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PALMPAY CHINA (HOLDINGS) LIMITED

中國掌付(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 8047)

DISCLOSEABLE TRANSACTION INVOLVING THE ACQUISITION OF 51% EQUITY INTERESTS IN VIVA CHAMPION LIMITED

Financial adviser to the Company



INCUB Corporate Finance Limited

THE AGREEMENT

The Board is pleased to announce that on 4 October 2011 (after trading hours), the Purchaser entered into the Agreement with the Target Company, the Vendor and the Guarantor, pursuant to which: (i) the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at a total consideration of HK\$25,145,000; and (ii) the Purchaser shall subscribe for and the Target Company shall allot and issue, the Subscription Shares at a total consideration of HK\$6,150,000.

* For identification purposes only

The Sale Consideration shall be satisfied by the Purchaser in the follow manner: (i) HK\$3,660,000 has been paid by the Purchaser to the Vendor within three business days after signing the MOU as deposit and part payment of the Sale Consideration; (ii) HK\$6,190,000 shall be paid by the Purchaser in cash upon Completion; (iii) HK\$11,295,000 shall be satisfied by the Purchaser by procuring the Company to allot and issue the Consideration Shares at the Issue Price and credited as fully paid upon Completion to the Vendor; and (iv) HK\$4,000,000 shall be satisfied by the Purchaser by procuring the Company to issue the Promissory Note to the Vendor upon Completion.

The Subscription Consideration shall be settled by the Purchaser in cash upon Completion.

The Sale Shares and the Subscription Shares together represent 51% of the total issued share capital of the Target Company as enlarged by the allotment and issue of the Subscription Shares.

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

IMPLICATION OF THE GEM LISTING RULES

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

Reference is made to the announcement of the Company dated 9 August 2011. On 4 October 2011 (after trading hours), the Purchaser entered into the Agreement with the Target Company, the Vendor and the Guarantor, pursuant to which: (i) the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares at a total consideration of HK\$25,145,000; and (ii) the Purchaser shall subscribe for and the Target Company shall allot and issue the Subscription Shares, at a total consideration of HK\$6,150,000.

THE AGREEMENT

Date: 4 October 2011 (after trading hours)

Parties:

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

Vendor: Green Delight International Limited

Guarantor: Mr. Wong Kin Chung Michael

Target: The Target Company

The Vendor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The entire issued share capital in the Vendor is wholly and beneficially owned by the Guarantor. The Guarantor is a merchant who has extensive experience in conducting businesses in Hong Kong and the PRC.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and the Guarantor is an Independent Third Party.

Assets to be acquired

The Sale Shares and the Subscription Shares together will represent 51% of the issued share capital of the Target Company as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares, when allotted, fully paid and issued, will rank pari passu in all respects with the other shares of Target Company in issue on the date of allotment and issue of the Subscription Shares.

As at the date of this announcement, the Target Company is beneficially owned as to 100% by the Vendor. Upon Completion, the Target Company will be beneficially owned as to 51% by the Purchaser and 49% by the Vendor.

Consideration

The total consideration of HK\$31,295,000 comprises the Sale Consideration and the Subscription Consideration:

Sale Consideration

The Sale Consideration is HK\$25,145,000, which shall be settled in the following manner:

- i. HK\$3,660,000 (“**Deposit**”) has been paid by the Purchaser to the Vendor within three business days after signing the MOU and part payment of the Sale Consideration;
- ii. HK\$6,190,000 by the Purchaser in cash on Completion;
- iii. HK\$11,295,000 by the Purchaser by procuring the Company to allot and issue the Consideration Shares to the Vendor at the Issue Price and credited as fully paid on Completion; and
- iv. HK\$4,000,000 by the Purchaser by procuring the Company to issue the Promissory Note to the Vendor on Completion.

Subscription Consideration

The Subscription Consideration of HK\$6,150,000 shall be settled by the Purchaser in cash upon Completion.

The total consideration represents approximately 7.675 price-earnings multiple of the Profit Guarantee (as disclosed in the following section) and equity interests to be acquired in the Target Company (i.e. $\text{RMB}6,500,000 \times 1.23 \times 51\% = \text{HK}\$4,077,450$). The Directors consider that such 7.675 price-earnings multiple is a reasonable price-earnings ratio considering the prevailing price-earnings multiple of listed companies in the PRC, France and United States of America engaged in similar business of the Target Company which range from approximately 11.43 times to approximately 83.83 times.

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

The total consideration was agreed between the Purchaser and the Vendor after arm's length negotiations.

In addition, having considered that (i) the business development and prospects of the Target Group in the medium to long term; (ii) the Profit Guarantee; (iii) in case the Profit Guarantee is not fulfilled, the total consideration will be adjusted downwards; and (iv) the escrow arrangement of the Promissory Note, the Directors consider that the total consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The cash portion of the total consideration is intended to be funded by the internal resources of the Group and not from the net proceeds of the open offer of the Company of approximately HK\$28.87 million which was completed on 19 September 2011. The net proceeds of the open offer remains unutilized as at the date of this announcement.

Conditions precedent

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

- (1) all necessary consents and approvals required to be obtained on the part of the Vendor, the Target Company, and the Guarantor in respect of the sale of the Sale Shares and/or the allotment and issue of the Subscription Shares having been obtained;
- (2) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the acquisition of the Sale Shares and the subscription of the Subscription Shares having been obtained;

- (3) there does not exist any matter, fact or circumstance which constitutes, or may constitute a breach of the warranties provided by the Vendor and terms of the Agreement;
- (4) (if required) the passing by the Shareholders at a general meeting to be convened and held of ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares and the issue of the Promissory Note;
- (5) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (6) Completion of the Reorganization and the obtaining of a PRC legal opinion from the PRC legal adviser in form and substance satisfactory to the Purchaser in relation to the legality and validity in respect of the establishment and subsistence of the Nanjing WFOE, the Reorganization and other matters contemplated under the Agreement; and
- (7) the Purchaser being satisfied with the results of the due diligence review on the Target Group.

Conditions (3) and (7) above are waivable by the Purchaser under the Agreement while all the other conditions are incapable of being waived. The Purchaser has no current intention to waive such conditions as at the date of this announcement.

Completion

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

Upon Completion, the Company will be interested in 51% equity interests in the Target Company as enlarged by the allotment and issue of the Subscription Shares and the Target Group will be accounted for as indirect non wholly-owned subsidiaries of the Company.

The Group will appoint directors to take majority control of the board of directors of each of the companies in the Target Group upon Completion. The Company does not have intention to change the board composition of the Company upon Completion. In particular, the Guarantor will not be appointed as a director of the Company.

Long Stop Date

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

If all of the conditions are fulfilled (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, but Completion does not take place as a result of the sole default of the Purchaser, the Vendor shall be entitled to forfeit the Deposit paid by the Purchaser (not as penalty) 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.

If all of the conditions are fulfilled (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, but Completion does not take place as a result of other than the sole default of the Purchaser, the Vendor shall forthwith refund the Deposit paid by the Purchaser together with a sum equivalent to the Deposit as liquidated damages (and not as penalty) to the Purchaser and neither party shall have any obligations or liabilities towards each other and neither party shall take any action to claim for damages or to enforce specific performance or any other rights or remedies.

PROFIT GUARANTEE

Pursuant to the Agreement, the Vendor has covenanted and guaranteed to the Purchaser that the audited consolidated net profit after taxation of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards and to be audited by an accounting firm approved by the Purchaser for the financial year ending 31 December 2012 shall not be less than the Profit Guarantee of RMB6,500,000 (equivalent to approximately HK\$7,995,000).

Consideration Adjustment

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

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

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

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

The Shortfall shall be set off against the face value of the Promissory Note on a dollar for dollar basis.

If the Profit Guarantee is fulfilled, the Promissory Note would be returned to the Vendor.

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

CONSIDERATION SHARES

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

The Issue Price represents:

- (i) a discount of approximately 10% to the closing price of HK\$0.1 per Share as quoted on the Stock Exchange on 3 October 2011, being the last trading day immediately prior to the entering into of the Agreement;
- (ii) a discount of approximately 18.33% to the average of the closing prices of HK\$0.1102 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 3 October 2011, being the last trading day immediately prior to the entering into of the Agreement; and
- (iii) a discount of approximately 22.95% to the average of the closing prices of HK\$0.1168 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 3 October 2011, being the last trading day immediately prior to the entering into of the Agreement.

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

The Consideration Shares represent approximately 10% of the existing issued share capital of the Company and approximately 9.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 24 August 2011 and will be allotted and issued on the date of Completion.

In addition, the Vendor undertakes to and covenants with the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling 6 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 more than such amount of Consideration Shares without prior approval from the Purchaser.

APPLICATION FOR LISTING

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

TERMS OF THE PROMISSORY NOTE

The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK\$4,000,000

Interest

The Promissory Note does not carry interest.

Maturity

A fixed term of two years from the date of issue of the Promissory Note.

Early repayment

After the Target Group has achieved the Profit Guarantee, the Company may, at its option, repay the Promissory Note in whole or in part (in multiples of HK\$1,000,000) by giving a prior written notice to the Vendor, commencing from the date after the Profit Guarantee has been achieved up to the date immediately prior to the maturity date of the Promissory Note. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment.

Assignment

After the Target Group has achieved the Profit Guarantee, the Promissory Note may be transferred or assigned by the holder of the Promissory Note to any party (other than a connected person of the Company) in integral multiples of HK\$1,000,000.

CHANGES IN SHAREHOLDING STRUCTURE

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

Shareholders	As at the date of this announcement and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Starryland Profits Limited <i>Note 1</i>	296,404,682	23.61	296,404,682	21.47
Mr. Lau Kim Hung, Jack <i>Note 1</i>	4,483,200	0.36	4,483,200	0.32
Ms. Chan Yiu Kan Katie <i>Note 1</i>	480,000	0.04	480,000	0.03
Other associates	<u>63,848,532</u>	<u>5.08</u>	<u>63,848,532</u>	<u>4.63</u>
Starryland and its concert parties and associates	365,216,414	29.09	365,216,414	26.45
Director				
Mr. Yuan <i>Note 2</i>	14,804,800	1.18	14,804,800	1.07
Vendor	–	–	125,500,000	9.09
Public	<u>875,274,442</u>	<u>69.73</u>	<u>875,274,442</u>	<u>63.39</u>
Total	<u>1,255,295,656</u>	<u>100.00</u>	<u>1,380,795,656</u>	<u>100.00</u>

Notes:

1. Starryland Profits Limited (“Starryland”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“Mr. Lau”). Starryland beneficially owns 296,404,682 Shares. Under the SFO, Mr. Lau is deemed to be interested in 296,404,682 Shares. Mr. Lau also beneficially owns 4,483,200 Shares.

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

2. Mr. Yuan Shengjun is an executive Director, chairman and chief executive officer of the Company.

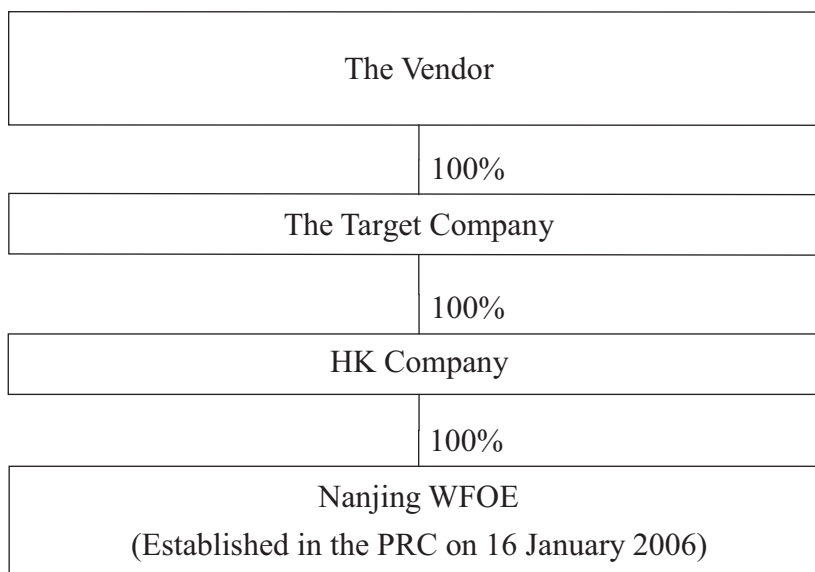
INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is an investment holding company. Upon completion of the reorganization, the Target Company and its subsidiaries will principally engage in the 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 which is the forerunner in such industry in the PRC. The Nanjing WFOE 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”.

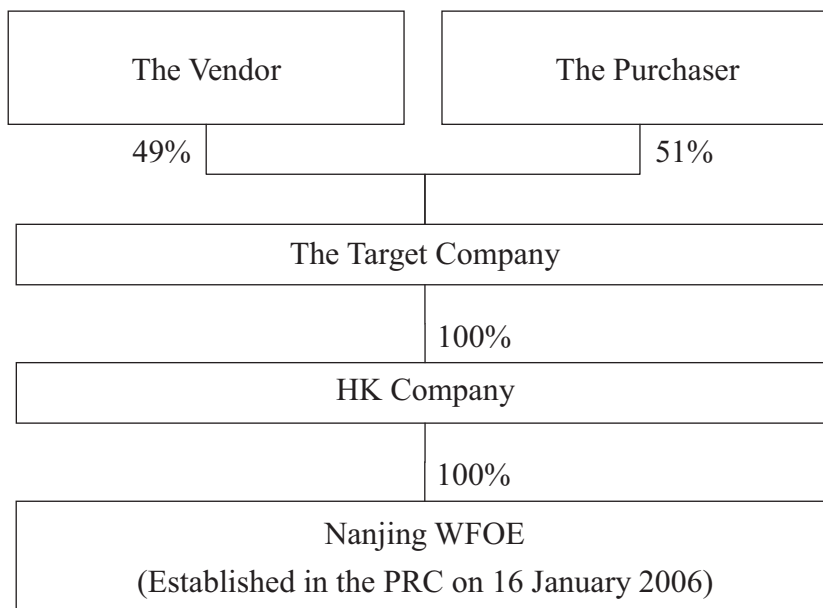
Target Group structure

Set out below is the group structure of the Target Group

The group structure of the Target Group immediately upon completion of Reorganization and before Completion:



The group structure of the Target Group immediately after completion of Reorganization and Completion:



Financial information of the Target Group

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

	From 26 May 2011 (date of Incorporation) to 31 August 2011 (unaudited) <i>HK\$000</i>
Turnover	—
Net loss before taxation	(24)
Net loss after taxation	(24)
	As at 31 August 2011 (unaudited) <i>HK\$'000</i>
Net liability	(24)

Set out below is the financial information of Nanjing WFOE prepared in accordance with the PRC accounting standards:

	For the year ended 31 December 2009 (audited) <i>RMB'000</i>	For the year ended 31 December 2010 (audited) <i>RMB'000</i>	1 January 2011 to 31 August 2011 (unaudited) <i>RMB'000</i>
Turnover	1,665	1,393	3,702
Net profit/(loss) before taxation	54	(4)	(851)
Net profit/(loss) after taxation	46	(4)	(852)
	As at 31 December 2009 (audited) <i>RMB'000</i>	As at 31 December 2010 (audited) <i>RMB'000</i>	As at 31 August 2011 (unaudited) <i>RMB'000</i>
Net asset value	1,227	1,219	366

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of telecommunication optic fiber business and payment by deduction business in the PRC.

The Board considers that the Acquisition represents a significant step forward on development of the Group's telecommunication related enhancement, maintenance, security and value-added peripheral business in the PRC. According to the Twelve Five Years Plan launched by the PRC National Council, low carbon and energy saving are among the top priority projects of the PRC Government. The Acquisition is in line with the Government policy and will also capitalize the existing business connections and scope of business activities of the Group.

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

GEM LISTING RULES IMPLICATIONS

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

DEFINITIONS

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

“Actual Net Profit”	the actual audited consolidated net profit after taxation of the Target Company, based on the financial statements prepared in accordance with Hong Kong Financial Reporting Standards for the financial year ending 31 December 2012
“Acquisition”	the proposed acquisition of the 51% equity interests of the Target Company through the purchase of the Sale Shares and the Subscription Shares by the Purchaser as contemplated under the Agreement
“Agreement”	the conditional agreement dated 4 October 2011 entered into among the Purchaser, the Vendor, the Target Company and the Guarantor in relation to the Acquisition
“associates”	has the same meaning ascribed to such term under the GEM Listing Rules
“Board”	the board of Directors
“business day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Palmpay China (Holdings) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“connected persons”	has the meaning ascribed thereto in the GEM Listing Rules
“Consideration Shares”	the Shares to be issued and allotted to the Vendor as part of the Sale Consideration, being 125,500,000 new Shares
“Deposit”	a refundable deposit of HK\$3,660,000 which been paid by the Purchaser to the Vendor within three business days after signing the MOU as deposit and part payment of the Sale Consideration

“Director(s)”	the director(s) of the Company from time to time
“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
“Guarantor”	Mr. Wong Kin Chung Michael, the ultimate beneficial owner of 100% equity interests in the Vendor
“HK Company”	Maxton Limited, a company incorporated in Hong Kong with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Issue Price”	HK\$0.09 per Consideration Share
“Long Stop Date”	31 December 2011 (or such later date as the Purchaser and the Vendor may agree), being the last day for the fulfillment or waiver of the conditions precedent of the Agreement
“MOU”	the non-legally binding memorandum of understanding dated 9 August 2011 entered into between the Purchaser and the Vendor setting out the preliminary understanding in relation to the Acquisition
“Nanjing WFOE”	南京高信軟件科技有限公司 (unofficial English name as Nanjing Go Xin Software Technology Limited), a limited company established in the PRC, the principal operating subsidiary of the Target Group upon completion of the Reorganization
“New Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Profit Guarantee”	the profit guarantee that the audited consolidated net profit after taxation of the Target Company for the financial years ending 31 December 2012 will not be less than RMB6,500,000 (equivalent to approximately HK\$7,995,000)
“Promissory Note”	a promissory note in a principal sum of HK\$4,000,000 to be issued by the Company to the Vendor upon Completion to satisfy in part of the Sale Consideration
“Purchaser”	Beaming Investments Limited, a company incorporated in British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company
“Reorganization”	the reorganization of the Target Group, upon completion of which, the Target Company, through the HK Company, will own as to 100% equity interests in Nanjing WFOE, which will be transformed into a wholly foreign owned enterprise
“Sale Consideration”	the consideration for the sale and purchase of the Sale Shares, being HK\$25,145,000
“Sale Shares”	82 ordinary shares of the Target Company, representing 45.56% of the total issued share capital of the Target Company as at the date of the Agreement
“Share(s)”	ordinary share(s) of HK\$0.05 each in the 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 in accordance with the terms of the Agreement
“Subscription Consideration”	the consideration for the subscription and allotment and issue, of the Subscription Shares, HK\$6,150,000
“Subscription Shares”	20 Target Company Shares to be allotted and issued by the Target Company to the Purchaser in accordance with the terms of the Agreement
“Target Company”	Viva Champion Limited, a company incorporated in the British Virgin Islands with limited liability

“Target Company Shares”	the ordinary shares of US\$1.00 each in the share capital of the Target Company
“Target Group”	the Target Company and its subsidiaries including but not limited to Nanjing WFOE
“Vendor”	Green Delight International Limited, a company incorporated in the British Virgin Islands with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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

Hong Kong, 4 October 2011

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of RMB1.00 to HK\$1.23. These exchange rates are for illustration purpose 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. 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 of Palmpay China (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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