
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Palmpay China (Holdings) Limited (“**Company**”), you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)***SHARE CONSOLIDATION;
CAPITAL REDUCTION;
AND
NOTICE OF SPECIAL GENERAL MEETING**

A notice convening the special general meeting (the “**SGM**”) of the Company to be held at 11:00 a.m. on Friday, 28 January 2011 at Unit 1601, Ruttonjee House, Ruttonjee Center, 11 Duddell Street, Central, Hong Kong is set out on pages 11 to 12 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the SGM to the office of the Company’s branch registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for seven days from the date of its publication and on the website of the Company at www.palmpaychina.com.

5 January 2011

* *for identification purposes only*

CHARACTERISTICS OF GEM

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

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

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Authorisation”	the proposed authorisation to the Directors to apply the entire amount standing to the credit of the contributed surplus account of the Company in such manner as they consider appropriate, including but not limited to setting off against the accumulated losses of the Company from time to time
“Bermuda Registrar”	the Registrar of Companies in Bermuda
“Board”	the board of directors of the Company from time to time
“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
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Palmpay China (Holdings) Limited, a company incorporated in Bermuda with limited liability and the Shares are listed on GEM
“Consolidated Shares”	shares of HK\$0.25 each in the share capital of the Company upon the Share Consolidation taking effect
“Directors”	the directors of the Company from time to time
“Existing Share Certificates”	certificates for the Existing Shares in yellow colour
“Existing Shares”	issued shares of HK\$0.05 each of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Latest Practicable Date”	3 January 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“New Share Certificates”	certificates for the New Shares in green colour

DEFINITIONS

“New Shares”	shares of HK\$0.05 each in the share capital of the Company upon the Share Consolidation and Capital Reduction taking effect
“SGM” or “Special General Meeting”	the special general meeting of the Company to be held to consider and, if thought fit, approve the Share Consolidation, the Capital Reduction and the Authorisation
“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 Shares
“Share Options”	options to subscribe for the Shares granted under the share option scheme adopted by the Company on 18 October 2001
“Shares”	existing shares of HK\$0.05 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrants”	warrants with principal amount of HK\$14,560,000 conferring rights to convert to a total of 80,000,000 Shares on the basis of an initial conversion price of HK\$0.182 per Share (subject to adjustment)
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People’s Republic of China

EXPECTED TIMETABLE

The expected timetable for implementation of the Share Consolidation and Capital Reduction is set out below. This timetable is indicative only and may be varied due to additional time required for compliance with regulatory requirements in Bermuda. Shareholders will be informed of any significant changes to the expected timetable by announcement.

2011

Latest time for lodging the form of proxy for the SGM 11:00 a.m., 26 January

SGM 11:00 a.m., 28 January

Publication of SGM results announcement 28 January

The following events is conditional on the fulfilment of the conditions for the implementation of the Share Consolidation and Capital Reduction, the dates are therefore tentative:

Effective date of the Share Consolidation and
Capital Reduction 9:30 a.m. on 31 January

Commencement of dealings in New Shares 31 January

Original counter for trading in Shares
in board lots of 5,000 Shares
(in the form of Existing Share Certificates) closes 9:30 a.m. on 31 January

Temporary counter for trading in New Shares
in board lots of 1,000 New Shares
(in the form of Existing Share Certificates) opens 9:30 a.m. on 31 January

First day of free exchange of Existing Share Certificates for
New Share Certificates 31 January

First day of operation of odd lot trading facility 16 February

Original counter for trading in New Shares
in board lots of 5,000 New Shares
(in the form of New Share Certificates) reopens 9:30 a.m. on 16 February

Parallel trading in New Shares (in the form of
New Share Certificates and Existing Share Certificates)
commences 9:30 a.m. on 16 February

EXPECTED TIMETABLE

Temporary counter for trading in New Shares in board lots of 1,000 New Shares (in the form of Existing Share Certificates) closes	4:00 p.m. on 8 March
Parallel trading New Shares (in the form of New Share Certificates and Existing Share Certificates) ends	4:00 p.m. on 8 March
Last day of operation of odd lot trading facility	8 March
Last day for free exchange of Existing Share Certificates for New Share Certificates	4:00 p.m. 10 March

All times and dates in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above depends on the results of the SGM and are therefore for indicative purpose only. An announcement will be made regarding any changes to the expected timetable as and when appropriate.

LETTER FROM THE BOARD



PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 8047)

Executive Directors:

Mr. Yuan Shengjun (*Chairman and chief executive officer*)

Mr. Chan Francis Ping Kuen (*Deputy chairman*)

Mr. Chan Hin Wing, James

Mr. Hsu Tung Chi

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent non-executive Directors:

Mr. Kwok Chi Sun, Vincent

Mr. Yeung Kam Yan

Mr. Cheung Chi Hwa, Justin

*Head office and principal place
of business in Hong Kong:*

Unit 1601

16/F., Ruttonjee House

Ruttonjee Centre

11 Duddell Street

Central

Hong Kong

5 January 2011

To the Shareholders

Dear Sir or Madam,

SHARE CONSOLIDATION; CAPITAL REDUCTION; AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

As announced by the Company in its announcement dated 21 December 2010, the Company proposed to put forward among others, the following proposals for approval by the Shareholders at the SGM:

- (a) Share Consolidation of every five (5) Shares of HK\$0.05 each in the issued share capital of the Company into one (1) issued Consolidated Share of HK\$0.25 in the issued share capital of the Company; and

* *for identification purposes only*

LETTER FROM THE BOARD

- (b) Capital Reduction of the 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.

The credit of HK\$107,449,565.72, being the difference between the amount of issued share capital before Share Consolidation and Capital Reduction of HK\$134,311,957.15 and the amount of issued share capital after the Share Consolidation and Capital Reduction of HK\$26,862,391.43 arising from the Capital Reduction will be credited to the contributed surplus account of the Company.

Under Bermuda law, the amount standing to the credit of the contributed surplus account is a distributable reserve and the Company may apply the contributed surplus in any manner not prohibited by the Companies Act and the bye-laws of the Company.

The Board also proposes to put forward to the Shareholders to approve the Authorisation, i.e. to authorize the Directors to apply the entire amount standing to the credit of the contributed surplus account of the Company in such manner as they consider appropriate, including but not limited to setting off against the accumulated losses of the Company from time to time.

The purpose of this circular is to provide you with information regarding the above proposals and to give you the notice of SGM.

SHARE CONSOLIDATION AND CAPITAL REDUCTION

As at the Latest Practicable Date, the Company has an authorised share capital of HK\$200,000,000 divided into 4,000,000,000 Shares, of which 2,686,239,143 Shares have been issued and are fully paid or credited as fully paid.

LETTER FROM THE BOARD

Assuming there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the date on which the Share Consolidation and Capital Reduction becomes effective, the share capital structure of the Company will be as follows:

	Immediately before Share Consolidation and Capital Reduction	Immediately after Share Consolidation and Capital Reduction
Authorised share capital	HK\$200,000,000	HK\$200,000,000
Par value	HK\$0.05 per Share	HK\$0.05 per New Share
Number of authorised shares	4,000,000,000 Shares	4,000,000,000 New Shares
Amount of issued share capital	HK\$134,311,957.15	HK\$26,862,391.43
Number of issued shares	2,686,239,143 Shares	537,247,828 New Shares
Amount of unissued share capital	HK\$65,688,042.85	HK\$173,137,608.57
Number of unissued shares	1,313,760,857 Shares	3,462,752,171 New Shares

Conditions of the Share Consolidation and Capital Reduction

The Share Consolidation and Capital Reduction will be completed upon fulfilling all the following conditions:

- (a) the passing of the necessary special resolution by the Shareholders at the SGM of the Company to approve the Share Consolidation, the Capital Reduction and the Authorisation;
- (b) compliance with the relevant procedures and requirements under Bermuda laws and the GEM Listing Rules to effect the Share Consolidation and Capital Reduction; and
- (c) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares arising from the Share Consolidation and Capital Reduction.

LETTER FROM THE BOARD

Reasons for Share Consolidation and Capital Reduction and impact on the Company and the Shareholders

The Share Consolidation and Capital Reduction are proposed in order to provide the Company with more flexibility in possible future fund raisings. The crediting of the credits arising from the Capital Reduction to the contributed surplus account of the Company will facilitate the payment of dividends as and when the Directors consider it appropriate in the future.

The Directors (including the independent non-executive Directors) are of the view that the Share Consolidation and Capital Reduction will not have a material financial effect on the financial position of the Group. Other than the estimated expenses of approximately HK\$300,000 to be incurred in relation to the Share Consolidation and Capital Reduction, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests or rights of the Shareholders.

Application for listing of New Shares

Application will be made to the Stock Exchange for granting the listing of, and permission to deal in, the New Shares arising from the Share Consolidation and Capital Reduction and New Shares falling to be issued upon exercise of the conversion rights attaching to the Share Options and the Warrants. All necessary arrangements will be made for the New Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

The New Shares will rank pari passu in all respects with each other and the Share Consolidation and Capital Reduction will not result in any change in the relative rights of the Shareholders. Fractional New Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the New Shares will be aggregated, sold and retained for the benefit of the Company.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

EXCHANGE OF SHARE CERTIFICATES

Subject to the Share Consolidation and Capital Reduction becoming effective, which is expected to be on Monday, 31 January 2011, the Existing Share Certificates will cease to be valid for trading purposes after 4:00 p.m. on Tuesday, 8 March 2011. The Shareholders may, on or after Monday, 31 January 2011 until Thursday, 10 March 2011 (both days inclusive) submit their Existing Shares Certificates (in yellow colour) for Shares to the Branch Registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, to exchange, at the expenses of the Company, for New Share Certificates (on the basis of five (5) Shares for one (1) Consolidated Share). It is expected that the New Share Certificates (in green colour) for the Consolidated Shares will be available for collection within 10 business days after the submission of the Existing Share Certificates to the Branch Registrar for exchange. Thereafter, Existing Share Certificates will remain effective

LETTER FROM THE BOARD

as documents of legal title but will be accepted for exchange only on payment of a fee of HK\$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) per certificate issued or cancelled, whichever is higher, payable by the Shareholders to the Branch Registrar.

The New Share Certificates will be issued in green colour in order to distinguish them from the Existing Share Certificates which are in yellow colour.

Arrangement on odd lot trading

In order to facilitate the trading odd lots (if any) of the New Shares, Celestial Securities Limited has been appointed by the Company to provide matching services on a best effort basis, to those Shareholders who wish to acquire odd lots of the New Shares to make up a full board lot, or to dispose of their holding of odd lots of the New Shares. Holders of odd lots of New Shares who wish to take advantage of this trading facility should contact Ms. Chan Po Ki Fion of Celestial Securities Limited at 9/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong (telephone number 2587 5257) during the office hours of the period from Wednesday, 16 February 2011 to Tuesday, 8 March 2011 (both days inclusive). Shareholders should note that successful matching of the sale and purchase of odd lots of the New Shares will not be guaranteed. Any Shareholder, who is in doubt about the odd lot facility, is recommended to consult his/her/its own professional advisers.

WARNING

Shareholders and potential investors should also be aware of and take note that the Share Consolidation and Capital Reduction are conditional upon satisfaction of the conditions precedent set out in the paragraph headed "Conditions of the Share Consolidation and Capital Reduction" in the section headed "Share Consolidation and Capital Reduction". Therefore, the Share Consolidation and Capital Reduction may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

SGM

The SGM will be held at 11:00 a.m. on Friday, 28 January 2011 at Unit 1601, Ruttonjee House, Ruttonjee Center, 11 Duddell Street, Central, Hong Kong, the notice of which is set out on pages 11 to 12 of this circular, for the Shareholders to consider and, if thought fit, to approve the proposed the resolutions in respect of the Share Consolidation, the Capital Reduction and the Authorisation.

In compliance with the GEM Listing Rules, all resolutions will be voted on by way of a poll at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

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You will find enclosed a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

RECOMMENDATION

The Directors consider that the Share Consolidation, the Capital Reduction and the Authorisation are in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of all resolutions set out in the notice of the SGM.

ADJUSTMENTS IN RELATION TO THE SHARE OPTION SCHEMES AND WARRANTS

As at the Latest Practicable Date, there are (i) 81,360,000 outstanding Share Options and (ii) Warrants of principal amount of HK\$14,560,000 with subscription rights to subscribe 80,000,000 Shares remain outstanding. Pursuant to the terms of the Share Option Schemes and the terms of the instrument of the Warrants, the exercise prices and the subscription price of the respective Share Options and Warrants will be adjusted upon the Share Consolidation and Capital Reduction becoming effective. Such adjustments will be verified by the auditors or approved merchant bank of the Company. The Company will notify the holders of each of the Share Options and Warrants the respective adjustments as soon as practicable upon the Share Consolidation and Capital Reduction becoming effective. It is intended that details of such adjustments will be set out in the announcement on the result of SGM.

COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, controlling Shareholder or substantial Shareholders or any of their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or has, any other conflict of interest which any such person has or may have within the Group.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement in this circular misleading.

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

NOTICE OF SPECIAL GENERAL MEETING



PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 8047)

NOTICE IS HEREBY GIVEN that the special general meeting (“**Special General Meeting**”) of Palmpay China (Holdings) Limited (the “**Company**”) will be held at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Friday, 28 January 2011 at 11:00 a.m. for the for the purpose of considering and, if thought fit, passing, with or without modification, the following special resolution:

SPECIAL RESOLUTION

1. “**THAT**, conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the New Shares (as defined below) and New Shares falling to be issued upon exercise of the conversion rights attaching to the Share Options and the Warrants; (ii) compliance by the Company with the requirements of section 46(2) of the Companies Act 1981 of Bermuda (as amended) to effect the Capital Reduction (as defined below), with effect from 9:30 a.m. on the business day (as defined in the Rules Governing the Listing of Securities on the Stock Exchange) next following the day on which this resolution is passed by the shareholders of the Company (the “**Shareholders**”):
 - (a) every five (5) existing Shares of HK\$0.05 each in the issued share capital of the Company shall be consolidated into one (1) consolidated share of HK\$0.25 each (“**Consolidated Share**”) in the issued share capital of the Company (“**Share Consolidation**”);
 - (b) immediately following the Share Consolidation, the issued share capital of the Company shall be reduced through a cancellation of the paid-up capital of the Company to the extent of HK\$0.20 on each of the issued Consolidated Shares so that the nominal value of each issued Consolidated Share shall be reduced from HK\$0.25 to HK\$0.05 so as to form a new share with nominal value of HK\$0.05 each (“**New Share**”) (the aforesaid capital reduction to be referred to as the “**Capital Reduction**”);

* for identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

- (c) the credit arising from the Capital Reduction be transferred to the contributed surplus account of the Company and the Directors be and are hereby authorised to apply the entire amount standing to the credit of the contributed surplus account of the Company in such manner as they consider appropriate, including but not limited to setting off against the accumulated losses of the Company from time to time (“**Authorisation**”); and
- (d) the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Share Consolidation, the Capital Reduction and the Authorisation.”

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

Hong Kong, 5 January 2011

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal
place of business in Hong Kong:*
Unit 1601, 16/F.
Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. A form of proxy for use of the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company’s Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
4. In the case of joint holders of Shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.