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**HI SUN TECHNOLOGY (CHINA) LIMITED**

**高陽科技（中國）有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 818)**

**TERMINATION OF PAX DISPOSAL AGREEMENT  
AND  
DISCLOSEABLE TRANSACTION IN RELATION TO  
ISSUE OF PREFERENCE SHARES  
BY PAX RESULTING IN POSSIBLE DEEMED  
DISPOSAL OF INTEREST IN PAX**

**Financial advisor to the Company**



**CIMB-GK Securities (HK) Limited**

Reference is made to the announcement of the Company dated 7 November 2006 and the circular of the Company dated 27 November 2006 in relation to the proposed disposal of the entire issued share capital of PAX by the Company to Keen Ambition pursuant to the PAX Disposal Agreement. The Board announces that on 4 April 2007, the Company, Keen Ambition and Mr. Mo Ying San (as guarantor of the obligations of Keen Ambition under the PAX Disposal Agreement) entered into the Termination Agreement to terminate the PAX Disposal Agreement.

On 4 April 2007, PAX, an indirect wholly-owned subsidiary of the Company, and the Company entered into the Subscription Agreement with the Subscriber in relation to the subscription by the Subscriber of the PAX Preference Shares at a total subscription price of US\$10 million (equivalent to approximately HK\$78.1 million). The PAX Preference Shares represent 25% of the existing issued share capital of PAX and 20% of the issued share capital of PAX as enlarged by the Subscription.

\* *For identification purpose only*

Holders of the PAX Preference Shares will at any time from the date of Completion be entitled to convert the PAX Preference Shares into PAX Ordinary Shares on the basis of one PAX Preference Share into one PAX Ordinary Share, subject to adjustments (as described below in further details). Assuming the Subscriber exercises the Conversion in full, upon completion of the Conversion, the Company's interest in the issued ordinary share capital of PAX will be reduced from 100% to 80%. The Company is required, under certain circumstances (as described below in further details), to transfer to the Subscriber up to 5% of the issued share capital of PAX as enlarged by the Subscription. Under such scenario and upon completion of the Conversion, the Company's interest in the issued ordinary share capital of PAX will be reduced from 100% to 75%. Accordingly, the Subscription constitutes a possible material dilution of the Company's interest in PAX pursuant to Rule 13.36(1) of the Listing Rules and the Subscription Agreement is subject to the approval of the Shareholders at the SGM. The Subscription also constitutes a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules.

A circular containing, among other things, further details of the Subscription Agreement will be despatched to the Shareholders as soon as practicable, together with a notice convening the SGM at which an ordinary resolution will be proposed for the approval of the Subscription Agreement and the transactions contemplated thereunder.

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 7 November 2006 and the circular of the Company dated 27 November 2006 in relation to the proposed disposal of the entire issued share capital of PAX by the Company to Keen Ambition pursuant to the PAX Disposal Agreement. The Board announces that on 4 April 2007, the Company, Keen Ambition and Mr. Mo Ying San (as guarantor of the obligations of Keen Ambition under the PAX Disposal Agreement) entered into the Termination Agreement to terminate the PAX Disposal Agreement.

On 4 April 2007, PAX, an indirect wholly-owned subsidiary of the Company, and the Company entered into the Subscription Agreement with the Subscriber in relation to the subscription by the Subscriber of the PAX Preference Shares at a total subscription price of US\$10 million (equivalent to approximately HK\$78.1 million). The PAX Preference Shares represent 25% of the existing issued share capital of PAX and 20% of the issued share capital of PAX as enlarged by the Subscription. The total subscription price of US\$10 million was determined after arm's length negotiations by the parties after taking into consideration the financial position, the historical financial performance and the business prospect of PAX. Based on the subscription price of US\$10 million (equivalent to approximately HK\$78.1 million), the subscription price represents a premium of approximately 188% over the 20% attributable interest of the PAX Preference Shares (on an "as converted" basis) in the unaudited net assets of PAX as at 30 June 2006, as adjusted for the subscription price of US\$10 million (equivalent to approximately HK\$78.1 million).

## **THE TERMINATION AGREEMENT**

The Company, Keen Ambition and Mr. Mo Ying San (as guarantor of the obligations of Keen Ambition under the PAX Disposal Agreement) entered into the Termination Agreement on 4 April 2007 pursuant to which the Company, Keen Ambition and Mr. Mo Ying San irrevocably and unconditionally agreed to terminate the PAX Disposal Agreement in consideration of the return of the deposit of HK\$5,000,000 by the Company to Keen Ambition.

As a result of the signing of the Termination Agreement, the proposed disposal of the entire interest in PAX to Keen Ambition by the Company, details of which are set out in the circular of the Company dated 27 November 2006, will not proceed. The Directors consider that the termination of the PAX Disposal Agreement will not have any material adverse impact on the financial position and operation of the Group.

## **THE SUBSCRIPTION AGREEMENT**

Date: 4 April 2007

Issuer: PAX, an indirect wholly-owned subsidiary of the Company

Subscriber: Digital Investment Limited, a company wholly-owned by Hao Capital China Fund LP ("Hao Capital")

To the Directors' best knowledge, information and belief having made reasonable enquiries, save for (i) HTSS ET Capital Limited, a company wholly-owned by Hao Capital, is a subscriber of 380,389 preference shares of Emerging Technology Limited ("Emerging Technology"), a subsidiary of the Company,

representing 4.5% of the issued share capital of Emerging Technology on an “as converted” basis (details of which are set out in the announcement of the Company dated 25 August 2006 and the circular of the Company dated 8 September 2006); and (ii) Ms. Elaine Wong, a director of Emerging Technology, who holds an equity interest, direct and indirect, of approximately 0.2% in Hao Capital, the Subscriber and its ultimate beneficial shareholders are third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company.

- Warrantor: The Company
- The Subscription: Pursuant to the Subscription Agreement, PAX will issue to the Subscriber 8,750,000 PAX Preference Shares, which represent 20% of the issued share capital of PAX as enlarged by the Subscription, for a total consideration of US\$10 million (equivalent to approximately HK\$78.1 million).
- Subscription Price: The total subscription price of US\$10 million (equivalent to approximately HK\$78.1 million) will be settled in cash by the Subscriber at Completion.
- Rights to income, capital and voting:
1. The PAX Preference Shares will rank in priority to any other class of shares in the capital of PAX to the return of an amount equal to the aggregate initial subscription price of the PAX Preference Shares and any dividends accumulated on the PAX Preference Shares then in arrears (if any) on return of capital on a winding-up or otherwise of PAX. After the above aggregate sum is satisfied, any remaining funds and assets of PAX legally available for distribution to its shareholders would be distributed pro rata among the holders of the PAX Preference Shares and the holders of PAX Ordinary Shares.
  2. Holders of the PAX Preference Shares shall be entitled, on a priority basis, the dividends that would be paid with respect to the PAX Ordinary Shares on an “as converted” basis.
  3. Holders of the PAX Preference Shares shall be entitled to vote as a separate class at the general meeting of PAX only in relation to matters that affect the rights attaching to the PAX Preference Shares.
- Conversion right: The Subscriber is entitled to convert the PAX Preference Shares at any time from the date of Completion into PAX Ordinary Shares on the basis of one PAX Preference Share into one PAX Ordinary Share (the “Conversion Ratio”). The Conversion Ratio will be adjusted:
- (i) on consolidation, reclassification or sub-division of PAX Ordinary Shares in customary manner; and
  - (ii) if and when PAX issues any shares or equity securities convertible into shares at any time after Completion at a price per share (the “Lower Price”) below the subscription price per PAX Preference Share, so that the number of PAX Ordinary Shares which fall to be issued on conversion will be increased by the same proportion the subscription price bears to the Lower Price.
- Conditions precedent: Completion is conditional upon the following conditions being fulfilled or waived in writing:
1. amendment to the Memorandum and Articles of Association of PAX as may be required to create the PAX Preference Shares;
  2. compliance with all legal and regulatory requirements relating to the Subscription Agreement and the transactions contemplated thereunder by the Company and PAX including, if required, the approval of the Subscription Agreement and the transactions contemplated thereunder by the Shareholders in a manner as required under the Listing Rules, the doing of all acts, deeds and things and the obtaining of all necessary consents and approvals for the entering into of and completion of the transactions contemplated under the Subscription Agreement;

3. the approval by the board of directors of the Company and PAX of the entering into of the Subscription Agreement and the Shareholders' Agreement and their performance and completion of the transactions contemplated thereunder;
4. the execution and delivery to the Subscriber of the following documents required to be duly executed and/or delivered to the Subscriber before Completion pursuant to the Subscription Agreement:
  - (a) a certified copy of the Termination Agreement duly entered into and executed by the parties thereto;
  - (b) a certified copy of the Employment Agreement executed by the respective parties thereto; and
  - (c) the audited consolidated financial statements for the year ended 31 December 2006 and the unaudited consolidated financial statements for the three months ended 31 March 2007 of PAX;
5. completion of a business, financial, accounting and legal due diligence review on PAX to be conducted by the Subscriber to its reasonable satisfaction; and
6. approval of the entering into of the Subscription Agreement and the transactions contemplated thereunder by the investment committee of the Subscriber.

If any of the conditions above has not been fulfilled or waived (save that item (2) above shall not be capable of being waived) in writing by the Subscriber on or prior to a date which is 60 days from the date of the Subscription Agreement 2007 (or such later date as the Company, PAX and the Subscriber may agree in writing), the Subscription Agreement shall terminate.

**Completion:** Completion shall take place on the third Business Day following the day on which the conditions of the Subscription Agreement set out above have been satisfied or waived or such other date as the Company, PAX and the Subscriber may agree in writing.

**Shareholders' Agreement:** On Completion, the Company is required to enter into the Shareholders' Agreement which sets out the rights and obligations of the shareholders of PAX and includes, amongst others, the following terms:

1. If the audited consolidated net profit after taxation of PAX for the year ending 31 December 2007 ("2007 Actual Profit") is less than US\$7 million (equivalent to approximately HK\$54.7 million), the Company shall transfer to the Subscriber an aggregate of up to 5% of the issued share capital of PAX as enlarged by the Subscription (the "PAX Adjustment"), for a nominal consideration of HK\$1 each, in accordance with the following provision:

<b>2007 Actual Profit</b>	<b>Additional PAX Ordinary Shares to be transferred to the Subscriber</b>
Less than US\$6,200,000	5%
US\$6,200,000 or more but less than US\$6,400,000	4%
US\$6,400,000 or more but less than US\$6,600,000	3%
US\$6,600,000 or more but less than US\$6,800,000	2%
US\$6,800,000 or more but less than US\$7,000,000	1%

2. Subject to the Subscriber holding an aggregate of not less than 5% of the PAX Preference Shares in issue immediately upon Completion, the Subscriber shall have one board seat in PAX. The board of PAX currently comprises two directors.

## FINANCIAL EFFECTS OF THE SUBSCRIPTION ON THE GROUP

The Directors are of the view that under the current Hong Kong Financial Reporting Standards:

- (i) Upon Completion, no gain or loss will be recorded. Instead, the consideration of the Subscription will be split between and initially recognised as financial liability and equity components separately in the consolidated balance sheet of the Group on the date of Completion. The financial liability component is recognized initially at its fair value plus, in the case of such financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition, all financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss, including derivatives that are liabilities, shall be measured at fair value. Expenses on such liability components will be charged to the consolidated profit and loss account of the Group.
- (ii) Should the Subscriber exercises the Conversion in full, upon completion of the Conversion, a gain or loss on deemed disposal may arise, which will be calculated with reference to the Company's interest in PAX based on the then audited net asset value of PAX as compared to the Subscription Price.

Shareholders should note that the calculation of gain or loss upon Conversion is subject to review by the Company's auditors at the time of the Conversion, if it does occur.

Following Completion, the Company's interest in the issued ordinary share capital of PAX will (i) remain as 100%, if the PAX Adjustment does not occur; or (ii) reduce from 100% to not less than 95% if the PAX Adjustment occurs to the fullest extent. Assuming the Subscriber exercises the Conversion in full, upon completion of the Conversion, the Company's interest in the issued ordinary share capital of PAX will be reduced from 100% to 80%, or in case of the PAX Adjustment, to not less than 75%. Upon Completion, irrespective of the Conversion and the PAX Adjustment, PAX will remain as a subsidiary of the Company.

## INFORMATION ON THE GROUP

The Group is principally engaged in the sales of information technology products and the provision of customized information system consultancy and integration services, and information technology operation value-added services.

## INFORMATION ON PAX

PAX, an indirect wholly-owned subsidiary of the Company, is a company incorporated in Hong Kong with limited liability on 8 March 2000. The principal activities of PAX are investment holding and the sales of electronic fund transfer point-of-sale terminals and services.

Set out below is a summary of the audited consolidated financial information of PAX for the two years ended 31 December 2005 and the unaudited consolidated financial information of PAX for the six months ended 30 June 2006, which are prepared in accordance with accounting principles generally accepted in Hong Kong:

	<b>For the years ended 31 December</b>		<b>For the six months ended 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	95,995	133,073	83,424
Net profit before taxation	8,200	13,470	15,215
Net profit after taxation	8,200	13,470	14,174
	<b>As at 31 December</b>		<b>As at 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets value	29,295	43,280	57,442

## INFORMATION ON THE SUBSCRIBER

The Subscriber, Digital Investment Limited, is an investment company incorporated in Samoa with limited liability and is wholly-owned by Hao Capital.

To the Directors' best knowledge, information and belief having made reasonable enquiries, save for (i) HTSS ET Capital Limited, a company wholly-owned by Hao Capital, is a subscriber of 380,389 preference shares of Emerging Technology, a subsidiary of the Company, representing 4.5% of the issued share capital of Emerging Technology on an "as converted" basis (details of which are set out in the announcement of the Company dated 25 August 2006 and the circular of the Company dated 8 September 2006); and (ii) Ms. Elaine Wong, a director of Emerging Technology, who holds an equity interest, direct and indirect, of approximately 0.2% in Hao Capital, each of the Subscriber and its ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

#### **REASON FOR THE TERMINATION AGREEMENT**

Under the PAX Disposal Agreement, the Group will receive cash consideration of HK\$200 million for the disposal of its entire interest in PAX, effectively valuing a 100% of PAX at HK\$200 million. On the other hand, under the Subscription Agreement, the Group will receive cash consideration of US\$10 million (equivalent to approximately HK\$78.1 million) for the issuance of PAX Preference Shares representing 20% or a maximum of 25% of the issued share capital of PAX as enlarged by the Subscription under certain circumstances as described above in further details, effectively valuing a 100% of PAX at between US\$40 million (equivalent to approximately HK\$312.4 million) and US\$50 million (equivalent to approximately HK\$390.5 million).

Given the substantially higher valuation of PAX given by the Subscriber as compared to the valuation of PAX under the PAX Disposal Agreement and considering the fact that the Group will retain a minimum of 75% interest in PAX under the Subscription Agreement, the Directors are of the view that it is in the interest of the Company to terminate the PAX Disposal Agreement and enter into the Subscription Agreement.

#### **REASON FOR THE SUBSCRIPTION AND PROPOSED USE OF PROCEEDS**

The Directors consider the terms of the Subscription Agreement, which were negotiated on an arm's length basis between the parties involved, fair and reasonable. The Directors also consider that the Subscription will provide additional working capital to PAX for its business operation and is in the interests of the Shareholders as a whole. The proceeds from the Subscription will be used for general working capital of PAX.

#### **GENERAL**

Assuming the Subscriber exercises the Conversion in full, upon completion of the Conversion, the Company's interest in the issued ordinary share capital of PAX will be reduced from 100% to 80%. The Company is required, under certain circumstances (as described in the paragraph headed "Shareholders' Agreement" in the section headed "The Subscription Agreement" above), to transfer to the Subscriber up to 5% of the issued share capital of PAX as enlarged by the Subscription. Under such scenario and assuming Conversion in full, the Company's interest in the issued ordinary share capital of PAX will be reduced from 100% to not less than 75%. Accordingly, the Subscription will then constitute a possible material dilution of the Company's interest in PAX pursuant to Rule 13.36(1) of the Listing Rules and the Subscription Agreement is subject to the approval of the Shareholders at the SGM. Further information regarding the interest of the Subscriber, its ultimate beneficial owners and their associates in the Shares will be included in the circular to the Shareholders containing, among other things, further details of the Subscription Agreement. Any Shareholder who has a material interest in the Subscription will abstain from voting at the SGM. The Subscription also constitutes a discloseable transaction of the Company pursuant to Rule 14.06(2) of the Listing Rules.

A circular containing, among other things, further details of the Subscription Agreement will be despatched to the Shareholders as soon as practicable, together with a notice convening the SGM at which an ordinary resolution will be proposed for the approval of the Subscription Agreement and the transactions contemplated thereunder.

#### **DEFINITIONS**

In this announcement, the following terms have the following meanings:

"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for business

“Company”	Hi Sun Technology (China) Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreement
“Conversion”	the exercise of the conversion rights to convert the PAX Preference Shares of a principal amount of up to the entire Subscription Price into the PAX Ordinary Shares at any time from Completion on the basis of one PAX Preference Share into one PAX Ordinary Share, subject to adjustments
“Directors”	the directors of the Company
“Employment Agreement”	each of the employment agreement to be entered into by the Company and/or Pax Technology (Shenzhen) Limited (百富計算機技術(深圳)有限公司), a wholly-owned subsidiary of PAX, (as the Subscriber may require) with each of the key management staff of PAX and its subsidiaries
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Keen Ambition”	Keen Ambition Enterprise Limited, a company incorporated in the British Virgin Islands and the purchaser of the entire issued share capital of PAX under the PAX Disposal Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PAX”	Pax Technology Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“PAX Disposal Agreement”	the sale and purchase agreement dated 6 November 2006 entered into between the Company, Keen Ambition and Mr. Mo Ying San in relation to the proposed disposal of the entire issued share capital of PAX by the Company to Keen Ambition, details of which are set out in the circular of the Company dated 27 November 2006
“PAX Ordinary Shares”	ordinary shares of HK\$1.00 each in the share capital of PAX
“PAX Preference Shares”	8,750,000 new preference shares of HK\$1.00 each in the share capital of PAX to be issued to the Subscriber pursuant to the Subscription Agreement, representing 20% of the issued share capital of PAX as enlarged by the Subscription
“PRC”	The People’s Republic of China
“SGM”	the special general meeting of the Company to be held to approve the Subscription Agreement and the transactions contemplated thereunder
“Shareholders”	holders of the Shares
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between the Company, the Subscriber and PAX upon Completion
“Share(s)”	ordinary share(s) of HK\$0.0025 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Digital Investment Limited, a company incorporated in Samoa with limited liability
“Subscription”	the subscription of the PAX Preference Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 4 April 2007 and entered into between the Company, PAX and the Subscriber in relation to the Subscription

“Subscription Price”	the subscription price of US\$10 million (equivalent to approximately HK\$78.1 million) to be paid by the Subscriber pursuant to the Subscription Agreement
“Termination Agreement”	the termination agreement dated 4 April 2007 entered into between the Company, Keen Ambition and Mr. Mo Ying San for the termination of the PAX Disposal Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*For the purpose of illustration in this announcement, figures in US\$ are translated into HK\$ at the exchange rate of US\$0.128 to HK\$1.00.*

By order of the Board  
**HI SUN TECHNOLOGY (CHINA) LIMITED**  
**LI Wenjin**  
*Executive Director*

Hong Kong, 11 April 2007

*As at the date of this announcement, the Board comprises six executive Directors, namely Mr. CHEUNG Yuk Fung, Mr. KUI Man Chun, Mr. XU Wensheng, Mr. LI Wenjin, Mr. CHAN Yiu Kwong and Mr. XU Chang Jun, and three independent non-executive Directors, namely Mr. TAM Chun Fai, Mr. XU Sitao and Mr. LEUNG Wai Man, Roger.*



*Please also refer to the published version of this announcement in  
The Standard and Hong Kong Economic Times.*