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

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00327)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

**FINANCIAL HIGHLIGHTS**

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2013** | 2012 | |
| | ***HK$'000*** | *HK$'000* | +/(-) |
| **RESULTS** | | | |
| Revenue | **631,114** | 529,827 | +19% |
| Gross profit | **224,057** | 208,786 | +7% |
| EBITDA | **106,340** | 105,167 | +1% |
| Operating profit | **104,479** | 103,508 | +1% |
| Net profit (excluding the share option scheme expenses) | **100,275** | 93,844 | +7% |
| Net profit | **90,779** | 83,376 | +9% |
| Research and development expenses (included in administrative expenses) | **37,870** | 31,057 | +22% |
| **PER SHARE DATA** | | | |
| Earnings per share for profit attributable to the equity holders of the Company | | | +/(-) |
| — Basic (HK$) | **0.087** | 0.080 | +9% |
| — Diluted (HK$) | **0.086** | 0.080 | +8% |

| | **As at 30 June 2013** | As at 31 December 2012 | |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | +/(-) |
| **KEY BALANCE SHEET ITEMS** | | | |
| Total current assets | **2,307,080** | 2,183,266 | +6% |
| Total assets | **2,316,269** | 2,193,760 | +6% |
| Net current assets | **1,918,563** | 1,800,340 | +7% |
| Total equity | **1,927,752** | 1,810,834 | +6% |

* *For identification purposes only*

The board of directors (the "Directors") (the "Board") of PAX Global Technology Limited ("PAX" or the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 together with the unaudited comparative figures for the corresponding period in 2012 as follows:

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Unaudited Six months ended 30 June | |
|---|---|---|---|
| | | **2013** | 2012 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *4* | **631,114** | 529,827 |
| Cost of sales | *6* | **(407,057)** | (321,041) |
| Gross profit | | **224,057** | 208,786 |
| Other income | *4* | **13,016** | 17,825 |
| Other losses — net | | **(2,778)** | – |
| Selling expenses | *6* | **(53,204)** | (56,794) |
| Administrative expenses | *6* | **(76,612)** | (66,309) |
| Operating profit/profit before income tax | | **104,479** | 103,508 |
| Income tax expense | *8* | **(13,700)** | (20,132) |
| Profit for the period attributable to the equity holders of the Company | | **90,779** | 83,376 |
| | | ***HK$ per share*** | *HK$ per share* |
| Earnings per share for profit attributable to the equity holders of the Company: | | | |
| — Basic | *10(a)* | **0.087** | 0.080 |
| — Diluted | *10(b)* | **0.086** | 0.080 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Profit for the period | **90,779** | 83,376 |
| Other comprehensive income, net of tax | | |
| Item that may be reclassified subsequently to profit or loss | | |
| Exchange differences arising on translation of the financial statements of foreign subsidiaries | **16,643** | (9,101) |
| Total comprehensive income for the period attributable to the equity holders of the Company, net of tax | **107,422** | 74,275 |

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | Unaudited 30 June 2013 HK$'000 | Audited 31 December 2012 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **8,957** | 10,263 |
| Leasehold land | | **232** | 231 |
| **Total non-current assets** | | **9,189** | 10,494 |
| **Current assets** | | | |
| Inventories | | **261,925** | 243,801 |
| Trade and bills receivables | *11* | **761,639** | 544,476 |
| Deposits and other receivables | | **13,866** | 10,333 |
| Financial assets at fair value through profit or loss | | **8,887** | 10,057 |
| Restricted cash | | **16,462** | 16,173 |
| Cash and cash equivalents | | **1,244,301** | 1,358,426 |
| **Total current assets** | | **2,307,080** | 2,183,266 |
| **Total assets** | | **2,316,269** | 2,193,760 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | | **103,773** | 103,773 |
| Reserves | | **1,823,979** | 1,707,061 |
| **Total equity** | | **1,927,752** | 1,810,834 |

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

| | Notes | Unaudited 30 June 2013 HK$'000 | Audited 31 December 2012 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | *12* | **255,021** | 224,879 |
| Other payables and accruals | | **100,589** | 131,301 |
| Taxation payable | | **32,907** | 26,746 |
| **Total current liabilities and total liabilities** | | **388,517** | 382,926 |
| **Total equity and liabilities** | | **2,316,269** | 2,193,760 |
| **Net current assets** | | **1,918,563** | 1,800,340 |
| **Total assets less current liabilities** | | **1,927,752** | 1,810,834 |

*Notes:*

## 1 GENERAL INFORMATION

The Company is an investment holding company and the Group are principally engaged in the development and sale of electronic funds transfer point-of-sale ("EFT-POS") products and provision of related services (collectively, the "EFT-POS terminal solutions business").

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2010.

This condensed consolidated interim financial information is presented in thousands of Hong Kong dollar (HK$'000), unless otherwise stated.

This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Company on 1 August 2013.

This condensed consolidated interim financial information has not been audited.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

## 3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group:

There are no new and amended standards to existing HKFRS that are effective for the Group's accounting year commencing 1 January 2013 that could be expected to have a material impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt HKFRS 9.

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

## 4 REVENUE AND OTHER INCOME

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

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of electronic payment products | **621,662** | 520,621 |
| Provision of electronic payment services | **9,452** | 9,206 |
| | **631,114** | 529,827 |
| Other income | | |
| Interest income | **6,137** | 5,545 |
| Value added tax refund *(Note (i))* | **5,173** | 11,840 |
| Subsidy income | **439** | – |
| Others | **1,267** | 440 |
| | **13,016** | 17,825 |
| | **644,130** | 547,652 |

*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 People's Republic of China (the "PRC").

## 5 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 EFT-POS terminal solutions business, management considers that the Group operates in one single business segment.

The Group primarily operates in Hong Kong, the PRC (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 locations of the subsidiaries in which revenues are generated.

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

## 5 SEGMENT INFORMATION *(continued)*

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

| | **Unaudited Six months ended 30 June 2013** | | | | |
|---|---|---|---|---|---|
| | **PRC, other than Hong Kong, Macau and Taiwan** *HK$'000* | **Hong Kong** *HK$'000* | **US** *HK$'000* | **Elimination** *HK$'000* | **Total** *HK$'000* |
| Turnover from external customers | **516,153** | **104,093** | **10,868** | **–** | **631,114** |
| Inter-segment turnover | **60,707** | **1,057** | **–** | **(61,764)** | **–** |
| Total turnover | **576,860** | **105,150** | **10,868** | **(61,764)** | **631,114** |
| Segmental earnings/(loss) before interest expense, taxes, depreciation and amortisation ("EBITDA") | **86,467** | **21,895** | **(4,928)** | **2,906** | **106,340** |
| Depreciation | **(1,582)** | **(23)** | **(253)** | **–** | **(1,858)** |
| Amortisation | **(3)** | **–** | **–** | **–** | **(3)** |
| Segmental operating profit/(loss)/profit/(loss) before income tax | **84,882** | **21,872** | **(5,181)** | **2,906** | **104,479** |
| Income tax expense | | | | | **(13,700)** |
| Profit for the period | | | | | **90,779** |

| | Unaudited Six months ended 30 June 2012 | | | | |
|---|---|---|---|---|---|
| | PRC, other than Hong Kong, Macau and Taiwan *HK$'000* | Hong Kong *HK$'000* | US *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
| Turnover from external customers | 337,523 | 179,381 | 12,923 | – | 529,827 |
| Inter-segment turnover | 113,903 | 14,560 | – | (128,463) | – |
| Total turnover | 451,426 | 193,941 | 12,923 | (128,463) | 529,827 |
| Segmental EBITDA | 58,873 | 52,399 | (4,586) | (1,519) | 105,167 |
| Depreciation | (1,370) | (24) | (262) | – | (1,656) |
| Amortisation | (3) | – | – | – | (3) |
| Segmental operating profit/(loss)/profit/(loss) before income tax | 57,500 | 52,375 | (4,848) | (1,519) | 103,508 |
| Income tax expense | | | | | (20,132) |
| Profit for the period | | | | | 83,376 |

## 5 SEGMENT INFORMATION *(continued)*

The segment assets and liabilities as at 30 June 2013 and additions to non-current assets for the six months ended 30 June 2013 are as follows:

| | **Unaudited As at 30 June 2013** | | | |
|---|---|---|---|---|
| | **PRC, other than Hong Kong, Macau and Taiwan** *HK$'000* | **Hong Kong** *HK$'000* | **US** *HK$'000* | **Total** *HK$'000* |
| Segment assets | **1,326,694** | **969,597** | **19,978** | **2,316,269** |
| Segment liabilities | **367,153** | **20,572** | **792** | **388,517** |

| | **Unaudited Six months ended 30 June 2013** | | | |
|---|---|---|---|---|
| | **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 | **394** | **13** | **–** | **407** |

The segment assets and liabilities as at 31 December 2012 and additions to non-current assets for the six months ended 30 June 2012 are as follows:

| | Audited As at 31 December 2012 | | | |
|---|---|---|---|---|
| | PRC, other than Hong Kong, Macau and Taiwan *HK$'000* | Hong Kong *HK$'000* | US *HK$'000* | Total *HK$'000* |
| Segment assets | 1,248,680 | 924,518 | 20,562 | 2,193,760 |
| Segment liabilities | 365,347 | 16,612 | 967 | 382,926 |

| | Unaudited Six months ended 30 June 2012 | | | |
|---|---|---|---|---|
| | 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 | 678 | 16 | 26 | 720 |

## 5 SEGMENT INFORMATION *(continued)*

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, trade and bills receivables, deposits and other receivables, financial assets at fair value through profit or loss, 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.

## 6 EXPENSES BY NATURE

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

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Auditor's remuneration | **728** | 594 |
| Depreciation of property, plant and equipment | **1,858** | 1,656 |
| Amortisation of leasehold land | **3** | 3 |
| Employee benefits expense (including Directors' emoluments) *(Note 7)* | **63,810** | 52,676 |
| Costs of inventories sold | **398,409** | 314,504 |
| Operating lease rentals in respect of buildings | **5,838** | 5,160 |
| Research and development costs | **37,870** | 31,057 |
| Loss on disposal of property, plant and equipment | **–** | 8 |
| Donation | **10** | 1,236 |

## 7 EMPLOYEE BENEFITS EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Wages and salaries | **46,651** | 37,427 |
| Share options granted to Directors and employees | **9,496** | 10,468 |
| Social security and pension costs | **7,663** | 4,781 |
| | **63,810** | 52,676 |

## 8 INCOME TAX EXPENSE

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| — PRC corporate income tax | **13,601** | 14,867 |
| — Hong Kong profits tax | **4,818** | 8,943 |
| Over provision in prior year | **(4,719)** | (3,678) |
| Income tax expense | **13,700** | 20,132 |

Hong Kong profits tax has been provided for at the rate of 16.5% (six months ended 30 June 2012: 16.5%) on the estimated assessable profit for the six months ended 30 June 2013.

Taxation on overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2013 at the rates of taxation prevailing in the countries in which the Group operates.

## 9 DIVIDEND

No dividend has been paid or declared by the Company for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

## 10 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the profit for the six months ended 30 June 2013 attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2013.

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| Profit attributable to equity holders of the Company (HK$'000) | **90,779** | 83,376 |
| Weighted average number of ordinary shares in issue (thousand shares) | **1,037,728** | 1,037,728 |
| Basic earnings per share (HK$ per share) | **0.087** | 0.080 |

## 10 EARNINGS PER SHARE *(continued)*

### (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 shares: share options granted on 22 June 2012. For the share options, 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) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **Unaudited Six months ended 30 June 2013** |
|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | 90,779 |
| Weighted average number of ordinary shares in issue (thousand shares) | 1,037,728 |
| Adjustments for share options (thousand shares) | 21,326 |
| Weighted average number of ordinary shares for diluted earnings per share (thousand shares) | 1,059,054 |
| Diluted earnings per share (HK$ per share) | 0.086 |

Diluted earnings per share for the six months ended 30 June 2012 is the same as the basic earnings per share as the conversion of potential ordinary shares in relation to the outstanding share options would have anti-dilutive effect to the basic earnings per share.

## 11 TRADE AND BILLS RECEIVABLES

| | **Unaudited 30 June 2013** ***HK$'000*** | Audited 31 December 2012 *HK$'000* |
|---|---|---|
| Trade receivables *(Note (a))* | **594,538** | 409,756 |
| Amounts due from related parties | **24,623** | 4,082 |
| Less: provision for impairment of receivables | **(28)** | (28) |
| Trade receivables, net | **619,133** | 413,810 |
| Bills receivables *(Note (b))* | **142,506** | 130,666 |
| Trade and bills receivables | **761,639** | 544,476 |

## 11 TRADE AND BILLS RECEIVABLES *(continued)*

*Notes:*

### (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. At 30 June 2013 and 31 December 2012, the ageing analysis of the trade receivables is as follows:

| | **Unaudited 30 June 2013** *HK$'000* | Audited 31 December 2012 *HK$'000* |
|---|---|---|
| Up to 90 days | **505,319** | 303,746 |
| 91 days to 180 days | **31,665** | 56,048 |
| 181 days to 365 days | **44,440** | 16,824 |
| Over 365 days | **37,737** | 37,220 |
| | **619,161** | 413,838 |

As at 30 June 2013, trade receivables included retention money receivables of HK$49,175,000 (31 December 2012: HK$37,561,000) with a retention period of three to five years representing approximately 2% to 5% of the relevant contract sum granted to certain number of customers in the PRC.

### (b) Bills receivables

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

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

| | **Unaudited 30 June 2013** *HK$'000* | Audited 31 December 2012 *HK$'000* |
|---|---|---|
| Up to 90 days | **64,452** | 75,333 |
| 91 days to 180 days | **78,054** | 55,333 |
| | **142,506** | 130,666 |

## 12 TRADE PAYABLES

As at 30 June 2013 and 31 December 2012, the ageing analysis of the trade payables is as follows:

| | **Unaudited 30 June 2013** *HK$'000* | Audited 31 December 2012 *HK$'000* |
|---|---|---|
| Up to 90 days | **230,140** | 204,141 |
| 91 days to 180 days | **17,244** | 18,483 |
| 181 days to 365 days | **5,489** | 1,861 |
| Over 365 days | **2,148** | 394 |
| | **255,021** | 224,879 |

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

### Revenue

Turnover increased by 19% or HK$101.3 million to HK$631.1 million for the six months ended 30 June 2013 from HK$529.8 million for the six months ended 30 June 2012. The period sales volume of electronic funds transfer point-of-sale ("EFT-POS") terminals exceeded 600,000 units. Turnover from the PRC other than Hong Kong, Macau and Taiwan ("China Market") increased by 37% period on period or HK$116.3 million to HK$429.4 million. However, turnover from overseas market decreased by HK$15.1 million to HK$201.7 million, representing a drop of 7%.

### Sales by Product Category

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2013** | 2012 | +/(-) |
| | ***HK$'000*** | *HK$'000* | |
| **EFT-POS terminals** | **577,359** | 470,032 | +23% |
| Consumer activated devices | **25,669** | 46,211 | -44% |
| Contactless devices | **8,867** | 2,825 | +214% |
| Services | **9,452** | 9,206 | +3% |
| Others* | **9,767** | 1,553 | +529% |
| | **631,114** | 529,827 | +19% |

* The 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.

### EFT-POS Terminals

Turnover from the sales of EFT-POS terminals increased by 23% to HK$577.4 million for the six months ended 30 June 2013 from HK$470.0 million for the six months ended 30 June 2012. Turnover growth has been driven by the increase in sales in China Market during the period.

Meanwhile, bankcard and prepaid card payment have been gaining increasing popularity in China Market. Financial institutions and third party payment service providers (the "Operators") have been aggressively building their EFT-POS networks in order to capture the benefits from the rising usage of electronic payment and high levels of retail consumption in China Market. Furthermore, recent state policies have also encouraged the building of electronic transaction networks, which further fuel the fast growth of EFT-POS terminals demand.

**Consumer Activated Devices**

Turnover from the sales of consumer activated devices decreased by 44% to HK$25.7 million for the six months ended 30 June 2013 from HK$46.2 million for the six months ended 30 June 2012.

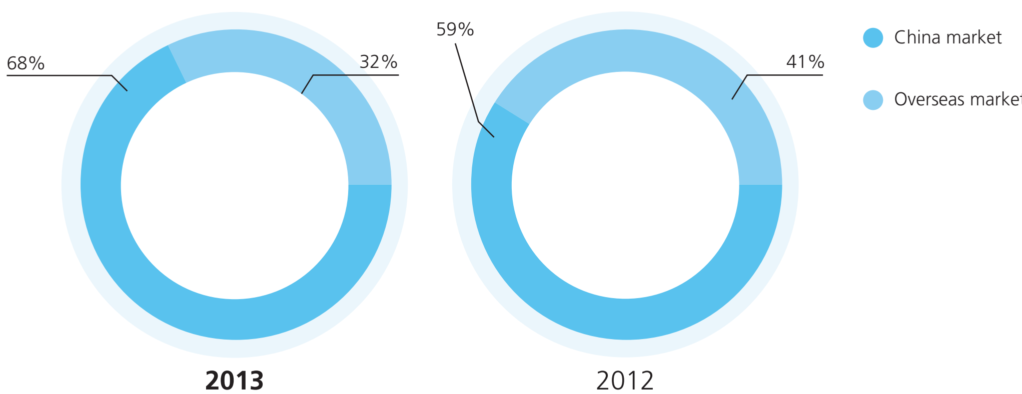
**Contactless Readers**

Turnover from the sales of contactless readers increased by 214% to HK$8.9 million for the six months ended 30 June 2013 from HK$2.8 million for the six months ended 30 June 2012. There has been an increasing demand of supplementary equipment to older models being generated primarily from emerging markets in Asia Pacific ("APAC"). Applications of near field communications ("NFC") in these regions are gradually emerging. The reason for such increased popularity in this kind of products in these regions is that contactless reader device is a much cheaper alternative while they make the transition to newer models of EFT-POS terminals with built-in NFC function.

**Services**

Turnover from provision of services slightly increased by 3% to HK$9.5 million for the six months ended 30 June 2013 as compared to HK$9.2 million for the six months ended 30 June 2012. Maintenance services made up the bulk of service income and were mainly generated in Hong Kong.

**Sales by Geographical Region**




| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2013** | 2012 | +/(-) |
| | ***HK$'000*** | *HK$'000* | |
| China Market | **429,419** | 313,056 | +37% |
| Overseas market | **201,695** | 216,771 | -7% |
| | **631,114** | 529,827 | +19% |

* China Market and overseas market turnover classification is according to locality of customers.

Turnover generated from the China Market increased by 37% to HK$429.4 million for the six months ended 30 June 2013, from HK$313.1 million for the six months ended 30 June 2012. China Market turnover contributed to 68% of total turnover compared with 59% for the six months ended 30 June 2012. The growth was mainly attributable to the Operators and vertical application sectors. Among the sectors, the increase of shipment volume to the Operators achieved the most prominent growth.

Turnover generated from the overseas market decreased by 7% to HK$201.7 million for the six months ended 30 June 2013 from HK$216.8 million for the six months ended 30 June 2012. Decline in overseas sales was due to the fact that shipments to Europe, Middle East and Africa ("EMEA") business unit was concentrated in the first half of last year, while several substantial procurements in certain major markets will take place in the second half of 2013. As a result, a steep decline in sales in EMEA was recorded over the period. APAC strong sales growth came from Hong Kong and Vietnam. In particular, the Group's flagship products were selected by our client as an exclusive EFT-POS terminal provider to a major fast food chain and one of the two largest supermarket chains in Hong Kong. Strong growth in Latin America and the Common Independent States ("LACIS") business unit was mainly contributed by our robust business growth in Colombia, Uzbekistan, Kazakhstan and Russia. United States and Canada ("USCA") business unit scale remained relatively small compared to other business units. In the first half of 2013, we successfully entered into a number of new emerging markets in North Africa, South America and Southeast Asia. We believe that these new markets will become new focal points for business growth of PAX in the near future. Overseas market turnover contributed to 32% of total turnover compared with 41% for the six months ended 30 June 2012. As at 30 June 2013, we had over 35 overseas distributors and partners worldwide.

**Gross Profit Margin**

Gross profit margin for the six months ended 30 June 2013 was 35.5%, a drop in 3.9 points compared to 39.4% for the six months period ended 30 June 2012. This was mainly due to the decline of average selling prices in both China and overseas markets. However, the gross profit margin for the current period improved 2.9 points comparing with the gross profit margin 32.6% of the second half in last accounting year. Our continuous effort in improving supply chain management, product redesign, cost optimization and introduction of new products has proven effective.

**Other Income**

Other income comprised primarily of value added tax refund and interest income. It decreased by 27% to HK$13.0 million for the six months ended 30 June 2013 from HK$17.8 million for the six months ended 30 June 2012 mainly due to decrease of value added tax refund.

**Other Losses — net**

The Group held listed securities as at 30 June 2013. The securities were classified as financial assets at fair value through profit or loss. Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other losses — net' in the interim condensed consolidated income statement, which amounts to a loss of HK$2.8 million during the period. There is no such item in prior accounting period.

**Selling Expenses**

Selling expenses decreased by 6% to HK$53.2 million for the six months ended 30 June 2013, from HK$56.8 million for the six months ended 30 June 2012. The decrease was mainly attributable to the sharp decrease of commission expenses but was partly offset by the increment of advertising expenses and freight charges.

**Administrative Expenses**

Administrative expenses increased by 16% to HK$76.6 million for the six months ended 30 June 2013 from HK$66.3 million for the six months ended 30 June 2012. The increase was mainly due to the aggressive expansion of research and development team and increase of corporate office expenses.

**Net Profit and Net Profit Margin**

As a result of the foregoing, the net profit for the period attributable to the equity holders of the Company increased by 9% to HK$90.8 million for the six months ended 30 June 2013 from HK$83.4 million for the six months ended 30 June 2012.

The net profit margin decreased to 14.4% for the six months ended 30 June 2013 from 15.7% for the six months ended 30 June 2012 mainly as a result of gross profit margin drop but which was partly offset by decrease in percentage of selling and administrative expenses to total revenue and the decrease in effective tax rate.

## OUTLOOK

To date, PAX has sold more than 4 million EFT-POS terminals in over 70 countries and regions and worked with over 35 distributors and partners worldwide since the establishment of the Group. In the report issued by The Nilson Report in September 2012, PAX was ranked number 4 globally in terms of volume of EFT-POS terminals shipped in 2011.

## CHINA MARKET

As the world's second largest economy, China has experienced rapid economic growth in recent years; however, the overall EFT-POS terminals penetration ratio is still far below that of other developed mature markets such as the US. With the continuous improvement of the bank card acceptance environment, more consumers have developed the habit of using bank cards for payment. Other factors, including the increasingly popular vertical applications such as merchant membership cards and prepaid cards, and Chinese government's support of the development of national e-payment facilities, have promoted the development of the whole industry and brought EFT-POS terminal solution providers enormous business opportunities.

As at 30 June 2013, the People's Bank of China issued payment licenses to more than 220 Operators. Over 40 of those have acquiring licenses. Those licensed Operators have commenced installing EFT-POS terminals in merchants. Most of those merchants were a customer group previously neglected by financial institutions. Demand in this new market sector has had multifold growth, which was much higher than that in other market sector. We anticipate that the Operators will strengthen the expansion for rolling out their EFT-POS terminals networks in the next three years. The acquiring business market is divided into three sectors, namely UnionPay Merchant Services Co. Ltd, financial institutions and the Operators today. The rapid expansion of the Operators improved our customer concentration ratio and brought more growth to the industry.

EFT-POS terminal buyers such as financial institutions are expected to continue installing terminals in merchants aggressively in order to develop their card acquiring businesses and take profit from one of the fastest growing payment markets in the world. Regionally, as the penetration rate of EFT-POS terminals in second and third tier cities and rural area is far below the first-tier cities, the People's Bank of China has repeatedly issued guidelines to encourage financial institutions to promote non-cash payments in rural areas to bring EFT-POS terminals payment systems to the vast markets in central and western regions. In these areas, financial institutions that have comprehensive branch networks are anticipated to intensify their purchase and deployment of EFT-POS terminals.

As the majority of these financial institutions are PAX's existing customers, we are expected to benefit from the rapid growth of this market segment.

For each individual market segment, the Group will continue to develop customized products, technical support and services. At the same time, we will strengthen our customer relationship management and enhance our sales network in order to consolidate our existing market-leading position.

Overall, as a market leader in China, the Group will continue to benefit from the rapid growth of its home base market.

## OVERSEAS MARKET

The huge overseas market (including Hong Kong, Macau and Taiwan) as a whole especially in emerging markets such as Africa, the Middle East and Latin America has not been significantly impacted by current economic downturn. Many emerging markets' electronic payment systems are promoted or coordinated by government authorities. Hence, the scale is much larger than projects solely participated by non-government organizations, and presented a lot of opportunities to PAX.

NFC technology's wide applications in payment sector and Europay, MasterCard and Visa ("EMV") migration are catalysts driving strong demand in several mature markets. PAX's mainstream products are compatible with NFC. After 12 years of continuous experience in penetrating into overseas market, PAX has accumulated rich and valuable overseas sales experience and has established sizable sales channels. We have established business units and international sales teams for EMEA, LACIS, APAC and USCA geographic region. Today, we have developed "GLOBAL PRESENCE" that covers all of the world's major markets.

Facts have proved that our global strategy is correct. Each year, we achieve breakthroughs in different countries.

PAX's branding, product technology and quality, and good reputation were affirmed in the international markets.

PAX is one of the few China EFT-POS terminal solutions providers holding PCI, EMV Level 1 and Level 2 certifications. In addition, PAX obtained TQM, PayPass and payWave card certifications. These qualifications will enable us to capture huge overseas markets opportunities.

In the second half of 2013, the Group will continue to penetrate other BRICS countries (Russia, South Africa, India and Brazil), other emerging markets, and important overseas mature markets. Management believes that overseas market will maintain rapid growth in the foreseeable future.

## OVERALL MANAGEMENT STRATEGIES

Looking forward, PAX will continue to focus on consolidating and enhancing our strong position in China through (i) continuous development of innovative products to meet customers' demands and capture new market segments; (ii) enhancement of our research and development 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) seeking potential merger and acquisition or partnership opportunities that can enhance our technological know-how or market share.

By leveraging on our strong position in EFT-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 right track to become one of the leading global EFT-POS terminal solutions providers.

### Liquidity and Financial Resources

As at 30 June 2013, the Group had cash and short-term bank deposit of HK$1,244.3 million (31 December 2012: HK$1,358.4 million). As at 30 June 2013, the Group reported net current assets of HK$1,918.6 million, as compared with HK$1,800.3 million as at 31 December 2012. For the six months ended 30 June 2013, net cash used in operating activities was HK$124.7 million, as compared with HK$197.3 million for the six months ended 30 June 2012.

### Capital Structure and Details of Charges

As at 30 June 2013, the Group did not have any borrowings or charge on the Group's assets and the gearing ratio is not applicable (31 December 2012: Nil).

Approximately HK$320.4 million, HK$731.3 million, HK$192.2 million and HK$0.4 million (31 December 2012: HK$469.2 million, HK$727.1 million, HK$161.6 million and HK$0.5 million) of the Group's cash balances were denominated in Renminbi ("RMB"), Hong Kong dollar ("HK$"), US dollar ("US$") and Euro respectively as at 30 June 2013.

**Significant Investment**

Save as disclosed in this announcement, the Group had no significant investment held as at 30 June 2013.

**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 six months ended 30 June 2013.

**Use of Proceeds**

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

As at 30 June 2013, the planned and utilised amount of usage of total net proceeds are as follows:

| | **Net IPO Proceeds** | |
|---|---|---|
| | **Planned amount** | **Utilised amount** |
| | *HK$ million* | *HK$ million* |
| Enhancing research and development effort | 322.4 | 144.2 |
| Expanding distribution network | 120.8 | 105.4 |
| Potential merger and acquisition | 282.1 | – |
| General working capital | 80.6 | 80.6 |
| | 805.9 | 330.2 |

The remaining net proceeds have been placed on deposits with banks in Hong Kong.

**Future Plans for Significant Investment or Capital Assets**

Saved as disclosed in this announcement, there was no specific plan for material investments or capital assets as at 30 June 2013.

**Exchange Rates Exposure**

The Group derives its revenue, 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.

The 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 30 June 2013.

**Human Resources and Remuneration Policies**

The total number of employees of the Group as at 30 June 2013 was 611. The following table shows a breakdown of employees of the Group by function as at 30 June 2013:

| | |
|---|---|
| Management | 13 |
| Sales and after-sales services and marketing | 196 |
| Research and development | 340 |
| Quality assurance | 14 |
| Administration and human resources | 14 |
| Accounting | 12 |
| Production, procurement and inventory control | 22 |
| | 611 |

The Group ensures that its remuneration packages are comprehensive and competitive. Employees are remunerated with a fixed monthly income plus annual performance related bonuses. Share options are granted to employees of the Group to reward their contributions under the share option scheme of the Company, details of which are set out in the Company's 2013 interim report. 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.*

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company had not redeemed any of its shares during the six months ended 30 June 2013. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the six months ended 30 June 2013.

## DIRECTORS' 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 (the "Listing Rules").

Specific enquiry had been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2013.

The Company has also established written guidelines on terms no less than the required standard under Appendix 10 to the Listing Rules for securities transactions by employees who are likely to possess inside information of the Company.

## CORPORATE GOVERNANCE

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

The Company has applied the Principles in formulating its corporate governance practices and complied with all of the Code Provisions for the six months ended 30 June 2013.

The Company periodically reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Yip Wai Ming, Dr. Wu Min and Mr. Man Kwok Kuen, Charles. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2013 with the Directors.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 30 June 2013, none of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates had engaged in any business that competed or may compete with the business of the Group, or had any other conflict of interests with the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained the public float as required under the Listing Rules throughout the six months ended 30 June 2013.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The 2013 interim results announcement is published on the Company's website at www.paxglobal.com.hk and the website of the Stock Exchange at www.hkexnews.hk. The 2013 interim report will be available on the websites of the Stock Exchange and the Company and will be despatched to all shareholders in due course.

The 2013 interim financial information set out above does not constitute the Group's statutory financial statements for the six months ended 30 June 2013. Instead, it has been derived from the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2013, which will be included in the Company's 2013 interim report.

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

Hong Kong, 1 August 2013

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