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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hi Sun Technology (China) Limited (“Hi Sun”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The information contained in this circular is subject to amendment and finalisation and approval of the Prospectus (as defined herein). In addition, unless otherwise stated, the historical financial information of PAX Group (as defined herein) in this circular is unaudited and may differ from the audited financial information of PAX Group which will be included in the Prospectus. Shareholders of, and prospective investors in, the securities of Hi Sun should therefore exercise extreme caution in interpreting the information contained in this circular and when dealing in such securities.

The Share Offer, including the Preferential Offer, will not be made to persons nor open for acceptance by persons in Australia, Malaysia, New Zealand and Papua New Guinea or persons with a registered address in Australia, Malaysia, New Zealand and Papua New Guinea. This circular does not constitute an offer or invitation for the Offer Shares in Australia, Malaysia, New Zealand and Papua New Guinea. The distribution of this circular in Australia, Malaysia, New Zealand and Papua New Guinea may be restricted by the applicable laws of these jurisdictions and this circular is not for distribution in any of these jurisdictions. Persons who come into possession of this circular should seek advice on and observe any of such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws of these jurisdictions.

Hong Kong Exchanges and Clearing Limited, Hong Kong Securities Clearing Company Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)**

### **MAJOR TRANSACTION IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF PAX GLOBAL TECHNOLOGY LIMITED ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND PROPOSED ADOPTION OF THE PAX SHARE OPTION SCHEME**

**Independent Financial Adviser to the Independent Board Committee and the Shareholders**



**粵海證券有限公司**

**GUANGDONG SECURITIES LIMITED**

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A letter from Guangdong Securities, the independent financial adviser to the Independent Board Committee and the Shareholders, containing its advice in relation to the Proposed Spin-off is set out on pages 32 to 42 of this circular.

A notice convening the SGM to be held at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, on Wednesday, 24 November 2010 at 10:30 a.m. is set out on pages 63 to 65 of this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

\* For identification only

8 November 2010

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## EXPECTED TIMETABLE

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2010

Last day for dealing in Shares cum-entitlement to  
the Preferential Offer .....Wednesday, 17 November

First day for dealing in Shares ex-entitlement to  
the Preferential Offer.....Thursday, 18 November

Latest time for lodging transfers of Shares to  
qualify for the Preferential Offer (*Note*) .....4:30 p.m. on Friday, 19 November

Latest time for return of proxy forms in  
respect of the SGM .....10:30 a.m. on Monday, 22 November

Register of members of Hi Sun closes (*Note*) ..... Monday, 22 November to  
Wednesday, 24 November  
(both dates inclusive)

Record Date for determining the entitlement to  
the Preferential Offer and eligibility to attend  
and vote at the SGM (*Note*) .....Wednesday, 24 November

SGM .....10:30 a.m. on Wednesday, 24 November

Register of members of Hi Sun re-opens on .....Thursday, 25 November

All times above refer to Hong Kong local time. Please note that the above tentative timetable depends largely on the final timetable of the Proposed Spin-off and thus it may be subject to further changes. Further announcement(s) will be made as and when necessary.

*Note:* The Board may determine another date for closure of the register of members of Hi Sun and for determination of entitlements to the Preferential Offer, in which case a further announcement will be made to inform the Shareholders.

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## DEFINITION

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meaning:*

“associate”	has the meaning ascribed to it under the Listing Rules
“Assured Entitlement”	the entitlements of Qualifying Shareholders to apply for such number of Reserved Shares under the Preferential Offer
“BLUE Application Form(s)”	the form of application for the Reserved Shares for use by the Qualifying Shareholder under the Preferential Offer
“Board”	the board of directors of Hi Sun
“Bye-laws”	the bye-laws of Hi Sun as amended from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Capitalisation Issue”	the allotment and issue of new PAX Shares to be made upon capitalization of part of the moneys standing to the credit of the reserve within equity of PAX as a result of the issue of new PAX Shares pursuant to the Share Offer by applying such sum to pay in full at par new PAX Shares to the holders of PAX Shares after the completion of the Hao Share Swap Agreement but before the completion of the Share Offer, pro rata to their shareholding (or as they may direct), further particulars relating to which will be included in the Prospectus
“Company” or “Hi Sun”	Hi Sun Technology (China) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Deed of Non-competition”	deed of non-competition to be entered into between Hi Sun and PAX in favour of PAX
“Directors”	directors of Hi Sun
“Group”	Hi Sun and its subsidiaries (including PAX Group)
“EFT-POS Terminal Solutions Business”	the business of the development and sale of electronic fund transfer point of sale products and provisions of related services
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITION

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“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee formed by the independent non-executive Directors to advise the Shareholders on the Proposed Spin-off
“Hao Share Swap Agreement”	the share swap agreement dated 5 November 2010 between PAX, Digital Investment Limited and Dream River Limited pursuant to which PAX has agreed to purchase or procure the purchase of, and Digital Investment Limited and Dream River Limited have agreed to sell their aggregate 40% interest in Pax Technology Limited to be satisfied by the issue and allotment to Digital Investment Limited and Dream River Limited of such number of PAX Shares credited as fully paid that would represent 40% of the issued share capital of PAX immediately after completion of this share swap agreement
“Independent Financial Adviser” or “Guangdong Securities”	Guangdong Securities Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Shareholders in connection with the Proposed Spin-off
“IPO Sale Shares”	PAX Shares (if any) that may be offered for sale by Digital Investment Limited and/or Dream River Limited as part of the Share Offer
“Latest Practicable Date”	4 November 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Listing”	the initial listing of PAX Shares on the Main Board of the Stock Exchange
“Offer Price”	the final offer price per PAX Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which PAX Shares are to be issued pursuant to the Share Offer, as described in the Prospectus

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## DEFINITION

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“Over-allotment Option”	the option to be granted by PAX to the underwriters of the Placing, pursuant to which PAX may be required to allot and issue additional PAX Shares (representing up to an aggregate of 15% of PAX Shares to be initially offered by PAX under the Share Offer) at the Offer Price to cover over-allocations in the Placing
“Overseas Shareholders”	registered holders of the Shares whose addresses on the register of members of Hi Sun are outside Hong Kong as at 5:00 p.m. on the Record Date
“PAX Group”	PAX and those companies in the Group that will be its subsidiaries at the time of the Share Offer
“PAX Share Option Scheme”	the share option scheme proposed to be adopted by PAX which will take effect subject to, among others things, the commencement of dealings in PAX Shares on the Main Board of the Stock Exchange
“PAX Shares”	ordinary shares of HK\$0.10 each in the share capital of PAX
“Pax Technology Limited Share Option Scheme”	the share option scheme of Pax Technology Limited, a 60% indirectly owned subsidiary of Hi Sun, approved by Shareholders at the special general meeting of Hi Sun dated 27 April 2009
“PAX”	PAX Global Technology Limited, a company incorporated in Bermuda on 15 February 2010 with limited liability
“Pax Technology (Shenzhen)”	百富計算機技術(深圳)有限公司 (Pax Computer Technology (Shenzhen) Limited*), a company incorporated in the PRC on 13 July 2001 with limited liability
“Placing”	the conditional placing of PAX Shares with institutional, professional and other investors as described in the Prospectus
“PN 15”	Practice Note 15 of the Listing Rules
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Preferential Offer”	the preferential offer to the Qualifying Shareholders of the Reserved Shares at the Offer Price, subject to and in accordance with the terms and conditions of the Prospectus and the BLUE application form

\* For identification only.

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## DEFINITION

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“Proposed Spin-off”	the proposed disposal of Hi Sun’s interest in PAX by way of an offer of new PAX Shares pursuant to or in connection with the Share Offer accompanied by a separate listing of PAX Shares on the Main Board of the Stock Exchange
“Prospectus”	the prospectus to be issued by PAX in relation to the Share Offer
“Public Offer”	the offer of PAX Shares for subscription or purchase by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in the Prospectus and the related application forms
“Qualifying Shareholder(s)”	Shareholder(s) whose names appear on the register of members of Hi Sun at 5:00 p.m. on the Record Date with a holding equal to or more than 3,000 shares, other than the Overseas Shareholders, who shall be entitled to subscribe for PAX Shares under the Preferential Offer
“Record Date”	24 November 2010, being the record date for ascertaining the Qualifying Shareholders who shall be entitled to the Assured Entitlement and the Shareholders who shall be eligible to attend and vote at the SGM
“Registrar”	the Hong Kong branch share registrar of Hi Sun, Tricor Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Remaining Group”	the Group excluding PAX Group
“Reserved Shares”	PAX Shares available under the Share Offer being offered pursuant to the Preferential Offer
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SGM”	the special general meeting to be held on Wednesday, 24 November 2010 by Hi Sun for the purpose of, among other matters, approving the Proposed Spin-off and the adoption of the PAX Share Option Scheme
“Share Offer”	the Public Offer, the Placing and the Preferential Offer
“Shareholders”	the shareholders of Hi Sun

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## DEFINITION

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“Shares”	shares of HK\$0.0025 each in the issued share capital of Hi Sun
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules



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LETTER FROM THE BOARD

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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)**

***Board of Directors:***

*Executive Directors:*

Mr. Cheung Yuk Fung

Mr. Kui Man Chun

Mr. Xu Wensheng

Mr. Li Wenjin

Mr. Xu Chang Jun

*Non-executive Directors:*

Mr. Yang Lei, Raymond

Mr. Chang Kai-Tzung, Richard

*Independent Non-Executive Directors:*

Mr. Tam Chun Fai

Mr. Xu Sitao

Mr. Leung Wai Man, Roger

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head office and principal*

*Place of Business:*

Room 2515, 25th Floor

Sun Hung Kai Centre

30 Harbour Road

Wanchai

Hong Kong

8 November 2010

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION  
IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
PAX GLOBAL TECHNOLOGY LIMITED  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED AND  
PROPOSED ADOPTION OF THE PAX SHARE OPTION SCHEME**

*\* For identification only*

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## LETTER FROM THE BOARD

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### INTRODUCTION

The Board announced on 19 August 2010 that Hi Sun submitted a spin-off proposal to the Stock Exchange pursuant to PN 15 in relation to the Proposed Spin-off of PAX. The Stock Exchange approved that PN 15 submission on 15 September 2010 and confirmed that Hi Sun may proceed with the Proposed Spin-off.

On 17 September 2010, PAX submitted a listing application form (for equity securities and debt securities) (Form A1) to the Stock Exchange for an application for the listing of, and permission to deal in, PAX Shares in issue or to be issued as at the date of the Prospectus pursuant to the Prospectus, PAX Shares to be issued under the Share Offer (including PAX Shares to be issued upon the exercise of the Over-allotment Option) and PAX Shares to be issued upon the exercise of the options that may be granted under the PAX Share Option Scheme, on the Main Board of the Stock Exchange.

The purposes of this circular are: (1) to provide Shareholders with information on the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Proposed Spin-off as required by the Listing Rules for a major transaction of Hi Sun) and the proposed adoption of the PAX Share Option Scheme by PAX; (2) to set out the recommendations of the Independent Board Committee to the Shareholders regarding the Proposed Spin-off; (3) to set out the letter of advice from Guangdong Securities containing its recommendation to the Independent Board Committee and the Shareholders regarding the terms of the Proposed Spin-off and its recommendation to the Shareholders regarding voting on the Proposed Spin-off; and (4) to give notice to Shareholders of the SGM at which ordinary resolutions will be proposed to approve the Proposed Spin-off and transactions related thereto and the adoption of the PAX Share Option Scheme.

**Shareholders and potential investors should note that the Proposed Spin-off and the Share Offer are subject to, among others, the final decision of the Board and the board of directors of PAX and the approvals from the Shareholders and the Stock Exchange, and may or may not proceed. Accordingly, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.**

### THE PROPOSED SPIN-OFF

The Proposed Spin-off is expected to be effected by way of the Share Offer which will comprise the Public Offer, the Placing and the Preferential Offer of new PAX Shares for subscription in cash. It will be accompanied by a separate listing of PAX Shares (and in effect the EFT-POS Terminal Solutions Business of the Group) on the Main Board of the Stock Exchange.

Hi Sun confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, under the Share Offer, PAX Shares are expected to be offered to third parties independent of Hi Sun except that (i) the Preferential Offer (further details relating to which is set out in the section headed "Preferential Offer") will be available only to Qualifying Shareholders who are not also connected persons of Hi Sun or connected persons of PAX and (ii) these shareholders may also participate in the Public Offer or the Placing on terms that apply generally to all applicants or potential placees of PAX Shares. The final structure of the Proposed Spin-off, including the size

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## LETTER FROM THE BOARD

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of the Share Offer and the exact apportionment among the Public Offer, the Placing and the Preferential Offer will be decided by the Board and the board of directors of the PAX. A further announcement will be made in respect of the final structure of the Share Offer as and when appropriate.

It is also expected that the Over-allotment Option will be granted by PAX to the underwriters under the Placing, pursuant to which PAX may be required to allot and issue additional PAX Shares (representing up to an aggregate of 15% of PAX Shares to be initially offered under the Share Offer) at the Offer Price to cover over-allocations in the Placing.

It is currently contemplated that the Share Offer (and therefore the public float of PAX) will comprise new PAX Shares representing approximately 26% of the issued share capital of PAX immediately after the Proposed Spin-off, taking no account of any PAX Shares which may be allotted and issued pursuant to the Over-allotment Option.

The Proposed Spin-off is conditional on the fulfillment of the conditions set out in the sub-section headed “Conditions precedent for the Proposed Spin-off” below. Hi Sun is required to comply with the requirements under PN 15. The Directors confirm that Hi Sun will comply with all the requirements of the Listing Rules in respect of the Proposed Spin-off including those under PN 15, subject to the Shareholders passing an ordinary resolution at the SGM to approve the Proposed Spin-off.

As the controlling shareholder of PAX, Hi Sun will be subject to restrictions on disposal of PAX Shares both under the Listing Rules and the underwriting agreements to be entered into by Hi Sun, PAX and underwriters of the Share Offer, amongst others, for a specified period after Listing. In particular, save for limited exceptions, Hi Sun may not (i) at any time during the period commencing from the date of the Listing and ending on the date which is six months from the date of the Listing, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any PAX Shares in respect of which it is shown by the Prospectus to be the beneficial owner; and (ii) at any time during the period of six months from the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interest or encumbrances in respect of, any PAX Shares referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would then cease to be a controlling shareholder of PAX. The above restriction will not apply to any stock borrowing or lending arrangement that Hi Sun enters into pursuant to an agreement in relation to the Share Offer to facilitate settlement of over-allocations particulars of which is to be disclosed in the Prospectus. The maximum number of PAX Shares which are to be subject to such stock borrowing or lending arrangement will not exceed 15% of the total number of PAX Shares initially available for subscription or purchase under the Share Offer. Accordingly, Hi Sun will continue to hold its PAX Shares for at least the above mentioned periods to the extent required to comply with the terms of such restrictions.

The Shares will continue to be listed on the Main Board of the Stock Exchange after the implementation of the Proposed Spin-off. Upon successful completion of the Proposed Spin-off, PAX Shares will also be listed on the Stock Exchange. New PAX Shares issued pursuant to the Share Offer will, when issued, rank *pari passu* with all PAX Shares then in issue.

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## LETTER FROM THE BOARD

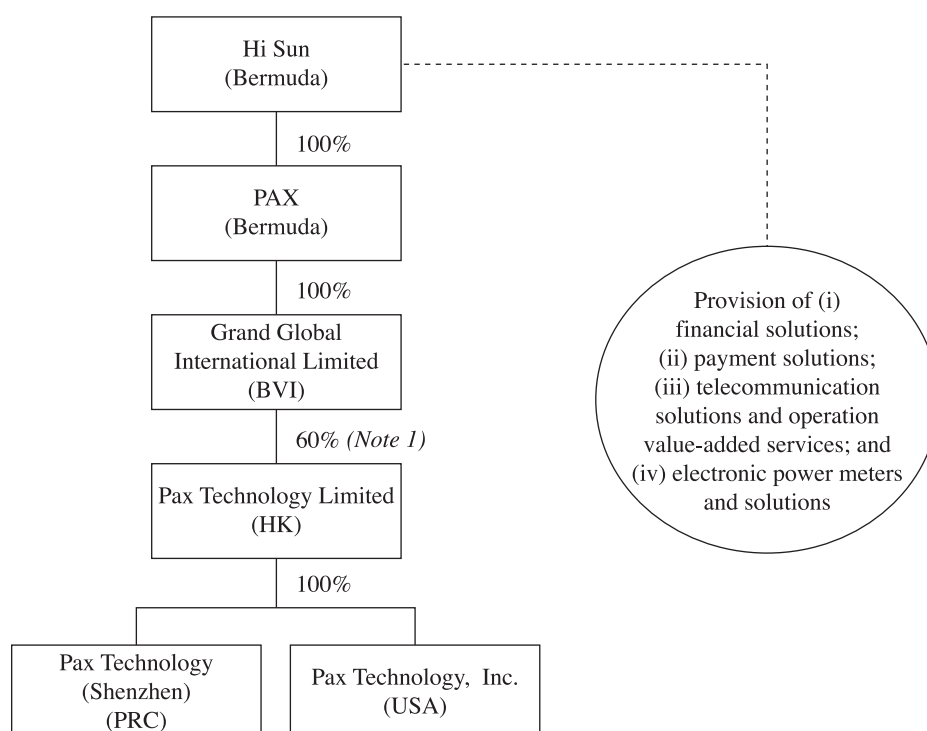
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Subject to the grant of the listing of, and permission to deal in, PAX Shares on the Main Board of the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, PAX Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of listing of PAX Shares or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### Changes in the shareholding of PAX Group in connection with the Proposed Spin-off

PAX Group is to comprise PAX and Grand Global International Limited, both being investment holding companies, and three operating subsidiaries, namely PAX Technology Limited, PAX Technology (Shenzhen) and PAX Technology, Inc.

The shareholding structure of PAX Group as at the date of this circular is as follows:



*Note:*

1. The remaining 40% interest in Pax Technology Limited is held as to 20% in the form of series A preference shares by Digital Investment Limited and as to 20% in the form of series B preference shares by Dream River Limited. Their acquisition of interests in Pax Technology Limited and the rights attached to their shares were the subject of Hi Sun's announcements dated 11 April 2007 and 1 April 2009 and shareholders circular dated 27 April 2007 and 8 April 2009.

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## LETTER FROM THE BOARD

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In order to achieve the listing of 100% interest in the EFT-POS Terminal Solutions Business (which Hi Sun believes would be more attractive to investors than the listing of only a 60% attributable interest in that business with a significant minority interest) through a Bermuda incorporated company (such as PAX) which is more commonly used vehicle for listing in Hong Kong than Hong Kong incorporated companies (such as PAX Technology Limited), it was necessary to transfer all of the shareholding interests of the existing shareholders of PAX Technology Limited to PAX. Hence, the Company, Digital Investment Limited and Dream River Limited (all being the existing shareholders of PAX Technology Limited) entered into the Hao Share Swap Agreement on 5 November 2010. The Hao Share Swap Agreement does not confer upon Digital Investment Limited and Dream River Limited additional rights that they would not otherwise have enjoyed under their shareholders agreement with the Company in respect of PAX Technology Limited, had PAX Technology Limited been the company that is to be listed under the Proposed Spin-off. In other words, the sole purpose of the Hao Share Swap Agreement is to change the shareholding structure of the PAX Group shown in the diagram above, to that shown in the next diagram below. Given the purpose of the Hao Share Swap Agreement described above and that PAX has been incorporated for the sole purpose of the Proposed Spin-off and does not have any business activities or assets other than its 60% interest in PAX Technology Limited, its implementation will have no material impact on the Group.

Digital Investment Limited and Dream River Limited have agreed conditionally (under the Hao Share Swap Agreement) on 5 November 2010 to transfer their aggregate 40% interest in Pax Technology Limited to PAX or its nominee(s) in consideration for aggregate 40% interest in PAX. Completion of this transfer is expected to occur on the date of Listing or shortly before the Listing. Completion of the Hao Share Swap Agreement is conditional upon, among others, the following conditions being fulfilled: (a) unconditional approval from the Stock Exchange of Hi Sun's spin-off application which forms the subject matter of the announcement of Hi Sun dated 19 August 2010; (b) the approval from the Bermuda Monetary Authority of the issue and (if applicable) free transferability, of the PAX Shares constituting the said 40% interest in PAX; (c) the registration of the Prospectus by the Registrars of Companies in Hong Kong and in Bermuda; (d) subject to Digital Investment Limited and/or Dream River Limited having duly notified PAX of their proposal to sell some of their shares in PAX as part of the Share Offer in accordance with the Hao Share Swap Agreement, the relevant selling shareholder having entered into one or more underwriting agreements in respect of the Share Offer; (e) the Offer Price and the number of IPO Sale Shares being acceptable to Digital Investment Limited and Dream River Limited; and (f) the Capitalisation Issue having been approved by sole shareholder of PAX (being Hi Sun). If Hi Sun withdraws its spin-off application or the Stock Exchange rejects PAX's listing application for whatsoever reason, the Hao Share Swap Agreement may be terminated by the parties thereto. If the conditions set out above are not fulfilled on or before 5:00 p.m. on 31 December 2010 (or such later date as the parties to the Hao Share Swap Agreement may agree in writing), the Hao Share Swap Agreement shall terminate and neither party shall have any claim against the other save in respect of any antecedent breach of this agreement. In this case, the Share Offer will also not proceed.

In addition, Digital Investment Limited and Dream River Limited may also terminate the Hao Share Swap Agreement (i) at any time on or before 6:00 p.m. on the date on which the Listing Committee of the Stock Exchange meet to consider PAX's listing application, there is material adverse change to the business and financial position of PAX Group; or (ii) if the registration of the Prospectus by the Registrars of Companies in Hong Kong and in Bermuda has not yet taken place within 45 days after Digital Investment Limited and/or Dream River Limited having notified PAX and the global

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## LETTER FROM THE BOARD

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coordinator of the Share Offer (being the investment bank that will lead and co-ordinate the underwriters of the Share Offer) the final number of IPO Sale Shares, such that they should be released from their obligations under that agreement to ensure the preservation of their rights under their investment agreements with Pax Technology Limited. If Digital Investment Limited and Dream River Limited exercise their termination rights under the Hao Share Swap Agreement, they will remain shareholders of PAX Technology Limited and the Share Offer will not proceed.

PAX has agreed to facilitate the offer and sale by Digital Investment Limited and/or Dream River Limited as part of the Share Offer of up to 20% of their holding of PAX Shares on completion, if Digital Investment Limited and/or Dream River Limited should decide to participate in the Share Offer. The IPO Sale Shares may be offered as part of the Public Offer, the Placing or both. All transactional costs in respect of the sale of such PAX Shares (such as underwriting and selling commission, SFC transaction levy, Stock Exchange trading fee) will be borne by Digital Investment Limited and/or Dream River Limited. Digital Investment Limited and Dream River Limited have indicated that they will sell at least one board lot of PAX Shares. If they were to participate in the Share Offer, they must confirm the number of PAX Shares they wish to sell by no later than the bulk-print of the “red herring” version of the Prospectus which will be used for the international roadshow that will be undertaken as is customary prior to the publication of the Prospectus. Whether or not Digital Investment Limited and Dream River Limited sell any of their PAX Shares under the Share Offer has no material effect on the Company’s Proposed Spin-off. The announcement by the Company of the final structure of the Share Offer will include information regarding the number of PAX Shares to be offered by Digital Investment Limited and Dream River Limited.

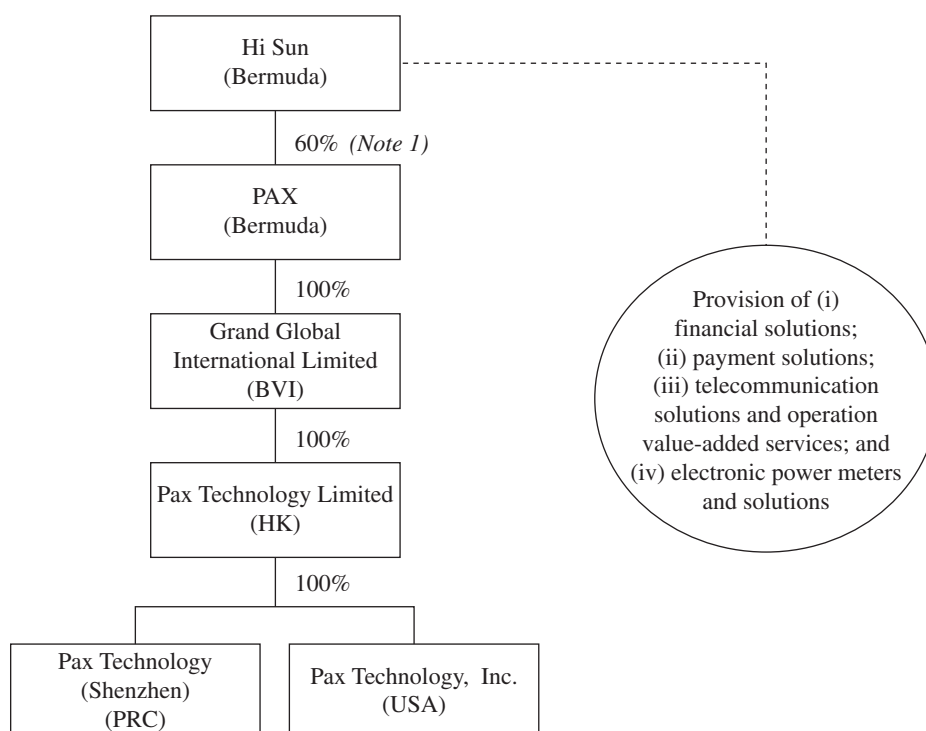
Completion of the Hao Share Swap Agreement is expected to take place on the fixing of the Offer Price, assuming that all conditions precedents are fulfilled (unless otherwise waived with the agreement of all parties to that agreement). If, however, the listing of the PAX Shares does not take place within 30 days after such completion or if the underwriters of the Share Offer exercise their rights to terminate the underwriting agreement for the Share Offer, the Hao Share Swap Agreement provide for the share swap that has been effected to be unwound on the third business day after the expiry of such 30 days or (as the case may be) termination (or such other date as may be agreed between the parties). This is to be effected by the repurchase by PAX of all shares issued to Digital Investment Limited and Dream River Limited under the Hao Share Swap Agreement in consideration of PAX transferring back to them all of their original 40% interest in PAX Technology Limited. The unwinding of the share swap under the Hao Share Swap Agreement will not have any material effect on the Group. The effect of it is to enable the various parties to the Hao Share Swap Agreement to revert to the shareholding structure of the PAX Group as shown above.

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## LETTER FROM THE BOARD

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The shareholding structure of PAX Group immediately after completion of the Hao Share Swap Agreement will be as follows:



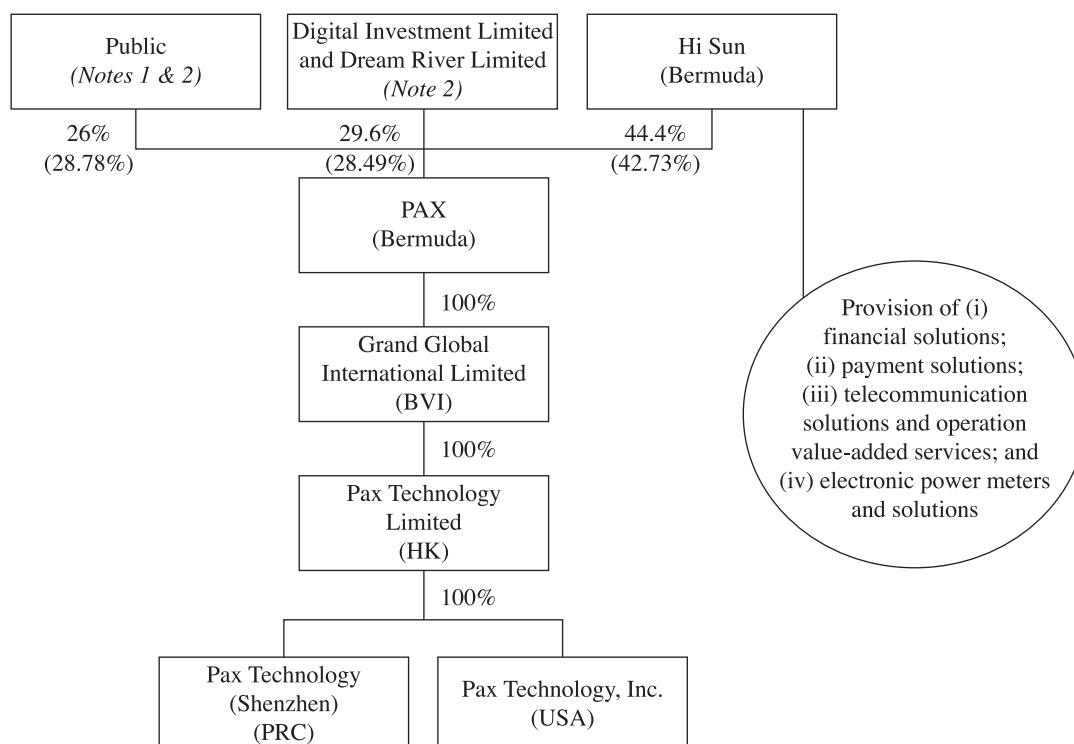
*Note:*

1. The remaining 40% interest in PAX is held as to 20% by Digital Investment Limited and as to 20% by Dream River Limited, all in the form of Ordinary Shares. Under the Hao Share Swap Agreement, PAX has undertaken to observe the rights of Digital Investment Limited and Dream River Limited under the shareholders agreement in respect of PAX Technology, brief particulars of which have been set out in the shareholders' circular dated 8 April 2009 notwithstanding completion of the share swap contemplated thereunder, up to (but not beyond) the listing of the PAX Shares.

Given that the total number of PAX Shares in issue by PAX as a private company immediately prior to the Share Offer will be small, compared to the number of PAX Shares that are to be offered under the Share Offer, PAX will as commonly done by other new listing applicants, prior to the issue of the Prospectus approve the Capitalisation Issue. The Capitalisation Issue will involve the allotment and issue of new PAX Shares to be made by applying part of the amount that will be credited to reserve within equity of PAX upon the issue of new PAX Shares under the Share Offer to pay up in full at par new PAX Shares pro rata to the holders of PAX Shares as at a record date which will fall after the completion of the Hao Share Swap Agreement but before completion of the Share Offer (i.e. Hi Sun, Digital Investment Limited and Dream River Limited) to ensure that they will together hold the intended majority shareholding of PAX immediately after the Listing. For example, if 26% new PAX Shares are issued under the Share Offer, the Capitalisation Issue will ensure that the remaining 74% will be held by Hi Sun (as to 44.4%) and Digital Investment Limited and Dream River Limited (together as to 29.6%).

## LETTER FROM THE BOARD

The shareholding structure of our Group immediately upon completion of the Hao Share Swap Agreement and the Share Offer and in any event without taking into account of any PAX Shares which may be issued upon the exercise of the Over-allotment Option or any PAX Shares that may be offered for sale by Digital Investment Limited and/or Dream River Limited and on the assumption that approximately 26% new PAX Shares are offered under the Share Offer is to be as follows (percentages in brackets show the position if the Over-allotment Option is exercised in full):



*Notes:*

1. This represents the successful applicants and placees under the Share Offer.
2. A minimum of 26% PAX Shares will be offered for subscription under the Share Offer. If Digital Investment Limited and Dream River Limited elect to sell as part of the Share Offer the maximum of 20% of their holding of PAX Shares on Completion (or 5.92% PAX Shares being 20% of the 29.6% shown in the diagram above), then a total of 31.92% PAX Shares will be offered for subscription and sale under the Share Offer. All percentages in this note do not take into account any exercise of the Over-allotment Option.

As stated in the section headed “Listing Rules Implications” below, Hi Sun seeks the approval from Shareholders for the issue and sale of such PAX Shares under Share Offer (including PAX Shares under the Over-allotment Option) as may be approved by the Board, provided amongst other things that the percentage of shareholding interest of Hi Sun in PAX immediately after the completion of the Proposed Spin-off will be no less than 40%, taking no account of the effect of any disposal of PAX Shares under stock borrowing arrangements entered into on customary terms in compliance with the Listing Rules.



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## LETTER FROM THE BOARD

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### **Business Overview Of PAX Group**

PAX Group is an electronic fund transfer point-of-sale (EFT-POS) terminal solutions provider principally engaged in the development and sale of EFT-POS products and provision of related services.

It develops and sells countertop and mobile EFT-POS terminals which are able to process a wide range of electronic payment types including signature and PIN-based debit cards, credit cards, contactless/radio frequency identification cards, RF (radio frequency)-enabled mobile phones, IC cards, pre-paid gift and other stored-value cards. It also develops and sells consumer activated devices, contactless devices and EFT-POS software (which is installed in its EFT-POS products and not sold independently). Save for product assembly and processing which it outsources, PAX Group designs and develops its products and manufacturing procedures, carries out research and development, sources raw materials and components, implements quality control in-house, and sells and distributes its products (with the support of its distributors in some of its overseas markets) and provides after sales services. Through its subcontractors, it also provides contract-based maintenance services to certain of our customers in Hong Kong and Macau, whereas, in China, it also provides maintenance services by its own service team.

### **Remaining Group and PAX Group after the Proposed Spin-off**

Hi Sun is an investment holding company and its subsidiaries are principally engaged in the EFT-POS Terminal Solutions Business, the businesses of provision of financial solutions, payment solutions, telecommunication solutions and operation value-added services and electronic power meters and solutions. The EFT-POS Terminal Solutions Business is held and operated by PAX Group. After the Proposed Spin-off the Remaining Group will focus on the provision of financial solutions, payment solutions, telecommunication solutions and operation value-added services and electronic power meters and solutions, whilst PAX Group will focus on the EFT-POS Terminal Solutions Business.

Pursuant to a deed of non-competition to be signed shortly before the issue of the Prospectus, Hi Sun will undertake among other things, to PAX that, Hi Sun will not, and will procure that its subsidiaries (other than PAX Group) will not directly or indirectly engage or otherwise be interested in the design, manufacture and/or sale of EFT-POS products and provision of related services in the PRC, Hong Kong or any part of the world in which any member of the PAX Group may from time to time operate, at any time during which PAX Shares are listed on the Stock Exchange or any stock exchange recognized under the SFO and for so long as Hi Sun, whether or not together with its associates, directly or indirectly remain the controlling shareholder of PAX.

Hi Sun will also undertake to PAX that, if any time that PAX or PAX's independent non-executive directors have reasonable cause to believe that Hi Sun may be in breach of the Deed of Non-competition, against PAX's undertaking to keep the information received confidential except for disclosures of such information as may be necessary to comply with its legal or regulatory obligations, or such information that is already in the public domain other than as a result of PAX's breach of its confidentiality undertaking or for the purposes of enforcement of the Deed of Non-competition. Hi Sun will at PAX or PAX's independent non-executive directors' request provide

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## LETTER FROM THE BOARD

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all such information that it possesses and may be lawfully disclosed pertaining to such request so as to enable PAX or its independent non-executive directors to make an informed assessment as to whether or not there has in fact been a breach of the Deed of Non-competition. Hi Sun will also undertake to PAX that it will give PAX an annual declaration that it has complied with the non-compete undertaking given above.

If Hi Sun breaches its obligations under the Deed of Non-competition, then it may be liable for damages to PAX arising from such breach and Hi Sun may also be subject to alternative remedies that may be available to PAX, such as court injunction against Hi Sun from continuing with the competing business or a court order for specific performance of its obligations under the Deed of Non-competition.

In view of the clear delineation of business between the Remaining Group and the PAX Group and the non-competition undertaking that Hi Sun will give in favour of PAX Group, the Directors do not foresee any competition between the Remaining Group and PAX Group.

### **Independence of directorship and management of the Company and PAX**

The following table shows the existing composition of the Board and the proposed composition of the Board and the board of directors of PAX upon completion of the Proposed Spin-off respectively.

<b>Existing composition of the Board</b>	<b>Proposed composition upon completion of the Proposed Spin-off</b>	
	<b>Board</b>	<b>PAX's board of directors</b>
<i>Executive Directors</i>	<i>Executive Directors</i>	<i>Executive Directors</i>
Cheung Yuk Fung	Cheung Yuk Fung	Nie Guoming
Kui Man Chun	Kui Man Chun	Jiang Hongchun
Xu Wensheng	Xu Wensheng	Li Wenjin
Li Wenjin	Li Wenjin	
Xu Chang Jun	Xu Chang Jun	
<i>Non-executive Directors</i>	<i>Non-executive Directors</i>	
Yang Lei, Raymond	Yang Lei, Raymond	
Chang Kai-Tzung, Richard	Chang Kai-Tzung, Richard	
<i>Independent non-executive Directors</i>	<i>Independent non-executive Directors</i>	<i>Independent non-executive Directors</i>
Tam Chun Fai	Tam Chun Fai	Yip Wai Ming
Xu Sitao	Xu Sitao	Wu Min
Leung Wai Man, Roger	Leung Wai Man, Roger	Man Kwok Kuen, Charles

The final composition of the board of directors of PAX will be set out in the Prospectus.

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## LETTER FROM THE BOARD

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With the exception of Mr. Li Wenjin who is also a director of Hi Sun and certain of its subsidiaries, none of the members of the Board are directors of the PAX Group and that none of the senior management of Hi Sun hold any position in PAX Group.

PAX's board of directors will consist of 6 members, comprising 3 executive directors and 3 independent non-executive directors. With the exception of Mr. Li Wenjin, who is a director of Hi Sun and certain of its subsidiaries, none of the members of the board of PAX are directors of the Remaining Group and none of the senior management of PAX Group hold any position in the Remaining Group. The Directors believe that PAX Group is, and will immediately after the Listing be, able to operate independently of the Remaining Group notwithstanding Mr. Li Wenjin's offices in the Remaining Group for the following reasons:

- PAX Group companies are all of the subsidiaries of Hi Sun which engage in the EFT-POS Terminal Solutions Business. As explained above, the business activities of PAX Group are completely different from those of the Remaining Group. The proposed directors of PAX Group (with the exception of Mr. Jiang Hongchun) and all of their senior management team (other than the Group financial controller who joined PAX Group in January 2010) have been working for PAX Group during most of the Track Record Period and are expected to continue to work together to manage the business of PAX Group. Mr. Jiang Hongchun has been transferred to PAX Group from the Remaining Group to help Mr. Nie Guoming manage the continued growth of PAX Group's business.
- As one of the executive directors of PAX, Mr. Li Wenjin is and will continue to be closely involved in the management decisions of PAX Group, with specific responsibilities for investment activities and transactions of PAX Group. Mr. Li Wenjin is responsible for (i) management of risk assessment, including the assessment of industry, operational and financial risks of the business of PAX Group, (ii) overseeing investment activities and transactions, (iii) approving annual planning and budgeting policy, treasury and funds management; (iv) overseeing operations of Pax Technology Limited in Hong Kong (including administration, staffing and internal control) and (v) being a member of PAX's nomination and remuneration committees, one of PAX's authorised representatives and overseeing PAX's Listing Rules compliance, whereas his role in Remaining Group would be less active as described below. The daily operation of PAX Group will principally be overseen and managed by Mr. Nie Guoming (its Chairman) and Mr. Jiang Hongchun (its Chief Executive Officer), neither of whom hold any material position in the Remaining Group.
- Mr. Li Wenjin expects to spend approximately 70% of his time in PAX Group after the Listing and the remainder of his time with the Remaining Group. After Listing, Mr. Li Wenjin would not be involved in the daily operations and related management decisions of Hi Sun. His responsibilities with Hi Sun Group will be limited to (i) the monitoring of the Remaining Group's treasury and funds management; and (ii) his membership with Hi Sun's nomination and remuneration committees, his role as one of Hi Sun's authorized representatives, and overseeing Hi Sun's Listing Rules compliance.

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## LETTER FROM THE BOARD


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- If any conflict of interest arises, such as connected transactions with the Remaining Group or vice versa, Mr. Li Wenjin (for so long as he is both a Hi Sun director and a PAX director) and any PAX director with an interest in the relevant transaction(s) (including by virtue of his directorship in the other listed issuer) will be required to abstain from voting on the relevant resolution(s) in the relevant meeting of the board of directors of Hi Sun or (as the case may be) PAX. PAX's remaining directors who do not hold office with Hi Sun, including Mr. Nie Guoming (its Chairman) and Mr. Jiang Hongchun (its Chief Executive Officer) who are responsible for the daily operation of PAX Group, could still properly attend, be counted in the meeting quorum, and vote on any matter that involves the interests of Hi Sun without impeding the operations of PAX Group.

Details of the composition of the management of PAX Group will be set out in the Prospectus.

### **Reasons for and benefits of the Proposed Spin-off**

The Board considers that the Proposed Spin-off is in the interests of the Company and the Shareholders taken as a whole, after taking into account the fact that the business interests of the Remaining Group which are operating and, will immediately after the Share Offer continue to operate, independence of the PAX Group as described in the section "Remaining Group and PAX Group after the Proposed Spin-off" and the financial effects of the Proposed Spin-off as described in the section headed "Financial effects of the Proposed Spin-off", based on the following reasons:

- (i) the Proposed Spin-off will, upon its implementation, allow the Company to focus on the business of financial solutions, payment solutions, telecommunication solutions and operation value-added services and electronic power meters and solutions. PAX Group will focus on the EFT-POS Terminal Solutions Business, which has now grown to a size which warrants a separate listing. This will enable the two separate management teams to adopt different business strategies in order to better suit their businesses and with clearer segregation of roles and enhance their ability to focus on opportunities specific to the business of the relevant company, from which both the Remaining Group and PAX Group could benefit;
- (ii) in terms of profile for listing, the Proposed Spin-off of PAX Group from the Group will enable each of Hi Sun and PAX to establish its own profile thereby attracting different investors. The Share Offer and separate listing of PAX can enhance awareness of, and strengthen, the "" brand which can facilitate PAX Group's efforts in developing overseas markets for its products; and
- (iii) since Hi Sun will remain as a controlling shareholder of PAX, Hi Sun will continue to benefit from the growth and the business prospects of PAX Group through its equity interest in the results of and potential dividends, if any, from PAX.

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## LETTER FROM THE BOARD

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### Conditions precedent for the Proposed Spin-off

The Proposed Spin-off will be conditional on, among others, the following:

- (i) the Listing Committee of the Stock Exchange granting approval for the Proposed Spin-off and the listing of, and permission to deal in, PAX Shares in issue and to be issued under the Share Offer (including PAX Shares to be issued upon the exercise of the options that may be granted under PAX Share Option Scheme and the Over-allotment Option, if any);
- (ii) the Shareholders passing an ordinary resolution by way of poll at the SGM approving the implementation of the Proposed Spin-off and other related matters;
- (iii) completion of the Hao Share Swap Agreement; and
- (iv) the obligations of the underwriters under the underwriting agreements to be entered into among Hi Sun, PAX and, amongst others, the underwriters in respect of the Share Offer becoming unconditional in all respects and the underwriting agreements not being terminated in accordance with their respective terms or otherwise, on or before the dates and times to be specified therein.

If any of these and other applicable conditions are not fulfilled or waived, if applicable, prior to the dates and times to be specified, the Proposed Spin-off will not proceed and the Stock Exchange will be notified immediately and an announcement will be published by Hi Sun as soon as practicable thereafter.

### Intended use of proceeds

The Share Offer will involve only an issue of new PAX Shares by PAX and may be an offer for sale of IPO Sale Shares by Digital Investment Limited and Dream River Limited. It will not include any offer for sale of PAX Shares by Hi Sun, and therefore, Hi Sun will not receive any proceeds from the Share Offer.

Set out below is, for illustration purpose only, the minimum and maximum amount of expected net proceeds from the Proposed Spin-off (assuming that the Over-allotment Option is not exercised):

	Minimum	Maximum
Illustrative Consideration	HK\$390,000,000	HK\$700,000,000
Less: Expected transaction costs to be incurred for the Proposed Spin-off	<u>HK\$ 68,000,000</u>	<u>HK\$ 78,000,000</u>
<b>Amount of net proceeds from the Proposed Spin-off</b>	<b><u>HK\$322,000,000</u></b>	<b><u>HK\$622,000,000</u></b>

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## LETTER FROM THE BOARD

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PAX currently intends to use the net proceeds from the Share Offer in the following manner:

- (i) approximately 40% of the net proceeds for enhancing PAX's research and development efforts. PAX plans to build stronger and larger in-house research and development teams through recruitment or other strategic acquisitions, investments in new equipment and technologies for EFT-POS products.
- (ii) approximately 15% of the net proceeds for expanding PAX's distribution network;
- (iii) approximately 35% of the net proceeds for potential merger and acquisition opportunities, in respect of which, PAX does not have any identified target or developed plan as at the Latest Practicable Date; and
- (iv) approximately 10% of the net proceeds for funding the working capital requirements of PAX Group's operations, including PAX's general corporate purposes.

The Prospectus will contain further details as to the proposed deployment of such proceeds.

The preliminary minimum and maximum amount of expected net proceeds and the percentages above are for illustration purpose only, and are subject to change. PAX will not receive any proceeds from the offer of the IPO Sale Shares. The final offer price range and the proposed allocation of net proceeds from the Proposed Spin-off will be set out in the Prospectus.

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## LETTER FROM THE BOARD

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### UNAUDITED FINANCIAL INFORMATION OF PAX GROUP

The following table sets forth the unaudited combined results of operations and other financial information of PAX Group.

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	<i>HK\$'000</i>				
<b>Revenue</b>	323,143	493,589	492,942	196,221	267,698
<b>Gross profit</b>	112,520	190,890	192,860	69,220	108,950
Profit before income tax	69,011	116,766	100,083	29,336	58,662
Income tax expense	<u>(4,796)</u>	<u>(10,704)</u>	<u>(15,532)</u>	<u>(4,723)</u>	<u>(8,489)</u>
<b>Profit for the year/period attributable to equity holders of PAX</b>	<u>64,215</u>	<u>106,062</u>	<u>84,551</u>	<u>24,613</u>	<u>50,173</u>

	As at 31 December			As at
	2007	2008	2009	30 June 2010
	<i>HK\$'000</i>			
<b>Total assets</b>	357,639	490,149	565,707	585,382
<b>Total liabilities</b>	(134,441)	(151,639)	(142,646)	(106,419)

#### Financial effects of the Proposed Spin-off

##### *Net tangible asset value*

The unaudited consolidated net assets of the Group was approximately HK\$2,496,785,000 as at 30 June 2010. The unaudited combined net asset value of PAX Group as at 30 June 2010 was approximately HK\$478,963,000.

##### *Gain expected to accrue to the Group as a result of the Proposed Spin-off*

During the year ended 31 December 2009, the profit attributable to the equity holders of the Company was approximately HK\$86 million. The Board expects to recognise a gain from the Proposed Spin-off of approximately HK\$908 million, which is calculated on the assumption that the Proposed Spin-off was effected on 30 June 2010, the estimated market capitalisation of the PAX Group at that time was HK\$2,692 million (or 26% new PAX Shares were offered initially for gross proceeds of HK\$700 million being the maximum illustrative consideration shown under the section headed "Intended use of proceeds" above), without taking into account any exercise of the Over-allotment Option or any disposal under any stock borrowing or lending arrangement) and with reference to the Company's share of the unaudited combined net asset value of the PAX Group as at 30 June 2010 of

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## LETTER FROM THE BOARD

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HK\$287 million, which is calculated based on 60% of the unaudited net asset value of the PAX Group as at 30 June 2010 of HK\$479 million. With an estimated market capitalisation of HK\$2,692 million, the fair value of the PAX Group as an associate of the Group which held 44.4% of its equity interest is therefore estimated to be HK\$1,195 million. Based on the same assumptions except that the assumed market capitalisation of the PAX Group at the time of the Proposed Spin-off was HK\$1,500 million (or 26% new PAX Shares were initially offered under the Share Offer for gross proceeds of HK\$390 million being the minimum illustrative consideration shown under the section headed “Intended use of proceeds” above), inferring that the fair value of the PAX Group as an associate of the Group would be HK\$666 million, the gain from the Proposed Spin-off would instead be approximately HK\$379 million. However, the actual gain from the Proposed Spin-off may differ as it is estimated based on a number of assumptions and the amount will be calculated upon completion of the Proposed Spin-off. There will be no impact on the gain to be recognised from the Proposed Spin-off, should the Over-allotment Option or any disposal under any stock borrowing or lending be exercised.

### *Effects on assets and liabilities of the Group*

Upon completion of the Proposed Spin-off, Hi Sun’s percentage holding in the issued share capital of PAX will be reduced to not less than 40% (assuming the Over-allotment Option is not exercised and without taking into account the effect of any stock borrowing arrangements) and the PAX Group will cease to be a subsidiary of the Group and its financial results will no longer be consolidated into the Group’s financial statements. Its assets and liabilities will be deconsolidated from the Group’s consolidated financial statements upon completion of the Proposed Spin-off. The Group will account for its interests in the PAX Group as investments in associates initially at their fair values upon completion of the Proposed Spin-off and will share the results of the PAX Group using the equity method of accounting going forward. The excess of the fair value of the PAX Group as an associate of the Group over the combined net asset value of the PAX Group upon completion of the Proposed Spin-off will represent an increase in net asset value of the Group by that amount. The actual amount of gain and/or increase in net assets value will only be finalised upon completion of the Share Offer.

### **Underwriting Agreement, Stock Borrowing Agreement and Indemnities**

In connection with the Proposed Spin-off, Hi Sun will enter into underwriting agreements on customary terms with respect to the Share Offer with amongst others, PAX, the underwriters and the global co-ordinator of the Share Offer. The purpose of the underwriting agreements is to ensure that PAX will, subject to the fulfilment of the conditions precedent in the underwriting agreements (including typically, the registration of the Prospectus, the agreement of the final offer price with the underwriters, the granting by the Listing Committee of the Stock Exchange of listing and permission to deal in the PAX Shares) and the underwriters not terminating the underwriting agreements in specified events, including force majeure events and material breaches of representations and warranties with respect to the PAX Group which are designed to ensure that the circumstances of the PAX Group are consistent with the information included in the Prospectus, receive the aggregate issue price of the PAX Shares initially offered under the Share Offer. As the controlling shareholder of PAX, as described under the section headed “The Proposed Spin-off” above, Hi Sun will also give in favour of the underwriters customary undertakings which restricts its ability to dispose of its PAX Shares over the 12 months period from the date of Listing. In addition, Hi Sun will enter into a stock borrowing agreement with the stabilising manager of the Share Offer to facilitate settlement of over-allocation of PAX Shares under the Share Offer and the stabilisation of the price of PAX Shares during the period permitted, and within the limits specified under, the Securities and Futures (Price Stabilizing) Rules.



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## LETTER FROM THE BOARD

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In addition, Hi Sun will provide to PAX for itself and on behalf of other members of the PAX Group indemnities in relation to certain tax liabilities of PAX Group which will, subject to certain exemptions, include but will not be limited to the following tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) falling on any member of PAX Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company. The tax indemnities do not apply to taxation liabilities already accounted for in the PAX Group's financial statements to be included in the Prospectus, those arising in the ordinary course of business (other than as a result of acts or omissions of the PAX Group as a subsidiaries of Hi Sun) or as a result in any retrospective changes in laws.

Hi Sun will also provide to PAX for itself and on behalf of other members of the PAX Group indemnities from and against any liability in respect of the failure by PAX Technology (Shenzhen):

- (i) to make contributions to the housing provident funds for employees with registered residence in Shenzhen as at 30 June 2010; and/or
- (ii) in respect of certain PRC properties leased by the Group, to comply with the requirements as to the use of the leased premises designated under the relevant tenancy agreements and/or the landlord's title certificates in respect of that leased PRC property, to comply with the requirements under the Measures of Administration of the Leasing of Urban Premises (城市房屋租賃管理辦法) to register with relevant housing authorities the lease of a PRC property; and/or to the failure of one of its landlords to obtain a title certificate in respect of a property in the PRC leased by the Group, for the term of each of those tenancy agreements.

The indemnities referred to in paragraph (ii) above arose because PAX Group members has used as office premises leased under tenancy agreements where the tenancy agreements or the landlord's title certificates to those premises provide instead that those premises should be for residential or factory use, and one of the landlords of the premises leased to the relevant PAX Group member does not have a title certificate for those premises to show that it has the right to lease the property to PAX Group. In each of these cases, whilst the relevant members of the PAX Group has not received any notice of any objections to their use of the relevant premises, there remains a risk that the relevant member of the PAX Group may be evicted from the premises because of such compliance failures. As these occur during the time when PAX Group is a subsidiary of Hi Sun, it is customary as part of the Hong Kong listing process for the holding company, in this case Hi Sun, to provide indemnities for losses that may arise from such breach.


Further details of the underwriting agreements, stock borrowing agreement and the indemnities will be set out in the Prospectus.



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## LETTER FROM THE BOARD

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### Exempt connected transaction

In preparation for the Proposed Spin-off, Hi Sun Limited, a substantial shareholder of Hi Sun will enter into two licence agreements pursuant to which it will grant to PAX for a nominal consideration of HK\$1 its corporate logo and its trademarks “” from the controlling shareholder of Hi Sun, Hi Sun Limited. The licences will allow PAX Group to use exclusively the marks (i) as part of the corporate logo of PAX or any of its subsidiaries and (ii) on and in respect of the goods and services related to classes 9 and 42 for which the mark are registered, including for the ETF-POS Terminal Solutions Business of the PAX Group in any territory in the world. The term of the licences is co-terminus with the validity period of the existing (and subsequent renewed) registration of each mark. Current registrations (which are in Hong Kong, PRC, United States of America and Korea) expire between September 2012 to April 2020 and renewals of trademark registration in those jurisdictions are normally for 10 years. PAX is also permitted to sub-license the marks to third parties including its subsidiaries for the purposes of carrying on the EFT-POS Terminal Solutions Business. The licences may be terminated by Hi Sun Limited as a result of material breaches of their terms by PAX or upon the occurrence of insolvency events of PAX. The purpose of these licences are to formalise the terms upon which the trademarks (currently used by the PAX Group with the permission of Hi Sun) can continue to be used after the Proposed Spin-off.

The word “PAX” or “百富” is being used or proposed to be used by the PAX Data Limited and New Concept Services Limited (both subsidiaries of Hi Sun) and their respective subsidiaries, at no charge. Hi Sun Limited will reserve the right under the trademark licence agreements to license to PAX Data Limited and New Concept Services Limited and their respective subsidiaries to use the word “PAX” or “百富” (i) in the case of PAX Data Limited and its subsidiaries, in their legal names (in English and Chinese) and for their data processing business, services or products, and (ii) in the case of New Concept Services Limited and its subsidiaries, in their legal names (in English and Chinese) and for their electronic power meters business and ancillary products. Hi Sun Limited has confirmed that the use and exploitation of the  trademarks in compliance with the trademark licence agreements shall not infringe the “” device also registered in its name and owned by it. The Prospectus will contain further details of these two licence agreements.

As Hi Sun Limited is a substantial shareholder of Hi Sun, and at the time of the signing of the licence agreements PAX will still be a Hi Sun subsidiary, the licence agreements will constitute exempt connected transactions under Rule 14A.33(3) of the Listing Rules.

### PREFERENTIAL OFFER

Subject to the Stock Exchange granting approval for the listing of, and permission to deal in, PAX Shares on the Main Board of the Stock Exchange, under the current structure of the Proposed Spin-off, assuming a minimum of approximately 26% and a maximum of approximately 31.92% of the PAX Shares are initially offered pursuant to the Share Offer (taking into account, for the purposes of determining the maximum number of IPO Sale Shares which may be offered for sale) and that Qualifying Shareholders are to be offered the right to subscribe such number of Reserved Shares on an assured basis at the Offer Price for one Reserved Share for every whole multiple of 3,000 Shares (being one board lot of Shares), the Board expects based on a maximum total of approximately 891,143 board lots of Shares held by Qualifying Shareholders as at the Latest Practicable Date that PAX will make available Reserved Shares representing about 0.568% and 0.478% of the PAX Shares initially available under the Share Offer (taking no account of any PAX Shares which may be

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## LETTER FROM THE BOARD

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allotted and issued by PAX pursuant to the exercise of the Over-allotment Option) respectively for subscription by the Qualifying Shareholders at the Offer Price under the Preferential Offer. The size of the Preferential Offer has taken into account the potential size of the Share Offer and gives each Qualifying Shareholder who holds a board lot of Shares the opportunity to participate in the Preferential Offer. To maximise the opportunity of the public shareholders of Hi Sun to participate in the Preferential Offer, those directors and substantial shareholders of Hi Sun and PAX who are also holders of Shares will waive their entitlements to participate or in any event not participate in the Preferential Offer and therefore no Reserved Shares will be offered to them to the extent they are Qualifying Shareholders. No consideration has been or will be paid to those waiving Shareholders. Instead, Reserved Shares to which they would have been entitled will be reallocated and offered to the other Qualifying Shareholders under the Preferential Offer on an equitable basis. It is expected that the remaining Qualifying Shareholders will be entitled to subscribe such number of Reserved Shares on an assured basis at the Offer Price for one Reserved Share for every whole multiple of 3,000 Shares (being one board lot of Shares) held by them as of 5 p.m. on the Record Date, provided that any Qualifying Shareholder holding less than 3,000 Shares (one board lot of Shares) as of 5 p.m. on the Record Date will not be entitled to apply for the Reserved Shares. However, the final assured entitlement will depend on the number of Shares held by the Qualifying Shareholders at the close of business on the Record Date. Hi Sun will publish an announcement on or after the Record Date confirming the Qualifying Shareholders' entitlement to the Reserved Shares.

In addition to the Reserved Shares, the Qualifying Shareholders (other than those who are connected persons of either Hi Sun or PAX) will also be entitled to subscribe for PAX Shares pursuant to the Public Offer or the Placing, but not both. Qualifying Shareholders wishing to participate in the Public Offer may make one application under the Public Offer.

Overseas Shareholders who are excluded in compliance with the requirements set out in Rule 13.36(2) of the Listing Rules will not be entitled to apply for any Reserved Shares. Any Qualifying Shareholder holding less than 3,000 Shares (one board lot of Shares) will not be entitled to apply for the Reserved Shares on an assured basis.

According to the register of members of the Company as at the Latest Practicable Date, the Company had Shareholders with addresses outside Hong Kong, in Australia, Malaysia, New Zealand, Papua New Guinea and Singapore. The Company has made enquiries with the legal counsels of each of these overseas jurisdictions. In light of the legal restrictions under the applicable laws of the relevant countries and the costs and timing in complying with the applicable registration or filing requirements, the Board considers that it would be necessary or expedient to exclude Shareholders whose addresses on the register of the Company are outside Hong Kong as at 5:00 p.m. on the Record Date (other than those in Singapore if these remains only a very small number of shareholders whose addresses in the register of the Company is located there) from the Preferential Offer.

Any Qualifying Shareholder who holds the Shares as a nominee, trustee or registered holder in any other capacity will not be treated differently from any other registered holder. Any beneficial owner of the Shares whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Assured Entitlement. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

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## LETTER FROM THE BOARD

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A **BLUE** Application Form together with a copy of the Prospectus will be despatched to each Qualifying Shareholder whereas a copy of the Prospectus will be despatched to each Overseas Shareholders for information only. Qualifying Shareholders will be permitted to apply for a number of Reserved Shares which is equal to or less than their Assured Entitlements under the Preferential Offer. A valid application in respect of a number of Reserved Shares less than or equal to a Qualifying Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions set forth in the Prospectus and the **BLUE** Application Form. If an application is made for a number of Reserved Shares which is greater than the Assured Entitlement of a Qualifying Shareholder, the Assured Entitlement will be satisfied in full but the excess application will only be met to the extent that there are sufficient Reserved Shares resulting from other Qualifying Shareholders declining to take up all or some of their Assured Entitlements. If an application is made for a number of Reserved Shares less than the Assured Entitlement of a Qualifying Shareholder, the applicant is recommended to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Shares; if such applicant does not follow this recommendation when applying for less than the Assured Entitlement, the applicant must calculate the correct amount of remittance payable on application for the number of Reserved Shares applied for by using the formula set out in the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant.

Shareholders should note that Assured Entitlements to Reserved Shares may not represent a multiple of a full board lot of PAX Shares. Further, the Reserved Shares allocated to the Qualifying Shareholders will be rounded down to the closest whole number if required, and that dealings in odd lots of PAX Shares may be at a price below the prevailing market price for full board lots. No assurance is given as to whether or not there will be any market for odd lots of PAX Shares.

Assured Entitlements of Qualifying Shareholders to Reserved Shares will not be transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Any Assured Entitlement not taken up by Qualifying Shareholders will be allocated first to satisfy the excess applications for Reserved Shares from Qualifying Shareholders on a fair and reasonable basis and thereafter, to the Placing.

### **CLOSURE OF REGISTER**

The register of members of Hi Sun will be closed from Monday, 22 November 2010 to Wednesday, 24 November 2010 (both dates inclusive) (or such other date(s) as the Board may determine and announce) for the purpose of determining the entitlement of Qualifying Shareholders to the Preferential Offer and the eligibility of Shareholders to attend and vote at the SGM. No transfer of Shares may be registered during that period. In order to qualify for the Preferential Offer and be eligible for attending and voting at the SGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on Friday, 19 November 2010 (or such later date as the Board may determine and announce). The last day for dealing in the Shares cum-entitlements to the Preferential Offer is expected to be on Wednesday, 17 November 2010.

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## LETTER FROM THE BOARD

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### TERMINATION OF PAX TECHNOLOGY SHARE OPTION SCHEME AND ADOPTION OF PAX SHARE OPTION SCHEME

On 27 April 2009, Pax Technology Limited, a subsidiary of Hi Sun, adopted the Pax Technology Share Option Scheme. In view of the Proposed Spin-off, the board of directors of Pax Technology Limited will terminate in accordance with its scheme rules the operation of the Pax Technology Share Option Scheme. No options had been granted under the Pax Technology Share Option Scheme nor will any Option be granted before the termination of the PAX Technology Share Option Scheme. The Board proposes to adopt the PAX Share Option Scheme for the benefit of PAX.

At the SGM, an ordinary resolution will be proposed for Hi Sun to approve the adoption of the PAX Share Option Scheme. So far as the Directors are aware of, as at the Latest Practicable Date, none of the Shareholders is required to abstain from voting for the ordinary resolution to approve the adoption of the PAX Share Option Scheme. With respect to the operation of the PAX Share Option Scheme, Hi Sun and PAX Global will, where applicable, comply with the relevant requirements under Chapter 17 of the Listing Rules.

The purpose of the PAX Share Option Scheme is to reward participants who have contributed or will contribute to the PAX Group and to encourage participants to work towards enhancing the value of PAX and the PAX Shares for the benefit of PAX and its shareholders as a whole.

The PAX Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Listing Rules. As the directors of PAX are entitled to determine any performance targets and minimum holding period which apply to an option on a case by case basis, and fix the subscription price, it is expected that grantees of an option will have an incentive to contribute to the development of PAX Group.

Pursuant to Note (1) of Rule 17.03(3) of the Listing Rules, the total number of securities which may be issued upon exercise of all options to be granted under a share option scheme and any other schemes must not in aggregate exceed 10% (“**General Scheme Limit**”) of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the scheme.

Taking into consideration the fact that: (i) the PAX Share Option Scheme shall not become effective until (and unless there is) the Listing and the PAX Share Option Scheme will lapse if Listing does not take place; (ii) the significant difference between the number of issued shares of PAX as at the date of SGM and that upon the Listing date, it is impracticable to set the General Scheme Limit of the PAX Share Option Scheme as at the date of SGM.

Hi Sun has therefore applied for and the Stock Exchange has granted a waiver from strict compliance with the requirement under Note (1) to R17.03(3) of the Listing Rules that the General Scheme Limit be based on the total number of PAX Shares in issue at the time when dealings in PAX Shares first commence on the Stock Exchange.

A summary of the principal terms of the PAX Share Option Scheme is set out in Appendix III to this circular. The adoption of the PAX Share Option Scheme is conditional on: (i) the Shareholders passing an ordinary resolution at the SGM to approve the PAX Share Option Scheme and the

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## LETTER FROM THE BOARD

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shareholders of PAX passing an ordinary resolution to approve and adopt the PAX Share Option Scheme; (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of PAX Shares to be issued pursuant to the exercise of any options which may be granted under the PAX Share Option Scheme; and (iii) the commencement of dealings in PAX Shares on the Main Board of the Stock Exchange.

The Directors consider it inappropriate to disclose the value of options which may be granted under the PAX Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted as at the Latest Practicable Date, certain variables are not available for calculating the value of options. The Directors and the directors of PAX believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

### LISTING RULES IMPLICATIONS

Under the current structure of the Proposed Spin-off which contemplates a minimum Share Offer of 26% new PAX Shares and taking no account of the IPO Sale Shares or any PAX Shares which may be issued pursuant to the exercise of the Over-allotment Option, Hi Sun's interest in PAX will initially be reduced from 100% to about 44.4% immediately following implementation of the Proposed Spin-off, and will be further reduced to about 42.73% if the Over-allotment Option is exercised in full. In order to facilitate the settlement of over-allotments in connection with the Share Offer, Hi Sun may enter into a customary stock borrowing agreement with the stabilizing manager of the Share Offer, pursuant to which the stabilizing manager may borrow PAX Shares representing up to 15% of PAX Shares initially being offered under the Share Offer). The borrowing and return of shares constitute a disposal and an acquisition of PAX Shares. The Proposed Spin-off will constitute a deemed disposal under Rule 14.29 of the Listing Rules. Given that the applicable percentage ratios calculated in accordance with the Listing Rules are more than 25% but less than 75%, the deemed disposal Proposed Spin-off and any disposal pursuant to any stock borrowing arrangement, if it proceeds, will require shareholders approval as a major transaction for Hi Sun under Chapter 14 of the Listing Rules and under PN 15.

Hi Sun will seek approval from the Shareholders for the issue and the sale of such number of PAX Shares under the Share Offer (including PAX Shares under the Over-allotment Option) as may be approved by the Board, provided that (i) the percentage of shareholding interest of Hi Sun in PAX immediately after the completion of the Proposed Spin-off will be no less than 40% taking no account of the effect of any disposal of PAX Shares under stock borrowing arrangements; and (ii) any stock borrowing arrangements be on customary terms in compliance with the Listing Rules; (iii) the actual or deemed disposal by Hi Sun of its interests in PAX Shares will not result in any of Hi Sun's "percentage ratios" under Rule 14.07 of the Listing Rules to exceed 75%, using for this purpose, the market capitalisation of Hi Sun as at the date of this circular.

In addition, as mentioned above, the PAX Share Option Scheme requires the approval of the Shareholders under Chapter 17 of the Listing Rules.

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## LETTER FROM THE BOARD

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### SGM

As no Shareholder has a material interest in the Proposed Spin-off and the PAX Share Option Scheme different from other Shareholders, all Shareholders are entitled to vote on the ordinary resolutions to approve the Proposed Spin-off and the adoption of the PAX Share Option Scheme at the SGM.

A notice convening the SGM to be held at Room 2515, 25/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, on 24 November 2010 at 10:30 a.m., Hong Kong is set out on pages 63 to 65 of this circular. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit it together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the principal place of business of Hi Sun at Room 2515, 25/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### VOTING BY POLL

Pursuant to rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all the resolutions put to the vote at the SGM will be taken by way of poll. After the conclusion of the SGM, the poll results will be published on the respective websites of the Stock Exchange and Hi Sun.

### RECOMMENDATIONS

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and in the interests of Hi Sun and the Shareholders as a whole. The Directors are also of the view that the Hao Share Swap Agreement and the proposed Capitalisation Issue and the proposed Deed of Non-competition, underwriting agreement, stock borrowing arrangements, indemnities, trademark licences and other arrangements or agreements that a member of the Group may enter into in connection with the Share Offer are fair and reasonable and in the interests of the Company and its shareholders as a whole, given that (i) in the case of the Hao Share Swap Agreement and the Capitalisation Issue they are necessary and desirable steps in a pre-listing reorganisation as explained above; (ii) in other cases customary and therefore, the Directors believe, expected by investors in and underwriters of initial public offerings in Hong Kong generally and necessary for the delineation of the businesses of the PAX Group and the Remaining Group in order to satisfy the requirements of PN15.

The Directors (including the independent non-executive Directors) are of the view that the proposed adoption of the PAX Share Option Scheme is fair and reasonable so far as the Shareholders are concerned and in the interests of Hi Sun and the Shareholders as a whole. An Independent Board Committee has been formed to advise the Shareholders in connection with the Proposed Spin-off.

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## LETTER FROM THE BOARD

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Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders on the same. Guangdong Securities considers that the Proposed Spin-off is in the interest of Hi Sun and the Shareholders as a whole and the terms thereof are fair and reasonable as far as Hi Sun and the Shareholders are concerned. Accordingly, Guangdong Securities advises the Independent Board Committee to recommend, and Guangdong Securities themselves recommend, the Shareholders to vote in favour of the resolution in relation to the Proposed Spin-off. The letter from Guangdong Securities containing its advice in relation to the Proposed Spin-off, together with the factors and reasons it considered in arriving at its opinion, is set out on pages 32 to 42 of this circular.

The Independent Board Committee, having taken into account the advice of Guangdong Securities, considers that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of Hi Sun and its shareholders as a whole. Accordingly, the Independent Board Committee recommends the Shareholders to vote in favour of the ordinary resolution to approve the Proposed Spin-off as set out in the notice of SGM on pages 63 to 65 of this circular.

### GENERAL

The Board expects that the Prospectus containing, among other matters, details of the Preferential Offer (including the basis of allocation) will be despatched to Qualifying Shareholders in due course.

In connection with the Share Offer, the price of PAX Shares may be stabilised in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). Details of any intended stabilisation and how it will be regulated under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) will be contained in the Prospectus which is proposed to be issued in connection with the Share Offer.

### ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained therein shall form the basis of any contract or commitment whatsoever.

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
By Order of the Board of  
**Hi Sun Technology (China) Limited**  
**Li Wenjin**  
*Executive Director*



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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

8 November 2010

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION  
IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
PAX GLOBAL TECHNOLOGY LIMITED  
ON THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED AND  
PROPOSED ADOPTION OF THE PAX SHARE OPTION SCHEME**

We refer to the circular issued by Hi Sun to its Shareholders and dated 8 November 2010 (“Circular”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the Proposed Spin-off constitutes a major transaction and a deemed disposal of subsidiary by Hi Sun under Rule 14.29 and pursuant to PN 15 of the Listing Rule, it will be subject to the approval of the Shareholders.

We have been appointed by the Board to consider the terms of the Proposed Spin-off and to advise the Shareholders as to whether, in our opinion, the terms of the Proposed Spin-off are fair and reasonable and in the interests of Hi Sun and its Shareholders as a whole. Guangdong Securities has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect.

\* For identification only.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board and the letter from Guangdong Securities as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Guangdong Securities as set out in its letter of advice, we consider that the terms of the Proposed Spin-off are fair and reasonable and are in the interests of Hi Sun and its Shareholders as a whole. Accordingly, we would recommend the Shareholders to vote in favour of the ordinary resolutions to approve the Proposed Spin-off at the SGM.

Yours faithfully,

**Independent Board Committee**

**Mr. Tam Chun Fai      Mr. Xu Sitao      Mr. Leung Wai Man, Roger**

*Independent Non-executive Directors*

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## LETTER FROM GUANGDONG SECURITIES

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*Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Shareholders regarding the Proposed Spin-off for the purpose of inclusion in this circular.*



Units 2505-06, 25/F.  
Low Block of Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

8 November 2010

*To: The independent board committee and the shareholders  
of Hi Sun Technology (China) Limited*

Dear Sirs,

**MAJOR TRANSACTION IN RELATION TO  
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF  
PAX GLOBAL TECHNOLOGY LIMITED  
ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders regarding the Proposed Spin-off, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 8 November 2010 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 19 August 2010, the Company announced that it had submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange pursuant to PN 15.

The Stock Exchange approved the aforesaid PN 15 submission of the Company on 15 September 2010 and confirmed that the Company may proceed with the Proposed Spin-off. On 17 September 2010, PAX submitted a listing application form (for equity securities and debt securities) (Form A1) to the Stock Exchange for an application for the listing of, and permission to deal in, the PAX Shares on the Main Board of the Stock Exchange. The Proposed Spin-off is expected to be effected by way of the Share Offer which comprises the Public Offer, the Placing and the Preferential Offer of new PAX Shares for subscription in cash, and will be accompanied by a separate listing of the PAX Shares (and in effect the EFT-POS Terminal Solutions Business of the Group) on the Main Board of the Stock Exchange. Upon completion of the Proposed Spin-off, assuming approximately 26% of the new PAX Shares are offered under the Share Offer and taking no account of (i) any PAX Shares which may be

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## LETTER FROM GUANGDONG SECURITIES

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allotted and issued pursuant to the exercise of the Over-allotment Option or (ii) any PAX Shares that may be offered for sale by Digital Investment Limited and/or Dream River Limited and the effect of any customary stock borrowing arrangements, the Company's equity interest in PAX will be reduced to under 50% but no less than 40%. Should the Over-allotment Option be exercised in full, the Company's equity interest in PAX will be further reduced but in any event be more than 40%.

The Proposed Spin-off constitutes a deemed disposal under Rule 14.29 of the Listing Rules and, given that the applicable percentage ratios calculated in accordance with the Listing Rules are more than 25% but less than 75%, the Proposed Spin-off will require the approval of the Shareholders as a major transaction for the Company under Chapter 14 of the Listing Rules and under PN 15, if it proceeds. As no Shareholder has a material interest in the Proposed Spin-off which is different from other Shareholders, all Shareholders are entitled to vote on the ordinary resolution(s) to approve the Proposed Spin-off at the SGM.

An Independent Board Committee comprising Mr. Tam Chun Fai, Mr. Xu Sitao and Mr. Leung Wai Man, Roger (all being independent non-executive Directors) has been established to advise the Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Shareholders should vote in respect of the relevant resolution(s) to approve the Proposed Spin-off at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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## LETTER FROM GUANGDONG SECURITIES

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The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Digital Investment Limited, Dream River Limited, PAX, Grand Global International Limited or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons:

#### **(1) Background of the Proposed Spin-off**

##### *Information on the Group*

The Company is an investment holding company and its subsidiaries are principally engaged in the EFT-POS Terminal Solutions Business, the businesses of provision of financial solutions, payment solutions, telecommunication solutions and operation value-added services and electronic power meters and solutions.

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## LETTER FROM GUANGDONG SECURITIES

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Set out below are the financial information of the Group for the six months ended 30 June 2010 and the two years ended 31 December 2009 as extracted from the Company's interim report for the six months ended 30 June 2010 (the "2010 Interim Report") and its annual report for the year ended 31 December 2009 (the "2009 Annual Report") respectively:

	Turnover			EBITDA		
	For the six months ended 30 June 2010 <i>(unaudited)</i> <i>HK\$'000</i>	For the year ended 31 December 2009 <i>(audited)</i> <i>HK\$'000</i>	For the year ended 31 December 2008 <i>(audited)</i> <i>HK\$'000</i>	For the six months ended 30 June 2010 <i>(unaudited)</i> <i>HK\$'000</i>	For the year ended 31 December 2009 <i>(audited)</i> <i>HK\$'000</i>	For the year ended 31 December 2008 <i>(audited)</i> <i>HK\$'000</i>
<b>The EFT-POS Terminal Solutions Business</b>	267,698	492,942	493,589	60,022	102,435	119,336
<b>The Remaining Businesses</b>						
Electronic power meters and solutions	104,679	253,586	350,167	(27,392)	25,033	62,033
Telecommunication solutions and operation value-added services	256,994	359,646	248,105	61,120	148,271	136,234
Financial solutions, services and related products	29,525	148,968	120,608	(11,858)	23,205	(29,746)
Payment solutions and services	16,907	22,452	0	(33,569)	(45,970)	0
Others	475	924	999	(15,626)	(60,206)	(61,720)
<b>Sub-total</b>	<b><u>408,580</u></b>	<b><u>785,576</u></b>	<b><u>719,879</u></b>	<b><u>(27,325)</u></b>	<b><u>90,333</u></b>	<b><u>106,801</u></b>
<b>Total</b>	<b><u>676,278</u></b>	<b><u>1,278,518</u></b>	<b><u>1,213,468</u></b>	<b><u>32,697</u></b>	<b><u>192,768</u></b>	<b><u>226,137</u></b>

As depicted by the above table, the turnover of the Group being attributable to the businesses of provision of financial solutions, payment solutions, telecommunication solutions and operation value-added services, and electronic power meters and solutions (the "Remaining Businesses") was approximately HK\$785.58 million for the year ended 31 December 2009, representing an increase of approximately 9.13% as compared to the prior year. For the same said year, the turnover of the Group being attributable to the EFT-POS Terminal Solutions Business was approximately HK\$492.94 million, representing a minimal decrease of approximately 0.13% as compared to the prior year. The EBITDA attributable to the Remaining Businesses decreased by approximately 15.42% for the year ended 31 December 2009 while the corresponding decrease for the EFT-POS Terminal Solutions Business was approximately 14.16%.

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## LETTER FROM GUANGDONG SECURITIES

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As referred to in the 2009 Annual Report, the increase in the turnover from the Remaining Businesses was mainly contributed by the telecommunication solutions segment, which recorded a growth of approximately 44.96%. Within the telecommunication solutions segment, the Group started the Monternet Deep Operation (MDO) platform service in the second half of 2009, bringing additional turnover of over HK\$50 million to the Group. Moreover, the Group established a new subsidiary providing nation-wide mobile payment platform and payment solutions to China Mobile in March 2009.

We noted that the Remaining Businesses turned to be loss making for the six months ended 30 June 2010. As advised by the Directors, this was primarily due to (i) the drop in operating profit of wireless business which is mainly attributable to the continuous investment and expansion of new businesses; and (ii) the increase in operating loss of the electronic power meters and solutions segment as a result of the drop in gross profit margin and product shipment which was lower than anticipation.

### *Information on PAX*

PAX is a wholly-owned subsidiary of the Company. The PAX Group is an electronic fund transfer point-of-sale (EFT-POS) terminal solutions provider principally engaged in the development and sale of EFT-POS products and provision of related services. Further details of the PAX Group are set out under the sections headed “Business overview of PAX Group” and “Unaudited financial information of PAX Group” in the Board Letter.

### *Background of the Proposed Spin-off*

On 19 August 2010, the Company announced that it had submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange pursuant to PN 15.

The Stock Exchange approved the aforesaid PN 15 submission of the Company on 15 September 2010 and confirmed that the Company may proceed with the Proposed Spin-off. On 17 September 2010, PAX submitted a listing application form (for equity securities and debt securities) (Form A1) to the Stock Exchange for an application for the listing of, and permission to deal in, the PAX Shares on the Main Board of the Stock Exchange. The Proposed Spin-off is expected to be effected by way of the Share Offer which comprises the Public Offer, the Placing and the Preferential Offer of new PAX Shares for subscription in cash, and will be accompanied by a separate listing of the PAX Shares (and in effect the EFT-POS Terminal Solutions Business of the Group) on the Main Board of the Stock Exchange. Upon completion of the Proposed Spin-off, assuming approximately 26% of the new PAX Shares are offered under the Share Offer and taking no account of (i) any PAX Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or (ii) any PAX Shares that may be offered for sale by Digital Investment Limited and/or Dream River Limited and the effect of any customary stock borrowing arrangements, the Company’s equity interest in PAX will be reduced to under 50% but no less than 40%. Should the Over-allotment Option be exercised in full, the Company’s equity interest in PAX will be further reduced but in any event be more than 40%. According to the Board Letter, the final structure of the Proposed Spin-off, including the size of the Share Offer and the exact apportionment among the Public Offer, the Placing and the Preferential Offer, will be decided by the Board and the board of directors of PAX.

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The Proposed Spin-off is conditional upon certain conditions precedent, being fulfilled or waived (as the case may be), which are detailed in the Board Letter. Shareholders can also refer to the Board Letter for the possible size of market capitalisation of the PAX Group based on the net proceeds from the Proposed Spin-off.

The Directors are of the view that the terms of the Proposed Spin-off are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned and the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

### *The Remaining Businesses and the EFT-POS Terminal Solutions Business*

As confirmed by the Directors, there will be a clear delineation of business between the Remaining Group and the PAX Group after the Proposed Spin-off, given that the Remaining Group will focus on the Remaining Businesses; whilst the PAX Group will focus on the EFT-POS Terminal Solutions Business.

Among the Remaining Businesses, the financial solutions, services and related products segment principally offers the development and maintenance of integrated banking systems solutions and related services and products. The payment solutions and services segment provides payment gateway solutions to China Mobile, which takes up the roles similar to the card issuer, the merchant acquirer and the retail electronic payment network provider at the same time. The telecommunication solutions and operation value-added services segment principally offers the development and provision of interactive voice recognition (IVR), IVR-related and MDO platforms and related services. The electronic power meters and solutions segment develops, manufactures and sells electronic power meters.

For the EFT-POS Terminal Solutions Business, the EFT-POS terminals are not bespoke to the Remaining Group's back-end IT platforms or vice versa. On the contrary, the EFT-POS terminals must also be able to connect with all systems as prescribed by the customers' tender specifications and the Remaining Group's systems should not preclude their ability to link up with back-end IT platforms provided by third parties. As further confirmed by the Directors, although the Remaining Group and the PAX Group have certain common customers, being the PRC financial institutions and China Mobile, the products or services provided by the Remaining Group and the PAX Group to such common customers are different and the decision makers at the customer entities are also different. Furthermore, the Remaining Group and the PAX Group negotiated and concluded its own sales contracts and delivered products and services to their respective customers directly and independently in response to separate invitations for tenders issued by the relevant customers.

The Directors further advised us that the Company will enter into the Deed of Non-competition, details of which are set out in the Board Letter, with PAX in favor of PAX shortly before the issue of the Prospectus such that the Company and its subsidiaries (other than the PAX Group) will not directly or indirectly engage or otherwise be interested in the design, manufacture and/or sale of EFT-POS products and provision of related services in the PRC, Hong Kong or any part of the world



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in which any member of the PAX Group may from time to time operate, and at any time during which the PAX Shares are listed on the Stock Exchange or any stock exchange recognised under the SFO and for so long as the Company, whether or not together with its associates, directly or indirectly remain the controlling shareholder of PAX.

Based on the Directors' representation as presented above, we concur with the Directors that there will be clear delineation of business between the Remaining Group and the PAX Group after the Proposed Spin-off, and there would unlikely to be any foreseeable competition issues between the Remaining Group and the PAX Group.

According to the 2010 Interim Report and the 2009 Annual Report, the turnover of the Group being attributable to the Remaining Businesses for the six months ended 30 June 2010 and the two years ended 31 December 2009 and 2008 were approximately HK\$408.58 million, HK\$785.58 million and HK\$719.88 million respectively. The total assets deployed for the Remaining Businesses were approximately HK\$2,253.11 million as at 30 June 2010. Taking into account the contribution of the Remaining Businesses to the Group in terms of turnover and total assets, we concur with the Directors that the Group would be able to sustain a substantial and viable business after the Proposed Spin-off.

### *The proposed directorship and management of the Company and the PAX Group*

As extracted from the Board Letter, with the exception of Mr. Li Wenjin (“**Mr. Li**”) who is also the director of the Company and certain of its subsidiaries, none of the members of the Board are directors of the PAX Group and no senior management of the Company holds any position in the PAX Group.

The Directors believe that the PAX Group is, and will immediately after the Listing be, able to operate independent from the Remaining Group notwithstanding Mr. Li's offices in the Remaining Group for the following reasons:

- (i) The PAX Group companies are all of the subsidiaries of the Company which are engaged in the EFT-POS Terminal Solutions Business. The business activities of the PAX Group are completely different from those of the Remaining Group. The proposed directors of the PAX Group (with the exception of Mr. Jiang Hongchun) and all of the senior management team of the PAX Group (other than the Group's financial controller who joined the PAX Group in January 2010) have been working for the PAX Group during most of 2007, 2008 and 2009 and are expected to continue to work together to manage the business of the PAX Group. Mr. Jiang Hongchun has been transferred to the PAX Group from the Remaining Group to help Mr. Nie Guoming to manage the continued growth of the business of the PAX Group.
- (ii) As one of the executive directors of PAX, Mr. Li is and will continue to be closely involved in the management decisions of the PAX Group, with specific responsibilities for investment activities and transactions of the PAX Group. Mr. Li is responsible for (i) management of risk assessment, including the assessment of industry, operational and financial risks of the business of the PAX Group; (ii) overseeing investment activities and transactions; (iii) approving annual planning and budgeting policy, treasury and funds

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management; (iv) overseeing operations of Pax Technology Limited in Hong Kong (including administration, staffing and internal control); and (v) being a member of the nomination and remuneration committees of PAX, one of PAX's authorised representatives and overseeing the Listing Rules' compliance of PAX; whereas his role in the Remaining Group would be less active as described below. The daily operation of the PAX Group will principally be overseen and managed by Mr. Nie Guoming and Mr. Jiang Hongchun, neither of them hold any material position in the Remaining Group.

- (iii) Mr. Li expects to spend approximately 70% of his time in the PAX Group after the Listing and the remainder of his time with the Remaining Group. After the Listing, Mr. Li would not be involved in the daily operations and related management decisions of the Company. His responsibilities with the Remaining Group will be limited to: (a) the monitoring of the Remaining Group's treasury and funds management; and (b) his membership with the Company's nomination and remuneration committees, his role as one of the Company's authorised representatives, and overseeing the Listing Rules' compliance of the Company.
- (iv) If any conflict of interest arises, such as connected transactions, with the Remaining Group or vice versa, Mr. Li (for so long as he is both a Director and a director of PAX) and any director of PAX with an interest in the relevant transaction(s) (including by virtue of his directorship in the other listed issuer) will be required to abstain from voting on the relevant resolution(s) in the relevant meeting of the board of directors of the Company or PAX (as the case may be). The remaining directors of PAX who do not hold office with the Company, including Mr. Nie Guoming and Mr. Jiang Hongchun who are responsible for the daily operation of the PAX Group, could still properly attend, be counted in the meeting quorum, and vote on any matter that involves the interests of the Company without impeding the operations of the PAX Group. Since as aforementioned that Mr. Li will not be responsible for the daily operations and related management decisions of the Company and his responsibilities with the Remaining Group will only be limited to two areas as stated in (iii) above, we are of the view that there would not be any possible conflict arising from his roles in the Remaining Group and the PAX Group during daily operation.

### **(2) Reasons for the Proposed Spin-off**

While evaluating the fairness and reasonableness of the Proposed Spin-off, we have discussed with the Directors regarding the businesses, the existing organisational and operation structure of the Group and the PAX Group. We have also obtained from the Directors the future business plan and strategy of the Remaining Group and the PAX Group. We noted that the Directors are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole and the PAX Group based on the following reasons:


- (i) the Proposed Spin-off will, upon its implementation, allow the Company to focus on the Remaining Businesses. The PAX Group will focus on the EFT-POS Terminal Solutions Business, which has now grown to a size which warrants a separate listing. This will enable

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the two separate management teams to adopt different business strategies in order to better suit their businesses and with clearer segregation of roles and enhance their ability to focus on opportunities specific to the business of the relevant company, from which both the Remaining Group and the PAX Group could benefit;

- (ii) in terms of profile for listing, the Proposed Spin-off of the PAX Group from the Group will enable each of the Company and PAX to establish its own profile thereby attracting different investors. The Share Offer and the separate listing of PAX can enhance awareness of, and strengthen, the “” brand which can facilitate the PAX Group’s efforts in developing overseas markets for its products.; and
- (iii) since the Company will remain as a controlling shareholder of PAX, the Company will continue to benefit from the growth and the business prospects of the PAX Group through its equity interest in the results of and potential dividends, if any, from PAX.

In light of that according to the Directors, the impact of the Proposed Spin-off on the operations and business of the Remaining Group would be as follows: (i) the Remaining Group will focus on the Remaining Businesses whilst the PAX Group will focus on the EFT-POS Terminal Solutions Business, as such, there will be clear delineation of the business of the Remaining Group and the PAX Group; (ii) there is no foreseeable competition issue between the Remaining Group and the PAX Group; (iii) the Remaining Group would be able to sustain a substantial and viable business after the Proposed Spin-off; and (iv) there would be delineation of directorship and management of the Remaining Group and the PAX Group, and having also considered the foregoing reasons for and possible benefits of the Proposed Spin-off as represented by the Directors, we consider that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

### **(3) Assured Entitlement**

Under paragraph 3(f) of PN 15, Shareholders should be offered an assured entitlement to the PAX Shares, either by way of a distribution in specie of the existing PAX Shares or by way of preferred application in any offering of existing or new PAX Shares. Moreover, the percentage of PAX Shares offered under the Assured Entitlement would be determined by the Directors and by its advisers, and all Shareholders should be treated equally. As disclosed under the section headed “Preferential Offer” in the Board Letter, assuming a minimum of approximately 26% and a maximum of approximately 31.92% of the PAX Shares are offered pursuant to the Share Offer, the Board expects that PAX will make available for subscription Reserved Shares representing approximately 0.568% and 0.478% of the PAX Shares initially available under the Share Offer (taking no account of any PAX Shares which may be allotted and issued by PAX pursuant to the exercise of the Over-allotment Option) respectively for subscription by the Qualifying Shareholders at the Offer Price under the Preferential Offer. The size of the Preferential Offer has taken into account the potential size of the Share Offer and gives each Qualifying Shareholder who holds a board lot of the Shares the opportunity to participate in the Preferential Offer.

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To maximise the opportunity of the public Shareholders to participate in the Preferential Offer, those directors and substantial shareholders of the Company and PAX who are also holders of the Shares will waive their entitlements to participate or in any event not participate in the Preferential Offer and therefore no Reserved Shares will be offered to them to the extent that they are Qualifying Shareholders. The Reserved Shares which they would have been entitled will be reallocated and offered to the other Qualifying Shareholders under the Preferential Offer on an equitable basis. It is expected that the remaining Qualifying Shareholders will be entitled to subscribe such number of the Reserved Shares on an assured basis at the Offer Price for one Reserved Share for every whole multiple of 3,000 Shares (being one board lot of the Shares) held by them as of 5:00 p.m. on the Record Date, provided that any Qualifying Shareholder holding less than 3,000 Shares (one board lot of the Shares) as of 5:00 p.m. on the Record Date will not be entitled to apply for the Reserved Shares. As referred to in the Board Letter, the final assured entitlement will depend on the number of Shares held by the Qualifying Shareholders at the close of business on the Record Date. In addition to the Reserved Shares, the Qualifying Shareholders (other than those who are connected persons of either the Company or PAX) will also be entitled to subscribe for the PAX Shares pursuant to the Public Offer or the Placing, but not both. Qualifying Shareholders wishing to participate in the Public Offer may make one application under the Public Offer.

In respect of the size of the Assured Entitlement, we noted that in 2010 up to the Latest Practicable Date, there were three spin-off transactions (the “**Comparables**”) conducted by companies listed in Hong Kong, and the percentage of assured entitlement to the total number of shares offered in those Comparables ranged from approximately 4% to 10%. Accordingly, the size of the Assured Entitlement is below the aforesaid range and hence is inferior to the Comparables.

Nevertheless, it should be noted that the businesses, operations and prospects of the PAX Group are different from the spun-off companies of the Comparables and the structure of the Proposed Spin-off is not the same as the Comparables. Given also the limited population size of the Comparables, we are of the view the Comparables may be used for illustrative purpose only.

Having taken into account that the Assured Entitlement fulfils the relevant Listing Rules’ requirement and can allow each Qualifying Shareholder an equal opportunity to participate in the Preferential Offer, we consider that the Assured Entitlement is in the interests of the Company and the Shareholders as a whole.

#### **(4) Dilution effect on the shareholding interests of the Company in the PAX Group**

Upon completion of the Proposed Spin-off, assuming approximately 26% of the new PAX Shares are offered under the Share Offer and taking no account of (i) any PAX Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or (ii) any PAX Shares that may be offered for sale by Digital Investment Limited and/or Dream River Limited and the effect of any customary stock borrowing arrangements, the Company’s equity interest in PAX will be reduced to under 50% but no less than 40%. Should the Over-allotment Option be exercised in full, the Company’s equity interest in PAX will be further reduced but in any event be more than 40%. Taking into account the reasons for and possible benefits of the Proposed Spin-off as discussed in the section headed “Reasons for the Proposed Spin-off” above, we are of the opinion that the inevitable dilution to the shareholding interests of the Company in the PAX Group is acceptable.

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### (5) Possible financial effects of the Proposed Spin-off

As extracted from the Board Letter, upon completion of the Proposed Spin-off, the Company's percentage holding in the issued share capital of PAX will be reduced from 100% to under 50% but no less than 40% (assuming approximately 26% of the new PAX Shares are offered under the Share Offer and the Over-allotment Option is not exercised and without taking into account the effect of any stock borrowing arrangements). Therefore, PAX will cease to be a subsidiary of the Group. Consequently, the financial results of the PAX Group will no longer be consolidated into the Group's financial statements. Its assets and liabilities will be deconsolidated from the Group's consolidated financial statements upon completion of the Proposed Spin-off. The Group will account for its interests in the PAX Group as investments in associates and will share the results of the PAX Group using the equity method of accounting going forward.

The Directors expect that the Company will recognise a gain in the range of approximately HK\$379 million to HK\$908 million resulting from the Proposed Spin-off, being the difference between the fair value of the PAX Group as an associate of the Group and the Group's share of the combined net asset value of the PAX Group upon completion of the Proposed Spin-off, depending on the size of market capitalisation of the PAX Group and based on a number of assumptions as detailed in the Board Letter.

Regarding the asset position of the Group, the Directors confirmed that the Proposed Spin-off would increase the net asset value of the Group by the amount of the excess of the fair value of the PAX Group as an associate of the Group over the combined net asset value of the PAX Group upon completion of the Proposed Spin-off. The Directors further confirmed that the actual amount of gain and/or increase in net asset value will only be finalised upon completion of the Share Offer.

Given the above possible financial effects of the Proposed Spin-off, we consider that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off.

### RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned; and (ii) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Proposed Spin-off and we recommend the Shareholders to vote in favour of the resolution(s) in this regard.

**Yours faithfully,**  
**For and on behalf of**  
**Guangdong Securities Limited**  
**Graham Lam**  
*Managing Director*

## **1. INDEBTEDNESS**

### **Borrowings**

As at the close of business on 30 September 2010, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had aggregate outstanding bank borrowings of RMB19 million (approximately HK\$21.9 million).

Saved as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, the Group did not, at the close of business on 30 September 2010, have any outstanding debt securities and loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, term loans (whether guaranteed, unguaranteed, secured and unsecured), or any other similar indebtedness (whether guaranteed, unguaranteed, secured and unsecured) or any hire purchase commitments (whether guaranteed, unguaranteed, secured and unsecured), liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees.

### **Contingent liabilities**

As at the close of business on 30 September 2010, the Group did not have any material contingent liabilities.

### **Securities and charges**

As at the close of business on 30 September 2010, the Group's aggregate bank borrowings were approximately RMB 19 million (approximately HK\$21.9 million) which was secured by the leasehold land and buildings of a subsidiary of the Company.

Save as disclosed above, the Group did not have any mortgages or charges at the close of business on 30 September 2010.

As at the Latest Practicable Date, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 September 2010.

## **2. WORKING CAPITAL**

The Directors are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds and presently available banking facility, the Group has, in absence of unforeseeable circumstances sufficient working capital for its present requirement for the next twelve months from the date of this circular.

### **3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

We anticipate that the business environment in 2010 will continue to be challenging. However, we believe that given the enormous room for growth in various businesses and our strong financial position, the Group is going to regain its momentum with existing business opportunities ahead.

#### **EFT-POS Terminal Solutions**

We believe we are one of the dominant market players in China. China's huge commercial businesses, relatively low EFT-POS penetration rate compared with developed countries and increasing acceptance of card payment have formed a concrete foundation for EFT-POS industry in China. Persistent force from the Chinese government to modernize the country's payment infrastructure, to improve the acceptance of card payments with specific measures for the development of the payment service environment in the rural area and emerging payment markets of mobile phone payment terminals and contactless terminals, are expected to drive the demand of our products. Meanwhile, our foothold in the international market, particularly in South and North America and Europe has been further strengthened as the development of our subsidiaries overseas become more mature, laying a solid foundation for Hi Sun's further overseas market expansion to capture the enormous business opportunities in the overseas market. In 1H2010, overseas sales increased by 98% as compared to 1H2009.

With the Proposed Spin-off, PAX Group will continue our strategy to focus its resources on research and development. In addition to concentrating research and development resources on enhancing existing products and development of new products that address current and future requirements of customers and end-users in this sector, there is also under planning the expansion of its research and development capabilities by building a stronger and larger team with more research and development staff and providing training and other development opportunities for its research and development staff. PAX Group plans to gear-up its expansion on the international market. In order to capture business opportunities in target overseas market and in order to increase our competitiveness in overseas market, a reasonably substantial amount of research and development resources is proposed to be allocated to improve the security standards and product features of EFT-POS products as well as to obtain industry certifications in these markets.

#### **Electronic power meters and solutions**

Market outlook remains strong with current industry trends supporting an increase in demand for advanced power meter solutions. In view of the escalating awareness on energy-saving solutions, the State Grid and the China Southern Power Grid are looking out for environmental-friendly, effective and efficient electricity network and energy system.

During the 2010 working conference of the State Grid, the State Grid emphasised the need to comprehensively reinforce the construction of distribution network, improvement and transformation of the distribution networks in urban and rural area and the quality of power supply. Year 2010 will be an important year for steady progression of research and construction of the smart grid. With the

further development of smart grid construction, the demand for electronic power meters will increase progressively. From now to 2013, growth in demand of information collection systems and electronic power meters will experience faster growth. Investment on power grid construction will create robust market demand for electronic power meters.

With the change in tendering process and the new standards of smart meters conforming to the smart grid infrastructure, intensive competition is enforcing market consolidation of the electronic meter industry. It is anticipated that only the strong enterprises will survive. In the early stage of the market restructuring, the profit margin of this segment is expected to diminish in order to secure market share. Currently, we successfully become one of the top five winners and ranked second in the bidding of three phase electronic power meters in terms of volume in the first three centralized tenderings of the State Grid. Looking ahead, profit margin will gradually improve with our continuous effort in R&D.

#### **Telecommunication solutions and operation value-added services**

Hi Sun continues to benefit from its agreement with China Mobile to provide nation-wide interactive voice recognition and interactive voice recognition-related platforms as well as the new Monternet Deep Operation (“MDO”) Platform which bring to the Group a constant revenue stream. Subsequent to the restructuring of the telecommunication industry in the PRC, which 3G licenses were officially issued in 2009. It is anticipated that telecommunication operators in China will further expand their operation. We will keep innovating to adapt to the ever-changing environment in order to provide first class value-added platform operation for our partners. New technology based on 3G communication are well prepared and several new products and services for mobile service delivery are also under development. Apart from the existing businesses, we will continue to develop other inventive wireless value-added solutions and services in the PRC.

#### **Financial solutions, services and related products**

With the aim to create a more stable, sustainable and recurring income streams, we have refocused certain measures to extend our underlying strength and expertise in providing cross-industry value-added solutions including industrial advisory, business operation solutions, system development and operation services, and other outsourcing services. On the other hand, our mission is to enhance our position and become a significant service provider to financial institutions in China. The banks and other financial institutions worldwide are increasingly outsourcing certain non-core management functions to simplify operations and lower costs. However, financial outsourcing services market in China is still at an early stage. Taking advantage of our relatively significant experience in deploying financial solutions, we are able to leverage upon our expertise to take advantage of the future business opportunities. As such, financial solutions will remain our core competencies and will continue to create values and synergy to the Group.



**Payment solutions and services**

In the application of the emerging mobile e-commerce, mobile payment has always been considered by the industry as an important aspect of future development. Mobile payment refers to an integration of payment card, online banking, payment on behalf, third-party payment and other electronic payment. Being the largest mobile phone market in the world, China has more than 750 million mobile phone users, with mobile phones permeating all spheres of people's social life. The huge base of mobile phone user has established a foundation for the development of mobile payment in China. Looking to examples abroad, the development of the mobile payment business in Japan and South Korea has developed rapidly. The mobile payment business will grow into another brand new e-commerce platform, following the example of personal computer.

Currently, mobile phone payment market is undergoing high growth status. The evolution of the mobile phone payment market is mainly attributable to the development of application of 3G mobile communications and favorable payment environment, coupled with the determination of promoting the mobile phone payment market by telecom operators, banks, third-party payments and other players in the industry.

In "New Financial Forum 2009", People's Bank of China identified that mobile payment can effectively enhance the convenience to public with less infrastructure; it also helps to improve the payment environment in rural areas with lower cost payment network. Currently, the PRC government is proceeding with a number of projects to increase usage in this regard, such as mobile mass traffic, mobile tickets and shopping, etc. The aim is to promote the application of all types of products to make the people's livelihood better, thus laying a solid foundation for the smooth implementation of mobile payment.

*This Appendix summaries the principal terms of the PAX Share Option Scheme and does not form, nor is intended to be, part of the PAX Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the PAX Share Option Scheme.*

**PAX SHARE OPTION SCHEME**

For the purpose of this Appendix II only, unless the context otherwise requires the following words shall have the following meanings:

“Adoption Date”	the date on which the PAX Share Option Scheme was conditionally adopted by written resolutions of the sole shareholder of PAX and which has been approved by the Shareholders
“Auditors”	the auditors of PAX for the time being
“Board”	the board of directors of PAX for the time being or a duly authorized committee thereof
“Business Day”	any day (excluding a Saturday and Sunday) on which banks are generally open for business in Hong Kong
“Date of Grant”	in respect of an Option, the Business Day on which the Board resolves to make an Offer to a Participant, whether or not the Offer is subject to shareholders’ approval on the terms of the PAX Share Option Scheme
“Director(s)”	the director(s) of PAX for the time being
“Grantee”	any Participant who accepts an Offer in accordance with the terms of the PAX Share Option Scheme, or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Grantee, or the legal personal representative of such person
“Offer”	the offer of the grant of an Option
“Option”	an option to subscribe for Shares pursuant to the PAX Share Option Scheme and for the time being subsisting
“Option Period”	in respect of any particular Option, the period to be determined and notified by the Board to the Grantee at the time of making an Offer which shall not expire later than 10 years from the Date of Grant

“Participants”	directors (including executive directors, non-executive directors and independent non-executive directors) of PAX and employees of the PAX Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the PAX Group who the board of directors of PAX considers, in its sole discretion, have contributed or will contribute to the PAX Group
“Shares”	ordinary shares of HK\$0.10 each in the share capital of PAX, or, if there has been a sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of PAX, the shares forming part of the ordinary equity share capital of PAX or such nominal amount as shall result from any such sub-division, reduction, consolidation, reclassification or reconstruction
“Shareholder(s)”	the shareholder(s) of PAX for the time being

**(a) Purpose**

The purpose of the PAX Share Option Scheme is to reward Participants who have contributed or will contribute to PAX Group and to encourage Participants to work towards enhancing the value of PAX and its Shares for the benefit of PAX and its Shareholders as a whole.

**(b) Who may join**

On and subject to the terms of the PAX Share Option Scheme and the Listing Rules, the Board shall be entitled at any time within 10 years after the Adoption Date to make an Offer to any Participant as the Board may in its absolute discretion select to take up an Option pursuant to which such Participant may, during the Option Period, subscribe for such number of Shares as the Board may determine at a price calculated in accordance with paragraph (d) below. An Offer shall remain open for acceptance by the Participant concerned for a period of 28 days from the Date of Grant provided that no such Offer shall be open for acceptance after the expiry of the Option Period or after the PAX Share Option Scheme has been terminated or after the Participant to whom the Offer is made has ceased to be a Participant. An Offer is deemed to be accepted when PAX receives from the Grantee the offer letter signed by the Grantee specifying the number of Shares in respect of which the Offer is accepted, and a remittance to PAX of \$1.00 as consideration for the grant of Option. Such remittance is not refundable in any circumstances.

The Offer shall specify the terms on which the Option is to be granted. Such terms may at the discretion of the Board, include, among other things, (i) the minimum period for which an Option must be held before it can be exercised; and/or (ii) a performance target that must be reached before the Option can be exercised in whole or in part; and (iii) any other terms, all of which may be imposed (or not imposed) either on a case-by-case basis or generally.

**(c) Grant of Options to Connected Persons or any of their Associates**

Any grant of Options to any Director, chief executive or substantial Shareholder (as such term is defined in the Listing Rules) of PAX, or any of their respective associates shall be subject to the prior approval of the independent non-executive Directors of PAX (excluding independent non-executive Directors who are the proposed Grantees of the Options in question). Where any grant of Options to a substantial Shareholder or an independent non-executive Director of PAX, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

- (1) representing in aggregate over 0.1% of the Shares in issue on the date of such grant; and
- (2) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK\$5 million.

Such further grant of Options shall be subject to prior approval by resolution of the Shareholders (voting by way of poll) on which all connected persons of PAX shall abstain from voting in favor of the relevant resolution at such general meeting of the Shareholders (except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith). PAX shall send a circular to the Shareholders in accordance with the Listing Rules.

**(d) Subscription Price**

The subscription price for the Options shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of:

- (1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day;
- (2) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and
- (3) the nominal value of the Shares.

**(e) Maximum Number of Shares**

- (1) The maximum number of Shares which may be issued upon exercise of all Options to be granted under the PAX Share Option Scheme and any other share option schemes of PAX shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the date of Listing (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the PAX Share Option Scheme and (as the case may be) such other share option schemes of PAX will not be counted for the purpose of calculating the Scheme Mandate Limit.

PAX may renew the Scheme Mandate Limit at any time subject to prior Shareholders' approval but in any event, the total number of Shares which may be issued upon exercise of all Options to be granted under the PAX Share Option Scheme and any other share option schemes of PAX under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of approval of the renewal of the Scheme Mandate Limit. Options previously granted under the PAX Share Option Scheme or any other share option schemes of PAX (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the refreshed Scheme Mandate Limit.

- (2) Notwithstanding the foregoing, PAX may grant Options beyond the Scheme Mandate Limit to Participants if:
  - (i) separate Shareholders' approval has been obtained for granting Options beyond the Scheme Mandate Limit to Participants specifically identified by PAX before such Shareholders' approval is sought; and
  - (ii) PAX, in connection with the seeking of such separate Shareholders' approval, has first sent a circular to Shareholders containing such information as may be required by the Listing Rules then prevailing to be included in such circular.
- (3) Subject to paragraph (4) below, the maximum number of Shares issued and to be issued upon exercise of the Options granted to each Grantee under the PAX Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of PAX other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed one per cent. of the Shares in issue for the time being.
- (4) Where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over one per cent. of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. PAX must send a circular to the Shareholders disclosing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant) and such other information required under the Listing Rules.

**(f) Maximum Number of Options**

At any time, the maximum number of Shares which may be issued upon exercise of all options which then have been granted and have yet to be exercised under the PAX Share Option Scheme and any other share option schemes of PAX shall not exceed 30% of the Shares in issue from time to time.

**(g) Time of Exercise of Option**

Subject to any restrictions applicable under the Listing Rules and notwithstanding the terms of grant thereof, an Option may be exercised by the Grantee in accordance with the terms of the PAX Share Option Scheme at any time during the period to be determined and notified by the Board to each Grantee, at the time of making an offer of the grant of an Option which shall not expire later than ten years from the Date of Grant. The rules of the PAX Share Option Scheme does not specify the minimum period for which an option must be held before it can be exercised nor does it specify the performance targets that must be achieved before the options can be exercised. However, such restrictions may be imposed on a case by case basis as terms of the grant of each Option.

**(h) Rights Are Personal to Grantees**

An Option shall be personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Option.

**(i) (1) *Rights on Termination of Employment by Dismissal***

- (A) If the Grantee ceases to be a Participant by reason of the termination of his employment or directorship on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or has become insolvent or has made any arrangement or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment summarily, his Option shall lapse automatically (to the extent not already exercised).
- (B) If the Grantee who is an employee or a Director of PAX or another member of PAX Group ceases to be a Participant for any reason other than his death or the termination of his employment or directorship on one or more of the grounds specified above, the Option shall lapse (to the extent not already exercised) on the date of cessation or termination of such employment (which date shall be the Grantee's last actual working day with PAX or the relevant Subsidiary whether salary is paid in lieu of notice or not) and shall on that day cease to be exercisable.

**(2) *Rights on death***

If the Grantee ceases to be a Participant by reason of his death before exercising his Option in full and none of the events which would be a ground for termination of his employment as described in paragraph (i)(1)(A) above has arisen, his legal personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within a period of twelve months following the date of his death provided that where any of the events set out in paragraphs (k), (l), (m) and (n) occurs prior to his death or within such period of 6 months following his death, then his personal representative(s) may so

exercise the Option only within such of the various periods respectively set out in such paragraphs provided further that if within a period of 3 years prior to the Grantee's death, the Grantee had committed any of the acts specified in paragraph (i)(1)(A) which would have entitled PAX to terminate his employment prior to his death, the Board may at any time forthwith terminate the Option (to the extent not already exercised) by written notice to the Grantee's legal personal representative(s) and/or to the extent the Option has been exercised in whole or in part by his legal representative(s), but Shares have not been allotted, he shall be deemed not to have so exercised such Option and PAX shall return to him the amount of the subscription price for the Shares received by PAX in respect of the purported exercise of such Option.

**(j) Effect of Alterations to Share Capital**

In the event of any alteration in the capital structure of PAX whilst any Option remains exercisable by way of capitalization of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of Shares or reduction of the share capital of PAX in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of PAX as a result of an issue of Shares as consideration in a transaction to which PAX is a party). Adjustments (if any) shall be made to (a) the number or nominal amount of Shares subject to the Option so far as unexercised; (b) the subscription price; or (c) the method of exercise of the Option, or any combination thereof provided that (i) any such adjustments give a Grantee the same proportion of the equity capital of PAX as that to which that Grantee was previously entitled; and (ii) notwithstanding paragraph (j)(i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalization issue, shall be made in accordance with the Supplementary Guidance and all such other relevant guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time, but no such adjustments shall be made pursuant to paragraphs (j)(i) and (j)(ii) if and to the extent that as a result a Share would be issued at less than its nominal value.

The capacity of the Auditors or the independent financial adviser to PAX in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on PAX and the Grantees.

**(k) Rights on a General Offer by Way of Takeover**

In the event of a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, PAX shall forthwith notify the Grantee and the Grantee (or his legal personal representative) shall be entitled to exercise the Option in full (to the extent not already exercised) or to the extent as notified by PAX at any time within such period as shall be notified by PAX.

**(l) Rights on a General Offer by Way of Scheme of Arrangement**

In the event of a general offer by way of scheme of arrangement being made and approved by the necessary number of holders of Shares at the requisite meetings, PAX shall forthwith notify the Grantee and the Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by PAX) exercise the Option either to its full extent or to the extent specified in such notice.

**(m) Rights on Winding Up**

In the event a notice is given by PAX to the Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up PAX, PAX shall forthwith give notice thereof to the Grantee and the Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by PAX) exercise the Option either to its full extent or to the extent specified in such notice, and PAX shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot and issue and register in the name of the Grantee such number of fully paid Shares to the Grantee which fall to be issued on exercise of such Option.

**(n) Rights on a Compromise or Arrangement**

In the event a compromise or arrangement (other than a scheme of arrangement) between PAX and its members or creditors is proposed in connection with a scheme for the reconstruction of PAX or its amalgamation with any other company or companies, PAX shall give notice thereof to all the Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such compromise or arrangement, and the Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by PAX) exercise the Option either to its full extent or to the extent notified by PAX and PAX shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such Option.

**(o) Ranking of Shares**

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Memorandum of Association and Bye-laws of PAX for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which those Shares are allotted on exercise of the Option and accordingly shall entitle the holders to voting rights, transfer rights and rights to participate in all dividends or other distributions paid or made after the date on which the Shares are allotted other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the date on which the Shares are allotted.



**(p) Period of the PAX Share Option Scheme**

Subject to paragraph (r), the PAX Share Option Scheme was adopted for a period of ten years commencing on the Adoption Date. PAX by ordinary resolution in general meeting or the Board may at any time terminate the operation of the PAX Share Option Scheme and in such event no further Options will be offered or granted but in all other respects the provisions of the PAX Share Option Scheme shall remain in full force and effect in respect of Options which are granted during the life of the PAX Share Option Scheme and which remain unexpired immediately prior to the termination of the operation of the PAX Share Option Scheme.

**(q) Alteration to the PAX Share Option Scheme**

Those provisions of the PAX Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants, and changes to the authority of the Board in relation to any alteration of the terms of the PAX Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the PAX Share Option Scheme which are of a material nature, and any change to the terms of Options granted, must also, to be effective, be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the PAX Share Option Scheme.

**(r) Conditions of the PAX Share Option Scheme**

The PAX Share Option Scheme shall take effect subject to:

- (1) the passing of a resolution by the Shareholders to approve and adopt the PAX Share Option Scheme and to authorize the Board to grant Options thereunder and to allot and issue Shares pursuant to the exercise of any Options;
- (2) the passing of a resolution by the shareholders of Hi Sun to approve the PAX Share Option Scheme;
- (3) the Listing Committee (as defined in the Listing Rules) of the Stock Exchange granting approval of the Listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any Options (subject to an initial limit of 10% of the aggregate number of Shares in issue on the date of Listing); and
- (4) the commencement of dealing in the Shares on the Main Board of the Stock Exchange.

**(s) Lapse of Option**

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

- (1) the expiry of the Option Period (subject to the provisions of the PAX Share Option Scheme);
- (2) the expiry of the periods referred to in paragraphs (i), (m) or (n) above respectively;
- (3) the expiry of the period referred to in paragraph (k) above, subject to any court of competent jurisdiction not making an order to prohibit or prevent the offeror from acquiring the remaining Shares in the offer;
- (4) subject to the scheme of arrangement becoming effective, the expiry of the period for exercising the Option as referred to in paragraph (l) above;
- (5) the date of the commencement of the winding-up of PAX;
- (6) the date on which the Grantee ceases to be a Participant as referred to in paragraph (i)(1)(A) above;
- (7) the date on which the Grantee commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favor of any third party over or in relation to any Option; and
- (8) subject to paragraph (i)(1)(B) above, the date the Grantee ceases to be a Participant for any other reason.

**(t) Termination of the PAX Share Option Scheme**

PAX by ordinary resolution in general meeting, or the Board, may at any time terminate the PAX Share Option Scheme and in such event no further Options may be granted but in all other respects the PAX Share Option Scheme shall remain in full force and effect in respect of Options which are granted during the life of the PAX Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the PAX Share Option Scheme.

**(u) Restriction on Grant of Option**

In addition, a grant of Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers or in such other manner prescribed by the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (1) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of PAX's results for any year, half-year, quarterly or, any other interim period (whether or not required under the Listing Rules); and
- (2) the deadline for PAX to publish an announcement for its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules);

and ending on the date of the results announcement, no Option may be granted.

**(v) Cancellation**

Any Options granted but not exercised may be cancelled if the Participant so agrees.

**Waiver from strict compliance with Rule 17.03(3)**

Note (1) of Rule 17.03(3) of the Listing Rules provided that, the total number of securities which may be issued upon exercise of all options to be granted under a share option scheme and any other schemes must not in aggregate exceed 10% of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the scheme. As at the date of the approval of the PAX Share Option Scheme (being the date of at the SGM), PAX will still be a private company wholly-owned by Hi Sun and will have in issue a considerably smaller number of PAX Shares than would be in issue immediately after the Share Offer. Therefore, strict compliance of Rule 17.03(3) will mean that immediately upon Listing, the number of PAX Shares in respect of which Options may be granted would be very limited and is not practical. The Company has applied to the Stock Exchange for, and has been granted, a waiver from strict compliance with the Rule 17.03(3) so that the total number of securities which may be issued upon exercise of all options to be granted under the PAX Share Option Scheme must not exceed 10% of the PAX Shares in issue as at the date of Listing (taking no account of any PAX Shares that may be issued under the Over-allotment Option).

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 circular misleading.

**2. DIRECTORS' INTERESTS**

As at the Latest Practicable Date, the following Directors and chief executive of Hi Sun were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of Hi Sun or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to Hi Sun and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by Hi Sun to be notified to Hi Sun and the Stock Exchange:

**(a) Long position in Shares and underlying Shares**

Name of director	Number of Shares held		Total
	Personal interest	Corporate interest	
Kui Man Chun	28,650,000	617,083,636 ( <i>Note</i> )	645,733,636
Xu Wensheng	4,566,000	—	4,566,000
Li Wenjin	6,400,000	—	6,400,000
Xu Changjun	16,563,000	—	16,563,000
Xu Sitao	700,000	—	700,000

*Note:* These shares are held by Kui Man Chun through Hi Sun Limited, a company which Kui Man Chun holds a 99.16% interest, and Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.

**(c) Service contracts**

As at the Latest Practicable Date, there were no existing or proposed service contracts between any of the Directors and any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

**(d) Interest in assets of the Group**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which were, since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

**(e) Interest in contracts and arrangements**

None of the Directors had material interest in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

**(f) Interest in competing business**

None of the Directors or their respective associates has any interest in a business, which competes or may compete with the business of the Group.

**3. SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at the Latest Practicable Date, according to the register of interests in long positions and short positions kept by Hi Sun pursuant to Divisions 2 and 3 of Part XV and section 336 of the SFO and as far as the Directors are aware, the following persons had a long position or short position in the shares, underlying shares or debentures of Hi Sun which would fall to be disclosed to Hi Sun under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

*Hi Sun*

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares held (Note 1)</b>	<b>Percentage of issued share capital (Note 2)</b>
Kui Man Chun	Interests in controlled Corporation	617,083,636 (L)	23.08%
	Beneficial owner	28,650,000 (L)	1.07%
Hi Sun Limited (Note 3)	Interests in controlled Corporation	617,083,636 (L)	23.08%
Rich Global Limited (Note 3)	Beneficial owner	617,083,636 (L)	23.08%
Ever Union Capital Limited	Beneficial owner	227,465,000 (L)	8.51%
Che Fung (Note 4)	Interests in controlled Corporation	227,465,000 (L)	8.51%
Atlantis Investment Management Limited	Beneficial owner	277,022,000 (L)	10.36%
Liu Yang (Note 5)	Interests in controlled Corporation	277,022,000 (L)	10.36%

*Notes:*

1. "L" refers to the long position in the Shares held by such entity, while "S" refers to short position in the Shares held by such entity.

2. The percentage is calculated based on the total number of Shares as at the Latest Practicable Date.
3. Mr. Li Wenjin and Mr Kui Man Chun are directors of Rich Global Limited and Hi Sun Limited. Mr. Xu Wensheng is also a director of Hi Sun Limited.
4. Che Fung is interested in the Company's share capital by virtue of its 100% shareholder in Ever Union Capital Limited.
5. Liu Yang is interested in the Company's share capital by virtue of its 40% shareholding in Atlantis Investment Management Limited.

*Pax Technology Limited*

Name of shareholder	Capacity	Number of shares	Percentage of issued share capital
Digital Investment Limited	Beneficial owner	8,750,000 series A preference shares ( <i>Note 1</i> )	20%
Dream River Limited	Beneficial owner	8,750,000 series B preference shares ( <i>Note 2</i> )	20%

*Notes:*

1. Particulars of rights attaching to these shares are disclosed in Hi Sun's announcement dated 11 April 2007 and shareholders circular dated 27 April 2007
2. Particulars of rights attaching to these shares are disclosed in Hi Sun's announcement dated 1 April 2009 and shareholders circular dated 8 April 2009.

Save as disclosed above, none of the Directors or chief executive of Hi Sun are aware of any person (other than the Directors or chief executive of Hi Sun) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to Hi Sun under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

#### 4. LITIGATION

As at the Latest Practicable Date, neither Hi Sun nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against Hi Sun or any of its subsidiaries.

## 5. EXPERTS AND CONSENTS

The following expert, and its qualifications, has given its advice or opinion contained in this circular:

<b>Name</b>	<b>Qualification</b>
Guangdong Securities Limited	a corporation licensed to carry out business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Guangdong Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, a fund named “Beston Vantage Fund”, of which Guangdong Securities is the fund manager, was interested in 1,209,000 Shares, representing approximately 0.05% of the total issued share capital of the Company. Save as disclosed above, as at the Latest Practicable Date, Guangdong Securities was not beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did it have any direct or indirect interest in any assets which were, since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

## 6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Group within two years immediately preceding the date of this circular and are or may be material:

- (a) conditional sale and purchase agreement dated 30 March 2009 between Pax Technology Limited, Dream River Limited, Hi Sun and Hi Sun Technology Holding Limited relating to the sale of 8,750,000 ordinary shares in the capital of Pax Technology Limited from Hi Sun Technology Holding Limited to Dream River Limited for a consideration of US\$20,000,000;
- (b) amended and restated shareholders’ agreement relating to Pax Technology Limited dated 27 April 2009 between Hi Sun, Digital Investment Limited, Dream River Limited and Pax Technology Limited governing the relationship among the parties thereto;
- (c) trademark license agreement dated 27 April 2009 between Hi Sun and Pax Technology Limited relating to the non-exclusive license granted by Hi Sun to Pax Technology Limited for a consideration of HK\$1.00;
- (d) subscription agreement dated 8 May 2009 by and among Active Value Limited, Hi Sun and Mr. Mo Ying San, and shareholders’ agreement dated 15 May 2009 by and among Active Value Limited, Hi Sun and Mr. Mo Ying San, in relation to the investment in Active Value Limited;

- (e) subscription agreement dated 12 May 2009 between Benefit Concept Limited and Hi Sun, relating to the subscription of 200,000,000 new shares in Hi Sun;
- (f) subscription agreement dated 12 May 2009 between Ever Union Capital Limited and Hi Sun, relating to the subscription of 200,000,000 new shares in Hi Sun;
- (g) sale and purchase agreement dated 29 May 2009 between Hi Sun Technology Holding Limited and Hi Sun relating to the transfer of 60% issued share capital of Pax Technology Limited from Hi Sun Technology Holding Limited to Hi Sun, or its direct or indirect wholly-owned subsidiary, for a consideration of HK\$225,000,000;
- (h) promissory note dated 29 May 2009 for an amount of HK\$225,000,000 issued and delivered by Grand Global International Limited in favour of Hi Sun;
- (i) letter agreement dated 29 May 2009 between Grand Global International Limited and Hi Sun relating to (under the directions of Hi Sun) the transfer to Grand Global International Limited of 26,250,000 ordinary shares of HK\$1.00 each in Pax Technology Limited from Hi Sun Technology Holding Limited to Grand Global International Limited;
- (j) subscription agreement dated 24 December 2009 between Hi Sun and Wise World Group Limited, and shareholders agreement dated 29 January 2010 by and among Hi Sun, Wise World Group Limited and Success Bridge Limited, in relation to the issue of 600 preference shares in Success Bridge Limited to Wise World Group Limited;
- (k) share sale and purchase agreement dated 26 January 2010 in relation to Mega Hunt Investments Limited between New Concept Services Limited, Rich Giant Investments Limited and Ms. Wang Lina relating to the sale of the entire share capital of Mega Hunt Investments Limited from Rich Giant Investments Limited to New Concept Services Limited and Ms. Wang Lina as guarantor and in consideration therefor, New Concept Services Limited allotted and issued 25 shares of US\$1.00 each credited as fully paid to Rich Giant Investments Limited;
- (l) share transfer agreement dated 19 March 2010 by and among Success Bridge Limited, Reach Perfect Limited, Merit Quest Limited, Prestige Point Limited, Triwin Holdings Limited, Orient Industry and Marketing Research Company Limited; relating to the acquisition of JIM Holdings International Company Limited;
- (m) share swap agreement dated 5 November 2010 between PAX and the Company relating to the transfer of the ordinary share of US\$1.00 in Grand Global from Hi Sun (BVI) Limited to PAX;
- (n) promissory note dated 4 November 2010 for an amount of HK\$316.86 million issued and delivered by the Company in favour of Hi Sun (BVI) Limited;
- (o) Hao Share Swap Agreement.



**7. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2009 (being the date to which the latest published audited financial statements of the Group have been made up) and up to the Latest Practicable Date.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal office of Hi Sun at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to and including the date of the SGM:

- (i) the memorandum and bye-laws of Hi Sun;
- (ii) the annual reports of Hi Sun for each of the three years ended 31 December 2007, 2008 and 2009 and the interim report of Hi Sun for the six months ended 30 June 2010;
- (iii) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 30 of this circular;
- (iv) the letter of advice from Guangdong Securities, the text of which is set out on pages 32 to 42 of this circular;
- (v) the written consent as referred to in the section headed “Expert and consents” in this appendix;
- (vi) material contracts as referred to in the section headed “Material contracts” in this appendix; and
- (vii) PAX Share Option Scheme rules.

**9. GENERAL**

- (i) The joint company secretaries of Hi Sun are Mr. Chan Yiu Kwong, *FCCA*, *HKICPA* and Ms. Hui Lok Yan, *HKICPA*.
- (ii) The Hong Kong branch share registrar and transfer office of Hi Sun is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (iii) The English language text of this circular shall prevail over the Chinese language text.

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## NOTICE OF SGM

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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)**

**NOTICE IS HEREBY GIVEN THAT** a special general meeting of Hi Sun Technology (China) Limited (“Hi Sun”) will be held at Room 2515, 25/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on Wednesday, 24 November, 2010 for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

#### ORDINARY RESOLUTIONS

(1) “**THAT:**

- (a) the Proposed Spin-off (as defined below) and all documents or agreements in connection therewith or contemplated thereunder or for the purpose of giving effect thereto, be and are hereby approved;
- (b) the directors of Hi Sun be and are hereby authorised on behalf of Hi Sun to approve and implement the Proposed Spin-off and all matters incidental thereto and to authorise and take all actions in connection therewith or arising therefrom relating to the Proposed Spin-off as they shall think fit (including, inter alia, (i) the signing, sealing, execution, perfection and delivery of any document, instruments and agreements for and on behalf of Hi Sun in connection with or pursuant to the Proposed Spin-off; and (ii) the exercise of all such powers of the Company and doing of all such acts as they may consider necessary, desirable or expedient to give effect to the Proposed Spin-off); and
- (c) Hi Sun be and is hereby authorised to sell or approve the issue of such number of PAX Shares under the Share Offer (including PAX Shares under the Over-allotment Option) as may be approved by the Board, provided that (i) the percentage of shareholding interest of Hi Sun in PAX immediately after the completion of the proposed Spin-off will be no less than 40% (taking no account of the effect of any customary stock lending arrangements, (ii) any stock borrowing arrangements be on terms in compliance with the Listing Rules and (iii) the actual or deemed disposal by Hi Sun of its interests in PAX Shares will not result in any of Hi Sun’s “percentage ratios” under Rule 14.07 of the Listing Rules to exceed 75% (using for this purpose, the “market capitalisation” of Hi Sun as at 24 November 2010.

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## NOTICE OF SGM

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“**Over-allotment Option**” means the option to be granted by PAX to the underwriters of the conditional placing of PAX Shares (as part of the Share Offer), pursuant to which PAX may be required to allot and issue additional PAX Shares (representing up to an aggregate of 15% of PAX Shares to be initially offered under the Share Offer) to cover over allocations in the said placing;

“**PAX Shares**” means ordinary shares of HK\$0.10 each in the share capital of PAX;

“**Proposed Spin-off**” means the proposed spin-off of PAX comprising the Share Offer and the Separate Listing;

“**Separate Listing**” means the separate listing of PAX Shares on the Main Board of The Stock Exchange of Hong Kong Limited; and

“**Share Offer**” means the offer of PAX Shares for subscription or purchase by the public in Hong Kong and by qualifying shareholders of Hi Sun, and through conditional placing of PAX Shares with institutional, professional and other investors.

- (2) “**THAT** the rules of the share option scheme (“**PAX Share Option Scheme**”) of PAX Global Technology Limited (“**PAX**”), a copy of which having been produced to the meeting marked “A” and for the purpose of identification signed by the Chairman be and are hereby approved for adoption by the Shareholders of PAX as the Share Option Scheme of PAX and the directors of Hi Sun be and are hereby authorised to approve any amendments to the rules of the PAX Share Option Scheme as may be acceptable or not objected to by the Stock Exchange and to do all such acts and to enter into all such transactions and arrangements as may be necessary or expedient in order to give effect to the PAX Share Option Scheme.”

Yours faithfully,  
For and on behalf of  
**Hi Sun Technology (China) Limited**  
**Mr. Li Wenjin**  
*Executive Director*

Hong Kong, 8 November, 2010

*Registered office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

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## NOTICE OF SGM

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*Head office and principal Place of Business:*

Room 2515, 25th Floor  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

*Notes:*

1. A form of proxy for use at the meeting is enclosed with the circular despatched on 8 November 2010 to the members of Hi Sun.
2. Any member entitled to attend and vote at a meeting of Hi Sun shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the principal place of business of Hi Sun at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.
5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

*As at the date of this notice, the Board consists of five executive Directors, namely Mr. Cheung Yuk Fung, Mr. Kui Man Chun, Mr. Xu Wensheng, Mr. Li Wenjin and Mr. Xu Chang Jun; two non-executive Directors, namely Mr. Yang Lei, Raymond and Mr. Chang Kai-Tzung, Richard and three independent non-executive Directors, namely Mr. Tam Chun Fai, Mr. Xu Sitao and Mr. Leung Wai Man, Roger.*