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PAX GLOBAL TECHNOLOGY LIMITED

百富環球科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 327)

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS**

**REVISION OF EXISTING ANNUAL CAPS OF CONTINUING CONNECTED
TRANSACTIONS**

Reference is made to the announcement of the Company dated 30 December 2019 in relation to the continuing connected transactions between the Group and the Hi Sun Group under the 2020 Framework Agreement.

According to the recent review by the Board on the transactions under the 2020 Framework Agreement, the Board anticipates that the Existing Annual Caps for the two years ending 31 December 2021 and 31 December 2022 will not be sufficient to meet the Company's business needs.

In light of this, on 10 September 2021, the Company and Hi Sun entered into the Supplemental Agreement to amend the Existing Annual Caps. Save for the revision of the Existing Annual Caps to the Revised Annual Caps, all other terms and conditions of the 2020 Framework Agreement remain the same.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Hi Sun is the controlling Shareholder holding approximately 33.13% of the Company's issued share capital and is therefore a connected person of the Company under Chapter 14A of the Listing Rules, hence the transactions contemplated under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) constitute continuing connected transactions of the Company under the Listing Rules.

* *For identification purpose only*

As one or more of the applicable percentage ratios in respect of the Revised Annual Caps under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) on an annual basis exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) based on the Revised Annual Caps are subject to the reporting, announcement and annual review requirements and are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. BACKGROUND

2020 Framework Agreement

Reference is made to the announcement of the Company dated 30 December 2019 in relation to the 2020 Framework Agreement entered into between the Company and Hi Sun, pursuant to which the Group may purchase from the Hi Sun Group the (i) Security Decoder Chips; (ii) Controller Unit Chips and (iii) Contactless Reader Chips (the "Purchase") during the term of three years commencing on 1 January 2020 and ending on 31 December 2022, and the Existing Annual Caps for the Purchase for each of the three years ending 31 December 2020, 31 December 2021 and 31 December 2022 are HK\$80.0 million, HK\$90.0 million and HK\$110.0 million respectively.

Historical Transaction Amounts and the Supplemental Agreement

The historical transaction amounts of the Chips purchased by the Group from the Hi Sun Group for the year ended 31 December 2020 and the seven months ended 31 July 2021 were approximately HK\$76.6 million and HK\$60.1 million respectively.

In order to satisfy the business needs of the Group, on 10 September 2021, the Company and Hi Sun entered into the Supplemental Agreement to revise the Existing Annual Caps under the 2020 Framework Agreement for the two years ending 31 December 2021 and 31 December 2022. Save for the revision of the Existing Annual Caps, there is no change to other terms and conditions of the 2020 Framework Agreement.

For details of the 2020 Framework Agreement, including without limitation the term, pricing basis, internal control measures and measures to safeguard the interests of the shareholders implemented by the Group in relation to the continuing connected transactions, please refer to the announcement of the Company dated 30 December 2019.

B. REVISION OF EXISTING ANNUAL CAPS

Existing Annual Caps and actual Consideration

The Existing Annual Caps for the three years ending 31 December 2020, 31 December 2021 and 31 December 2022 and the actual Consideration for the year ended 31 December 2020 and the seven months ended 31 July 2021 are set out as below:

| | For the year ending | | |
|----------------------|--|---|---------------------------------------|
| | 31 December 2020 (audited) <i>HKD'000</i> | 31 December 2021 <i>HKD'000</i> | 31 December 2022 <i>HKD'000</i> |
| Existing Annual Caps | 80,000 | 90,000 | 110,000 |
| Actual Consideration | 76,607 | 60,084 (for the seven months ended 31 July 2021 (unaudited)) | Not applicable |

The Board confirms that the actual Consideration of the Purchase since 1 January 2021 and up to the date of this announcement under the 2020 Framework Agreement has not exceeded the Existing Annual Cap for the year ending 31 December 2021.

Revised Annual Caps

Pursuant to the Supplemental Agreement, the Revised Annual Caps for the two years ending 31 December 2021 and 31 December 2022 are set out in the table below:

| | For the year ending | |
|---------------------|---------------------------------------|---------------------------------------|
| | 31 December 2021 <i>HKD'000</i> | 31 December 2022 <i>HKD'000</i> |
| Revised Annual Caps | 120,000 | 140,000 |

Basis and assumptions for determining the Revised Annual Caps

The Revised Annual Caps have been determined on arm's length negotiations between the Company and Hi Sun having considered, among others, the following basis and assumptions:

- (a) the historical transaction amounts and the utilization rate of the Existing Annual Cap

For the seven months ended 31 July 2021, the actual transaction amount incurred under the 2020 Framework Agreement was approximately HKD60,084,000, representing approximately 67% of the Existing Annual Cap for the year ending 31 December 2021.

- (b) the strong and increasing market demand for the Group's E-Payment Terminals products

Since the outbreak of the COVID-19 in 2020, the Group has recorded remarkable sales growth as cashless and contactless payments have become consumer's preferred transaction means. Particularly, the Group recorded sales growth of 7.4% in the first half of 2020 and 14.7% in 2020 compared to the respective corresponding periods in 2019, whereas in the first half of 2021, the Group further recorded a robust sales growth of 30.6% compared to the corresponding period in 2020. Based on the total shipment and current orders on hand for the Group's E-Payment Terminals products since the beginning of 2021 and up to the date of this announcement, the Group expects that the annual sales of its E-Payment Terminals products for the current year would exceed that for the year ended 31 December 2020.

For the calculation of the Revised Annual Caps, it is assumed that (i) the market demand for electronic payment, thus for the Group's E-Payment Terminals products, will persist; and (ii) current orders on hand will not be cancelled or withdrawn. As such, the Group has projected a corresponding increase in the purchase of the Chips, which are essential components of the Group's E-Payment Terminals products, from the Hi Sun Group to meet future market demand and satisfy the current orders on hand.

- (c) the upward price adjustment of the Chips

Since the beginning of 2020, the Group has been facing supply chain challenges in respect of the supply of chips due to the COVID-19 epidemic and the global surge in demand for chips. The shortage of chips, in addition to the general upsurge of production costs following the resumption of manufacturing activities amid China's gradual recovery from COVID-19 has led to the upward price adjustment of certain Chips purchased from the Hi Sun Group. For the calculation of the Revised Annual Caps, the shortage and increase in the price of the Chips are assumed to last over the short term.

- (d) the production capacity assurance measures of the Group

The Group relies on adequate supply of chips for production. To secure an adequate supply of chips, the Group has planned to order additional Chips from the Hi Sun Group to maintain an adequate inventory level to safeguard against the risks of reduced production capacity resulting from the shortage of chips. For the purpose of calculating the Revised Annual Caps, it is assumed that the short supply of chips will persist over the short term.

Based on the above considerations and assumptions, the Board anticipates that the Existing Annual Caps for the two years ending 31 December 2021 and 31 December 2022 will be exceeded soon.

The Revised Annual Caps represent an approximately 33% and 27% increase from the Existing Annual Caps for the two years ending 31 December 2021 and 31 December 2022 respectively, as a result of the accumulated effect of (i) the increase in the Group's demand for the Chips as a result of the substantial and stable increase in the market demand for electronic payment related products; (ii) the continuing upward price adjustment of the Chips; and (iii) the contemplated increase in the purchase of the Chips to secure the future production capacity of the Group.

C. REASONS FOR AND BENEFITS OF THE REVISION OF THE EXISTING ANNUAL CAPS

The COVID-19 epidemic has accelerated the adoption of cashless payment. Consumers' expectation, introduction of local government initiatives worldwide to accelerate towards becoming cashless societies, together with the scaling up of payment acceptance infrastructure by the various market participants have prospered ever-stronger demands for electronic payment terminals. Based on market forecast, the consumer payment behaviour has changed and cashless and contactless payments are becoming dominant. According to the current orders for the E-Payment Terminals products and production plan of the Group, the Group's demand for the Chips which are the key components of the Group's E-Payment Terminals products will remain fierce.

The Board believes that the increase in purchase of the Chips from the Hi Sun Group would enable the Group to secure stable source of the Chips and maintain an adequate inventory level, in order to fulfil the commitments with the customers, and to accept more orders from the market and further expand its market share of electronic payment products.

Given the historical friendly business relationship between the Group and the Hi Sun Group, the mutual understanding of the parties' business practice and standard required, and the fact that the specifications and quality of the Chips supplied by the Hi Sun Group are well suited to the needs of the Group, the Board believes that it is in the commercial interest of the Group to purchase the Chips from the Hi Sun Group, which can significantly reduce (i) the Group's operational risks, including the risks of chips shortage causing obstruction to production capacity and fluctuation in production costs, which may adversely affect its business operation and (ii) the Group's costs and time required for sourcing new suppliers and minimise administrative costs in relation to extra supervision and quality check of the required Chips.

The Directors (including the independent non-executive Directors) consider that the the transactions contemplated under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) are conducted in the ordinary and usual course of business of the Group and on arm's length basis, the terms of the Supplemental Agreement have been negotiated on an arm's length basis and are on normal commercial terms, and the terms of the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) and the Revised Annual Caps are fair and reasonable and are in the interests of the Group and the Shareholders taken as a whole.

The Company will continue to review and supervise the transaction amounts in respect of the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) going forward with a view to ensuring that necessary measures and appropriate actions will be promptly taken in order to comply with the applicable requirements under the Listing Rules.

INFORMATION OF THE COMPANY AND HI SUN

The Company is an investment holding company and together with its subsidiaries is principally engaged in the development and sales of E-Payment Terminals products, provision of maintenance and installation services and payment solutions services.

Hi Sun is a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange, together with its subsidiaries is principally engaged in the provision of payment processing solutions, operating through six segments, namely the payment processing solutions segment, the fintech solutions and services segment, the information security chips and solutions segment, the platform operation solutions segment, the financial solutions segment and the electronic power meters and solutions segment. As at the date of this announcement, Hi Sun is the controlling Shareholder holding approximately 33.13% of the issued share capital of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owners of the substantial shareholders of Hi Sun are Mr. Kui Man Chun (directly and indirectly holding in aggregate approximately 23.25% of the share capital of Hi Sun) and Mr. Che Fung (indirectly holding approximately 12.04% of the share capital of Hi Sun) and they are both independent third parties of the Company.

LISTING RULES IMPLICATIONS

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As one or more of the applicable percentage ratios in respect of the Revised Annual Caps under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) on an annual basis exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements and are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li Wenjin, who concurrently serves as a Director of the Company and also a director of Hi Sun, is deemed to have a material interest in the continuing connected transactions contemplated under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement) and has accordingly abstained from voting on the Board resolution approving the Supplemental Agreement, including the Revised Annual Caps in accordance with Rule 13.44 of the Listing Rules.

DEFINITIONS

| | |
|----------------------------|---|
| “2020 Framework Agreement” | the framework agreement entered into between the Company and Hi Sun dated 30 December 2019 in relation to the purchase of the Chips by the Group from the Hi Sun Group; |
| “Board” | the board of Directors; |
| “Chips” | collectively the Contactless Reader Chips, Controller Unit Chips and Security Decoder Chips; |
| “Company” | PAX Global Technology Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock Code: 327); |
| “Consideration” | the total contract value of the Purchase; |
| “Contactless Reader Chips” | the contactless reader chips (非接觸卡讀卡芯片); |
| “Controller Unit Chips” | the security micro controller unit chips (加密安全處理器芯片); |
| “Directors” | the directors of the Company; |
| “E-Payment Terminal” | electronic fund transfer point-of-sale terminal; |
| “Existing Annual Caps” | the annual caps of the Consideration under the 2020 Framework Agreement; |
| “Group” | the Company and its subsidiaries; |
| “Hi Sun” | Hi Sun Technology (China) Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock Code: 818); |

| | |
|--------------------------|---|
| “Hi Sun Group” | Hi Sun and its subsidiaries; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | Hong Kong Special Administrative Region of the People’s Republic of China; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Revised Annual Caps” | the revised annual caps of the Consideration for the two years ending 31 December 2021 and 31 December 2022 under the 2020 Framework Agreement (as amended and supplemented by the Supplemental Agreement); |
| “Security Decoder Chips” | the mag-stripe card security decoder chips (磁條卡加密解碼芯片); |
| “Shareholder(s)” | the shareholder(s) of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Supplemental Agreement” | the supplemental agreement entered into between the Company and Hi Sun on 10 September 2021 to amend the Existing Annual Caps in the 2020 Framework Agreement; and |
| “%” | per cent. |

By Order of the Board
PAX Global Technology Limited
Cheung Shi Yeung
Company Secretary

Hong Kong, 10 September 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Nie Guoming, Mr. Lu Jie and Mr. Li Wenjin; and three independent non-executive Directors, namely Mr. Yip Wai Ming, Dr. Wu Min and Mr. Man Kwok Kuen, Charles.