# PAX Global Technology Limited
# 百富環球科技有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00327)**

## RESULTS ANNOUNCEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2011

**FINANCIAL HIGHLIGHTS**

| **RESULTS** | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* | *+/(–)* |
|---|---|---|---|
| Revenue | **1,103,180** | 723,610 | +52% |
| Gross profit | **391,702** | 291,870 | +34% |
| EBITDA | **210,596** | 175,121 | +20% |
| Operating profit | **207,463** | 172,508 | +20% |
| Profit for the year | **181,795** | 145,423 | +25% |

| | **2011** | 2010 | *+/(–)* |
|---|---|---|---|
| Earnings per share | | | |
| – Basic (HK$) | **0.175** | 0.194 | -10% |
| – Diluted (HK$) | **0.175** | 0.194 | -10% |

| **KEY BALANCE SHEET ITEMS** | **2011**<br>***HK$'000*** | 2010<br>*HK$'000* | *+/(–)* |
|---|---|---|---|
| Total assets | **2,006,038** | 1,505,360 | +33% |
| Total liabilities | **404,884** | 218,249 | +86% |
| Total equity | **1,601,154** | 1,287,111 | +24% |

The board of Directors (the "Board") of PAX Global Technology Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group" or "PAX Global") for the year ended 31 December 2011 together with comparative figures for the year ended 31 December 2010. The annual results have been reviewed by the Company's Audit Committee (the "Audit Committee").

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a point-of-sale ("POS") terminal solutions provider principally engaged in the development and sale of POS products and provision of related services (collectively the "POS terminal solutions business"). The Group is one of the leading suppliers in the POS terminal solutions market in China and one of the most active international players. Our POS terminal solutions are sold in over 60 overseas countries and district regions including the United States, Canada, Singapore, Taiwan, Hong Kong, Japan, New Zealand, France, Finland, Saudi Arabia, South Africa, Brazil and Russia. Currently, we work with over 30 distributors and partners worldwide.

## MARKET OVERVIEW

In recent years, active merger and acquisition activities within the industry presented PAX Global with enormous business opportunities in both mature and emerging markets. After years of effort, PAX Global's global market share has recorded notable growth. China is still the Group's major source of income. Meanwhile, the contribution from overseas market (excluding Mainland China) to the Group's income is increasing gradually, with the approximate percentage to the total turnover increased from 14% in 2008 to 32% in 2011. It is expected that the proportion of turnover from overseas market to the total turnover will continue to increase in the coming years. That found our base to move forward towards our goal: to become one of the leading POS terminal solutions providers in the world.

## CHINA MARKET

### Improvement in bank card acceptance environment and growth in card payment transactions

According to The People's Bank of China, the number of in-network bank card merchants reached over 2.87 million by the end of 2011 (2010: 2.18 million) and in-network EFT-POS terminals has grown to over 4.39 million sets by the end of 2011 (2010: 3.33 million sets) in China. Today, the penetration of EFT-POS terminals in China is still relatively low, creating a vast potential growth opportunity within the industry. Consumers in China are becoming accustomed to using bank cards in settling their payments and purchases. A total of 2.81 billion bank cards had been issued in China as at the end of the third quarter in 2011, representing a growth of 16% as compared with the end of 2010 and each individual on average held approximately 2.04 bank cards as at the end of the third quarter in 2011. The habit of settlement and acceptance of payment and purchases with bank cards have been successfully extended to medical, education, transportation and telecommunication services.

**Booming vertical applications**

The common use of vertical applications in different sectors such as gas stations, telecommunication carries, member and debit cards issued by merchants, multifunction cards such as social security cards and city cards (with small amount payment functions) will drive the need for POS terminals. Taking the social security card as an example, the Ministry of Human Resources and Social Securities (MOHRSS) reiterated its plan to incorporate basic card functions including pre-paid functions into social security cards within 5 years. The authority aims to issue 800 million social security cards during the Twelfth Five-year Plan Period. The wide vertical applications in daily life further increases the demand of POS terminals in China.

**Uprising of third party payment service providers**

As at 31 December 2011, there were 101 licensed third party payment service providers, demonstrating the importance of this area in the financial industry has been recognized. Under the platform of the business model, the third party electronic payment is expected to be an innovative financial solution, whose applications gradually extended from electronic business areas to traditional business areas and penetrated from online to traditional payment services. These licensed third party payment service providers can act as drivers to further develop the payment industry and demand for POS terminals.

## OVERSEAS MARKET

**Huge opportunities from overseas market and active industry merger and acquisition**

PAX Global is one of the few Chinese POS terminal solutions providers holding PCI, EMV Level 1 and Level 2 certifications. In addition, PAX Global obtained TQM, PayPass and PayWave card certifications. According to The Nilson Report, the Group has been ranked one of the top 10 global POS terminal solutions providers since 2007. With international industry certifications, a solid reputation and customers' trust, the Group is able to capture huge overseas market share and opportunities from active mergers and acquisitions in the industry.

**NFC payments march on**

Merchants are widely deploying Near Field Communications ("NFC") contactless devices, which proves that it is a new trend in the industry. One of the examples of the technology adoption is Google Wallet. It allows consumers' credit information to be stored in a virtual wallet, and an NFC-enabled device at terminals can obtain that data and complete transactions. In several European countries, China and India, NFC payment systems have either been applied or are being tested in public transportation systems or ticket boxes. The new technology application increases the demand for NFC payment devices. The Group's mainstream products are mostly NFC compatible.

**Mass opportunities from EMV migration**

Most European countries, Hong Kong, Singapore, Russia and most Latin American countries have completed the EMV migration. New Zealand and Australia are going through the EMV migration process now. Recently, Visa and MasterCard have announced their policies encouraging wider deployment of EMV cards and POS terminals in the United States. Most non-EMV complied existing POS terminals have to be replaced by EMV complied ones before 2017 in the United States. That should generate huge demand for EMV complied POS terminals in addition to normal replacements in the United States in the coming years. Other countries such as Japan and other Commonwealth of Independent States countries will likely migrate to EMV in the foreseeable future.

## FINANCIAL REVIEW

The key financial figures for the year ended 31 December 2011 are extracted as follows:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2011** | 2010 | |
| | ***HK$'000*** | *HK$'000* | *+/(-)* |
| Revenue | **1,103,180** | 723,610 | +52% |
| Gross profit | **391,702** | 291,870 | +34% |
| Other income | **41,712** | 27,390 | +52% |
| Selling expenses | **(124,100)** | (74,371) | +67% |
| Administrative expenses | **(101,851)** | (72,381) | +41% |
| Operating profit | **207,463** | 172,508 | +20% |
| Income tax expense | **(25,668)** | (27,085) | -5% |
| Profit for the year attributable to equity holders of the Company | **181,795** | 145,423 | +25% |
| EBITDA | **210,596** | 175,121 | +20% |
| Research and development expenses *(included in administrative expenses)* | **(52,695)** | (34,899) | +51% |

| | **As at 31 December** | | |
|---|---|---|---|
| | **2011** | 2010 | |
| | ***HK$'000*** | *HK$'000* | *+/(-)* |
| Total current assets | **1,994,994** | 1,493,935 | +34% |
| Total non-current assets | **11,044** | 11,425 | -3% |
| Total assets | **2,006,038** | 1,505,360 | +33% |
| Total liabilities | **404,884** | 218,249 | +86% |
| Net current assets | **1,590,110** | 1,275,686 | +25% |
| Total equity | **1,601,154** | 1,287,111 | +24% |

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2011** | 2010 | *+/(-)* |
| **PER SHARE DATA** | | | |
| Earnings per share for profit attributable to equity holders of the Company | | | |
| – Basic (HK$) | **0.175** | 0.194 | -10% |
| – Diluted (HK$) | **0.175** | 0.194 | -10% |

| | For the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| **FINANCIAL RATIOS** | | |
| Gross profit margin | **35.5%** | 40.3% |
| EBITDA margin | **19.0%** | 24.2% |
| Net profit margin | **16.5%** | 20.1% |

**Revenue**

Turnover increased by 52% or HK$379.6 million to HK$1,103.2 million for the year ended 31 December 2011 from HK$723.6 million for the year ended 31 December 2010. Turnover from the China market grew by 33% year on year or HK$189.0 million to HK$755.3 million. Similarly, turnover from overseas market grew by HK$190.6 million to HK$347.9 million, representing a growth of 121%.

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2011** | 2010 | |
| | ***HK$'000*** | *HK$'000* | *+/(-)* |
| POS terminals | **945,107** | 623,448 | +52% |
| Consumer activated devices | **116,206** | 52,650 | +121% |
| Contactless devices | **19,904** | 22,695 | -12% |
| Services | **13,749** | 14,260 | -4% |
| Others* | **8,214** | 10,557 | -22% |
| | **1,103,180** | 723,610 | +52% |

* Amount mainly represented accessory items sold to customers. Examples of such accessory items were download cable, telephone line, thermal paper, sticker and barcode scanning gun etc.

**POS Terminals**

Turnover from the sale of POS terminals increased by 52% to HK$945.1 million for the year ended 31 December 2011 from HK$623.4 million for the year ended 31 December 2010. Turnover growth has been driven by the increase in both China and overseas sale during the year. Emerging markets in EMEA ("Europe, Middle East and Africa"), LACIS ("Latin America and Commonwealth of Independent States") and APAC ("Asia Pacific") regional business units contributed significantly to growth in overseas sale.

Meanwhile, bankcard payment has been gaining increasingly popularity in China. Financial institutions and third party payment service providers have been aggressively building their POS networks in order to capture the benefits from the rising usage of electronic payment and high levels of retail consumption in China. Furthermore, recent state policies have also encouraged the building of electronic transaction networks, which further fuels the fast growth of POS terminals demand.

**Consumer Activated Devices**

Turnover from the sale of consumer activated devices achieved significant growth, which increased by 121% to HK$116.2 million for the year ended 31 December 2011 from HK$52.7 million for the year ended 31 December 2010. The strong growth is mainly attributable to one particular popular model equipped with additional built-in contactless card reader function that also supports magnetic card and IC card reader.

**Contactless Readers**

Turnover from the sale of contactless readers decreased to HK$19.9 million for the year ended 31 December 2011, decreased by 12% from HK$22.7 million for the year ended 31 December 2010. The fall in demand was mainly due to the popularity of one particular consumer activated device model which has built-in contactless card reader as well as other extra functions.

**Services**

Turnover from provision of services decreased by 4% to HK$13.7 million for the year ended 31 December 2011 as compared to HK$14.3 million for the year ended 31 December 2010. Maintenance services made up the bulk of service income and were mainly generated in Hong Kong. The slight fall in turnover was mainly due to the drop in product modification fee during the accounting year.

**Sales by Geographical Region**

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2011** | 2010 | |
| | ***HK$'000*** | *HK$'000* | *+/(-)* |
| China market | **755,329** | 566,340 | +33% |
| Overseas market | **347,851** | 157,270 | +121% |
| | **1,103,180** | 723,610 | +52% |

Turnover generated from the China market increased by 33% to HK$755.3 million for the year ended 31 December 2011, from HK$566.3 million for the year ended 31 December 2010. Relatively low POS penetration rate, strong economic growth, high levels of retail consumption, and the successful promotion and acceptance of bank cards, loyalty cards, and social security cards generated demand for POS terminals. In addition, major merchant service providers, financial institutions and licensed third party payment service providers in China continually placed POS terminals in merchants and provided related services to capture market share in one of the fastest growing markets in the world.

Turnover generated from the overseas market increased by 121% to HK$347.9 million for the year ended 31 December 2011 from HK$157.3 million last accounting year. Overseas market turnover contributed to 32% of total turnover compared with 22% last accounting year. The increase was mainly attributable to increased segmental sales in EMEA, LACIS and APAC regions. The Group has continuously expanded its international market presence in countries including Canada, Dominica and Brazil in the Americas, Uzbekistan, Kazakhstan and Tajikistan in Middle Asia, Latvia, Finland and France in Europe, Kuwait and Turkey in the Middle East, Nigeria in Africa as well as Japan and New Zealand in Asia Pacific. As at 31 December 2011, we had over 30 (2010: 25) overseas distributors and partners worldwide.

**Gross Profit Margin**

Gross profit margin for the year ended 31 December 2011 was 35.5%, dropping 4.8 points as compared with 40.3% last accounting year as a result of lower average selling price given keen competition in China. In several overseas markets, PAX Global took a proactive and aggressive marketing approach to penetrate to the new markets. We consider that our gross profit margin maintains at a healthy level.

**Other Income**

Other income is comprised primarily of value added tax refund, interest income and subsidy income. It increased by 52% to HK$41.7 million for the year ended 31 December 2011 from HK$27.4 million last accounting year. The increase is mainly due to the increment of value added tax refund and interest income.

**Selling Expenses**

Selling expenses increased by 67% to HK$124.1 million for the year ended 31 December 2011, from HK$74.4 million for the year ended 31 December 2010. The growth in expenses was in line with turnover growth. The increase was mainly attributable to an increase in (i) employee benefit expenses associated with the increase in wage and the average number of sales and marketing staffs; (ii) maintenance service expenses; (iii) advertising and promotional expenses; and (iv) travelling expenses.

## Administrative Expenses

Administrative expenses increased by 41% to HK$101.9 million for the year ended 31 December 2011 from HK$72.4 million in the preceding financial year mainly reflecting the increase in research and development costs and corporate office expenses after listing in December 2010.

## Net Profit and Net Profit Margin

As a result of the foregoing, the net profit for the year attributable to the equity holders of the Company increased by 25% to HK$181.8 million for the year ended 31 December 2011 from HK$145.4 million for the year ended 31 December 2010.

The net profit margin decreased to 16.5% for year ended 31 December 2011 from 20.1% in the preceding financial year mainly as a result of our reduction in gross profit margin but which was partly offset by the decrease in effective tax rate.

## OUTLOOK

To this day, PAX Global has sold more than 2 million POS terminals to over 60 countries and district regions and worked with over 30 distributors and partners worldwide since the establishment of the Group. In a report issued by The Nilson Report in September 2011, PAX Global was ranked number 7 globally in terms of volume of POS terminals shipped in 2010.

## CHINA MARKET

PAX Global is one of the leading players in POS terminal solutions market in China with major merchant services providers, financial institutions and licensed third party payment service providers as some of our largest customers. China is one of the fastest growing economies in the world with huge commercial growth potential yet to be tapped. Over the past several years the surge in consumer spending in China and the public's increasing demand for safer and more secure payment methods has formed the foundation upon which the POS terminal solutions industry can flourish. Research has indicated that the number of POS terminals installed in China is less than 3 terminals per 1,000 people in 2010 as compared to an average of 23 installed POS terminals per 1,000 people in certain mature markets. With such a low POS terminal penetration rate, the increased acceptance of card payment transactions, the ease of obtaining credit cards by consumers and the PRC government's support in developing the country's electronic payment infrastructure are just a few factors expected to continually drive the demand for POS terminals in China.

POS terminal buyers such as financial institutions are expected to continue to aggressively install terminals in merchants in order to develop their card acquiring businesses and take profit from one of the fastest growing payment markets in the world. In 2012, some licensed third party payment service providers are expected to install terminals in merchants. Thus, this should further improve the POS terminal penetration rate. With respect to the China market, the Group will continue to focus on R&D, technical support and service, strengthening client relationships and sales networks to consolidate our leading position in China.

## OVERSEAS MARKET

Overseas market including Hong Kong, Macau and Taiwan accounts for more than 80% of the global market shares. Therefore, it is definitely a huge market for PAX Global. Overseas market provides extra business growth and diversifies our business risk. Since year 2000, PAX Global has been investing extensively in R&D to ensure our mainstream products to comply if not exceed most international industrial standards and are accredited with international industrial recognized certifications. Over the past ten years, we have invested significant resources in building our sales network, worked tirelessly with our international partners and formed specialized teams to focus on each of the individual markets, including EMEA, LACIS, APAC and USCA (the "United States and Canada"). In recent years, the significant sales growth in overseas market has attested to our efforts.

USCA is one of the largest markets in the world. According to The Nilson Report issued in September 2011, more than 2.3 million POS terminals were deployed in USCA, accounting for approximately 16% of the global POS shipments in year 2010. Furthermore, the forward moving adoption schedule of the EMV standard is expected to be a catalyst to the market growth. As it is one of our Group's strategic focus markets, we are expanding the regional team there to capture more market share. In addition, the Group is seeking merger and acquisition or partnership opportunities which can either provide technological know-how or access to sales channels for us to penetrate into certain markets more easily. We will also put more effort to enter other BRIC (Brazil, Russia, India and South Africa) countries. Management believes that overseas market will maintain their rapid growth in the immediate future.

## OVERALL MANAGEMENT STRATEGIES

Looking forward, PAX Global will continue to focus on consolidating and enhancing our strong position in China through (i) continuous development of innovative products that meet customers' demands and capture new market segments; (ii) enhancement of our R&D capability; (iii) expansion and optimization of our sales and after-sales service networks and enlargement of the scope of business and our market share in major international markets; (iv) potential merger and acquisition or partnership opportunities that can enhance technological know-how or market share.

By levering on our strong position in POS terminal solutions market in China and consolidated international market experience, we believe that we will be able to capture the rapid development of China and emerging markets as well as other important international markets. We believe that we are on the path to becoming one of the leading global POS terminal solutions providers.

**Liquidity and Capital Resources**

During the year, the main source of funding to the Group was proceeds from over-allotment of shares pursuant to the Global Offering. Certain financial data are summarised as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Cash at bank and on hand | **1,152,291** | 1,066,526 |
| Net current assets | **1,590,110** | 1,275,686 |
| Net cash (used in)/generated from operating activities | **(19,488)** | 118,220 |
| Net cash generated from financing activities | **91,674** | 699,995 |

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| Current ratio (times) | **4.9** | 6.8 |
| Quick ratio (times) | **4.2** | 6.2 |

As at 31 December 2011, the Group had cash at bank and on hand and short-term bank deposits of HK$1,152.3 million (2010: HK$1,066.5 million) and no short-term borrowings (2010: Nil). As at 31 December 2011, the Group reported net current assets of HK$1,590.1 million, as compared with HK$1,275.7 million as at 31 December 2010. For the year ended 31 December 2011, net cash used in operating activities was HK$19.5 million, as compared with net cash generated from operating activities of HK$118.2 million for the year ended 31 December 2010. Net cash inflow from financing activities for the year 2011 was HK$91.7 million mainly attributable to the proceeds from over-allotment of shares pursuant to the Global Offering, as compared with HK$700.0 million for the year ended 31 December 2010 which was mainly generated from the Global Offering.

**Capital Structure and Details of Charges**

As at 31 December 2011, the Group did not have any borrowings (2010: Nil). As at 31 December 2011, approximately HK$315.3 million, HK$709.5 million, HK$125.9 million and HK$1.5 million (2010: HK$229.0 million, HK$746.7 million, HK$89.8 million and HK$1.0 million) of the Group's cash balances were denominated in Renminbi ("RMB"), Hong Kong dollar ("HK$"), US dollar ("US$") and Euro ("EUR") respectively.

**Significant Investment**

Save as disclosed in this announcement, the Group has no significant investment held as at 31 December 2011.

**Material Acquisition and Disposal of Subsidiaries**

Save as disclosed in this announcement, the Group did not have any material acquisition or disposal of subsidiaries during the year ended 31 December 2011 (2010: Nil).

## Use of Proceeds

The net proceeds raised from the Global Offering received by the Company were approximately HK$805.9 million. The net proceeds from the Global Offering were intended to be utilized over three years from 2011 to 2013.

As at 31 December 2011, the planned and utilized amounts of usage of total net proceeds are as follows:

| | **Planned amount** | **Utilized amount** |
|---|---|---|
| | *HK$ million* | *HK$ million* |
| Enhancing research and development effort | 322.4 | 54.7 |
| Expanding distribution network | 120.8 | 20.2 |
| Potential merger and acquisition | 282.1 | – |
| General working capital | 80.6 | 80.6 |
| | 805.9 | 155.5 |

## Future Plans for Material Investments or Capital Assets

Save as disclosed in this announcement, there was no specific plan for material investments or capital assets as at 31 December 2011.

## Exchange Rates Exposure

The Group derives its turnover, makes purchases and incurs expenses denominated mainly in RMB, HK$ and US$. The majority of assets and liabilities are denominated in RMB, HK$ and US$, and there are no significant assets and liabilities denominated in other currencies. Currently, the Group has not entered into agreements or purchased instruments to hedge the Group's exchange rate risks. Any material fluctuation in the exchange rates of HK$ or RMB may have an impact on the operating results of the Group.

Management considers the foreign exchange risk with respect to US$ is not significant as HK$ is pegged to US$ and transactions denominated in US$ are mainly carried out by entities with the same functional currency. The exchange rate of RMB to HK$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages foreign currency risk by closely monitoring the movement of the foreign currency rates.

**Contingent Liabilities**

The Group had no significant contingent liabilities as at 31 December 2011.

**Human Resources and Remuneration Policies**

The total number of employees of the Group as at 31 December 2011 was 463. The following table shows a breakdown of employees of the Group by functions as at 31 December 2011:

| | |
|---|---|
| Management | 12 |
| Sales and after-sales services and marketing | 158 |
| Research and development | 233 |
| Quality assurance | 14 |
| Administration and human resources | 15 |
| Accounting | 10 |
| Production, procurement and inventory control | 21 |
| | 463 |

The Group ensures that its remuneration packages are comprehensive and competitive. Employees are remunerated with a fixed monthly income plus annual performance related bonuses. The Group also sponsors selected employees to attend external training courses that suit the needs of the Group's businesses.

Disclaimer:

*Non-GAAP measures*

*Certain non-GAAP (generally accepted accounting principles) measures, such as EBITDA, are used for assessing the Group's performance. These non-GAAP measures are not expressly permitted measures under GAAP in Hong Kong and may not be comparable to similarly titled measures for other companies. Accordingly, such non-GAAP measures should not be considered as an alternative to operating income as an indicator of the operating performance of the Group or as an alternative to cash flows from operating activities as a measure of liquidity. The use of non-GAAP measures is provided solely to enhance the overall understanding of the Group current financial performance. Additionally because the Group has historically reported certain non-GAAP results to investors, the Group considers the inclusion of non-GAAP measures provides consistency in our financial reporting.*

## CONSOLIDATED INCOME STATEMENT

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **1,103,180** | 723,610 |
| Cost of sales | *5* | **(711,478)** | (431,740) |
| Gross profit | | **391,702** | 291,870 |
| Other income | *3* | **41,712** | 27,390 |
| Selling expenses | *5* | **(124,100)** | (74,371) |
| Administrative expenses | *5* | **(101,851)** | (72,381) |
| Operating profit/profit before income tax | | **207,463** | 172,508 |
| Income tax expense | *6* | **(25,668)** | (27,085) |
| Profit for the year attributable to equity holders of the Company | | **181,795** | 145,423 |
| Earnings per share for the profit attributable to equity holders of the Company during the year (expressed in HK$ per share) | | | |
| – Basic | *7* | **0.175** | 0.194 |
| – Diluted | *7* | **0.175** | 0.194 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **181,795** | 145,423 |
| **Other comprehensive income** | | |
| Exchange differences arising on translation of the financial statements of foreign subsidiaries | **27,403** | 17,526 |
| **Total comprehensive income for the year attributable to equity holders of the Company** | **209,198** | 162,949 |

## CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **10,809** | 11,194 |
| Leasehold land | | **235** | 231 |
| **Total non-current assets** | | **11,044** | 11,425 |
| **Current assets** | | | |
| Inventories | | **305,666** | 148,520 |
| Trade and bills receivables | *8* | **503,715** | 269,042 |
| Deposits and other receivables | *8* | **17,305** | 7,001 |
| Restricted cash | *9* | **16,017** | 2,846 |
| Cash at bank and on hand | *9* | **1,152,291** | 1,066,526 |
| **Total current assets** | | **1,994,994** | 1,493,935 |
| **Total assets** | | **2,006,038** | 1,505,360 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | **103,773** | 100,000 |
| Reserves | | **1,497,381** | 1,187,111 |
| **Total equity** | | **1,601,154** | 1,287,111 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | *10* | **249,570** | 143,033 |
| Other payables and accruals | *10* | **140,414** | 55,735 |
| Taxation payable | | **14,900** | 19,481 |
| **Total current liabilities and liabilities** | | **404,884** | 218,249 |
| **Total equity and liabilities** | | **2,006,038** | 1,505,360 |
| **Net current assets** | | **1,590,110** | 1,275,686 |
| **Total assets less current liabilities** | | **1,601,154** | 1,287,111 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

PAX Global Technology Limited (the "Company") is an investment holding company and together with its subsidiaries (collectively referred to as the "Group") are principally engaged in the development and sale of point-of-sale ("POS") products and provision of related services (collectively, the "POS terminal solutions business").

The Company is a limited liability company incorporated in Bermuda. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2010. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

These financial statements are presented in thousands units of Hong Kong dollars ("HK$"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 15 March 2012.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by The Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

*2.1.1 Changes in accounting policy and disclosures*

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011, but do not have a material impact on the Group.

| | |
|---|---|
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 (Amendment) | Classification of Rights Issues |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments |
| Annual Improvements Project | Third annual improvements projects (2010) published in May 2010 |

(b) New and amended standards have been issued, but are not effective for the financial year beginning on 1 January 2011 and have not been early adopted.

- HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess IFRS/HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRS or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 3 REVENUE AND OTHER INCOME

The Group is principally engaged in the sale of POS products and provision of related services. Revenue and other income recognised during the year were as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Turnover** | | |
| Sales of electronic payment products | **1,089,431** | 709,350 |
| Sales of electronic payment services | **13,749** | 14,260 |
| | **1,103,180** | 723,610 |
| **Other income** | | |
| Interest income | **6,317** | 928 |
| Value added tax refund *(Note (i))* | **31,283** | 25,039 |
| Subsidy income | **1,207** | 392 |
| Others | **2,905** | 1,031 |
| | **41,712** | 27,390 |
| | **1,144,892** | 751,000 |

*Note (i)* The amount represents the Group's entitlement to value added tax refund in relation to sales of self-developed software products in the PRC, which is non-taxable upon fulfilment of certain custody and appropriation requirements.

## 4 SEGMENT INFORMATION

Management reviews the Group's internal reporting in order to assess performance and allocate resource. Management has determined the operating segments based on the internal reports reviewed by the Executive Directors to make strategic decisions. The Group is principally engaged in the POS terminal solutions business, management considers that the Group operates in one single business segment.

The Group primarily operates in Hong Kong, the PRC (China excluding Hong Kong, Macau and Taiwan) and the United States of America (the "US"). Management assesses the performance of the Group from a geographic perspective based on the location in which revenues are generated.

Management assesses the performance of the operating segments based on a measurement of segmental operating profit/(loss).

An analysis of the Group's turnover and results during the year by segment is as follows:

| | **Year ended 31 December 2011** | | | | |
|---|---|---|---|---|---|
| | **PRC, other than Hong Kong, Macau and Taiwan** | **Hong Kong** | **US** | **Elimination** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover from external customers | **755,329** | **344,250** | **3,601** | **–** | **1,103,180** |
| Inter-segment turnover | **249,644** | **3,839** | **–** | **(253,483)** | **–** |
| Total turnover | **1,004,973** | **348,089** | **3,601** | **(253,483)** | **1,103,180** |
| Segmental earnings before interest expense, taxes, depreciation and amortisation ("EBITDA") | **165,758** | **57,919** | **(14,095)** | **1,014** | **210,596** |
| Depreciation | **(2,564)** | **(40)** | **(523)** | **–** | **(3,127)** |
| Amortisation | **(6)** | **–** | **–** | **–** | **(6)** |
| Segmental operating profit/(loss)/ profit/(loss) before income tax | **163,188** | **57,879** | **(14,618)** | **1,014** | **207,463** |
| Income tax expense | | | | | **(25,668)** |
| Profit for the year | | | | | **181,795** |

| | Year ended 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | PRC, other than Hong Kong, Macau and Taiwan | Hong Kong | US | Elimination | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover from external customers | 566,340 | 153,893 | 3,377 | – | 723,610 |
| Inter-segment turnover | 86,219 | 6,281 | – | (92,500) | – |
| Total turnover | 652,559 | 160,174 | 3,377 | (92,500) | 723,610 |
| Segmental EBITDA | 149,640 | 42,572 | (16,248) | (843) | 175,121 |
| Depreciation | (2,133) | (35) | (440) | – | (2,608) |
| Amortisation | (5) | – | – | – | (5) |
| Segmental operating profit/(loss)/ profit/(loss) before income tax | 147,502 | 42,537 | (16,688) | (843) | 172,508 |
| Income tax expense | | | | | (27,085) |
| Profit for the year | | | | | 145,423 |

The segment assets and liabilities at 31 December 2011 and additions to non-current assets for the year ended 31 December 2011 are as follows:

| | **As at 31 December 2011** | | | |
|---|---|---|---|---|
| | **PRC, other than Hong Kong, Macau and Taiwan** | **Hong Kong** | **US** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Segment assets | **1,124,047** | **873,729** | **8,262** | **2,006,038** |
| Segment liabilities | **375,197** | **29,276** | **411** | **404,884** |

| | **Year ended 31 December 2011** | | | |
|---|---|---|---|---|
| | **PRC, other than Hong Kong, Macau and Taiwan** | **Hong Kong** | **US** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Additions to non-current assets | **2,302** | **62** | **2** | **2,366** |

The segment assets and liabilities at 31 December 2010 and additions to non-current assets for the year ended 31 December 2010 are as follows:

| | As at 31 December 2010 | | | |
|---|---|---|---|---|
| | PRC, other than Hong Kong, Macau and Taiwan *HK$'000* | Hong Kong *HK$'000* | US *HK$'000* | Total *HK$'000* |
| Segment assets | 642,201 | 856,614 | 6,545 | 1,505,360 |
| Segment liabilities | 187,201 | 30,440 | 608 | 218,249 |

| | Year ended 31 December 2010 | | | |
|---|---|---|---|---|
| | PRC, other than Hong Kong, Macau and Taiwan *HK$'000* | Hong Kong *HK$'000* | US *HK$'000* | Total *HK$'000* |
| Additions to non-current assets | 3,228 | 96 | 1,236 | 4,560 |

Segmental EBITDA represents segmental operating profit/loss before finance costs, income tax expense, depreciation of property, plant and equipment and amortisation of leasehold land. Segment assets consist primarily of property, plant and equipment, leasehold land, inventories, deposits and other receivables, trade and bills receivables, restricted cash and cash at bank and on hand. Segment liabilities consist primarily of trade payables, other payables and accruals and taxation payable.

Additions to non-current assets comprise additions to property, plant and equipment.

Information provided to the Executive Directors is measured in a manner consistent with that in the consolidated financial statements.

The Group is mainly domiciled in Hong Kong, the PRC and the US.

The Group's non-current assets and current assets by geographical location, which is determined by the geographical location in which the asset is located, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| PRC, other than Hong Kong, Macau and Taiwan | **9,347** | 9,230 |
| Hong Kong | **142** | 119 |
| US | **1,555** | 2,076 |
| | **11,044** | 11,425 |
| **Current assets** | | |
| PRC, other than Hong Kong, Macau and Taiwan | **1,114,700** | 632,971 |
| Hong Kong | **873,587** | 856,495 |
| US | **6,707** | 4,469 |
| | **1,994,994** | 1,493,935 |

## 5 EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Auditors' remuneration – audit services | **1,077** | 721 |
| Depreciation of property, plant and equipment | **3,127** | 2,608 |
| Amortisation of leasehold land | **6** | 5 |
| Employee benefit expenses (including Directors' emoluments) | **91,055** | 68,592 |
| Costs of inventories sold | **694,303** | 418,005 |
| Operating lease rentals in respect of buildings | **8,131** | 5,446 |
| Research and development costs | **52,695** | 34,899 |
| Loss on disposal of property, plant and equipment | **–** | 84 |
| Provision for impairment of trade receivables | **28** | 374 |
| Donation | **–** | 1,000 |

## 6 INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| – PRC enterprise income tax | **15,241** | 18,174 |
| – Hong Kong profits tax | **10,425** | 8,050 |
| Under provision in prior year | **2** | 861 |
| Income tax expense | **25,668** | 27,085 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year ended 31 December 2011.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

## 7 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares in issue during the year ended 31 December 2010 used in the basic earnings per share calculation is determined on the assumption that the 740,000,000 shares with par value of HK$0.1 each issued upon the reorganisation and the capitalisation issue had been in issue prior to the incorporation of the Company.

| | **Year ended 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| Profit attributable to equity holders of the Company (HK$'000) | **181,795** | 145,423 |
| Weighted average number of ordinary shares in issue (thousand shares) | **1,036,488** | 748,548 |
| Basic earnings per share (HK$ per share) | **0.175** | 0.194 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary share, the over-allotment option ("Over-allotment Option"). For the Over-allotment Option, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period from 1 January 2011 to the date exercised Over-allotment Option) based on the monetary value of the subscription right attached to outstanding Over-allotment Option. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the Over-allotment Option.

Diluted earnings per share for the year ended 31 December 2011 is the same (2010: same) as the basic earnings per share as the conversion of potential ordinary shares in relation to the outstanding Over-allotment Option would have anti-dilutive effect to the basic earnings per share.

## 8 TRADE AND BILLS RECEIVABLES, DEPOSITS AND OTHER RECEIVABLES

| | **As at 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables *(Note (a))* | **430,313** | 215,535 |
| Less: provision for impairment of receivables | **(1,953)** | (1,846) |
| Trade receivables, net | **428,360** | 213,689 |
| Bills receivables *(Note (b))* | **75,355** | 55,353 |
| Trade and bills receivables | **503,715** | 269,042 |
| Deposits and other receivables | **17,305** | 7,001 |
| Trade and bills receivables, deposits and other receivables | **521,020** | 276,043 |

The fair values of trade and bills receivables, deposits and other receivables approximated their carrying values as at 31 December 2010 and 2011.

**(a) Trade receivables**

The Group's credit terms to trade debtors range generally from 0 to 180 days. However, credit terms of more than 180 days may be granted to customers on a case-by-case basis upon negotiation. As at 31 December 2010 and 2011, the ageing analysis of the trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Up to 90 days | **290,318** | 119,898 |
| 91 to 180 days | **84,058** | 44,268 |
| 181 to 365 days | **21,593** | 31,362 |
| Over 365 days | **34,344** | 20,007 |
| | **430,313** | 215,535 |

As at 31 December 2011, trade receivables included retention money receivables of HK$46,726,000 (2010: HK$39,480,000). The retention money represents approximately 2% to 5% (2010: approximately 2% to 5%) of the relevant contract sum granted to certain number of the customers in the PRC that has a retention period of three to five years. As at 31 December 2011, retention money receivables aged over 365 days amounted to HK$31,789,000 (2010: HK$15,604,000).

The Group's sales are made to several major customers and there is concentration of credit risks. Sales of goods and services to the top five customers constituted approximately 55.9% (2010: 61.2%) of the Group's turnover for the year ended 31 December 2011. They accounted for approximately 73.0% (2010: 80.9%) of the gross trade receivable balances as at 31 December 2011.

Receivables were neither past due nor impaired amounted to approximately HK$428,360,000 (2010: HK$213,689,000) as at 31 December 2011.

As at 31 December 2011, no trade receivables were past due but not impaired (2010: Nil).

**(b) Bills receivables**

The balance represents bank acceptance notes with maturity period of within six months.

The maturity profile of the bills receivables of the Group is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Up to 90 days | **21,937** | 24,443 |
| 91 days to 180 days | **53,418** | 30,910 |
| | **75,355** | 55,353 |

## 9 RESTRICTED CASH, CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Restricted bank deposits | **16,017** | 2,846 |
| Cash at bank and on hand | **560,611** | 843,149 |
| Short-term bank deposits | **591,680** | 223,377 |
| | **1,152,291** | 1,066,526 |

## 10 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables *(Note (a))* | **249,570** | 143,033 |
| Other payables and accruals | | |
| Receipt in advance from customers | **78,791** | 17,804 |
| Other tax payables | **19,193** | 6,624 |
| Accrued expenses | **26,962** | 16,272 |
| Others | **15,468** | 15,035 |
| | **140,414** | 55,735 |
| | **389,984** | 198,768 |

(a) The ageing analysis of trade payables was as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Up to 90 days | **228,969** | 134,663 |
| 91 to 180 days | **18,904** | 6,434 |
| 181 to 365 days | **1,369** | 329 |
| Over 365 days | **328** | 1,607 |
| | **249,570** | 143,033 |

The average credit period granted by the Group's suppliers ranges from 0 to 180 days.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2011.

## DIVIDEND

No dividends had been paid or declared by the Company during the year ended 31 December 2011 (2010: Nil).

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Specific enquiry had been made to all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2011.

The Company has also established written guidelines with exact terms as set out in Appendix 10 to the Listing Rules for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles (the "Principles") and code provisions (the "Code Provisions") as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

The Company has applied in formulating its corporate governance practices the Principles and complied with all of the Code Provisions for the year ended 31 December 2011.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by The Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the audit of the Group. It also reviews the effectiveness of both external and internal audit and of internal controls and risk evaluation. The Audit Committee was established by the Board on 1 December 2010 with written terms of reference. The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Yip Wai Ming, Dr. Wu Min and Mr. Man Kwok Kuen, Charles. Two meetings were held during the year.

## REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2011. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained during the year ended 31 December 2011 the amount of public float as required under the Listing Rules.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2011 annual results announcement is published on the Company's website at www.paxglobal.com.hk and the website of the Hong Kong Stock Exchange at www.hkexnews.hk. The 2011 annual report will be available on the websites of the Stock Exchange of Hong Kong Limited and the Company and will be despatched to all shareholders in due course.

The 2011 annual financial information set out above does not constitute the Group's statutory financial statements for the financial year ended 31 December 2011. Instead, it has been derived from the Group's audited consolidated financial statements for the financial year ended 31 December 2011, which will be included in the Company's 2011 annual report.

By Order of the Board
**Li Wenjin**
*Executive Director*

Hong Kong, 15 March 2012

*As at the date of this announcement, the Board consists of three Executive Directors, namely, Mr. Nie Guoming, Mr. Jiang Hongchun, Mr. Li Wenjin and three Independent Non-Executive Directors, namely Mr. Yip Wai Ming, Dr. Wu Min, Mr. Man Kwok Kuen, Charles.*

* *For identification purpose only*