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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)

**MAJOR AND CONNECTED TRANSACTION
INVOLVING ACQUISITION OF 25% INTERESTS IN
MEDIA MAGIC TECHNOLOGY LIMITED
WITH ISSUE OF CONSIDERATION SHARES
AND CONVERTIBLE BONDS
AND
RESUMPTION OF TRADING**

Financial Adviser to the Company



INCUB Corporate Finance Limited

SALE AND PURCHASE AGREEMENT

The Board announces that on 26 February 2009, after trading hours, Upper Power, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendors, pursuant to which, the Vendors have agreed to sell, and Upper Power, as Purchaser, has agreed to purchase, an aggregate of 13,889 MM Shares (as to 722 Sale Shares, 9,055 Sale Shares and 4,112 Sale Shares by Vendor A, Vendor B and Vendor C respectively, representing approximately 1.30%, 16.30% and 7.40% of the total issued share of Media Magic as at the date of the Sale and Purchase Agreement, for a total consideration of HK\$82,335,000 which shall be settled by Upper Power in cash and by procuring the Company to issue the Consideration Shares and the Convertible Bonds to the Vendors.

* For identification purpose only

Upon completion of the Sale and Purchase Agreement, the Company will issue the Consideration Shares and the Convertible Bonds to the Vendor as described below in the “Consideration” of the “SALE AND PURCHASE AGREEMENT”. Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and Conversion Shares. The Directors will seek a specific mandate from the Shareholders at the SGM to allot and issue the Consideration Shares and Conversion Shares.

Before the Acquisition, Media Magic is an indirect subsidiary of the Company. Upon completion of the Sale and Purchase Agreement, the Company will hold indirectly 100% equity interests in Media Magic with Media Magic continues to be a subsidiary of the Company and with its consolidated accounts being consolidated with that of the Group.

The Acquisition constitutes a major and connected transaction for the Company under Chapter 19 and Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement and the Independent Shareholders’ approval requirements by way of poll under Chapter 20 of the GEM Listing Rules.

GENERAL

A circular will be despatched as soon as practicable within 21 days after publication of this announcement to the Shareholders containing among other things, (i) details of the Acquisition, (ii) a letter from the Independent Board Committee containing its advice in respect of the Acquisition; (iii) a letter from an independent financial advisor to the Independent Board Committee and Independent Shareholders containing its advice in respect of the Acquisition; and (iv) a notice convening the SGM, in compliance with the GEM Listing Rules.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 27 February 2009 pending release of this announcement. Application has been made by the Company for resumption of trading in the Shares from 9:30 a.m. on 3 March 2009.

On 26 February 2009 (after trading hours), Upper Power entered into the Sale and Purchase Agreement, pursuant to which, Vendor A, Vendor B and Vendor C have agreed to sell, and Upper Power, as purchaser, has agreed to purchase, in aggregate the 13,889 MM Shares (representing approximately 1.30%, 16.30% and 7.40% of the issued share capital of Media Magic) for a total consideration of HK\$82,335,000 which shall be settled by Upper Power in cash and by procuring the Company to allot and issue the Consideration Shares and the Convertible Bonds. Further details of the Sale and Purchase Agreement is described below.

THE SALE AND PURCHASE AGREEMENT

Date: 26 February 2009 (after trading hours)

Parties:

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

Vendors: Vendor A, being a shareholder of Media Magic

Vendor B, being a substantial shareholder of Media Magic and thus a connected person of the Company

Vendor C, being a shareholder of Media Magic

As at the date of the Sale and Purchase Agreement, Media Magic is beneficially owned as to approximately 1.30% by Vendor A, approximately 16.30% by Vendor B, approximately 7.40% by Vendor C and approximately 75% by Upper Power.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors (except Vendor B, which is a substantial shareholder of Media Magic and thus a connected person of the Company) and their respective ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

Assets to be acquired

The 13,889 MM Shares represent approximately 25% of the existing issued share capital of Media Magic as at the date of the Sale and Purchase Agreement and the entire interests held by the Vendors in Media Magic.

Consideration

The total consideration for the 13,889 MM Shares is HK\$82,335,000 shall be settled by the Purchaser in the following manner:

- (i) cash of HK\$7,000,000:
 - (a) HK\$4,000,000 shall be payable in cash within five Business Days from the date of the Sale and Purchase Agreement as deposit of the Acquisition; and
 - (b) HK\$3,000,000 shall be payable in cash on Completion.
- (ii) as to HK\$26,000,000 by the Purchaser by procuring the Company to allot and issue the 236,363,636 Consideration Shares to the Vendors credited as fully paid, at the Issue Price; and

(iii) as to HK\$49,335,000 by the Purchaser by procuring the Company to issue at Completion the Convertible Bonds to the Vendors (i.e. HK\$2,565,420 for Vendor A, HK\$32,166,420 for Vendor B and HK\$14,603,160 for Vendor C).

The payments referred to in items (i)(b), (ii) and (iii) above shall be made on Completion.

Source of Funding

Cash portion of the Consideration will be financed by the internal resources of the Group.

Basis of Consideration

The Consideration is determined at after arm's length negotiation between Upper Power and the Vendors with reference to (i) the future prospect and business plan of the Media Magic Group and PalmPay Technology; and (ii) the profit guarantee of at least HK\$33 million being the audited consolidated net profit after tax and extraordinary or exceptional items of the Media Magic Group for the year ending 31 March 2009 ("**Former Profit Guarantee**") joint and severally guaranteed and warranted to Upper Power by Vendor A and Mr. Hsu Tung Chi according to the Former Sale and Purchase Agreements and (iii) the profit earning ratios of a number of listed companies engaging similar business in the telecommunication sector in Hong Kong ranging from about 0.13 to 125 times. For details of Media Magic and its future prospect and business plan, please refer to the sections headed "INFORMATION OF THE MEDIA MAGIC GROUP" and "REASONS FOR THE ACQUISITION" below.

The Consideration represents 9.98 price earnings multiple (which is the lower range of the profit earning ratios of a number of listed companies engaging similar business in the telecommunication sector in Hong Kong as stated above) of the Former Profit Guarantee and equity interests to be acquired in Media Magic (i.e. $\text{HK\$33,000,000} \times 9.98 \times 25\% = \text{HK\$82,335,000}$).

The Consideration represents approximately 11.15 times based on attributable 25% equity interests in the Media Magic Group's audited net assets value of approximately HK\$29,538,000 as at 31 March 2008, i.e. approximately HK\$7,385,000. The financial information of the Media Magic Group is further provided in the section headed "Information of the Media Magic Group" below.

The Directors consider that the prospect of a service based business lies on its earning potentials, rather than on its net asset value, as such, comparison with the price earnings multiple is a more reasonable reference rather than comparison with the net asset value of the Media Magic Group.

In view of the above, the Directors (excluding the independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) consider the Consideration to be fair and reasonable and that the Sale and Purchase Agreement is on normal commercial terms and its terms are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interests of the Group and the Shareholders as a whole.

Conditions precedent

Completion of the Acquisition is subject to, among other matters, the following conditions having been fulfilled or waived under the Sale and Purchase Agreement (as the case may be):

- (a) all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the Sale and Purchase Agreement and the transactions contemplated thereby having been obtained;
- (b) the passing by the Independent Shareholders at the SGM approving the Sale and Purchase Agreement and the transactions contemplated hereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendors at the Issue Price credited as fully paid, the issue of the Convertible Bonds and allotment and issue of the Conversion Shares;
- (c) the satisfaction of the Purchaser to the results of due diligence on the assets, liabilities, operation and other major business of the Media Magic Group;
- (d) the warranties remaining true and accurate in all respects; and
- (e) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares and the Conversion Shares.

The Directors are not aware of any consents or approvals that are required to be obtained on the part of Upper Power (except for obtaining Independent Shareholders' approval on the Acquisition and the allotment and issue of Consideration Shares and Conversion Shares at the SGM) and the Vendors under condition (a) above. Pursuant to the Sale and Purchase Agreement, all conditions except (c) and (d) are not waivable by Upper Power, however, Upper Power does not have any intention to waive such conditions (c) and (d).

Long stop date

The Sale and Purchase Agreement provides that should the satisfaction of all of its conditions, if not waived by Upper Power, not occur on or before 15 May 2009 or such later date (the "**Long Stop Date**") as Upper Power and the Vendors may agree, the Sale and Purchase Agreement shall terminate and neither Upper Power nor the Vendors shall have any liability thereunder other than antecedent breaches.

Completion

Completion of the Sale and Purchase Agreement shall take place on or before 4:00 p.m. within three Business Days after all the conditions of the Sale and Purchase Agreement having been fulfilled or waived or such later date as may be agreed between the Vendors and the Purchaser.

If the conditions set out above have not been satisfied (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, or such later date as the Vendors and the Purchaser may agree, the Vendor shall forthwith refund to the Purchaser the Deposit paid by the Purchaser, without interest and the Sale and Purchase Agreement shall cease and determine and thereafter neither party shall have any obligation and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

If the conditions set out above have been fulfilled or waived on or before the Long Stop Date, but Completion does not take place as a result of the sole default of the Purchaser, the Vendors may forthwith determine the Sale and Purchase Agreement by giving notice of termination in writing to the Purchaser to such effect, in which event the Vendors shall be entitled to forfeit the Deposit paid by the Purchaser absolutely and neither party shall have any obligations and liabilities towards each other 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 thereof.

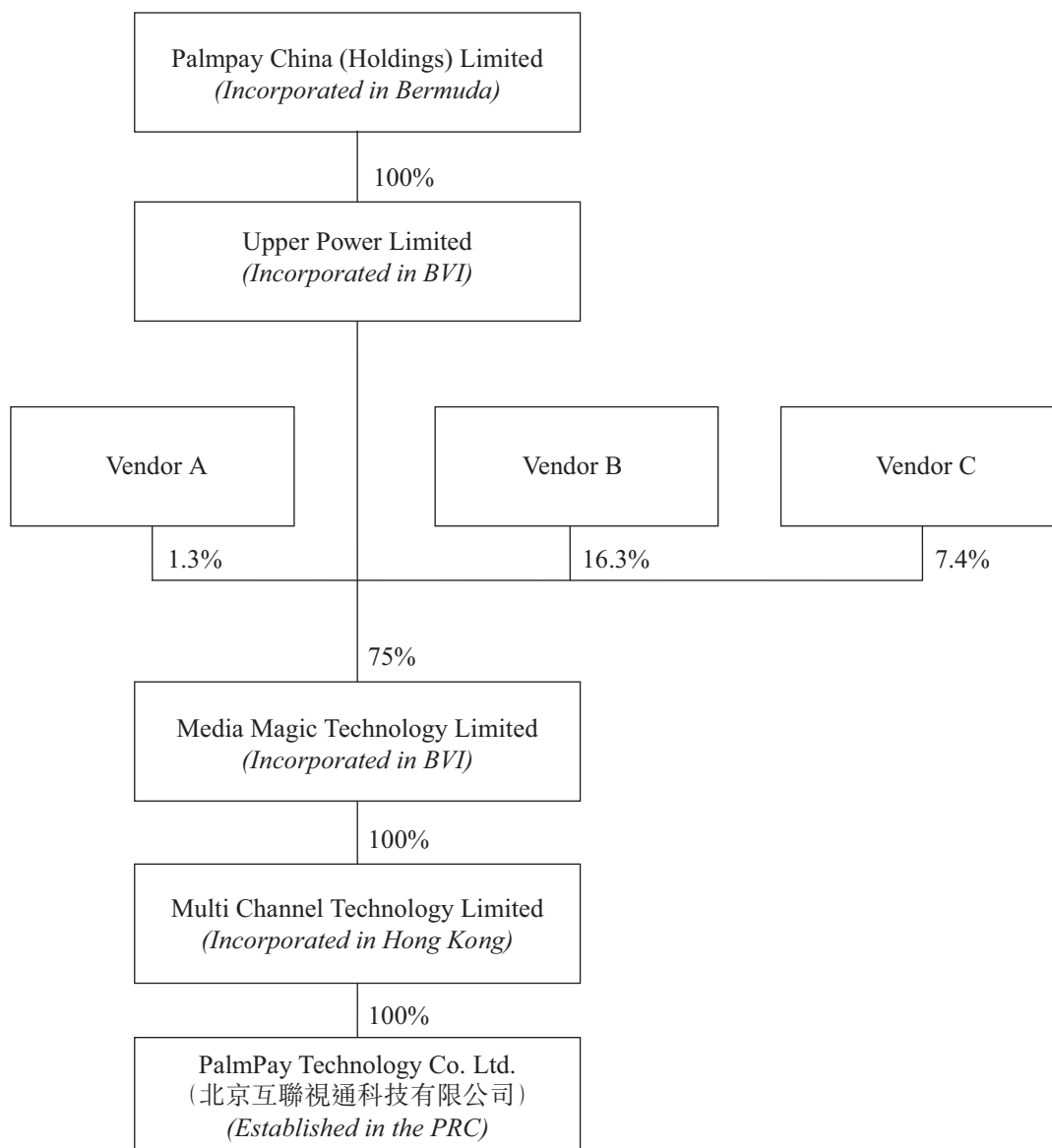
If the conditions set out above have been fulfilled or waived on or before the Long Stop Date, but Completion does not take place otherwise than as a result of the sole default of the Purchaser, the Purchaser may forthwith determine the Sale and Purchase Agreement by giving notice of termination in writing to the Vendors to such effect, in which event the Vendors shall forthwith refund the Deposit paid by the Purchaser without interest to the Purchaser and neither party shall have any obligations and liabilities towards each other 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 thereof.

Before the Acquisition, Media Magic is an indirect subsidiary of the Company. Upon completion of the Sale and Purchase Agreement, the Company will hold indirectly 100% equity interests in Media Magic with Media Magic continues to become a subsidiary of the Company and with its consolidated accounts being consolidated with that of the Group.

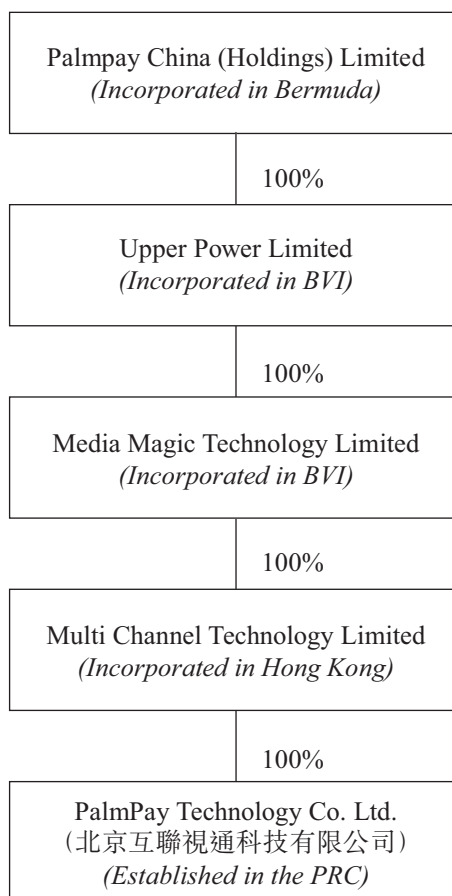
Group Structure

The diagram below shows separately the structure of the Group immediately before and after completion of the Acquisition:

Before completion of the Acquisition:



After completion of the Acquisition:



THE CONSIDERATION SHARES

The 236,363,636 new Shares will be issued at an Issue Price of HK\$0.11 per Consideration Share, 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 12% to the closing price of HK\$0.125 per Share as quoted on the Stock Exchange on 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement;
- (ii) a discount of approximately 12% to the closing price of HK\$0.125 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement;

- (iii) a discount of approximately 10.93% to the closing price of HK\$0.1235 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement; and
- (iv) a discount of approximately 18.52% to the net asset value per Share of approximately HK\$0.135 based on the audited consolidated financial statements of the Group as at 31 March 2008 and the total number of issued shares of the Company of 1,566,375,508 as at the date of this announcement.

Based on the closing price of HK\$0.125 per Share as quoted on the Stock Exchange on 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement, the Consideration Shares has a total market value of approximately HK\$29,545,454.50.

The Consideration Shares of 236,363,636 new Shares, of which 12,290,909 new Shares will be issued to Vendor A, 154,109,091 new Shares will be issued to Vendor B and 69,963,636 new Shares will be issued to Vendor C, representing in aggregate approximately 15.09% of the existing issued share capital of the Company, approximately 13.11% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 10.83% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming the Conversion Shares were to be issued at the Conversion Price.

The 12,290,909 new Shares will be issued to Vendor A representing approximately 0.78% of the existing issued share capital of the Company, approximately 0.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 0.56% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming the Conversion Shares were to be issued at the Conversion Price.

The 154,109,091 new Shares will be issued to Vendor B representing approximately 9.84% of the existing issued share capital of the Company, approximately 8.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 7.06% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming the Conversion Shares were to be issued at the Conversion Price.

The 69,963,636 new Shares will be issued to Vendor C representing approximately 4.47% of the existing issued share capital of the Company, approximately 3.88% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 3.21% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming the Conversion Shares were to be issued at the Conversion Price.

The Issue Price was arrived at by the Vendors and the Purchaser after taking into consideration of (i) the average recent trading prices of the Shares during the course of negotiation; and (ii) 6 months lock-up period for the Consideration Shares which may secure the medium-term commitment on the part of the Vendors in the Consideration Shares that minimizes fluctuations in prices of the Shares caused by the Vendors in short run, the Directors (excluding the independent non-executive Directors) consider that the Issue Price is fair and reasonable and on normal commercial terms and in the interests of the Group and the Shareholders as a whole.

Mandate to issue Consideration Shares

The Directors will seek a specific mandate from the Independent Shareholders at the SGM to allot and issue the Consideration Shares.

Restriction on disposal

The Vendors undertake 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 six months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of the Consideration Shares or any interests therein or grant any options or rights in respect of any of the Consideration Shares without prior written approval from the Purchaser.

Application for listing

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

THE CONVERTIBLE BONDS

To satisfy part of the Consideration, the Company will issue to the Vendors (or its nominees) the Convertible Bonds in the principal amount of HK\$49,335,000 (i.e. HK\$2,565,420 for Vendor A, HK\$32,166,420 for Vendor B and HK\$14,603,160 for Vendor C) by issue of the Convertible Bonds.

The following is a summary of the principal terms of the Convertible Bonds:

Conversion Price: HK\$0.13 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues. Such adjustments will be certified by an independent approved merchant bank or the auditors of the Company for the then time being.

The Conversion Price of HK\$0.13 per Conversion Share represents:

- (i) a premium of approximately 4% over the closing price of HK\$0.125 per Share as quoted on the Stock Exchange on 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement;
- (ii) a premium of approximately 4% over the closing price of HK\$0.125 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement;
- (iii) a premium of approximately 5.26% over the closing price of HK\$0.1235 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 26 February 2009, being the last trading day immediately prior to the entering into of the Sale and Purchase Agreement; and
- (iv) a discount of approximately 3.7% to the net asset value per Share of approximately HK\$0.135 based on the audited consolidated financial statements of the Group as at 31 March 2008 and the total number of issued shares of the Company of 1,566,375,508 as at the date of this announcement.

The Conversion Price was determined at after arm's length negotiations among the Purchaser, the Vendor and the Company with reference to average recent market prices of the Shares and the Issue Price. The Conversion Price is set at a greater price than the Issue Price and represents a premium of 18.18% over the Issue Price in view of the maturity of the Convertible Bonds of three years.

Interest rate: The Convertible Bonds will carry interest of 1% per annum, payable semi-annually

Transferability: The Bondholder(s) may assign or transfer the Convertible Bonds to Independent Third Parties in whole or in part in integral multiples of HK\$1,000,000 or if the outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000, the whole but not part of the Convertible Bonds may be assigned or transferred.

Conversion: Under the terms of the Convertible Bonds, the shareholding of each of the Vendors and its respective parties acting in concert on any conversion of the Convertible Bonds must not exceed 30% or more of the issued share capital of the Company on the date of the conversion and that any conversion will not trigger off a general offer under rule 26 of the Codes on the part of the Vendors and its respective parties acting in concert. The Company will not issue the Conversion Shares to the Vendors if the shareholding of each of the Vendors and its respective parties acting in concert upon any conversion of the Convertible Bonds exceeds 30% or more of the issue share capital of the Company.

Subject to the above, the Vendors will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Shares during the Conversion period in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion.

Conversion period: Bondholder(s) shall have the right to convert, from the date of issue of the Convertible Bonds up to and including the maturity date, the whole or any part (in an amount or integral multiple of HK\$1,000,000) of the principal amount of the Convertible Bonds into Conversion Shares.

Conversion Shares: Upon full conversion of the Convertible Bonds at the Conversion Price, an aggregate of 379,500,000 Conversion Shares will be issued by the Company (representing approximately 24.23% of the existing issued share capital of the Company, approximately 21.05% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and approximately 17.39% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Conversion Shares, assuming the Conversion Shares were to be issued at the Conversion Price. However, under the terms of the Convertible Bonds, the shareholding of each of the Vendors and its respective parties acting in concert on any conversion of the Convertible Bonds must not exceed 30% or more of the issued share capital of the Company on the date of the conversion and will not trigger off a general offer under rule 26 of the Codes on the part of the Vendors and its respective parties acting in concert.

The Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Bonds will rank pari passu in all respects with all other Shares in issue at the date on which the conversion rights attached to the Convertible Bonds are exercised. The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM and will be allotted and issued upon exercise by the Vendors.

- Voting:** A Bondholder will not be entitled to receive notice of, attend or vote, at any general meeting of the Company by reason only of it being a Bondholder.
- Listing:** No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. An application will be made by the Company for the listing of and permission to deal in the Conversion Shares to be issued.
- Ranking:** The Convertible Bonds will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company.
- Redemption:** Unless previously converted or lapsed or redeemed by the Company, the Company will redeem the Convertible Bonds on the respective maturity dates of the Convertible Bonds.

The Company may at any time before the respective maturity dates of the Convertible Bonds by serving prior written notice on the Bondholder(s) with the total amount proposed to be redeemed from the Bondholder(s) specified therein, redeem the Convertible Bonds (in whole or in part) at par plus interest accrued.

Any amount of the Convertible Bond(s) which remains outstanding on the respective maturity dates of the Convertible Bonds shall be redeemed at its then outstanding principal amount, inclusive of interest as accrued.

CHANGES IN SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 1,566,375,508 Shares in issue, 164,560,000 outstanding share options, 267,304,635 non-listed warrants issued on 11 September 2007, 6,986,899 conversion shares to be allotted and issued upon conversion of the convertible bonds issued pursuant to the Former Sale and Purchase Agreements.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, 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; (iii) immediately after allotment and issue of the Consideration Shares and full conversion of the Convertible Bonds at the Conversion Price assuming no further Shares (including exercise of the outstanding share options, non-listed warrants and convertible bonds issued pursuant to

the Former Sale and Purchase Agreements) will be issued or no Shares will be repurchased before the allotment and issue of the Consideration Shares and Conversion Shares; and (iv) immediately after the allotment and issue of the Consideration Shares and the Conversion Shares, exercise of 164,560,000 share options, 267,304,635 warrants and 6,986,899 conversion shares pursuant to the Former Sale and Purchase Agreements:

Shareholders	As at the date of this announcement before the allotment and issue of the Consideration Shares and Conversion Shares		Immediately after the allotment and issue of the Consideration Shares		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares		Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares, exercise of 164,560,000 share options, 267,304,635 warrants and 6,986,899 conversion shares	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Starryland Profits Limited (Note 1)	351,354,000	22.43%	351,354,000	19.49%	351,354,000	16.10%	351,354,000	13.40%
Mr. Lau Kim Hung, Jack (Note 1)	12,408,000	0.79%	12,408,000	0.69%	12,408,000	0.57%	12,408,000	0.47%
Subtotal	363,762,000	23.22%	363,762,000	20.18%	363,762,000	16.67%	363,762,000	13.87%
Vendor B (Note 4)	-	-	-	-	412,343,091	18.89%	412,343,091	15.73%
Big Well Investments Limited (Note 6)	-	-	-	-	-	-	267,304,635	10.20%
Hsu Tung Sheng (Note 2)	900,000	0.06%	900,000	0.05%	900,000	0.04%	15,740,000	0.60%
Ho Hoi Lap (Note 2)	2,544,000	0.16%	2,544,000	0.14%	2,544,000	0.12%	15,744,000	0.60%
Hsu Tung Chi (Note 2)	61,674,000	3.94%	61,674,000	3.42%	61,674,000	2.83%	79,134,087	3.02%
Chan Hin Wing, James (Note 2)	-	-	-	-	-	-	14,840,000	0.57%
Chan Francis Ping Kuen (Note 2)	-	-	-	-	-	-	28,360,000	1.08%
Subtotal	65,118,000	4.16%	65,118,000	3.61%	477,461,091	21.88%	833,465,813	31.80%
Public								
Vendor A (Note 3)	105,217,333	6.72%	117,508,242	6.52%	137,242,242	6.29%	141,609,054	5.40%
Vendor B (Note 4)	10,800,000	0.69%	164,909,091	9.15%	-	-	-	-
Vendor C (Note 5)	7,920,000	0.51%	77,883,636	4.32%	190,215,636	8.72%	190,215,636	7.26%
Employees and consultants	-	-	-	-	-	-	78,480,000	3.00%
Other Public shareholders	1,013,558,175	64.70%	1,013,558,175	56.22%	1,013,558,175	46.44%	1,013,558,175	38.67%
Subtotal	1,137,495,508	72.62%	1,373,859,144	76.21%	1,341,016,053	61.45%	1,423,862,865	54.33%
Total	<u>1,566,375,508</u>	<u>100.00%</u>	<u>1,802,739,144</u>	<u>100.00%</u>	<u>2,182,239,144</u>	<u>100.00%</u>	<u>2,621,090,678</u>	<u>100.00%</u>

Notes:

1. Starryland Profits Limited is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”) who does not hold any position in the Group. Mr. Lau is deemed to be interested in 351,354,000 shares held by Starryland Profits Limited. In addition, by virtue of being the spouse of Ms. Chan Yiu Kan Katie, he is also deemed to be interested in 1,200,000 shares held by Ms. Chan Yiu Kan Katie.

2. Mr. Hsu Tung Sheng is an executive Director and chief executive officer of the Company, Dr. Ho Hoi Lap is non-executive Director and chairman of the Company Mr. Hsu Tung Chi, Mr. Chan Hin Wing and Mr. Chan Francis Ping Kuen are executive Directors.
3. Vendor A and his parties acting in concert will hold less than 30% of the total issued Shares at any time after Completion.
4. 10,800,000 shares were held by the ultimate beneficial owner of Vendor B. Vendor B and its parties acting in concert will hold less than 30% of the total issued Shares at any time after Completion.
5. 7,920,000 shares were held by the ultimate beneficial owner of Vendor C. Vendor C and its parties acting in concert will hold less than 30% of the total issued Shares at any time after Completion.
6. Big Well Investments Limited is a company incorporated in the British Virgin Islands which is a subscriber of 223,000,000 non-listed warrants under the private placing of non-listed warrants as disclosed in the announcements of the Company dated 27 August 2007 and 1 September 2007 conferring rights to Big Well Investments Limited to subscribe for 223,000,000 Shares. After the bonus issue adjustment, the number of non-listed warrants is adjusted to 267,304,635.

INFORMATION ON THE VENDORS

Vendor A is a previous vendor of Media Magic in relation to the Former Sale and Purchase Agreements. Apart from being a shareholder of Media Magic, Vendor A does not assume any role in Media Magic. Vendor A does not have any relationship with Mr. Lau, a substantial Shareholder.

Vendor B, an investment holding company, apart from being substantial shareholders of Media Magic, does not have any relationship with Mr. Lau and the previous vendors of Media Magic in relation to the Former Sale and Purchase Agreements.

Vendor C, an investment holding company, apart from being a shareholder of Media Magic, does not have any relationship with Mr. Lau and the previous vendors of Media Magic in relation to the Former Sale and Purchase Agreements.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Vendor A, Vendor B and Vendor C are independent to each other.

Vendor A, Vendor B, Vendor C, Mr. Lau and the previous vendors of Media Magic in relation to the Former Sale and Purchase Agreements are not parties acting in concert.

INFORMATION ON THE MEDIA MAGIC GROUP

Business carried on by Media Magic and PalmPay Technology

Media Magic is a company incorporated in BVI on 5 January 2004 and commenced operation from September 2006, which principally engaged in the provision of diversified mobile value-added services, including but not limited to, the provision of mobile online games, patented popular electronic cartoon

characters and animation series download etc., for mobile phone users in the PRC through franchising and cooperation with telecommunication business licensed providers.

PalmPay Technology, being the principal operating subsidiary of the Media Magic Group, is a PRC enterprise established on 20 March 2005, which is currently engaged principally in the mobile payment gateway business in the PRC. Mobile payment gateway business refers to the provision of online mobile payment services such as online shopping and payment of service bills by the services providers to mobile phone users. The product variety of PalmPay Technology has been enlarged compared with that at the time of its commencement of business in September 2006. PalmPay Technology is currently selling a variety of products through its mobile payment platforms, such as IP cards, virtual game cards and accident insurance products.

Set out below is a summary of key financial data of the Media Magic Group, which has been prepared based on the generally accepted accounting principles in Hong Kong.

	For the year ended 31 March 2008 approximately HK\$ (audited)	For the year ended 31 March 2007 approximately HK\$ (audited)
Results		
Turnover	36,523,000	3,177,000
Profit before tax	23,371,000	1,428,000
Profit before tax (%)	63.99%	44.95%
Profit after tax	21,201,000	931,000
Profit after tax (%)	58.05%	29.30%
	As at 31 March 2008 approximately HK\$ (audited)	As at 31 March 2007 approximately HK\$ (audited)
Assets and liabilities		
Total assets	61,997,000	21,309,000
Net assets value	29,538,000	6,653,000

As at of the date of this announcement, PalmPay Technology, through cooperation with China Unicom (中國聯通) (i) has already penetrated its mobile payment gateway business into 15 major provinces and municipal cities in the PRC covering Shanghai (上海), Liaoning (遼寧), Chongqing (重慶), Jilin (吉林), Guangxi (廣西), Hunan (湖南), Hubei (湖北), Heilongjiang (黑龍江), Shaanxi (陝西), Guizhou (貴州), Gansu (甘肅), Inner Mongolia (內蒙), Yunnan (雲南), Xinjiang (新疆) and Sichuen (四川); (ii) is also in advanced stage of negotiations with China Unicom (中國聯通) for the provision of mobile payment gateway services in 6 other major provinces/municipal cities in the PRC such as Guangdong (廣東), Beijing (北京), Fujian (福建) and Shandong (山東). It is expected by the management of the

Media Magic Group that full scale operations for a total of 21 major provinces/municipal cities in the PRC for the provision of mobile payment gateway services will be available by the second quarter of this year.

Based on the unaudited management accounts of the Media Magic Group for the nine months ended 31 December 2008, turnover of the Media Magic Group derived from its mobile payment gateway business was approximately HK\$39.4 million, representing an increase of approximately 66% when compared with that of the corresponding period of the previous year, which provides stable income and cashflow to the Group.

Following full scale operations of the mobile payment gateway services in 21 major provinces/municipal cities in the PRC by the second quarter of this year, the Directors believe that the Media Magic Group will generate steady source of income as well as bringing promising returns to the Group in the near future.

REASONS FOR THE ACQUISITION

Upper Power is an investment holding company. The Group is principally engaged in the provision of mobile payment gateway services.

As stated in the announcement of the Company dated 12 November 2007 in relation to the acquisition of 24% interest in the Media Magic, the Directors believe that the business of the provision of diversified mobile value added services is of great potential and prospects in the PRC. Taking into account the significant growth of mobile payment gateway business during 2008, after due consideration, the Directors believes that it is the right time to further acquire 25% equity interests in Media Magic, upon Completion, Media Magic will become a indirect wholly owned subsidiary of the Company and the Group will account for all profit derived from mobile payment gateway business of the Media Magic Group, which will optimize Shareholders' interests in the long run.

Taking into account (i) the future prospect and potential of the telecommunication sector in the PRC and PalmPay Technology; (ii) there is an increasing number of mobile phone users in the PRC (current users have already reached 641 million by the end of December 2008 according to the statistics released by the MIIT) under the environment of fast economic growth in the PRC and in light of this, it is expected that there will be a growing demand for diversified mobile value-added services; and (iii) the benefits of consolidating the business of the Media Magic Group as described above, the Directors (excluding independent non-executive Directors who would give their views on the terms of the Acquisition after having been advised by the independent financial adviser) view that it is the right time to increase its stake in Media Magic to capture potential opportunities in the booming mobile phone market in the PRC and to achieve business growth for the Group and are of the view that the terms of the Sale and Purchase Agreement, are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

In an effort to establish a complete payment gateway solution in the PRC, the Group is developing another advanced form of payment gateway based on the Near Field Communication Technology (“NFC”). The Group has entered into a letter of intent with China Unicom (中國聯通) in February 2009 in relation to the development of Near Field Communication technology payment gateway business in the PRC and first in Shanghai. The Group is in final negotiation stage with one of the mobile telecommunication providers in the PRC, a leading bank in the PRC and a worldwide credit card provider for the introduction and operation of such NFC payment gateway in the PRC on a nation-wide basis.

The new NFC payment gateway will serve as an e-payment gateway and will compliment the mobile payment gateway business of the Group and consolidate the Group’s leading position in the payment gateway industry in the PRC. Hence, the Board is optimistic that the Group will achieve good performance in the medium to long term.

GEM LISTING RULES IMPLICATION

The Sale and Purchase Agreement constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules. As Vendor B is a substantial shareholder of Media Magic, which being a subsidiary of the Company, Vendor B is a connected person of the Company. The Acquisition therefore also constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. The Acquisition is subject to the reporting, announcement and the Independent Shareholders’ approval requirements by way of poll under Chapter 20 of the GEM Listing Rules.

Approval of the Independent Shareholders by way of poll is proposed to be sought at the SGM in respect of the Acquisition and the transactions contemplated thereunder including but not limited to the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares.

Vendor A, Vendor B and Vendor C and their respective associates, are, in aggregate, interested in 123,937,333 Shares representing approximately 7.91% of the total issued Shares of the Company of 1,566,375,508 Shares as at the date of this announcement and are required to abstain from voting in respect of the Acquisition and the transactions contemplated thereunder at the forthcoming SGM. Save as disclosed, no other Shareholders have material interest in the Acquisition and the transactions contemplated thereunder and are required to abstain from voting in respect of the approval of the Acquisition and the transactions contemplated thereunder at the forthcoming SGM.

The Independent Board Committee (comprising all the independent non-executive Directors) will be established to advise the Independent Shareholders as to whether the terms of the Acquisition and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. An independent financial adviser to advise the Independent Board Committee and the Independent Shareholders will be appointed accordingly. Neither of the independent non-executive Directors have any material interest in the Acquisition.

A circular will be despatched as soon as practicable within 21 days after publication of this announcement to the Shareholders containing among other things, (i) details of the Acquisition, (ii) a letter from the Independent Board committee containing its advice and recommendation in respect of the Acquisition; (iii) a letter from an independent financial advisor to the Independent Board Committee and Independent Shareholders containing its advice to the Independent Board Committee and Independent Shareholders in respect of the Acquisition; and (iv) a notice convening the SGM, in compliance with the GEM Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 27 February 2009 pending release of this announcement. Application has been made by the Company for resumption of trading in the Shares from 9:30 a.m. on 3 March 2009.

DEFINITIONS

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

“13,889 MM Shares”	13,889 ordinary shares of US\$1 each in the issue share capital of Media Magic, representing approximately 25% of the issued share capital of Media Magic
“722 Sale Shares”	722 MM Shares legally and beneficially owned by the Vendor A to be sold to Upper Power under Sale and Purchase Agreement
“9,055 Sale Shares”	9,055 MM Shares legally and beneficially owned by the Vendor B to be sold to Upper Power under Sale and Purchase Agreement
“4,112 Sale Shares”	4,112 MM Shares legally and beneficially owned by the Vendor C to be sold to Upper Power under Sale and Purchase Agreement
“Acquisition”	the acquisition of the 13,889 MM Shares (being 25% of the total issued share of Media Magic) pursuant to the Sale and Purchase Agreement
“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bond(s)

“Business Day”	a day (other than a Saturday, a Sunday and a public or statutory holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Code”	The Hong Kong Code on Takeovers and Mergers
“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 sale and purchase of the 13,889 MM Shares (being 25% of the total issued shares of Media Magic) in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the aggregate consideration of HK\$82,335,000 for the sale and purchase of the 13,889 MM Shares pursuant to the Sale and Purchase Agreement
“Consideration Shares”	236,363,636 new Shares to be allotted and issued by the Company to the Vendors at the Issue Price as part of the Consideration
“Conversion Price”	HK\$0.13 per Conversion Share, subject to usual anti-dilution adjustments, being the initial price at which the Convertible Bonds may be converted into the Conversion Shares
“Conversion Shares”	the 379,500,000 new Shares (subject to adjustment) to be allotted and issued to the Bondholder(s) upon conversion of the Convertible Bonds
“Convertible Bonds”	the convertible bonds in aggregate principal of HK\$49,335,000 (i.e. HK\$2,565,420 for Vendor A, HK\$32,166,420 for Vendor B and HK\$14,603,160 for Vendor C) to be issued by the Company in favour of the Vendors to satisfy part of the Consideration
“Deposit”	the payment of HK\$4,000,000 in cash which will be paid by the Purchaser to the Vendors within five Business Days from the date of the Sale and Purchase Agreement which shall be refundable according to the terms of the Sale and Purchase Agreement

“Director(s)”	the director(s) of the Company, from time to time
“Former Sale and Purchase Agreements”	the conditional sale and purchase agreements dated 5 November 2007 entered into among Upper Power as purchaser and Mr. Hsu Tung Sheng and Vendor A, as vendors for the sale of an aggregate of 13,333 MM Shares, representing approximately 24% of the issued share capital of Media Magic, thereunder which were completed on 21 December 2007
“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
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Acquisition and the transaction contemplated thereunder
“Independent Shareholders”	Shareholders other than Vendor A, Vendor B and Vendor C and their respective associates or others who are interested in the proposed the Acquisition at the forthcoming SGM
“Independent Third Party(ies)”	any person(s) or company(s) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, are third party(ies) independent of and not connected with any director, chief executive or substantial shareholders or management shareholders of the Company or its subsidiaries or any of their respective associates
“Issue Price”	the issue price of HK\$0.11 per Consideration Share
“Media Magic”	Media Magic Technology Limited, a company incorporated in BVI
“Media Magic Group”	Media Magic and its subsidiaries
“MIIT”	The Ministry of Industry and Information Technology of the People’s Republic of China (中華人民共和國工業和信息化部), including its local counterparts

“MM Shares”	shares in the share capital of Media Magic
“PalmPay Technology”	PalmPay Technology Co. Ltd. (北京互聯視通科技有限公司), a company established in the PRC
“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
“Purchaser” or “Upper Power”	Upper Power Limited, a company incorporated in BVI which is a wholly-owned subsidiary of the Company, being the purchaser of the 13,889 MM Shares from the Vendors pursuant to the Sale and Purchase Agreement
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 26 February 2009 entered into between Upper Power as purchaser and the Vendors, as vendors for the sale and purchase of the 13,889 MM Shares
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, among other matters, the Acquisition and the transaction contemplated thereunder, including but not limited to, the allotment and issue of the Consideration Shares, the issue of the Convertible Bonds, and the allotment and issue of the Conversion Shares
“Shareholder(s)”	holder(s) of Shares from time to time
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued and unissued share capital of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Vendor A”	Mr. Pang Hong Tao, a permanent resident in the PRC
“Vendor B”	Winner Gain Investments Limited, a company incorporated in the BVI, a substantial shareholder of Media Magic
“Vendor C”	Morning Sun Technology Limited, a company incorporated in the BVI
“Vendors”	together, Vendor A, Vendor B and Vendor C

“HK\$” and “cents” Hong Kong dollars and cents respectively, the lawful currency of Hong Kong

“%” per cent.

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

Hong Kong, 2 March 2009

As at the date of this announcement, the executive Directors are Mr. Chan Francis Ping Kuen, Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi 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 Kai Wing.

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 enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading;*
- (2) there are no other matters the omission of which would make any statement in this announcement misleading; and*
- (3) 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 appear and remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and the Company’s website at www.palmpaychina.com.