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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 2019, 10 September 2021 and 24 June 2022 in relation to, among others, the Group's purchase of the Chips from Hi Sun Group under the Existing Framework Agreement, which will expire on 31 December 2022.

On 15 November 2022, the Company and Megahunt entered into the 2023 Framework Agreement, pursuant to which the Group will purchase the Chips from Megahunt Group for a term of three years commencing on 1 January 2023 and ending on 31 December 2025.

**LISTING RULES IMPLICATIONS**

As at the date of announcement, Hi Sun, the controlling Shareholder holding approximately 33.71% of the Company's issued share capital, holds approximately 45.73% interests of Megahunt. Megahunt is therefore an associate of Hi Sun and a connected person of the Company. As such, the Chips Purchase Transactions contemplated under the 2023 Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Proposed Annual Caps under the 2023 Framework Agreement exceeds 0.1% but all are less than 5%, the Chips Purchase Transactions contemplated under the 2023 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 2019, 10 September 2021 and 24 June 2022 in relation to, among others, the Group's purchase of Chips from Hi Sun Group under the Existing Framework Agreement, which will expire on 31 December 2022.

## **THE 2023 FRAMEWORK AGREEMENT**

The key terms of the 2023 Framework Agreement are summarized as follows:

- Date: 15 November 2022
- Parties: (1) the Company (for itself and on behalf of the Group as purchaser); and  
(2) Megahunt (for itself and on behalf of Megahunt Group as seller)  
  
(each a "**Party**" and collectively as the "**Parties**")
- Subject matter: The Group will purchase and Megahunt 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 Megahunt Group may from time to time enter into individual agreements (the "**Individual Agreements**") which will set out the terms, including the terms of settlement, of the individual Chips Purchase Transactions negotiated based on the following principles and pricing basis:
- (a) the Chips Purchase Transactions 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 Megahunt Group to its customers and the prevailing market prices of similar products in the industry; and
- (c) the terms and conditions of the Chips Purchase Transactions, 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 to independent third parties from time to time.

Term: Three years commencing on 1 January 2023 and ending on 31 December 2025 (the “**Term**”).

## ANNUAL CAPS

### Historical figures

The Existing Annual Caps and actual transaction amounts of the Chips Purchase Transactions under the Existing Framework Agreement are set out as follows:

	<b>For the year ended 31 December 2020 (audited) HK\$'000</b>	<b>For the year ended 31 December 2021 (audited) HK\$'000</b>	<b>For the year ending 31 December 2022  (for the nine months ended 30 September 2022 (unaudited))</b>
Existing Annual Cap*	80,000	120,000	190,000
Actual transaction amount*	76,607	118,332	131,793

\* *Before value-added tax*

As far as the Directors are aware, none of the Existing Annual Caps has been exceeded as at the date of this announcement.

## Proposed Annual Caps

The Proposed Annual Caps of the Chips Purchase Transactions under the 2023 Framework Agreement are set out as below:

	<b>For the year ending 31 December 2023 HK\$'000</b>	<b>For the year ending 31 December 2024 HK\$'000</b>	<b>For the year ending 31 December 2025 HK\$'000</b>
Proposed Annual Cap*	210,000	230,000	250,000

\* *Before value-added tax*

## Bases and assumptions for determining the Proposed Annual Caps

The Proposed Annual Caps have been determined on arm's length negotiations between the Company and Megahunt having considered, among others, the following bases and assumptions:

**(a) *the strong and persistent market demand for E-Payment Terminals products of the Group***

The global transition to a cashless society has gained momentum at the outset of the COVID-19 pandemic. The preference of cashless payments has continued to be on a rising trend, while central banks, local governments and e-commerce giants have played key roles in this transition via the promotion of electronic payment in attempt to reboot the economy. It is anticipated that the demand for and sales growth of E-Payment Terminals products will remain strong. In particular, the Group recorded a robust sales growth of approximately 26% in the first half of 2022 as compared to the corresponding period in 2021. Based on the historical sales growth and the Group's current orders on hand, the Group expects that its demand for the Chips, which are the essential components of E-Payment Terminals products, will continue to grow, in order to satisfy the current orders on hand and meet future market demand.

In arriving at the Proposed Annual Caps, it is assumed that (i) the market demand for cashless payment, thus for the Group's E-Payment Terminals products, will persist; and (ii) the current orders on hand will not be cancelled or withdrawn and the order quantity thereunder will not be materially varied.

***(b) the potential expansion of the production capacity of the Group***

As disclosed in the announcement of the Company dated 20 July 2021 and in the section headed “Other Events” in the Company’s interim report 2022, the PAX Smart Terminals Industrial Park Project (the “**Industrial Park Project**”), initiated in 2021 and designed to bring about the expansion of the production capacity of the Group, is expected to complete in the fourth quarter of 2023 the earliest. In order to take advantage of the scaled-up production capacity brought by the Industrial Park Project and the persistent market demand of the Group’s E-Payment Terminals products, the Group expects to purchase more Chips to meet future business needs.

In arriving at the Proposed Annual Caps, it is assumed that there will be no material delay in the completion of the construction works of the Industrial Park Project.

***(c) the production capacity assurance measures of the Group***

Notwithstanding the signs of gradual easing of chips shortage throughout 2022, the market demand and prices of the Chips remain unpredictable while supply chains are facing challenges to maintain a more manageable level of stock of chips. It is therefore expected that the supply of the Chips may remain constrained in the future. As the Group’s manufacturing scale is reliant on the adequate supply of chips, in order to mitigate the risks of any possible chips shortage which may result in holding up the entire production and denting sales, the Group will continue to order additional Chips to maintain an adequate inventory level.

In arriving at the Proposed Annual Caps, it is assumed that the chips market will remain uncertain.

**MEASURES TO SAFEGUARD THE INTERESTS OF SHAREHOLDERS**

The Chips Purchase Transactions contemplated under the 2023 Framework Agreement are on a non-exclusive basis, where the Group may source the Chips from and Megahunt Group may market the same to any third parties. Either Party may also terminate the agreement by giving a written notice to the other three (3) months in advance.

To ensure sufficient protection of the 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 material control department, the research and development department and the quality control department 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; and
- the quality control department and material control department are responsible for conducting semi-annual and annual appraisal and evaluation on the existing suppliers and their products, including Megahunt Group and the products it supplied. There will 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 Megahunt Group and other independent third party suppliers which offer comparable products, their corporate background, reputation, reliability and quality of customer and after-sales services, the Company considers that Megahunt Group offers more favourable terms to the Group than other independent third party suppliers for the purchase of Chips. Taking into consideration the close and long-term relationship between the Group and Hi Sun Group (through its subsidiaries and designated associates including Megahunt Group), and the ability of Megahunt Group to provide the Group with supportive customer and aftersales services and timely and reliable product delivery, the Board believes that sourcing the Chips from Megahunt 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 Megahunt 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 to the Board that nothing comes to their attention which causes them to believe that, inter alia, the Chips Purchase Transactions are not conducted in accordance with the pricing policies of the Group and the relevant annual caps are exceeded;
- 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 Chips Purchase Transactions;
- the independent non-executive Directors will review the Chips Purchase Transactions based on quarterly reports on the status of the Chips Purchase Transactions, including, among others, the costs and quality of the Chips, utilization rates 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 Chips Purchase Transactions 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 2023 FRAMEWORK AGREEMENT**

The Group is principally engaged in the development and sales of E-Payment Terminals products, provision of maintenance and installation and payment solution services. As the Chips are essential components of the Group’s E-Payment Terminals products, the continuing purchase of the Chips is consistent with the commercial objectives of the Group and fits the operational needs of the Group. Taking into account also the promotions by central banks, local governments and e-commerce giants, it is anticipated that cashless and contactless payments would remain dominant in the economy.

Given the close and long-term relationship between the Company (through its subsidiaries) and Hi Sun (through its subsidiaries and designated associates including Megahunt Group), the Parties have developed sound and mutual understanding of the other's business practice and standard required. In addition, the specifications and quality of the Chips supplied by Megahunt 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 Megahunt Group, as it will 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 extra supervision and quality check of the Chips to be supplied by the new suppliers.

The Directors (including the independent non-executive Directors) consider that the Chips Purchase Transactions contemplated under the 2023 Framework Agreement are conducted in the ordinary and usual course of business of the Group, the terms of the 2023 Framework Agreement have been negotiated on an arm's length basis and are on normal commercial terms, fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

## **INFORMATION OF THE COMPANY AND MEGAHUNT**

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 and other payment solutions services.

Megahunt is a joint stock limited company incorporated in the PRC, together with its subsidiaries is principally engaged in the sales of the security micro controller unit chips, mag-stripe card security decoder chips and related products and solutions in the PRC.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owners of the largest shareholder of Megahunt are Mr. Kui Man Chun (directly and indirectly holding in aggregate approximately 23.25% interest in Hi Sun) and Mr. Che Fung (indirectly holding approximately 12.04% interest in Hi Sun) and they are both independent third parties of the Company.



## LISTING RULES IMPLICATIONS

As at the date of announcement, Hi Sun, the controlling Shareholder holding approximately 33.71% of the Company's issued share capital, holds approximately 45.73% interest in Megahunt. Megahunt is therefore an associate of Hi Sun and a connected person of the Company. As such, the Chips Purchase Transactions contemplated under the 2023 Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Proposed Annual Caps under the 2023 Framework Agreement exceeds 0.1% but all are less than 5%, the Chips Purchase 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.

None of the Directors had material interests in the Chips Purchase Transactions contemplated under the 2023 Framework Agreement and hence no Director is required to abstain from voting on the Board resolutions approving the 2023 Framework Agreement in accordance with Rule 13.44 of the Listing Rules.

## DEFINITIONS

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

“2023 Framework Agreement”	the framework agreement entered into between the Company and Megahunt dated 15 November 2022 in relation to the Chips Purchase Transactions;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Chips”	collectively:–  (i) the contactless reader chips (Contactless Reader Chips) (非接觸卡讀卡芯片);  (ii) the security micro controller unit chips (Controller Unit Chips) (加密安全處理器芯片); and  (iii) the mag-stripe card security decoder chips (Security Decoder Chips) (磁條卡加密解碼芯片);

“Company”	PAX Global Technology Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock Code: 327);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Chips Purchase Transaction(s)”	the Group’s purchase of the Chips from Hi Sun Group and/or Megahunt Group (as the case maybe) under the Existing Framework Agreement and/or the 2023 Framework Agreement (as the case maybe);
“Directors”	the directors of the Company;
“E-Payment Terminals”	electronic fund transfer point-of-sale terminals;
“Existing Annual Caps”	the annual caps of the transaction amounts of the Chips Purchase Transactions under the Existing Framework Agreement;
“Existing Framework Agreement”	the framework agreement entered into between the Company and Hi Sun in relation to the Chips Purchase Transactions dated 30 December 2019, as amended and supplemented by two supplemental agreements dated 10 September 2021 and 24 June 2022 entered into between the Company and Hi Sun respectively;
“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”	(under the Existing Framework Agreement and for the purpose of this announcement only) Hi Sun, its subsidiaries and designated associates;
“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;
“Megahunt”	Megahunt Technologies Inc. (兆訊恒達科技股份有限公司), a joint stock limited liability company incorporated in the PRC indirectly owned as to approximately 45.73% by Hi Sun;
“Megahunt Group”	Megahunt and its subsidiaries;
“PRC”	the People’s Republic of China;
“Proposed Annual Caps”	the annual caps of the transaction amounts of the Chips Purchase Transactions under the 2023 Framework Agreement;
“Shareholder(s)”	the shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules; and
“%”	per cent.

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

Hong Kong, 15 November 2022

*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.*