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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)

**CONTINUING CONNECTED TRANSACTIONS
FRAMEWORK AGREEMENT
FOR THE PURCHASE OF CHIPS**

Reference is made to the announcements of the Company dated 30 December 2016 and 10 January 2017 in relation to, among others, the purchase of Chips by the Group from the Hi Sun Group under the Existing Framework Agreement which will expire on 31 December 2019.

The Parties entered into the 2020 Framework Agreement on 30 December 2019, pursuant to which the Group will continue to purchase: (i) the Security Decoder Chips; (ii) the Controller Unit Chips and (iii) the Contactless Reader Chips from the Hi Sun Group for a term of three years commencing from 1 January 2020 and ending on 31 December 2022.

As at the date of announcement, Hi Sun is a substantial Shareholder holding approximately 33.09% 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 constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual caps of the Consideration under the 2020 Framework Agreement on an annual basis exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2020 Framework Agreement 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.

* *For identification purpose only*

BACKGROUND INFORMATION

Reference is made to the announcements of the Company dated 30 December 2016 and 10 January 2017 in relation to, among others, the continuing connecting transactions between the Group and the Hi Sun Group under the Existing Framework Agreement.

As the Existing Framework Agreement will expire on 31 December 2019 and the Company intends to continue to purchase (i) the Security Decoder Chips; (ii) the Controller Unit Chips and (iii) the Contactless Reader Chips from the Hi Sun Group (the “**Sale and Purchase**”) in its ordinary and usual course of business, the Company and Hi Sun entered into the 2020 Framework Agreement, pursuant to which the Group will purchase and the Hi Sun Group will sell the Chips for a term of three years commencing from 1 January 2020 and ending on 31 December 2022.

THE 2020 FRAMEWORK AGREEMENT

The key terms of the 2020 Framework Agreement are summarized as follows:

- Date: 30 December 2019
- Parties: (1) the Company (as purchaser); and
(2) Hi Sun (as seller) (collectively as the “**Parties**”)
- Subject matter: The Group will purchase and the Hi Sun Group will sell the Chips in accordance with the terms of the Individual Agreements.
- Individual agreements: During the Term, respective members of the Group and the Hi Sun Group will from time to time enter into individual agreements (the “**Individual Agreements**”) which will set out the terms of the individual Sale and Purchase negotiated based on the following principles:
- (a) the Sale and Purchase would be on normal commercial terms or better following arm’s length negotiations;
 - (b) the prices of the Chips would be determined with reference to the prices of the same or similar products sold by the Hi Sun Group to its customers and the prevailing market prices of similar products in the industry; and

- (c) the terms and conditions of the Sale and Purchase, including the prices, order quantity, terms of settlement, delivery and shipment when considered as a whole, would be no less favourable to the Group than those available from independent third parties from time to time.

Term: The term of the 2020 Framework Agreement is three years commencing from 1 January 2020 and ending on 31 December 2022 (the “**Term**”).

ANNUAL CAP

Historical figures

The following table sets out the approximate aggregate values of Chips purchased by the Group from the Hi Sun Group for each of the two years ended 31 December 2017, 31 December 2018 and the 11 months ended 30 November 2019 respectively, and the annual caps for each of the three years ending 31 December 2019 respectively:

| | For the year ended 31 December 2017 (audited) HKD'000 | For the year ended 31 December 2018 (audited) HKD'000 | For the year ending 31 December 2019 (unaudited) HKD'000 |
|----------------------|--|--|---|
| Annual cap | 65,000 | 70,000 | 75,000 |
| Actual consideration | 59,966 | 67,587 | 45,105 (for the 11 months ended 30 November 2019 (unaudited)) |

As far as the Directors are aware, none of the annual caps under the Existing Framework Agreement has been exceeded as at the date of this announcement.

Proposed annual caps

The annual caps of the Consideration of the Sale and Purchase under the 2020 Framework Agreement for each of the years ending 31 December 2020, 31 December 2021 and 31 December 2022 are set out as below:

| Period | Consideration not exceeding |
|-----------------------------------|--|
| 1 January 2020 – 31 December 2020 | HK\$80,000,000 |
| 1 January 2021 – 31 December 2021 | HK\$90,000,000 |
| 1 January 2022 – 31 December 2022 | HK\$110,000,000 |

In determining the above annual caps, the Board took into account the following factors:

- (i) the historical Consideration of the Sale and Purchase under the Existing Framework Agreement and sales amount of the E-Payment Terminal related products of the Group;
- (ii) the estimated market demand of the E-Payment Terminal related products during the Term and the anticipated business development and capabilities of the Group; and
- (iii) the estimated market prices of the Chips.

MEASURES TO SAFEGUARD THE INTERESTS OF SHAREHOLDERS

The continuing connected transactions contemplated under the 2020 Framework Agreement are on a non-exclusive basis, which means that the Group will maintain its discretionary rights to source the Chips from other suppliers. Pursuant to the 2020 Framework Agreement, either Party may terminate the agreement by giving a written notice to the other party three (3) months in advance.

To ensure sufficient protection of Shareholders' interest, the Company has adopted a supplier management policy which provides supplier selection procedures, quality testing methods and overall appraisal and evaluation system on potential and existing suppliers and their products and performance in order to ensure the quality and the terms of the purchase of products from existing suppliers are equally good or more favourable to the Group as compared with market standard for similar products, details of which are set out below:—

- the department of control, the department of development and the department of quality control are responsible for continuing sourcing and evaluating potential suppliers in the open market by inviting submissions of quotations. The Company has put in place a standard procedural flow, pursuant to which the responsible departments shall conduct due diligence including on-site visits on the potential suppliers and obtain product samples and quotations from them. Each potential supplier will be given an overall score based on individual scores in different categories such as pricing, product quality, quality control, product delivery and after-sales services and only those with good or excellent scores will be engaged;
- the department of quality control and department of merchandising are responsible for conducting semi-annual and annual appraisal and evaluation on the existing suppliers and their products, including the Hi Sun Group and the products it supplied. There should be checks on pricing, product quality, punctuality of delivery and after-sales services. On-site assessment will be carried out as well to make sure the products are manufactured properly. Each supplier will be given an overall score after considering its performance in different aspects. Those suppliers with excellent scores will be included in the Company's preferred suppliers list and those which obtained low scores may be removed from the suppliers list;

By following the procurement and evaluation procedures under the supplier management policy and taking into consideration of various factors, including the pricing and quality of products of a number of independent third party suppliers which offer similar products as the Hi Sun Group, the corporate background, reputation, reliability and quality of customer and after-sales services of the Hi Sun Group and other independent third party suppliers, the Company has determined that the Hi Sun Group offers more favourable terms to the Group than other independent third party suppliers for the purchase of the relevant Chips. Furthermore, because of the close and long-term relationship between the Group and the Hi Sun Group, the Hi Sun Group has provided the Group with supportive customer and after-sales services and timely and reliable product delivery.

Therefore, the Directors believe that sourcing the relevant Chips from the Hi Sun Group would help maintain the effectiveness of the Group's production and bring benefits to the Group's operation as a whole. Going forward, the Group will continue carrying out regular review and evaluation on the performance of contracts by the Hi Sun Group and other suppliers. In particular, the Company has adopted, among others, the following internal control measures over its continuing connected transactions:

- the Company's external auditor will conduct an annual review and provide their independent confirmation that nothing comes to their attention which causes them to believe that the continuing connected transactions, inter alia, are not conducted in accordance with the pricing policies of the Group and the Consideration of the Sale and Purchase exceeds the annual caps;
- the Company's audit committee will regularly review the internal control system to ensure that the internal control procedures are effectively implemented over the individual Sale and Purchase;
- the independent non-executive Directors will review the continuing connected transactions based on quarterly reports on the status of the Sale and Purchase, utilization of the annual caps, market updates including performance of the Group in different markets, pricing trends and other relevant information and will ascertain the implementation of the relevant internal control measures to ensure that the annual caps are not exceeded and the continuing concerted transaction are conducted in accordance with the terms of the Individual Agreements; and
- the Directors (including the independent non-executive Directors) will regularly monitor and review the continuing connected transactions contemplated to ensure that, inter alia, the terms are fair and reasonable and they are in the interests of the Company and its shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2020 FRAMEWORK AGREEMENT

The Group is an E-Payment Terminal solutions provider principally engaged in the development and sale of E-Payment Terminal products and provision of related services. It is expected that the Group will be continuously in demand of the Chips in its ordinary and usual course of business as the Chips are essential components of E-Payment Terminal related products.

Since the Hi Sun Group has a proven track record as demonstrated by their previous transaction with the Group, the Directors consider that the entering into of the 2020 Framework Agreement can ensure continuous and stable supply of the Chips for production of the Group's E-Payment Terminal related products. Further, it lowers the Group's production costs as the Hi Sun Group, being one of the few suppliers of Chips which are fit for production needs of the Group and with specifications not commonly found, is able to offer competitive and relatively lower prices compared with other market suppliers.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the 2020 Framework Agreement are fair and reasonable, on normal commercial terms or better which are arrived at after arm's length negotiations between the Parties, and are entered into in the ordinary and usual course of business of the Group and in the interests of the Group and its Shareholders as a whole.

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 electronic payment point-of-sales terminals (E-Payment Terminals) products, provision of maintenance and installation services. As at the date of this announcement, the Company is indirectly held as to approximately 33.09% by Hi Sun, which is a substantial Shareholder and therefore a connected person of the Company under Chapter 14A of the Listing Rules.

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 five segments, namely the payment processing solutions segment, the financial solutions segment, the information security chips and solutions segment, the platform operation solutions segment and the electronic power meters and solutions segment. As at the date of this announcement, Hi Sun is a substantial Shareholder holding approximately 33.09% 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 (indirectly holding 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

As at the date of this announcement, Hi Sun is a substantial Shareholder holding approximately 33.09% 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 constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual caps of the Consideration under the 2020 Framework Agreement on an annual basis exceeds 0.1% but is less than 5%, the continuing connected transactions 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 and has accordingly abstained from voting on the Board resolution approving the 2020 Framework Agreement, including the annual caps in accordance with Rule 13.44 of the Listing Rules.

DEFINITIONS

In this announcement, the following terms have the meanings set forth opposite them:

| | |
|--------------------------------|---|
| “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 Sale and 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 Framework Agreement” | the framework agreement entered into between the Company and Hi Sun dated 30 December 2016 in relation to the purchase of the Chips by the Group from the Hi Sun Group; |

| | |
|--------------------------|--|
| “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; |
| “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; and |
| “%” | per cent. |

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

Hong Kong, 30 December 2019

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.