

PAX Global Technology Limited (327.HK)

FY 2017 annual results



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Agenda

- Responses to key market concerns
- 2017 results snapshot
- 2018 full year guidance & future strategies



Responses to key market concerns

- 1. 2017 full year guidance has been achieved**
- 2. Trade receivables turnover days of Brazil have been closely monitored and improved**
 - FY2017: dropped approximately 20 days
- 3. M&A projects with different business strategies were completed in 2017**
 - Expansion of the Group's sales channel into new markets:
 1. Acquisition of renowned Korean E-payment Terminals company Kwang Woo
 2. Set up of subsidiaries in India and Japan
 - Expansion of diversified solutions and services:
 1. Acquisition of Italian E-payment Terminals service company CSC Italia
 2. Equity investment in Sweden solution and service company Onslip AB
 3. Equity investment in Shanghai solution company Shanghai Coshine
 - Exploration of innovative technologies:
 1. Investment in a private equity fund in Beijing
 - Enhancement of the Group's operational efficiency:
 1. Acquired the land use right of Pinghu, Longgang District, Shenzhen, which will be used for the establishment of a new headquarters
- 4. Shares buyback and dividend return**
 - Total of 13 million shares bought back in the past 12 months
 - Continuous dividend return to shareholders
- 5. Influence of Wechat pay and Alipay**
 - Created strong demand of all-in-one POS terminals (bank cards, NFC, Apply Pay, QR code payment, etc.)
 - Well-prepared with full-range of product lines supporting QR code and other forms of payment



Payment market in China



Interesting Facts



Offline payment transaction

Year 2016 : Total offline payment market size was RMB 3.5 trillion
58% of it processed by cash^A

Bank card

Number of bank card ^B	<u>Year 2015</u> 5.4 billion	➔	<u>Year 2017</u> 6.7 billion
Consumer business processed ^B	<u>Year 2015</u> RMB 55 trillion 29 billion transactions	➔	<u>Year 2017</u> RMB 69 trillion 59 billion transactions

(i.e. growing transaction large amount by bank cards)

QR code

- **1.9%** of offline payment are processed by QR code in 2016^A
(i.e. huge growth potential)
- **95%** of payment processed by QR code are below RMB500^C
(i.e. mainly for small amount transaction)

Sources:

Note A: China Third party operation mobile payment industry report by iResearch– released in Jun 2017

Note B: China Payment System Development Quarter Report by the People Bank of China

Note C: Article: 条码支付告别“无证驾驶”“危险驾驶” by 中国社科院金融所支付清算研究中心特约研究员,赵鹤 – released in Dec 2017

Growing POS terminals install base^B

Year 2015:
22.8 million



Year 2017:
31.2 million

Prospect

1. Expanding POS terminals market
2. Great opportunities to capture large market share vacated from cash payment
 - Continuous growth in bank card
 - Huge growth potential of new technology e.g. QR code payment

2017 results snapshot



FY2017 results snapshot

- **Revenue: HKD 3,591M**
 - YoY change: 23.2%
 - Overseas market, YoY change: 57.1%
- **Gross profit margin: 40.6%**
 - YoY change: - 270 basis points
- **R&D expenses: HKD 287M**
 - YoY change: + 56.4%
- **Net Profit: HKD 337M (excluding one-off impairment: HKD 513M)**
 - YoY change: - 44.2% (excluding one-off impairment: -15.0%)
- **Proposed FY2017 final dividend: HKD 0.04 per ordinary share**



FY 2017 results snapshot– Revenue by region

LACIS

+114.5%

Brazil

- Dominant leader in mPOS market
- Strong growth in traditional terminals

Argentina

- Increasing demand driven by government’s cashless payment initiatives

Russia

- Highly recognized by major acquiring banks

China

-21.4%

- Keen competition
- Product mix changing

EMEA

+10.0%

- Significant growth in European countries
- More acquiring banks in Gulf Cooperation Council (GCC) region transition to PAX payment solutions

APAC

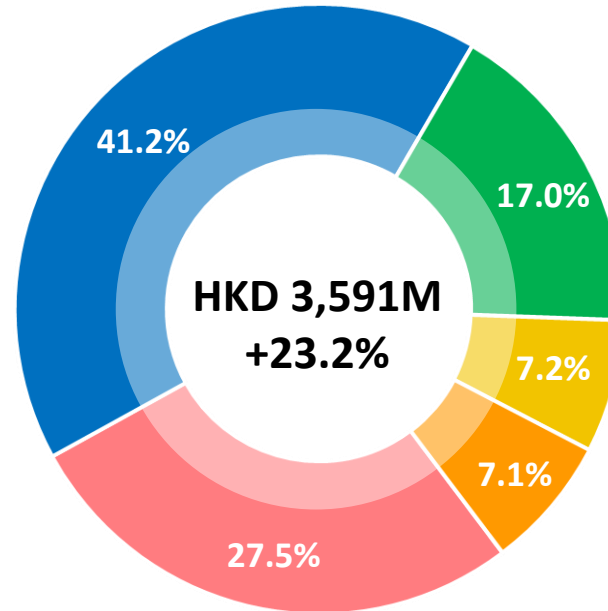
+9.5%

- Organic growth in most of the APAC markets
- Completed the Korean acquisition in November 2017

USCA

+44.2%

- Smart electronic cash register (“ECR”) was successfully launched
- Expansion in client base



■ Latin America and the Commonwealth of Independent States

■ China

■ Europe, the Middle East and Africa

■ Asia Pacific (excluding China)

■ United States and Canada



FY 2017 results snapshot– Operating expenses

<i>HKD '000</i>	FY 2017 (Excluding impairment expenses)	FY 2016	+/-
Selling expenses	426,432	297,396	+43.4%
Administrative expenses	501,721	347,098	+44.5%
R&D expenses <i>(included in administrative expenses)</i>	287,230	183,614	+56.4%

- **Selling expenses +43.4%**

- Increase in sales and after-sales service staff headcounts & cost in overseas regions
Average headcounts: FY17 - approximately 550; FY16 - approximately 450
- Increase in advertising expense in both China market and overseas regions

- **Administrative expenses +44.5% (R&D expenses +56.4%)**

- Increase in R&D staff headcounts & cost
Average headcounts : FY17 - approximately 900; FY16 - approximately 700
- Increase in certification expense in both China market and overseas regions



FY 2017 results snapshot– Working capital

<i>HKD '000</i>	FY 2017	FY 2016	+/-
Trade and bills receivables	1,703,414	1,347,446	+26.4%
Inventories	918,452	596,539	+54.0%
Trade payables	953,084	662,485	+43.9%
<i>Turnover days</i>	FY 2017	FY 2016	+/-
Trade and bills receivables	158	164	-6
Inventory	138	142	-4
Trade payables	138	152	-14
Cash conversion	158	154	+4

- **Inventories + 54.0%**
 - Sales order preparation for the first half of 2018, especially for Brazilian market

2018 full year guidance & future strategies



FY 2018 guidance & future strategies

- **Topline: +15 to 25%**
- **Gross profit margin: 34 to 37%**
- **Operating profit margin: 11 to 13%**



Appendix: New products in 2018

E800



- New generation of integrated smart retail terminal
- Combines core retail peripherals and payment into a single elegant housing unit with small desktop footprint
- Powered by Android technology

E600



- Mobile retail POS
- Handheld portable wireless mini ECR
- Powered by Android technology

A930



- Smart POS
- Powered by Android technology



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