addition, under the Consulting Agreement, Mr. Richard will be entitled to receive a one-time payment of $35,000 upon the Closing of the Transaction. The Corporation also agreed to pay a termination payment of $48,000 should the Corporation decide to terminate the Consulting Agreement

The Corporation is expected to complete a brokered private placement of $400,000 shortly after the transaction.

## +SECTION 1.17 OTHER MD&A REQUIREMENTS

### Risks and Uncertainties

Through its operations, the Company is exposed to various business risks and uncertainties which could have an impact on its capacity to achieve its growth objectives. Consequently, the following factors should be taken into account when evaluating the Company’s future prospects:

***Dependence on Major Customers***

The Company depends on major customers for a significant portion of its business and the loss of any of such customers could materially and adversely affect the Company, and hence the Company's business and financial position. A significant portion of GINSMS' revenue has been and is expected to continue to be, derived from a limited number of customers. Most of these customers are major operators of telecom services in the Asia Pacific region. There can be no assurance that GINSMS' major customers will continue to use GINSMS' services. In the event that any of these customers cease to use the services of GINSMS and GINSMS fails to replace such customer(s), the Company's business and financial position may be materially and adversely affected.

**System Failures, Delays and Other Problems**

System failures, delays and other problems could harm the Company's reputation and business, cause it to lose customers and expose GINSMS to customer liability. GINSMS' system architecture is contingent on its ability to process a high volume of transactions in a timely and effective manner. GINSMS may experience failures or interruptions of its systems and services, or other problems in connection with its operations as a result of, amongst others things:

- damage to or failure of its computer software or hardware or its infrastructure and connections;
- data processing errors by its systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events; and
- failure of GINSMS to adapt to rapid technological changes in the telecom industry.

If GINSMS cannot adequately ensure that its network services perform consistently at a high level or otherwise fails to meet its customers' expectations:

- it may experience damage to its reputation, which may adversely affect its ability to attract or retain customers for its existing services, and may also make it more difficult for GINSMS to market its existing or future services;
- it may suffer significant damage or expose itself to customer liability claims, under its contracts or otherwise, including the requirement to pay penalties relating to service level requirements in its contracts;
- its operating expenses or capital expenditures may increase as a result of corrective actions that GINSMS must perform;
- GINSMS' customers may reduce their use of GINSMS' services; or
- one or more of its significant contracts may be terminated early, or may not be renewed.

These or other consequences would adversely affect the Company's revenue and performance.

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- GINSMS' customers may reduce their use of GINSMS' services; or
- one or more of its significant contracts may be terminated early, or may not be renewed.

These or other consequences would adversely affect the Company's revenue and performance.

***Security and Privacy Breaches***

Security or privacy breaches may result in an interruption of service or a reduced quality of service, which could increase GINSMS' costs or result in a reduction in the use of GINSMS' services by its customers. GINSMS' systems may be vulnerable to physical break-ins, computer viruses, attacks by computer hackers or similar disruptive problems. If unauthorized users gain access to GINSMS' databases, they may be able to steal, publish, delete or modify sensitive information that is stored or transmitted on GINSMS' networks and which GINSMS is required by its contracts to keep confidential. A security or privacy breach could result in an interruption of service or a reduced quality of service. Confidential information internal to GINSMS may also be disclosed to unauthorized personnel who may use such information in a manner adverse to the interests of GINSMS. Hackers may attempt to “flood” the network, thereby preventing legitimate network traffic or to disrupt the connection between two machines, thereby preventing access to a service or preventing a particular individual from accessing a service. The Company may therefore be required to make significant expenditures in connection with corresponding corrective or preventive measures. In addition, a security or privacy breach may harm GINSMS’ reputation and cause its customers to reduce their use of GINSMS’ services, which could harm the Company’s revenue and business prospects. In addition, GINSMS’ revenue may be adversely affected by un-captured usage, in the event that GINSMS’ system is “hacked” into, resulting in transmissions that may not be detected by its billing system. Further, the increase in traffic as a result of such unauthorized “hacking” may slow or overload GINSMS’ transmission network, thereby adversely affecting the overall quality of services which GINSMS provides to its paying customers. GINSMS’ exposure to telecom security concerns is heightened as Hong Kong and Chinese laws relating to liability under such circumstances are relatively new. In addition, GINSMS does not carry “errors and omissions” or other insurance covering losses or liabilities caused by computer viruses or security breaches, which under such circumstances could mitigate damages that GINSMS may suffer. If GINSMS incurs any such losses or liabilities, the Company’s operating results, financial condition, business and prospects may be adversely affected.

***Adequacy of Network Resilience, Network Diversity and Backup Systems***

Inadequate network resilience, network diversity and backup systems may result in service disruptions. Any failure of GINSMS’ backup systems or any insufficiency in GINSMS’ redundancy capacity may disrupt GINSMS’ operations. GINSMS regularly reviews its network and assesses its vulnerability to such outside factors. However, there can be no assurance that GINSMS’ existing alternative routes and cable diversity will provide adequate backup for all types of service interruptions that may occur. Moreover, even with these contingency measures, service disruptions could last for a considerable period of time before complete service can be restored. This may cause customers to reduce their use of GINSMS’ services, which could harm the Company’s revenue and business prospects.

***Loss of Significant Information***

Loss of significant information may adversely affect the Company’s business. In cases of a failure of GINSMS’ data storage system, GINSMS may lose critical network or billing data, source code, proprietary production system designs or important email correspondence with its customers and suppliers.

***Decline in Volume of Transactions or Profit Margin***

A decline in the volume of transactions GINSMS handles or a decline in its profit margin may have an adverse effect on the Company’s operations results. Although GINSMS charges a minimum fee, GINSMS earns revenue mostly on a usage basis. As such, GINSMS is not protected against the potential adverse effect on its revenue of a decrease in the transaction volumes provided by its customers or pricing pressures imposed directly by its customers or indirectly by its competitors. In addition, if Hong Kong current licensing rules are abolished or changed to permit telecom operators to enter into peer-to-peer contractual agreements for direct links with their counterparts, or if the cost of using GINSMS’ services makes it uneconomical for a telecom operator to use GINSMS' services, GINSMS may experience a reduction in its business volume.

***Consolidation of GINSMS' Customers***

Consolidation among GINSMS' customers may cause GINSMS to lose transaction volume. As a hub-based service provider, the business of GINSMS is derived from exchange of voice and data transmission between telecom operators. Consolidations, mergers and acquisition activities among telecom operators typically reduce their need for interconnection services. Therefore, these types of corporate activities may cause GINSMS to lose transmission volume or may cause GINSMS to reduce per-transmission prices for its services.

***Failure to Develop, Enhance or Introduce New VAS***

If the Company fails to develop or introduce on a timely basis new VAS, its business will suffer. Rapid change in technology, short product life cycles, changes in customer requirements and evolving industry standards characterize the markets for the Company's products. The success of the Company depends on the Company's ability to timely develop and introduce innovative new VAS that gain market acceptance. The Company may not be successful in forecasting future customer requirements or in selecting, developing and marketing new products or enhancing the Company's existing products on a timely or cost-effective basis. Moreover, the Company may encounter technical problems in connection with its product development that could result in delayed introduction or its inability to introduce new products or product enhancements. Such cancellations or delays could result in a decrease in sales or a loss of customers, or both. The Company may also focus on technologies that do not function as expected or are not widely adopted. In addition, products or technologies developed by others may render the Company's products non-competitive or obsolete and result in a significant reduction in traffic volume from the Company's customers and the loss of existing and prospective customers.

***Competition***

The market for communications services is extremely competitive and rapidly changing. The Company faces competition from other providers of connectivity and value-added services, some of which are larger and may be better funded than the Company. In addition, certain telecom hubs based in Hong Kong and a few other Asian countries providing competing services have strong connections with Chinese telecom operators or are otherwise affiliated with other telecom operators. Moreover, in the areas of MVAS the Company is aware that some other companies are focusing significant resources in developing and marketing services that will compete with those of the Company. Although the Company is not a basic telecom service provider, it competes in some areas against telecom operators, communications software companies and system integrators which provide systems and services used by telecom operators to manage their networks and internal operations relating to inter-operator connections and other telecom transactions. In addition, competition also exists between certain of GINSMS' MVAS and the software developed in-house by its customers. Certain competitors may be able to respond to new or emerging changes in technology or customers' requirements more quickly than the Company. A number of the Company's current and potential competitors, such as CITIC Telecom International (formerly known as CITIC 1616 Holdings Ltd) and other major telecom operators in Hong Kong, Singapore and Taiwan may have greater name recognition and/or more extensive customer bases than GINSMS. Increasing competition could result in fewer customer orders, reduced revenue, reduced sales margins and loss of market share, any one of which could harm the business of the Company. Finally, customers may internally deploy services and technologies which may reduce or eliminate their demand for such services and technologies from third party providers including GINSMS and further increase competitive pricing pressure.

***Dependence on Third-Party Software and Equipment***

The failure of third-party software and equipment which GINSMS uses in its systems may cause interruptions or failures of its systems. In addition to the use of the internet and certain telecom networks maintained by broker carriers and other third parties for the transmission of data traffic, GINSMS also incorporates hardware, software and equipment developed by third parties into its systems. As a result, GINSMS’ ability to provide interoperability services depends in part on the continued performance and support of these third-party products. If these products experience failures or contain defects, and the third parties supplying these products fail to provide adequate remedial support, this may result in the interruption or unsatisfactory performance of GINSMS’ systems or services.

***Sufficiency of Insurance Coverage***

Property “all risks” insurance and public liability insurance do not cover cyber risks and data loss. The property “all risks” insurance and public liability insurance taken out by GINSMS do not cover certain damages or losses, and contain a number of liability exclusion clauses, including exclusions for:

- damage or loss relating to the use or misuse of the Internet or similar facility, such as unauthorized access or use;
- damage to or loss of data or software, in particular any detrimental change in data, software or computer programs that is caused by a deletion, corruption or deformation of the original structure, and any business interruption losses resulting from such damage or loss; and
- damage or loss resulting from an impairment in the function, availability, range of use or accessibility of data software or computer programs, and any business interruption loss resulting from such damage or loss.

As such, GINSMS may not be adequately indemnified or compensated for if it sustains any such loss or damage, which in turn may adversely affect the financial position of the Company.

***Capacity Limits***

Capacity limits on GINSMS’ network and application platforms may be difficult to project and GINSMS may not be able to expand or upgrade its systems to meet increasing demand. GINSMS’ business requires it to handle a large number of SMS transactions simultaneously. In order to manage growth in the number of such SMS transactions successfully, GINSMS needs to enhance its operational, management, financial, and information systems and controls continuously and effectively. Although GINSMS upgraded its IOSMS platform, it is difficult to predict when the capacity limits on GINSMS’ network and application platforms will be reached, given that the usage requirement of GINSMS’ services depends on the demand from the telecom operators or the telecom operators’ choice of a hubbing service provider. If GINSMS does not expand or upgrade its hardware and software quickly enough, it may not have sufficient capacity to handle the increasing traffic and this would limit the growth of its operations and improvement of its performance.

***Rapid Technological Changes***

Rapid technological changes may increase competition and render GINSMS' technologies, products or services obsolete or cause GINSMS to lose market share. The telecom industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. Such changes may adversely affect GINSMS' revenue. There can be no assurance that GINSMS can improve the features, functionality, reliability and responsiveness of its interoperability, infrastructure and other services to meet the changing demands of its customers towards new communications technologies. Similarly, the technologies that GINSMS employs may become obsolete or subject to intense competition from new technologies in the future. If GINSMS fails to develop, or obtain timely access to, new technologies, or if it fails to obtain the necessary licenses for the provision of services using these new technologies, GINSMS may lose its customers and market share, and its results of operations would be adversely affected.

***Market Acceptance at Desired Pricing Levels***

The Company's failure to achieve or sustain market acceptance at desired pricing levels may impact its ability to maintain profitability or positive cash flow. The Company's competitors and customers may cause the Company to reduce the prices it charges for its services which in turn could adversely affect the Company's profitability and cash flow. The primary sources of pricing pressure include:

- competitors offering competing services at reduced prices, or bundling and pricing services in a manner which makes it difficult for the Company to compete; and
- customers with a significant volume of transactions may have enhanced leverage in pricing negotiations with the Company;

GINSMS may not be able to offset the effects of all or any price reductions.

***Key Members of the Management Team***

The loss of any key members of the management team may impair the Company's ability to identify and secure new contracts with customers or otherwise manage its business effectively. The Company's success depends, in part, on the continued contributions of its senior management. Most of them are well experienced in the telecom industry and have in depth knowledge of various aspects of the development of a telecom business.

***Credit Risk of Accounts Receivable***

The Company is subject to credit risk in respect of its accounts receivable. GINSMS provides credit periods to its customers, which are calculated from the dates the invoices are issued by GINSMS to the dates of payment by the customers. Although GINSMS implements credit control policies and measures, GINSMS cannot assure that these measures are adequate in protecting GINSMS against material credit risks. GINSMS may provide services to customers who do not provide sufficient deposits, advance payments or bank guarantees for GINSMS' services.

Moreover, should GINSMS' customers be unable to pay in full for any reason, the Company's profit and cash flow will be adversely affected. Any delay in the payment by customers may also adversely affect the Company's operations and financial position. The Company may have to sustain legal costs in pursuing unsettled invoices, a process which is time-consuming and may be affected by a variety of factors including any counterclaim from such non-paying customers. Even if the Company obtains favourable judgments, enforcement of such judgments may take time and may not always be successful.

***Dependence on Required Licenses***

IOSMS in Hong Kong is a highly regulated business activity and requires licenses from the Hong Kong Telecommunications Authority ("**TA**"), without which GINSMS would be unable to operate. GINSMS is subject to the rules and regulations of the TA, which regulates the telecom industry in Hong Kong, and OFTA, which assists the TA in enforcing and administering the *Telecommunications Ordinance*. The TA's authority includes regulating and licensing telecom facilities and managing the radio frequency spectrum. If the TA determines that GINSMS has violated Hong Kong's telecom laws or regulations or the conditions of its licenses, the TA may suspend or cancel GINSMS' licenses or take other action detrimental to GINSMS. GINSMS is also subject to various other rules, laws and ordinances applicable to companies operating in Hong Kong, including, for example, laws relating to obscenity and privacy. If GINSMS is found to be in violation of these laws, it may face judgments or consequences detrimental to its business. In addition, the PNETS granted by OFTA to GINSMS are normally valid for one year, subject to renewal at the discretion of OFTA and compliance of all terms and conditions of the licenses. In the event that OFTA refuses to renew any of the existing licenses of GINSMS, GINSMS' ability to offer its services will be adversely affected. The Chief Executive in council of the OFTA may also cancel or suspend licenses if it considers that it is in the public's interest to do so. Moreover, if the TA changes its existing regulations or policies such as those governing interconnection or competition, including the requirement on GINSMS to obtain separate or further licenses for its existing operations or services, or to obtain licenses in respect of its future operations or services based on new communication technologies, the Company's results of operations, financial condition, business and prospects could be adversely affected. GINSMS may also incur extra costs in order to comply with technical specifications or other conditions resulting from any enacted or proposed changes in the applicable laws and regulations. As a result, the Company's financial condition, results of operations and/or prospects may be adversely affected. The business of the Company's customers is also subject to regulations. As a result, such regulations could indirectly affect the Company's business. As communications technologies and the telecom industry continue to evolve, the regulations governing the telecom industry may change. If this were to occur, the demand for the Company's services could change in ways that GINSMS cannot easily predict and may result in a decline in the Company's revenue.

***Hong Kong's Economy and Politics***

The state of Hong Kong's economy and politics may adversely affect the Company's performance and financial condition. The Company's primary facilities and operations are located in Hong Kong. Hong Kong is a special administrative region of the People's Republic of China with its own government and legislature. Under the *Basic Law* of Hong Kong, Hong Kong is entitled to a high degree of autonomy granted by the People's Republic of China under the principle of "one country, two systems". However, there is no assurance that Hong Kong will continue to enjoy its current level of autonomy from the People's Republic of China. If it does not, this could have a material adverse effect on the Company's business, results of operations and financial condition. The Hong Kong economy has experienced considerable volatility in the last decade. Hong Kong's primary economic sectors, such as real estate, retail and finance, are volatile. Although the economy has experienced growth since 2009, it is not certain whether such growth will be sustained. As GINSMS' operations are principally conducted in Hong Kong, its financial position and results of operations are and will be affected by the state of Hong Kong's economy, which in turn is subject to many different factors that are beyond the control of the Company. In particular, the economy of Hong Kong is significantly affected by the developments in China, the Asia-Pacific region and the United States. China's economy may experience negative economic developments, and other regional economies may also deteriorate. In any such circumstances, Hong Kong's economy and hence GINSMS' operating results, financial condition, business and prospects would be adversely affected. The Company also bears risks which involve matters arising out of evolving laws and policies in Hong Kong, any future imposition of special taxes or similar charges, and the risk that changes can occur in the government of Hong Kong and a new government may void or change the laws and regulations that the Company is relying on.

*Enforcement of Judgments and Residency of Directors, Officers and Others*

As a Hong Kong legal entity, GINSMS is subject to Hong Kong company law and regulations. For example, provisions for the protection of shareholder's rights and access to information contained in Hong Kong company law are less developed than those applicable to companies in other countries. Substantially all of the Company's assets, through its subsidiary GINSMS, are located in Hong Kong. Hong Kong does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgments of courts and as such, recognition and enforcement in Hong Kong of judgments of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgments rendered against the Company and/or its subsidiaries would likely not be enforceable in Hong Kong.
Mr. Man Kon (Jonathan) Lai, the Chairman of the Board of Directors of the Company, Mr. Paul Fung Yuen Law, director of the Company, Mr. Chun Tat (Leo) Ho, director of the Company, Mr. Kwok Kin Suen, Chief Executive Officer of the Company, and Koon Fai (Faith) Lam, Chief Financial Officer of the Company, reside outside of Canada. Although Messrs. Lai, Law, Ho, Suen and Lam have appointed Heenan Blaikie LLP as their agent for service of process in Canada, it may not be possible for investors to enforce judgements obtained in Canada against these individuals.

As British Virgin Island ("**BVI**") legal entities, the Company's subsidiaries, Global Edge Technology Ltd. and Redstone Resources Ltd., are subject to BVI company law and regulations. For example, provisions for the protection of shareholder's rights and access to information contained in BVI company laws are less developed than those applicable to companies in other countries. BVI does not have a treaty with Canada providing for the reciprocal recognition and enforcement of judgments of courts and as such, recognition and enforcement in BVI of judgments of a Canadian court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Although the rights of minority shareholders in the Company would be protected in Canada, judgments rendered against the Company and/or its subsidiaries would likely not be enforceable in BVI.

***Conflicts of Interest***

Certain directors and officers of the Company are also directors, officers, or shareholders of other companies that may operate in the same sectors as the Company. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict is required under the *Canada Business Companys Act* to disclose his interest and to abstain from voting on such matter.

**Segmented Information**

All of the Company's revenue and a majority of its expenses are generated and incurred in Hong Kong dollars ("HKD"), which minimizes the currency risk associated with the operations of its subsidiary. All of the assets and liabilities are also in HKD except for cash balances kept in Canada and those current liabilities incurred toward service providers in this country.

**Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company. As such, the Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms.

**Capital Disclosures**

The Company is required to disclose information about its capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any externally imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.