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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)

**VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
INVOLVING DISPOSAL OF THE ENTIRE EQUITY INTEREST IN
UNION BRIDGE GROUP LIMITED;
PROPOSED RESIGNATION OF EXECUTIVE DIRECTOR;
AND
RESUMPTION OF TRADING**

Financial adviser to the Company



INCUB CORPORATE FINANCE LIMITED

Disposal Agreements

On 11 January 2008 (after trading hours), Great Plan, a wholly-owned subsidiary of the Company, entered into the following agreements:

- (a) the First Disposal Agreement with Mr. Lo for the disposal of 18,750 UB Shares, representing 50% equity interest in Union Bridge held by Great Plan for a consideration of HK\$5,250,000; and
- (b) the Second Disposal Agreement with Ms. Cheng for the disposal of 18,750 UB Shares, representing 50% equity interest in Union Bridge held by Great Plan for a consideration of HK\$5,250,000.

* For identification purpose only

The First Disposal Agreement and the Second Disposal Agreement are inter-conditional upon each other and are part and parcel of the Disposal.

The Disposal constitutes a very substantial disposal on the part of the Company under the GEM Listing Rules. As Mr. Lo is an executive Director and a director of Union Bridge, each of the UB Subsidiaries and the PRC Subsidiary, whereas Ms. Cheng is a director of Union Bridge and each of the UB Subsidiaries, the Disposal also constitutes a connected transaction on the part of the Company under the GEM Listing Rules. The Disposal Agreements will be subject to Independent Shareholders' approval by way of poll at the SGM to be convened and held by the Company.

Proposed resignation of executive Director

Mr. Lo will resign as executive Director with effect from the completion of the Disposal Agreements for his own career development. Further announcement will be made upon his resignation becoming effective in accordance with the GEM Listing Rules.

General

A circular containing, among other things, further details of the Disposal Agreements and the transactions contemplated thereunder, the letter of advice from the IFA to the IBC and the Independent Shareholders, the recommendation of the IBC to the Independent Shareholders together with the notice of the SGM will be despatched to the Shareholders as soon as practicable and in accordance with the GEM Listing Rules.

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 14 January 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 17 January 2008.

THE FIRST DISPOSAL AGREEMENT

Date: 11 January 2008 (after trading hours)

Parties: (1) Vendor : Great Plan

(2) Purchaser : Mr. Lo

Mr. Lo is a connected person of the Company by virtue of his directorship in the Company, Union Bridge, each of the UB Subsidiaries and the PRC Subsidiary. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, except that both Mr. Lo and Ms. Cheng are directors of Union Bridge and each of the UB Subsidiaries, Mr. Lo and Ms. Cheng are independent of each other.

Assets to be disposed of

18,750 UB Shares, representing 50% of the issued share capital of Union Bridge.

Consideration

The First Disposal Consideration is HK\$5,250,000 and shall be settled by Mr. Lo in cash in the following manner:

- (a) a sum of HK\$2,500,000, being the deposit and partial payment of the First Disposal Consideration shall be paid by Mr. Lo to Great Plan within 7 Business Days after signing of the First Disposal Agreement; and
- (b) the balance of the First Disposal Consideration shall be paid by Mr. Lo to Great Plan on completion of the First Disposal Agreement.

As the First Disposal Agreement and the Second Disposal Agreement are part and parcel of the Disposal, the First Disposal Consideration and the Second Disposal Consideration for each UB Share shall be equivalent.

Conditions

The First Disposal Agreement is conditional upon the following conditions being satisfied on or before 31 March 2008 or such other date as Great Plan may nominate by written notice serving to Mr. Lo:

- 1. the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the First Disposal Agreement and the transactions contemplated thereunder;
- 2. all necessary consents, authorizations, licences and approvals required to be contained on the part of Great Plan in respect of the First Disposal Agreement and the transactions contemplated thereunder having been obtained;
- 3. the representations and warranties given by Great Plan as set out in the First Disposal Agreement remain true and accurate in all respects;
- 4. the representations and warranties given by Mr. Lo as set out in the First Disposal Agreement remain true and accurate in all respects; and
- 5. the Second Disposal Agreement having become unconditional (save for the condition for the First Disposal Agreement to become unconditional).

Condition (3) as set out above may be waived by Mr. Lo at any time before the completion of the First Disposal Agreement by written notice to Great Plan, whereas condition (4) as set out above may be waived by Great Plan at any time before the completion of the First Disposal Agreement by written notice to Mr. Lo. If the above conditions have not been satisfied on or before the 31 March 2008 or such other date as Great Plan may nominate by written notice serving to Mr. Lo, the First Disposal Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other thereunder and Great Plan shall refund the deposit paid pursuant to the terms and conditions set out in the First Disposal Agreement (without interest) to Mr. Lo forthwith.

Completion

Completion of the First Disposal Agreement will take place within 3 Business Days after satisfaction of the above conditions simultaneously with the completion of the Second Disposal Agreement.

THE SECOND DISPOSAL AGREEMENT

Date: 11 January 2008 (after trading hours)

Parties: (1) Vendor : Great Plan

(2) Purchaser : Ms. Cheng

Ms. Cheng is a connected person of the Company by virtue of her directorship in Union Bridge and each of the UB Subsidiaries. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, except that both Mr. Lo and Ms. Cheng are directors of Union Bridge and each of the UB Subsidiaries, Mr. Lo and Ms. Cheng are independent of each other.

Assets to be disposed of

18,750 UB Shares, representing 50% of the issued share capital of Union Bridge.

Consideration

The Second Disposal Consideration is HK\$5,250,000 and shall be settled by Ms. Cheng in cash in the following manner:

- (a) a sum of HK\$2,500,000, being the deposit and partial payment of the Second Disposal Consideration shall be paid by Ms. Cheng to Great Plan within 7 Business Days after signing of the Second Disposal Agreement; and
- (b) the balance of the Second Disposal Consideration shall be paid by Ms. Cheng to Great Plan on completion of the Second Disposal Agreement.

As the First Disposal Agreement and the Second Disposal Agreement are part and parcel of the Disposal, the First Disposal Consideration and the Second Disposal Consideration for each UB Share shall be equivalent.

Conditions

The Second Disposal Agreement is conditional upon the following conditions being satisfied on or before the 31 March 2008 or such other date as Great Plan may nominate by written notice serving to Ms. Cheng:

1. the passing by the Independent Shareholders at the SGM of an ordinary resolution to approve the Second Disposal Agreement and the transactions contemplated thereunder;
2. all necessary consents, authorizations, licences and approvals required to be contained on the part of Great Plan in respect of the Second Disposal Agreement and the transactions contemplated thereunder having been obtained;
3. the representations and warranties given by Great Plan as set out in the Second Disposal Agreement remain true and accurate in all respects;
4. the representations and warranties given by Ms. Cheng as set out in the Second Disposal Agreement remain true and accurate in all respects; and
5. the First Disposal Agreement having become unconditional (save for the condition for the Second Disposal Agreement to become unconditional).

Condition (3) as set out above may be waived by Ms. Cheng at any time before the completion of the Second Disposal Agreement by written notice to Great Plan, whereas condition (4) as set out above may be waived by Great Plan at any time before the completion of the Second Disposal Agreement by written notice to Ms. Cheng. If the above conditions have not been satisfied on or before 31 March 2008 or such other date as Great Plan may nominate by written notice serving to Ms. Cheng, the Second Disposal Agreement shall cease and determine and thereafter neither party shall have any obligations and liabilities towards each other thereunder and Great Plan shall refund the deposit paid pursuant to the terms and conditions set out in the Second Disposal Agreement (without interest) to Ms. Cheng forthwith.

Completion

Completion of the Second Disposal Agreement will take place within 3 Business Days after satisfaction of the above conditions simultaneously with the completion of the First Disposal Agreement.

After completion of the Disposal Agreements, the Company will cease to have any interest in UB Group, and therefore UB Group will cease to be the subsidiaries of the Company.

Basis of the Consideration

The First Disposal Consideration and the Second Disposal Consideration were arrived at after arm's length negotiations between the parties to the Disposal Agreements with reference to (i) the net asset value of UB Group of approximately HK\$18.0 million based on the unaudited management accounts of UB Group as at 30 September 2007; (ii) the price earning ratio of approximately 11 times, which falls within the profit earning ratios of a number of Hong Kong listed companies engaging in similar business in the electronic devices and components ranging from about 4 to 50 times; (iii) the high gearing level of the UB Group of approximately HK\$60.0 million based on the unaudited management accounts of UB Group as at 30 September 2007; and (iv) the economic benefits to be accrued to the Company for the disposal of the loss making business being carried out by UB Group as elaborated in the section headed "Reasons for and benefits of the Disposal and intended use of proceeds" below. The Directors (excluding the independent non-executive Directors who would give their views on the terms of the Disposal after having been advised by the IFA), consider that the terms of the Disposal Agreements and the transactions contemplated thereunder are entered into upon normal commercial terms following arm's length negotiations among the parties and the terms are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

INFORMATION ON THE UB GROUP

UB Group is principally engaged in the provision of a full range of design, engineering and manufacturing services to high-end brand-named users in the electronics industry.

The financial information of UB Group for the two financial years ended 31 March 2006 and 2007 and for the six months ended 30 September 2007 are as follows:

	Six months ended 30 September 2007 (Unaudited) HK\$'000	Year ended 31 March 2007 (Audited) HK\$'000	Year ended 31 March 2006 (Audited) HK\$'000
Turnover	56,227	104,749	89,323
Profit/(Loss) before tax	(1,309)	1,692	5,050
Profit before tax (%)	–	1.62%	5.65%
Profit/(Loss) after tax	(1,696)	976	5,136
Profit after tax (%)	–	0.93%	5.75%

Results

	As at 30 September 2007 (Unaudited) HK\$'000	As at 31 March 2007 (Audited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
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Assets and liabilities

Total assets	138,895	127,499	100,152
Net asset value	18,004	19,536	17,464

Note: As the acquisition of UB Group was completed in late March 2006, only one month turnover and financial results of UB Group were consolidated into the annual result of the Group for the year ended 31 March 2006.

REASONS FOR AND BENEFITS OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

The Group is principally engaged in the provision of mobile payment gateway services which currently comprises sale of IP cards and virtual game cards in 9 provinces and municipal cities in the PRC. In addition, it is also engaged in the provision of a full range of design, engineering and manufacturing services to high-end brand-named users in the electronics industry.

Due to keen competition in the electronic devices and components business, the substantial increases in the essential raw materials costs, the gradual rise of labour cost in the PRC and the appreciation of Renminbi, the profit margin of UB Group's electronic devices and components business continued to remain at a low level. Moreover, UB Group's electronic devices and components business has recorded a loss of approximately HK\$1,696,000 for the six months period from 1 April 2007 to 30 September 2007 based on the unaudited management accounts for the six months ended 30 September 2007 and had a high gearing ratio. Given the continued unfavourable market conditions, the Directors believe that such business is still difficult in the coming years.

Following its initial acquisition of 20% share capital of Media Magic Technology Limited (“**Media Magic**”), a company principally engaged in the provision of the mobile payment gateway services, on 22 August 2006, the Company further acquired 31% share capital of Media Magic on 5 January 2007. Since then, the Group has been principally engaging in the provision of mobile payment gateway services, while continuing with the provision of full range of design, engineering and manufacturing services to high-end brand-named users in the electronics industry. In addition, as stated in the Interim Report 2007-2008 of the Company and the circular of the Company dated 3 December 2007 in relation to the Company's third acquisition of 24% interest in Media Magic which was completed on 21 December 2007, it is expected that the mobile payment gateway services will further expand to 12 other major provinces and municipal cities in the PRC in the near future. Following full scale operations of the mobile payment gateway services in 21 major provinces/municipal cities in the PRC, the Directors believe that the mobile payment gateway services will continue to generate a steady source of income as well as bringing promising returns to the Group in the near future. As for the insurance products, full operation has been carried out in Guangxi (廣西) and Jilin (吉林) and it is expected that sale of

accident insurance products will expand to other provinces and municipal cities in the PRC gradually. The monthly turnover of the mobile payment gateway services has increased by approximately 292% since its accounts being consolidated with that of the Group. During the six months period ended 30 September 2007, the turnover of the mobile payment gateway services increased at an average rate of approximately 17.2% with high gross profit margin of over 60%. Thus its contribution to the total turnover of the Group has been increasing. Considering the advantages including (i) future prospects and potential of the telecommunication sector in the PRC; and (ii) the increasing number of mobile phone users in the PRC under the environment embraced by rapid economic growth in the PRC, the mobile payment gateway services business is expected to expand rapidly and significantly.

As such, after reviewing the respective financial results and performance of the electronic devices and components business and the mobile payment gateway services business for over one year as well as the factors indicated above, with a view to optimize the Shareholders' interest, the Directors consider that it is the right time to dispose the loss making business of UB Group (based on the unaudited management accounts of UB Group for the six months ended 30 September 2007). Moreover, the Directors do not consider the Disposal would lead to a change of its principal business since after completion of the Disposal, the principal business of the Group will remain as mobile payment gateway services business and the Group will direct its resources and the management's focus to other business including the mobile payment gateway services business which is of significant increase in turnover, higher profit margin and optimistic prospects. Therefore, the Directors (excluding the independent non-executive Directors who will give their views on the terms of the Disposal after having been advised by the IFA), consider that the Disposal is in the interests of the Company and the Independent Shareholders as a whole.

It is estimated that, upon Completion, the Group will record a loss on disposal of approximately HK\$22 million. Such loss is estimated based on the difference between (i) the aggregate of the First Disposal Consideration and the Second Disposal Consideration and (ii) the aggregate of the net asset value of the UB Group of approximately HK\$18.0 million and goodwill which arose from the acquisition of the UB Group of approximately HK\$14.5 million. The final amount of the actual gain or loss as a result of the Disposal will be determined as at the completion of the Disposal. Upon completion, the Group will significantly lower its gearing level by approximately HK\$60.0 million.

The Board intends to apply the net sale proceeds of approximately HK\$8.5 million for future development and investment of the Group. As at the date of this announcement, the Company did not have any specific development and investment plans.

GEM LISTING RULES IMPLICATION

The Disposal constitutes a very substantial disposal on the part of the Company under the GEM Listing Rules. As Mr. Lo is an executive Director, a director of Union Bridge, each of the UB Subsidiaries and the PRC Subsidiary, whereas Ms. Cheng is a director of Union Bridge and each of the UB Subsidiaries, the Disposal also constitutes a connected transaction on the part of the Company under the GEM Listing Rules. The Disposal Agreements will be subject to Independent Shareholders' approval at the SGM by way of poll.

Mr. Lo, Ms. Cheng and their respective associates will abstain from voting to approve the Disposal Agreements at the SGM. As at the date of this announcement, Mr. Lo, Ms. Cheng and their respective associates do not have any interest in the Company.

The IBC comprising all three independent non-executive Directors will be formed to advise the Independent Shareholders as to whether the terms of the Disposal Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole and to advise on the Independent Shareholders on how to vote after taking into account the recommendations of the IFA. The IFA will be appointed to advise the IBC and the Independent Shareholders in this regard.

PROPOSED RESIGNATION OF EXECUTIVE DIRECTOR

Mr. Lo will resign as executive Director with effect from the completion of the Disposal Agreements for his own career development. Mr. Lo has confirmed that he has no disagreement with the Board and there are no matters regarding his proposed resignation which need to be brought to the attention of the Shareholders as at the date of this announcement. Further announcement will be made upon his resignation becoming effective in accordance with the GEM Listing Rules.

GENERAL

A circular containing, among other things, further details of the Disposal Agreements and the transactions contemplated thereunder, the letter of advice from the IFA to the IBC and the Independent Shareholders, the recommendation of the IBC to the Independent Shareholders together with the notice of the SGM will be despatched to the Shareholders as soon as practicable and in accordance with the GEM Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 14 January 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 17 January 2008.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

“associates”	has the meaning associated thereto in the GEM Listing Rules
“Board”	the board of Directors

“Business Day”	a day (other than a Saturday or a Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Palmpay China (Holdings) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Directors”	the directors of the Company, including the independent non-executive directors
“Disposal Agreements”	the First Disposal Agreement together with the Second Disposal Agreement
“Disposal”	the proposed disposal of the entire issued share capital of Union Bridge under the Disposal Agreements
“First Disposal Agreement”	the conditional agreement dated 11 January 2008 and entered into between Great Plan and Mr. Lo in relation to the sale and purchase of 18,750 UB Shares
“First Disposal Consideration”	the aggregate consideration of HK\$5,250,000 for the sale and purchase of 18,750 UB Shares pursuant to the First Disposal Agreement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Great Plan”	Great Plan Group Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries (which shall exclude, where the context requires, UB Group after completion of the Disposal Agreements)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IBC”	an independent board committee of the Board comprising all three independent non-executive Directors to advise the Independent Shareholders as to the terms of the Disposal Agreements and how to vote, taking into account the recommendations of the IFA

“IFA”	an independent financial adviser to be appointed to advise the IBC and the Independent Shareholders whether the terms of the Disposal Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole
“Independent Shareholders”	the Shareholders other than Mr. Lo, Ms. Cheng and their respective associates or others who are interested in the Disposal
“Mr. Lo”	Mr. Lo Ka Tong, an executive Director, a director of Union Bridge, each of the UB Subsidiaries and the PRC Subsidiary
“Ms. Cheng”	Ms. Cheng Pui Ping, a director of Union Bridge and each of the UB Subsidiaries
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Subsidiary”	東莞名橋電子有限公司(Dongguan Popbridge Electronic Co., Ltd), a company established in the PRC and an indirect wholly-owned subsidiary of Union Bridge
“Second Disposal Agreement”	the conditional agreement dated 11 January 2008 and entered into between Great Plan and Ms. Cheng in relation to the sale and purchase of 18,750 UB Shares
“Second Disposal Consideration”	the aggregate consideration of HK\$5,250,000 for the sale and purchase of 18,750 UB Shares pursuant to the Second Disposal Agreement
“SGM”	the special general meeting of the Company to be convened by the Company to consider and if thought fit, to approve the Disposal Agreements and the transaction contemplated thereunder
“Shareholders”	holders of the Shares
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“UB Group”	Union Bridge, together with the UB Subsidiaries and the PRC Subsidiary

“UB Share(s)”	share(s) of US\$0.10 each in the share capital of Union Bridge
“UB Subsidiaries”	the subsidiaries of Union Bridge excluding the PRC Subsidiary
“Union Bridge”	Union Bridge Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

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

Hong Kong, 16 January 2008

For the purpose of this announcement, unless otherwise indicated, conversion of US\$ into HK\$ is calculated at the approximately exchange rate of US\$1.00 to HK\$7.80. This exchange rate is adopted for the purpose of illustration only and do not constitute a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate at all.

As at the date of this announcement, the executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Tung Sheng, Mr. Lo Ka Tong and Mr. Chan Hin Wing, James. The non-executive Director and the chairman of the Company is Dr. Ho Hoi Lap. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Chan Wing Chiu.

This announcement, 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 enquires, confirm that, to the best of their knowledge and belief:– (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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