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PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(proposed to be renamed as China Neng Xiao Technology (Group) Limited

中國能效科技(集團)有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock code: 8047)

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

Financial adviser to the Company



INCUB Corporate Finance Limited

THE SUBSCRIPTION AGREEMENT

On 12 September 2012 (after trading hours), China Optic, a non-wholly owned subsidiary of the Company, the Investor and the Guarantor entered into the Subscription Agreement, pursuant to which China Optic and the Investor conditionally agreed that China Optic shall allot and issue, and the Investor shall subscribe for, the Subscription Shares for a consideration of HK\$7 million.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Investor and its ultimate beneficial owners is an Independent Third Party and not a connected person of the Company (as defined under the GEM Listing Rules).

The Subscription Shares represent approximately 4.85% of the issued share capital of China Optic as enlarged by the allotment and issue of the Subscription Shares.

* For identification purposes only

GENERAL

The Subscription which involves the Investor acquiring interests in China Optic constitutes a deemed disposal of the Company's equity interest in a subsidiary of the Company under Rule 19.29 of the GEM Listing Rules. As the applicable percentage ratios (as defined under the GEM Listing Rules) for the Subscription are larger than 75%, the Subscription constitutes a very substantial disposal of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the approval by the Shareholders at the SGM to be convened.

The SGM will be held to consider, and if thought fit, passing the resolutions to approve the Subscription Agreement and the transactions contemplated under the Subscription Agreement. Pursuant to Rule 19.60(7) of the GEM Listing Rules, a circular containing, amongst other things, further details of the Subscription Agreement, together with a notice of the SGM, is required to be despatched to the Shareholders within 15 business days after the publication of this announcement, which shall be on or before 5 October 2012. As additional time is required to finalise certain financial information to be disclosed in the circular, the date of despatch of the circular will be delayed from 5 October 2012 to on or before 12 October 2012.

INTRODUCTION

On 12 September 2012 (after trading hours), China Optic, a non-wholly owned subsidiary of the Company, the Investor and the Guarantor entered into the Subscription Agreement pursuant to which China Optic and the Investor conditionally agreed that China Optic shall allot and issue and the Investor shall subscribe for the Subscription Shares for a consideration of HK\$7 million.

THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are summarised below:

Date:

12 September 2012

Parties:

China Optic (as the issuer of the Subscription Shares)

The Investor (as the subscriber of the Subscription Shares)

The Guarantor (as the Investor's warrantor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Investor and its ultimate beneficial owners is an Independent Third Party and is not a connected person of the Company (as defined under the GEM Listing Rules).

The Subscription Shares

Pursuant to the Subscription Agreement, the parties have conditionally agreed that the Investor shall subscribe for, and China Optic shall allot and issue to the Investor, the Subscription Shares, representing approximately 4.85% of the issued share capital of China Optic as enlarged by the allotment and issue of the Subscription Shares.

As at the date of this announcement, China Optic is owned as to 50.10% by the Group, 19.00% by Radiant Future Limited, 18.00% by Cheering Elite Limited, 8.90% by Keen Success Investments Limited and 4.00% by Elite Option Limited. After Completion, their respective Shareholding in China Optic will be diluted to approximately 47.67%, 18.08%, 17.13%, 8.47% and 3.80%.

Consideration

The consideration for the Subscription shall be HK\$7 million payable by the Investor to China Optic, in which HK\$1 million (the "Deposit") is payable within 10 Business Days from the date of the Subscription Agreement as refundable deposit and the remaining consideration of HK\$6 million shall be payable in cash at Completion. The consideration was determined after arm's length negotiations between the parties, having taken into account the price-earnings ratio of 11.15 times and the audited profit after tax of the China Optic Group of approximately HK\$12.92 million for the year ended 31 December 2011. This consideration was made with reference to the consideration for acquisition of the 50.10% interest in China Optic by the Group when the Group entered into the sale and purchase agreement in January 2011, under which the consideration was determined by 11.15 price-earnings multiples and the profit guarantee of HK\$12,000,000 given by the former vendors for the same period.

CONDITIONS PRECEDENT

Completion of the Subscription is conditional upon the fulfillment of the following conditions:

- (a) all relevant consents and approvals are being sought by the Investor and the Guarantor relating to the Subscription;

- (b) the obtaining of all necessary consents and approvals of China Optic regarding the issue and allotment of the Subscription Shares, including approvals from its board and shareholders on the Subscription Agreement and the transactions contemplated thereunder;
- (c) the obtaining of the Shareholders' approval at the SGM of the Company approving the resolution(s) for the Subscription Shares and the transactions contemplated thereunder; and
- (d) there does not exist any matter, fact or circumstance that would constitute or may constitute a breach of the terms of or the warranties given by China Optic under the Subscription Agreement.

The Investor may at any time waive the condition (d) above. Other conditions are incapable of being waived. If the above conditions are not fulfilled or waived on or before 30 November 2012 (or such other date and time as agreed by the parties thereto), the Subscription Agreement shall lapse and be of no further effect and no party to the Subscription Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breaches of the Subscription Agreement. If the Subscription Agreement terminates, China Optic shall refund the HK\$1 million refundable Deposit to the Investor within 10 Business Days from the date of termination.

In addition, if the conditions are duly completed or waived but Completion does not take place as a result of the sole default of the Investor, China Optic shall be entitled to forfeit the Deposits absolutely and neither party shall have any obligations and liabilities hereunder, and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms hereof. However, if Completion does not take place otherwise than due to the sole default of either the Investor, China Optic shall refund the Deposit (without interest) to the Investor within three Business Days after the date of termination, and neither party shall have any obligations and liabilities hereunder, and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms hereof.

INFORMATION OF THE GROUP

The Group is principally engaged in the provision of payment gateway services and manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment and the provision of integrated solutions for lightning electromagnetic pulse protection engineering design, construction and technical services.

FUTURE PROSPECT AND OPERATION OF THE REMAINING GROUP

Upon Completion, the Remaining Group will be operating the following business segments:

a) Resources/Energy Conservation Business

Upon completion of the acquisition of 51% equity interests of Viva Champion Limited in November 2011, the Group commenced provision of energy and other resources management and conservation system and integrated solutions to optimize usage for enterprises, including the telecommunication operators, in the PRC. The Resources/Energy Conservation Business is in line with the Twelve Five Years Plan launched by the PRC National Council and will also capitalize the existing business connections and scope of business activities of the Group. The business was awarded “2010 China Association of Communications Enterprises Energy Management Innovation Award” “2010年中國通信行業協會節能管理創新一等獎”.

During the first six-month period in 2012, the unaudited revenue generated from this business amount to approximately HK\$0.66 million. As disclosed in the first quarterly report of the Company for year 2012-2013, leveraging on the existing connections and infrastructure of the Group in the telecommunication industry, the Group is in a strategic position to capitalize on the high emphasis of the PRC Government on the creation of a nation-wide green energy/environment (expected of the injection of RMB100 billion in the related areas in 2012) in which telecommunication operators are among one of the largest consumers of resources/energy conservation products in the PRC. The Group is already in advanced negotiation stage for provision of such products to China Unicom in several provinces in the PRC and is in the process of tendering three contracts in relation to such business for China Unicom in Jilin (吉林), Guizhou (貴州) and two of the same for China Telecom in Jiangsu (江蘇).

b) Electromagnetic pulse protection business

This business segment commenced in May 2012 when the Group completed the acquisition of 55% equity interest in Boomtech Limited. The electromagnetic pulse protection business has already commenced to contribute profit to the Group following its acquisition. The contractual works have already commenced for Liaoning (遼寧) Stated- Owned electricity enterprises and China Unicom in Shanxi (山西), Anhui (安徽) and Tianjin (天津). Since completion of the acquisition in May 2012, this business segment has contributed unaudited revenue of approximately HK\$2.83 million and unaudited net profit after tax of approximately HK\$2.05 million.

Details of this acquisition, please refer to the announcement of the Company dated 13 January 2012 and the circular dated 4 May 2012.

c) Payment Business

During the first six-month period in 2012, the unaudited revenue generated from this business segment amount to approximately HK\$2.1 million.

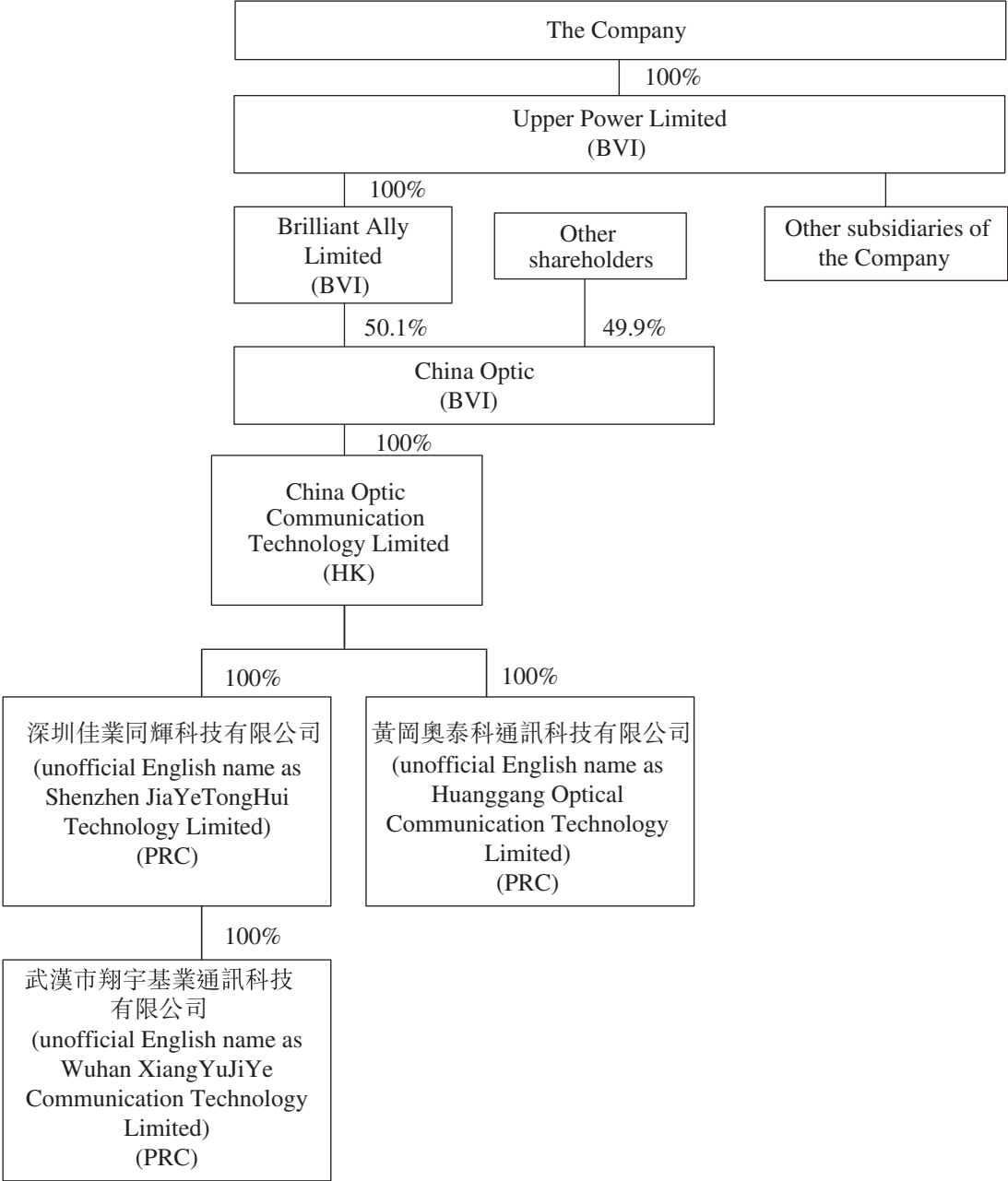
Upon Completion, the Remaining Group will also be interested in 47.67% of the interest in China Optic.

INFORMATION OF THE CHINA OPTIC GROUP

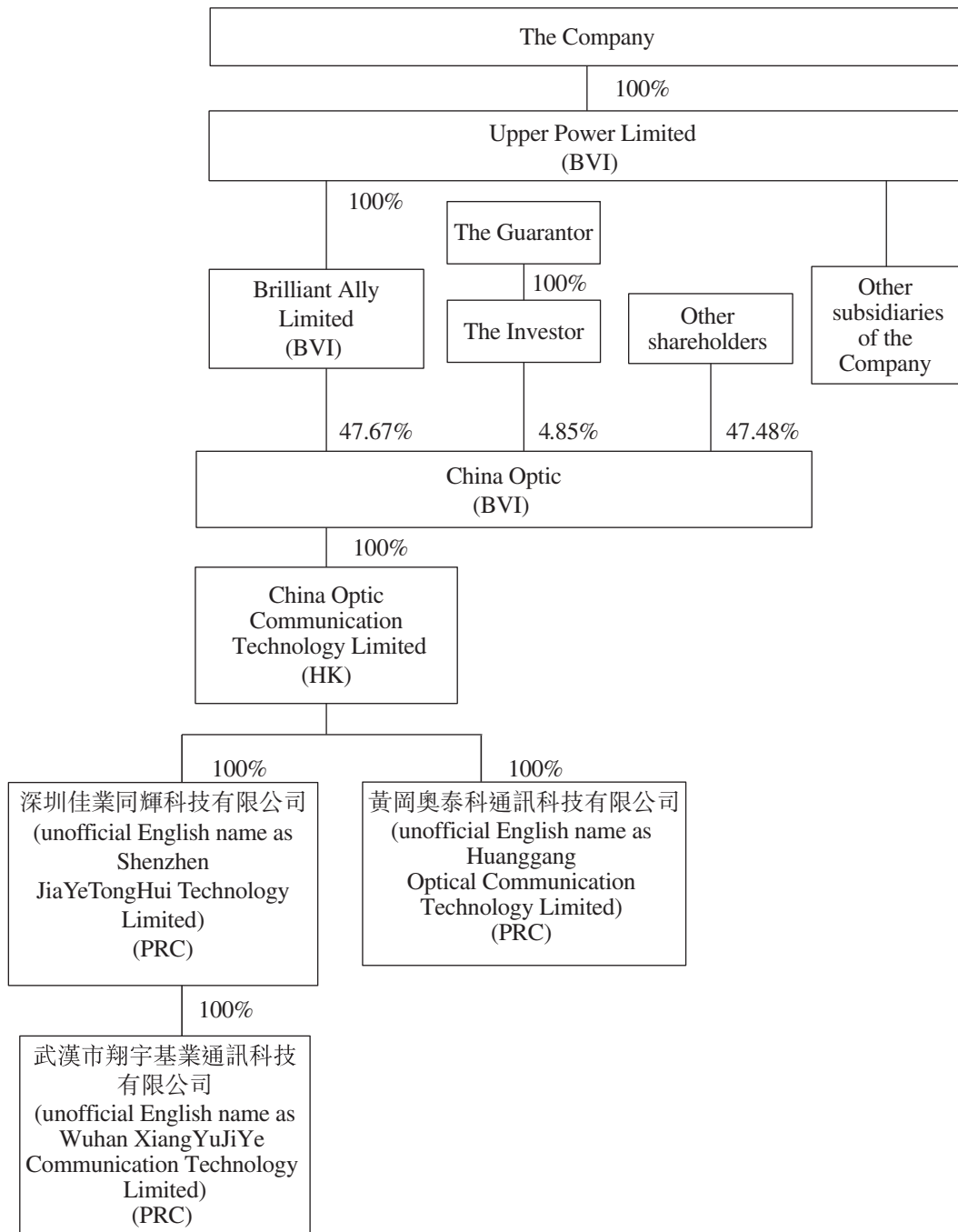
The China Optic Group is principally engaged in the provision of technologies, services and products related to optimal optical fibers, telecommunications, electric power in the PRC.

Group chart

Set out below is the simplified chart of the Group immediately before Completion



Set out below is the simplified chart of the Group immediately after Completion



Financial information

Based on the financial statements of the China Optic Group, which are prepared in accordance with accounting principles generally accepted in Hong Kong, the consolidated net profit before and after taxation for the period from 30 October 2009 to 31 December 2010 and for the financial year ended 31 December 2011 and the consolidated net asset value of China Optic Group as at 31 December 2010 and 31 December 2011 are as follows:

	Period from 30 October 2009 (date of incorporation of China Optic) 31 December 2010 (unaudited) HK\$'	For the year ended 31 December 2011 (audited) HK\$'
Net profit before taxation	401,282	17,741,799
Net profit/(loss) after taxation	(77,871)	12,918,562

	As at 31 December 2010 (unaudited) HK\$'	As at 31 December 2011 (audited) HK\$'
Net asset value	8,772,816	22,198,635

INFORMATION OF THE INVESTOR AND THE GUARANTOR

The Investor is a company incorporated in the British Virgin Islands, and its principal activity is investment holding. Since its incorporation, it has not conducted any business activities. Its entire interest is held by the Guarantor.

The Guarantor is a Hong Kong citizen, he has more than 10 years of extensive experience in the electronic and telecommunication sector in the PRC and has solid business connections with other business operators in the sector. The Directors are of the view that such experience will complement the business development of the Group in the future.

As advised by the Investor, as at the date of this announcement, the Guarantor and his spouse are interested in aggregate 2,677,461 Shares, representing approximately 0.16% of the total issued shares of the Company.

REASONS FOR THE SUBSCRIPTION

The Directors consider that the Subscription by the Investor of the Subscription Shares with the proceeds would considerably strengthen China Optic Group's financial position and its ability to expand its business base. The proceeds will also increase the liquidity of the China Optic Group to fund its future business operation. As disclosed in the first quarterly report of the Company for the year 2012-2013, during the period from 1 April 2012 to 31 June 2012, the optic fiber business has continued to achieve breakthrough on the business relationships with China Mobile with direct contractual agreements is expected to enter into for the provision of fiber and maintenance services in Sichuan (四川), Anhui (安徽), Jiangxi (江西) and Yunnan (雲南) in the coming quarter. Accordingly the proceeds from the Subscription will provide more financial resources for the China Optic Group's future expansion.

In addition, as the Guarantor has solid business network in the industry, there may be increased business opportunities introduced by the Guarantor to further enhance the business growth potential. Therefore, the directors of the China Optic Group consider that the Subscription may create synergic effect.

Having considered that (i) the price earning ratio of the Subscription represents the same price earnings ratio as the Group's acquisition of the 50.1% interest in China Optic completed in 18 February 2011; and (ii) there may be more business opportunities and synergic effect introduced by the Guarantor after Completion, the Board considers that the terms of the Subscription Agreement are negotiated on an arm's length basis, on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE SUBSCRIPTION

Immediately after Completion, the Group's interest in China Optic will be diluted from 50.10% to approximately 47.67%, and China Optic will cease to be a subsidiary of the Group and become an associated company of the Remaining Group. After Completion, the results of the China Optic Group will no longer be consolidated into the consolidated financial statements of the Company.

A potential loss of approximately HK\$0.8 million, subject to the confirmation by the auditors of the Company, is expected to be recognized in the consolidated statement of comprehensive income of the Company for the year ending 31 March 2013.

The potential loss is the difference between (i) the carrying amount of the assets (including goodwill) and liabilities of the China Optic Group and the non-controlling interests amount to HK\$25.3 million; and (ii) the fair value of the retained interests held by the Group in the China Optic Group determined at Completion of approximately HK\$24.5 million. The actual loss to be recognized upon Completion may differ from the estimated loss calculated above as the related net assets value and fair value of the China Optic Group is subject to future changes until Completion.

Further information regarding the financial effect of the Subscription will be included in the circular.

PROPOSED USE OF PROCEEDS

It is the intention of China Optic that the proceeds from Subscription Agreement shall be used by the China Optic Group to expand the existing main business and/or to develop new business.

GEM LISTING RULES IMPLICATIONS

The Subscription which involves the Investor acquiring interests in China Optic constitutes deemed disposal of the Company's equity interest in a subsidiary of the Company under Rule 19.29 of the GEM Listing Rules. As the applicable percentage ratios (as defined under the GEM Listing Rules) for the Subscription are larger than 75%, the Subscription constitutes a very substantial disposal of the Company under Chapter 19 of the Listing Rules and is therefore subject to the approval by the Shareholders at the SGM to be convened.

The SGM will be held to consider, and if thought fit, passing the resolutions to approve the Subscription Agreement and the transactions contemplated under the Subscription Agreement.

GENERAL

Pursuant to Rule 19.60(7) of the GEM Listing Rules, a circular containing, among other things, further details of the Subscription and a notice convening the SGM to approve the Subscription and the transactions contemplated thereunder is required to be despatched to the Shareholders within 15 business days after the publication of this announcement, which shall be on or before 5 October 2012. As additional time is required to finalise certain financial information to be disclosed in the circular, the date of despatch of the circular will be delayed from 5 October 2012 to on or before 12 October 2012.

DEFINITIONS

Unless the context requires otherwise, terms used in this announcement shall have the following meanings:

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	days (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are open for business
“China Optic”	China Optic Communication Technology Limited 中國光通信科技有限公司, a 50.1% owned subsidiary of the Company as at the date of this announcement

“China Optic Group”	China Optic and its subsidiaries
“Company”	Palmpay China (Holdings) Limited 中國掌付(集團)有限公司, proposed to be renamed as “China Neng Xiao Technology (Group) Limited” “中國能效科技(集團)有限公司”, a company incorporated in Bermuda with limited liability and the shares of which are listed on GEM
“Completion”	completion of the allotment and issue of the Subscription Shares under the Subscription Agreement
“Completion Date”	the date of Completion
“Directors”	the directors of the Company
“GEM”	Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Yip Yung Kan, the sole shareholder of the Investor and an Independent Third Party
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquires, are third parties independent of and not connected with the Company or any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Investor”	Millennium Eagle Limited, a company incorporated in the British Virgin Islands with limited liability, the Guarantor is interested in the entire interest in the Investor
“PRC”	The People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Remaining Group”	the Group after the Completion
“SGM”	the special general meeting of the Company to be convened to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder

“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Investor pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 12 September 2012 and entered into between China Optic, the Investor and the Guarantor in relation to the Subscription
“Subscription Shares”	51 ordinary shares of US\$1 each in the share capital of China Optic to be issued pursuant to the Subscription Agreement which will represent approximately 4.85% of the interest in China Optic as enlarged by the allotment and issue of the Subscription Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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

Hong Kong, 12 September 2012

As at the date of this announcement, the executive Directors are Mr. Yuan Shengjun, 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 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.