

### FINANCIAL SOLUTIONS, APPLICATIONS, SERVICES AND RELATED PRODUCTS

During the year, the business segment recorded a turnover of HK\$129.79 million (2003: HK260.55 million) and loss of HK\$16.99 million (2003: profit of HK\$5.60 million).

During the year, system consultancy and integration services accounted for 63% and 84% respectively of the turnover and gross profit of the segment. System integration and hardware business unit accounted for 37% and 16% respectively of the segment turnover and segment gross profit.

The drop in the turnover was attributed to the further shrinkage in the hardware and system integration business as a result of our consolidation and refocusing measures. The loss was mainly due to the expenses incurred for the development of the several consultancy and outsourcing business lines which we scaled down towards the end of the year 2004. These business lines focused on expertise line up of business consultancy capabilities to work on large-scale outsourcing and consultancy projects. Additional losses were also attributed to the write off of certain fixed assets and provision of receivables amounting a total of approximately HK\$7.47 million. The write-offs and provision were resulted from closure of several business lines following the group strategy of consolidation and refocusing.

### ELECTRONIC PAYMENT SOLUTIONS AND PRODUCTS

Turnover and profit recorded during the year were HK\$96.00 million (2003: HK\$69.96 million) and HK\$9.66 million (2003: HK\$3.86 million) respectively. The percentage increase in total shipments was 13% on a year on year basis. The shipment contribution of Mainland China market was 67% while the Hong Kong and the South East Asian market contributed the rest. Capitalized on its well-established brand name, high quality research and development capabilities and the price competitive products, we have achieved a 38% growth in shipments in China as compared to the overall market growth of approximately 30%. Outside China, we have also achieved breakthrough with our high value for money advantages. In 2004 PAX has made great strides forward outside China market as proved by the extensive recognition from customers, including international prestigious banks. The clientele included The Hong Kong and Shanghai Banking Corporation, Bank of China (Hong Kong), Citibank N.A., Standard Chartered Bank, and United Overseas Bank. In addition, by developing cooperation partners in the South East Asia, we have also entered into the Thailand market.

It is our belief that the most important essential success factor of PAX is the quality of the products, coupled with the overall capabilities in sales and marketing, after sales value-added services, management skills and the team development.

The management has striven to improve the quality of the products and to develop new products by investing heavily in research and development. During the year, two key new products, namely, P60-S1 detachable EFT-POS terminal and the MP51-C desktop wireless EFT-POS terminal were launched with most of the existing products enhanced in terms of functionality and design.

By leveraging on the opportunity offered by the sturdy growth in China card payment market and the global trend of migration to the Europay Mastercard Visa ("EMV") standard, with the unrelenting product enhancement, PAX is surely in a favourable position towards becoming a high growth company.

### TELECOMMUNICATION SOLUTIONS, SERVICES, INFORMATION TECHNOLOGY VALUE-ADDED SERVICES AND RELATED PRODUCTS

During the year 2004, the turnover and profit recorded were HK\$53.72 million (2003: HK\$29.24 million) and HK\$7.94 million (2003: loss of HK\$2.20 million) respectively. The newly commenced Interactive Voice Response ("IVR") platform operation services generated a turnover contribution of HK\$32.28 million (2003: Nil) while the system consultancy and integration services and sales of designed information technology products business line accounted for HK\$21.44 million (2003: HK\$29.24 million) turnover contribution. The segment has been successfully transformed from an integrator to a value-added services provider and will continue to scale down the integration business.

It is clear that the growth potential of the IVR platform services is enormous as evidenced by the returning to black in the second half year once the IVR operation services commenced.

### PROSPECTS

The consultancy and outsourcing market in China is still in its development stage and we are lack of the technical competitiveness compared to peer global players. In view of this and limitations such as resources, the financial solutions segment will maintain the consultancy and outsourcing business lines with a smaller scale. Yet, with our seasoned business experts enjoying an edge over international peers by knowing the market better while the local competitors rarely have any such consulting power, the strategy will be changed to make the streamlined division leverage on the existing alliance of global players in the area of outsourcing and consultancy market. The management believes the business process outsourcing and consultancy for the banking and financial industries in China will take off in the long run. We will not give up any opportunity and will avail ourselves of the outsourcing and consultancy opportunities with the modified mode of business model.

The EFT-POS terminal business is prospering thanks to PAX's research and development capabilities, market initiatives, and the solidarity of the whole team. The success in China, Hong Kong, and South East Asian region have laid a solid foundation for its further growth in terms of business volume in its foothold occupied and have strengthened our confidence to expand into the American and European markets. We are well prepared to encounter the opportunities and challenges of the China market development arising from the Beijing Olympics 2008 and Shanghai Expo 2010, which will certainly contribute the popularization of card usage and hence increase the demand of the EFT-POS terminals.

Following the successful transformation into a telecommunication value-added services provider, we will continue our endeavor to upgrade the construction of the IVR platform, technical support and service to our principal, China Mobile. Further investment will be put in the development of other value-added services, based on the voice value-added products supplemented by data value-added service products for the existing platform. At the same time, we will continue the research work on the development of the other value-added services. Based on the existing revenue sharing cooperation with China Mobile and the latter's strategy in developing the IVR, WAP, ringtones, voicetones with the rapid growth of the numbers of service providers with their increasing varieties of new services and contents, the business become a key driver for our further development and contribute to the revenue and profit growth of the Group. It is the industry's general consensus that the value-added services sector will be growing to billions of RMB in China. With the new funding from professional investors, the management will further expand the capacity and enhance the technical capabilities to support the IVR platform and develop other value-added services. In view of the expected robust growth in the business, we will do our utmost to make progress in terms of services in order to tap the huge market.

The management will continue to bring substantial revenue and profit contributions to our shareholders.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group reported total assets of HK\$240.72 million, which were financed by total liabilities of HK\$192.09 million and equity of HK\$48.63 million. The net assets value was HK\$48.63 million (2003: HK\$60.76 million). It amounted to HK\$0.15 per share as compared to HK\$0.18 per share as at 31 December 2003.

As at 31 December 2004, the Group had cash of HK\$47.65 million excluding restricted cash of HK\$31.25 million and short term borrowings of HK\$14.30 million. The net cash position as at that date was HK\$33.35 million as compared to HK\$18.04 million as at 31 December 2003. The short term borrowings included short term bank loans and other loans to fund the Group's working capital requirements. The gearing ratio (defined as total interest bearing debts divided by shareholders' equity) was 0.29 compared to 0.40 as at 31 December 2003. The gearing ratio is considered healthy and suitable for the continued growth of the Group's business.

### CAPITAL STRUCTURE AND DETAILS OF CHARGES

As at 31 December 2004, the Group's short term borrowings included short term bank loans and other loans which were denominated in Renminbi, amounting to RMB14.3 million and RMB1 million respectively. The short term bank loans were charged at 5.58% per annum.

Approximately HK\$27.80 million, HK\$5.16 million and HK\$45.94 million of the Group's cash balances were denominated in Renminbi, Hong Kong dollar and US dollar respectively as at 31 December 2004.

As at 31 December 2004, secured short term bank loans of HK\$13.36 million were secured by corporate guarantee from a fellow subsidiary of the Company and other loans of HK\$0.94 million was obtained from Shenzhen Fu Tian Science Technology Bureau and secured by corporate guarantee from an independent third party.

## EXCHANGE RATES EXPOSURE

The Group derives its revenue, makes purchases and incurs expenses denominated mainly in US dollars, Renminbi and Hong Kong dollars. 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 Hong Kong dollar or Renminbi may have impact on the operating results of the Group.

## CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no contingent liability.

## EMPLOYEES

The total number of employees of the Group as at 31 December 2004 was 560. The breakdown of employees by division is as follows:

Financial solutions, services and related products	298
Electronic payment solutions and products	75
Telecommunications solutions, services and related products	97
IVR value-added services	73
Corporate office	17
	560

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.