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PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 8047)

DISCLOSEABLE TRANSACTION INVOLVING THE ACQUISITION OF 51% EQUITY INTERESTS IN CHINA OPTIC COMMUNICATION TECHNOLOGY LIMITED

Financial adviser to the Company



INCUB Corporate Finance Limited

THE AGREEMENT

The Board is pleased to announce that on 25 January 2011 (after trading hours), the Purchaser entered into the Agreement with the Vendors and the Guarantors for the Acquisition. Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares. The Sale Shares represent 51% of the total issued share capital of the Target Company.

The Consideration is HK\$77,000,000, which shall be payable/satisfied by the Purchaser (i) as to HK\$20,000,000 in cash on Completion to the Vendors; and (ii) as to HK\$49,941,000 by procuring the Company to allot and issue the Consideration Shares at the Issue Price and credited as fully paid on Completion to the Vendors; and (iii) as to HK\$7,059,000 by procuring the Company to issue the Promissory Notes to the First Vendor on Completion.

* *For identification purposes only*

The Acquisition is subject to fulfillment of the conditions precedents as detailed in the paragraph headed “Conditions precedent” in this announcement. Upon Completion, the Company will be interested in 51% equity interests in the Target Company and the Target Company will be accounted for as an indirect non wholly-owned subsidiary of the Company.

IMPLICATION OF THE LISTING RULES

The Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

The Board is pleased to announce that on 25 January 2011 (after trading hours), the Purchaser entered into the Agreement with the Vendors and the Guarantors for the Acquisition.

THE AGREEMENT

Date: 25 January 2011 (after trading hours)

Parties:

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

Vendors: Keen Success Investments Limited;
Elite Option Limited; and
Big Well Investments Limited

Guarantors: Mr. Zou Meiyu, the ultimate beneficial owner of Keen Success Investments Limited;

Mr. Ho Wing Hang, the ultimate beneficial owner of Elite Option Limited; and

Ms. Tam Yuk Ching Jenny, the ultimate beneficial owner of Big Well Investments Limited

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, each of the Vendors and the Guarantors is Independent Third Party and is independent to each other.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares.

The Sale Shares represent 51% of the total issued share capital of the Target Company. As at the date of this announcement, the Target Company is owned as to 29% by the First Vendor, 18% by the Second Vendor, 16% by the Third Vendor and 37% by two Independent Third Parties. Upon Completion, the Target Company will be owned as to 51% by the Purchaser, 8% by the First Vendor, 4% by the Second Vendor and 37% by two Independent Third Parties.

Consideration

The Consideration is HK\$77,000,000, which shall be payable/satisfied in the following manner:

- i. as to HK\$20,000,000 by the Purchaser in cash on Completion to the Vendors, of which HK\$4,082,941.18, HK\$7,427,960.78 and HK\$8,489,098.04 will be paid to the First Vendor, the Second Vendor and the Third Vendor respectively;
- ii. as to HK\$49,941,000 by the Purchaser procuring the Company to allot and issue the Consideration Shares at the Issue Price and credited as fully paid on Completion to the Vendors, of which Consideration Shares in the principal amount of HK\$20,563,941.18, HK\$13,709,294.12 and HK\$15,667,764.71 will be allotted and issued to the First Vendor, the Second Vendor and the Third Vendor respectively; and
- iii. as to HK\$7,059,000 by the Purchaser by procuring the Company to issue the Promissory Notes to the First Vendor on Completion.

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

The Consideration was agreed between the Purchaser and the Vendors after arm's length negotiations.

The Consideration represents approximately 12.58 price-earnings multiples of the Profit Guarantee (as disclosed in the following section) and equity interests to be acquired in the Target Company (i.e. $\text{HK\$}12,000,000 \times 12.58 \times 51\% = \text{approximately HK\$}77,000,000$). The Directors considered that such 12.58 price-earnings multiples is a reasonable price-earnings ratio considering the prevailing price-earnings multiples of listed companies in Hong Kong engaged in production, distribution and installation of telecommunication equipment and optical fibers which is similar to the business of the Target Group ranging from approximately 15.26 to approximately 27.8.

In addition, having considered that (i) the business development and prospects of the Target Group in the medium to long term; (ii) the Profit Guarantee; (iii) in case if the Profit Guarantee is not fulfilled, the Consideration will be adjusted downwards; (iv) the price-earnings multiples of approximately 12.58 is lower than the prevailing market range as mentioned above; and (v) the arrangement of the Escrow

Promissory Note, the Directors consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

The cash portion of the Consideration is intended to be funded by the internal resources of the Group.

Conditions precedent

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

- (1) all necessary consents and approvals required to be obtained on the part of the Vendors and the Target Company in respect of the disposal of Sale Shares having been obtained;
- (2) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the acquisition of Sale Shares having been obtained;
- (3) there does not exist any matter, fact or circumstance which constitutes, or may constitute a breach of the warranties provided by the Vendors and/or the Guarantors and terms of the Agreement;
- (4) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (5) (if required) the passing by the Shareholders at the SGM to be convened and held of ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares;
- (6) the obtaining of a PRC legal opinion from the PRC legal adviser in form and substance satisfactory to the Purchaser in relation to the legality and validity in respect of the establishment and subsistence of the Shenzhen WFOE and Wuhan WFOE; and
- (7) the Purchaser being satisfied with the results of the due diligence review on the Target Group.

Conditions (1), (3) and (7) above are waivable by the Purchaser under the Agreement while all the other conditions are incapable of being waived. The Purchaser has no current intention to waive such conditions as at the date of this announcement. The Directors are of the view that the conditions (1), (3) and (7) above being waivable by the Purchaser under the Agreement is in the interest of the Company and its Shareholders as a whole after taken into account the rights to waive such condition(s) are solely granted to the Purchaser and allows the Purchaser to have more flexibility to proceed to Completion.

Completion

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

Upon Completion, the Company will be interested in 51% equity interests in the Target Company and the Target Company will be accounted for as an indirect non wholly-owned subsidiary of the Company. The Group will exercise majority control of the board of directors of the Target Group upon Completion. The Company does not have intention to change the board composition of the Company (none of the Guarantors will be appointed as Director) upon Completion.

Long stop date

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

PROFIT GUARANTEE

Pursuant to the Agreement, the First Vendor and the First Guarantor have covenanted and guaranteed to the Purchaser that, the audited consolidated net profit after taxation of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and to be audited by an accounting firm approved by the Purchaser for the financial year ending 31 December 2011 shall not be less than the Profit Guarantee of HK\$12,000,000.

Consideration Adjustment

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

$$\text{Shortfall} = (\text{Profit Guarantee} - \text{Actual Net Profit}) \times 51\%$$

For the avoidance of doubt, in case if there is loss for the Target Group, the profit shall be treated as zero and the Shortfall shall be:

$$\text{Shortfall} = \text{Profit Guarantee} \times 51\%$$

The Shortfall shall be set off against the Escrow Promissory Note. If the face value of the Escrow Promissory Note is insufficient to cover the Shortfall, the First Vendor shall pay to the Purchaser in cash within three (3) Business Days the remaining amount of the Shortfall.

If the Profit Guarantee is fulfilled, the Escrow Promissory Note will be released to the First Vendor in accordance with the escrow agreement to be executed by the Company, the First Vendor and the Purchaser.

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

CONSIDERATION SHARES

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

The Issue Price represents:

- (i) a discount of approximately 19.13% to the closing price of HK\$0.115 per Share as quoted on the Stock Exchange on 25 January 2011, being the date of the Agreement;
- (ii) a discount of approximately 19.13% to the average of the closing prices of HK\$0.115 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 24 January 2011, being the last trading day immediately prior to the entering into of the Agreement; and
- (iii) a discount of approximately 5.78% to the average of the closing prices of HK\$0.0987 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 24 January 2011, being the last trading day immediately prior to the entering into of the Agreement; and
- (iv) a discount of approximately 29.17% to the net asset value per Share of HK\$0.1313 based on the audited consolidated financial statements of the Group as at 31 March 2010 divided by 2,686,239,143 Shares.

The Issue Price was determined by the Board after taking into consideration of the prevailing trading volume and prices of the Shares and the Directors consider that the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 19.99% of the existing issued share capital of the Company and approximately 16.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 19 August 2010 and will be allotted and issued on the date of Completion.

In addition, the Vendors undertakes to and covenants with the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling 3 months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of such Consideration Shares, or any interests therein or grant any options or rights in respect of the Consideration Shares without prior approval from the Purchaser.

APPLICATION FOR LISTING

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement and before Completion; (ii) immediately after Completion and the allotment and issue of the Consideration Shares.

	As at the date of this announcement and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares	
	Number of Shares	Approximately %	Number of Shares	Approximately %
Shareholders				
Starryland Profits Limited	617,261,706	22.98%	617,261,706	19.15%
Mr. Lau Kim Hung, Jack	<u>12,408,000</u>	<u>0.46%</u>	<u>12,408,000</u>	<u>0.38%</u>
Subtotal (Note 1)	629,669,706	23.44%	629,669,706	19.54%
The First Vendor and its associates	–	–	221,117,647	6.86%
The Second Vendor and its associates	–	–	147,411,765	4.57%
The Third Vendor and its associates	<u>–</u>	<u>–</u>	<u>168,470,588</u>	<u>5.23%</u>
	–	–	537,000,000	16.66%
Directors (Note 2)				
Yuan Shengjun	37,012,000	1.38%	37,012,000	1.15%
Hsu Tung Chi	76,074,000	0.44%	76,074,000	2.36%
Hsu Tung Sheng	<u>11,900,000</u>	<u>2.83%</u>	<u>11,900,000</u>	<u>0.37%</u>
Subtotal	124,986,000	4.65%	124,986,000	3.88%
Public	<u>1,931,583,437</u>	<u>71.91%</u>	<u>1,931,583,437</u>	<u>59.93%</u>
Total	<u><u>2,686,239,143</u></u>	<u><u>100.00%</u></u>	<u><u>3,223,239,143</u></u>	<u><u>100.00%</u></u>

Notes:

1. Starryland Profits Limited (“**Starryland**”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“**Mr. Lau**”). Starryland beneficially owns 617,261,706 Shares. Under the SFO, Mr. Lau is deemed to be interested in 617,261,706 Shares. Mr. Lau also beneficially owns 12,408,000 Shares.

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

2. Mr. Yuan Shengjun is an executive Director, chairman and chief executive officer of the Company. Mr. Hsu Tung Chi is an executive Director of the Company. Mr. Hsu Tung Sheng is a former executive Director of the Company.

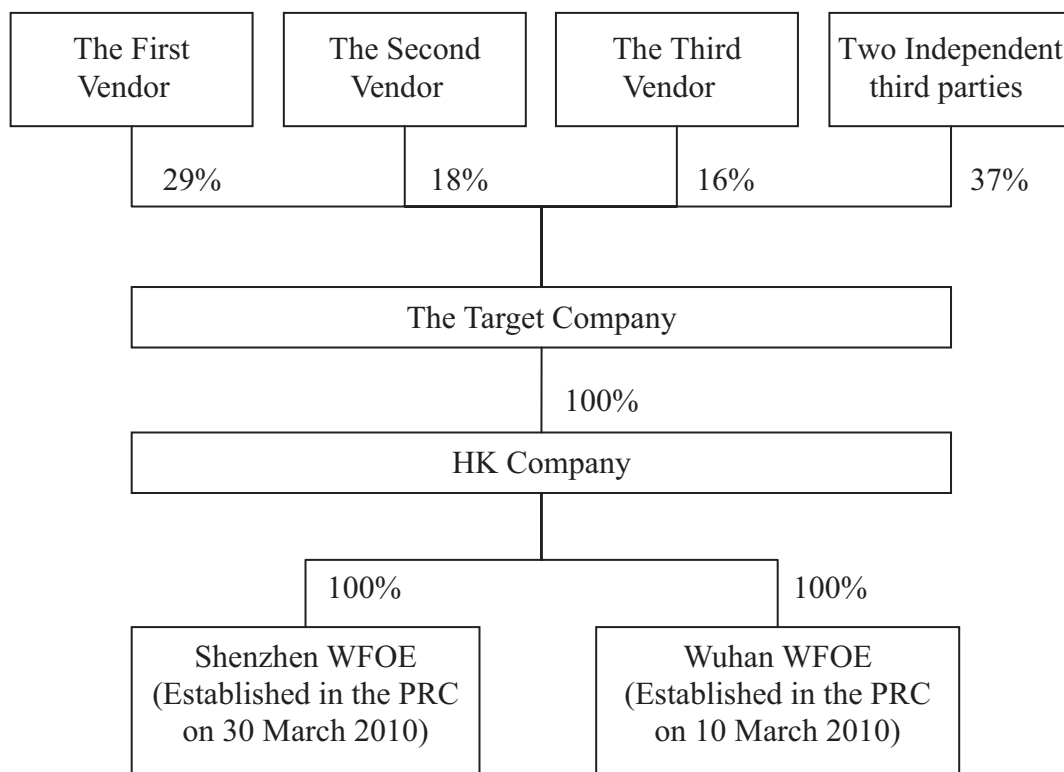
INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is an investment holding company. The Target Group are principally engaged in the provision of technologies, services and products related to optimal optical fibers, telecommunications, electric power network systems and equipment in the PRC through Shenzhen WFOE and Wuhan WFOE.

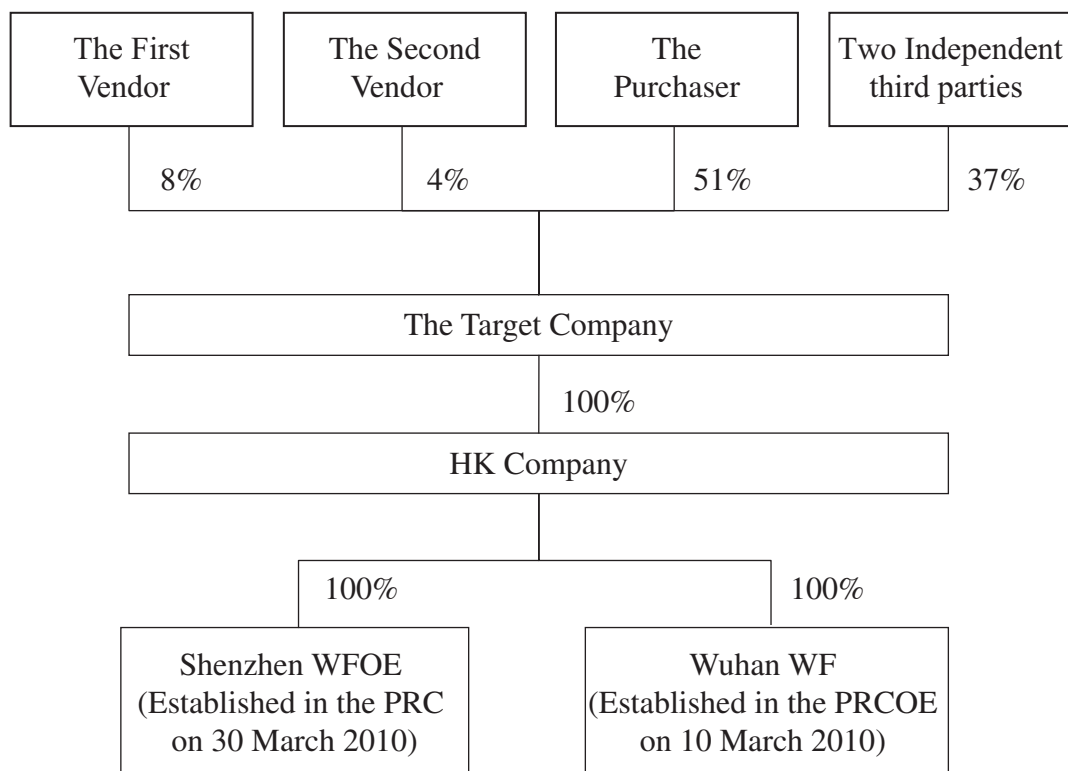
Target Group structure

Set out below is the group structure of the Target Group

The group structure of the Target Group immediately before Completion:



The group structure of the Target Group immediately after Completion:



Financial information of the Target Group

Set out below is the unaudited consolidated financial information of the Target Group based on its management account prepared in accordance with the Hong Kong accounting standards:

	For the year ended 31 December 2010 (unaudited) <i>HK\$000</i>
Turnover	5,105
Net profit before taxation	611
Net profit after taxation	120
	As at 31 December 2010 (unaudited) <i>HK\$'000</i>
Net asset value	9,043

Set out below is the audited financial information of Wuhan WFOE based on its audited account prepared in accordance with the PRC accounting standards:

	From 10 March 2010 to 31 December 2010 (audited) <i>RMB'000</i>
Turnover	4,339
Net profit before taxation	1,668
Net profit after taxation	1,251
	As at 31 December 2010 (audited) <i>RMB'000</i>
Net asset value	6,773

Set out below is the audited financial information of Shenzhen WFOE based on its audited account prepared in accordance with the PRC accounting standards:

	From 30 March 2010 to 31 December 2010 (audited) <i>RMB'000</i>
Turnover	–
Net (loss) before taxation	(950)
Net (loss) after taxation	(950)
	As at 31 December 2010 (audited) <i>RMB'000</i>
Net asset value	1,063

REASONS FOR THE ACQUISITION

The Group is currently engaged in the provision of mobile payment gateway services and value added service for telecommunication service provider in the PRC.

The Board considers that the Acquisition represents a strategic opportunity to the Group to penetrate into business of optimizing telecommunications, optical fibers, electric power network systems and equipment in the PRC, which is of high growth and high profit potential as a result of benefiting from the acceleration of the policy of “3-Network Convergence (the telecommunication, broadcast TV and the Internet)” (三網融合) (the “**Policy**”) reiterated by the PRC Government in January 2010. According to the PRC National Council, the Policy was classified as one of the major developments under the Twelve Five Years Plan and will be the major investment theme in the telecommunications and optic fibers industry with conservative estimation of market value of RMB600 billion. The business of the Target Group will complement with the Group’s existing payment gateway and value added service for telecommunication service provider in the PRC.

Although the Target Group is in an early start-up stage since its commencement of operation in April 2010 upon the formation of the Shenzhen WFOE and the Wuhan WFOE, the Target Group has already recorded turnover of approximately HK\$5,105,000 and profit after tax of HK\$120,000 from March 2010 to December 2010. As informed by the management of the Target Group, the Target Group has secured contracts of approximately HK\$4,000,000 from 1 January 2011 to the date of this announcement and they are optimistic about the business development of the Target Group.

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

GEM LISTING RULES IMPLICATIONS

The Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Acquisition”	the proposed acquisition of the Sale Shares on the terms contained in the Agreement
“Actual Net Profit”	the actual audited consolidated net profit after taxation of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards for the financial year ending 31 December 2011

“Agreement”	the conditional agreement dated 25 January 2011 entered into among the Purchaser, the Vendors and The Guarantors in relation to the Acquisition
“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Capital Reduction”	the proposed reduction of issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.20 each on each of the issued Consolidated Shares so that the nominal value of each issued Consolidated Share will be reduced from HK\$0.25 to HK\$0.05
“Company”	Palmpay China (Holdings) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$77,000,000
“Consideration Shares”	the Shares to be allotted and issue to the Vendors as part of the Consideration, being 537,000,000 Shares, in the event that the Share Consolidation and Capital Reduction become effective prior to allotment and issue of the Consideration Shares, consideration shares will be adjusted to 107,400,000 New Shares
“Consolidated Shares”	shares of HK\$0.25 each in the share capital of the Company upon the Share Consolidation taking effect
“Director(s)”	the director(s) of the Company from time to time

“Escrow Promissory Note”	a promissory note in a principal sum of HK\$6,000,000 to be issued by the Company to the First Vendor on Completion which shall then be escrowed by the Company or its nominee and will be released to the First Vendor upon fulfillment of the Profit Guarantee
“First Guarantor”	the first guarantor to the Agreement, i.e. Mr. Zou Meiyu
“First Vendor”	Keen Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the First Guarantor
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK Company”	China Optic Communication Technology Limited, a company incorporated in Hong Kong with limited liability
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Issue Price”	HK\$0.093 per Consideration Share, in the event that the Share Consolidation and Capital Reduction become effective prior to allotment and issue of the Consideration Shares, issue price will be adjusted to HK\$0.465 per Consideration Share
“Long Stop Date”	31 March 2011 (or such later date as the Purchaser and the Vendors may agree), being the last day for the fulfillment or waiver of the conditions precedent of the Agreement
“New Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company upon the Share Consolidation and Capital Reduction taking effect
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Profit Guarantee”	the profit guarantee that the audited consolidated net profit after taxation of the Target Company for the financial years ending 31 December 2011 will not be less than HK\$12,000,000
“Promissory Notes”	the promissory notes in a total sum of HK\$7,059,000 to be issued by the Company to the First Vendor on Completion
“Purchaser”	Brilliant Ally Limited, a company incorporated in British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
“Sale Shares”	510 ordinary shares of the Target Company, representing 51% of the total issued share capital of the Target Company as at the date of the Agreement, which is owned as to 210 shares by the First Vendor, as to 140 shares by the Second Vendor and as to 160 shares by the Third Vendor
“Second Guarantor”	the second guarantor to the Agreement, i.e. Mr. Ho Wing Hang
“Second Vendor”	Elite Option Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Second Guarantor
“Share(s)”	ordinary share(s) of HK\$0.05 each in the capital of the Company
“Share Consolidation”	the proposed consolidation of every five (5) existing Shares of HK\$0.05 each in the issued share capital of the Company into one (1) issued Consolidated Share of HK\$0.25 each in the issued share capital of the Company
“Shareholders”	holders of the Shares
“Shenzhen WFOE”	深圳佳業同輝科技有限公司 (unofficial English name as Shenzhen JiaYeTongHui Technology Limited), a limited company established in the PRC, one of the principal operating subsidiaries of the Target Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	China Optic Communication Technology Limited, a company incorporated in the British Virgin Islands with limited liability
“Target Group”	the Target Company and its subsidiaries

“Third Guarantor”	the third guarantor to the Agreement, i.e. Ms. Tam Yuk Ching, Jenny
“Third Vendor”	Big Well Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Third Guarantor
“Wuhan WFOE”	黃岡奧泰科通訊科技有限公司(unofficial English name as Huanggang Optical Communication Technology Limited), a limited company established in the PRC, one of the principal operating subsidiaries of the Target Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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

Hong Kong, 25 January 2011

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

This announcement, for which the directors of Palmpay China (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website (www.hkgem.com) for at least 7 days from the date of its posting and the Company’s website at www.palmpaychina.com.