PACIFICNET INC
Form SB-2/A
February 02, 2005

As filed with the Securities and Exchange Commission on February 2, 2005
Registration No. 333-121792

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
AMENDMENT NO. 1
FORM SB-2
REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933

PACIFICNET INC.

(Name of Small Business Issuer in its Charter)

DELAWARE	7370	91-2118007
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

601 NEW BRIGHT BUILDING
11 SHEUNG YUET ROAD
KOWLOON BAY, KOWLOON, HONG KONG
011-852-2876-2900

(Address and Telephone Number of
Principal Executive Offices)

TONY TONG
CHIEF EXECUTIVE OFFICER
PACIFICNET INC.
601 NEW BRIGHT BUILDING
11 SHEUNG YUET ROAD
KOWLOON BAY, KOWLOON, HONG KONG
011-852-2876-2900

(Name, Address and Telephone Number
of Agent for Service)

Copies of all communications to:
MITCHELL S. NUSSBAUM, ESQ.
LOEB & LOEB, LLP
345 PARK AVENUE
NEW YORK, NY 10154
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Approximate Date of Proposed Sale to the Public: As soon as possible after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(2)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPO MAXIM AGGREG OFFERING
Common Stock, $.0001 par value per share	1,532,312	$10.44(1)	$15,997,3
Common Stock, $.0001 par value per share, to be issued upon exercise of warrants	350,000	$12.21	$4,273,5
Common Stock, $.0001 par value per share, to be issued upon exercise of warrants	96,462	$3.89	$375,2
Common Stock, $.0001 par value per share, to be issued upon exercise of warrants	600,000	$1.45	$870,0
TOTALS	2,578,774		$21,516,0

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, using the average of the high and low prices, as reported on The Nasdaq SmallCap Market, on December 27, 2004.

(2) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be used to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(3) Of this amount, $2,430.04 has previously been paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE

SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE. IN ADDITION TO THE SECURITIES REGISTERED HEREBY, THIS REGISTRATION STATEMENT RELATES TO SECURITIES OFFERED OR ISSUABLE TO PREVENT DILUTION AS A RESULT OF A STOCK SPLIT, DIVIDEND OR SIMILAR TRANSACTION.

IN ADDITION TO THE SECURITIES REGISTERED HEREBY, THIS REGISTRATION STATEMENT RELATES TO THE SECURITIES REGISTERED UNDER REGISTRATION NO. 333-113209.

SUBJECT TO COMPLETION, DATED FEBRUARY 2, 2005

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES PUBLICLY UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

PROSPECTUS

PACIFICNET INC.

2,702,230 Shares of Common Stock

This prospectus relates to the resale of up to 2,702,230 shares of our common stock being offered by the selling stockholders. Of the shares covered by this prospectus, 1,532,312 shares have been issued to the selling stockholders, 1,046,462 shares are issuable upon the exercise of warrants by the selling stockholders and 123,456 shares are issuable upon the exercise of warrants, that were previously registered under Registration No. 333-113209. We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders. Assuming that all of the warrants held by the selling stockholders are exercised for cash, we will realize proceeds of approximately $6,400,000.

Our shares of common stock are traded on The Nasdaq Small Cap Market under the symbol "PACT." The average of the high and low prices of our common stock, on February __, 2005, was $____.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. SEE "RISK FACTORS" BEGINNING ON PAGE 6 FOR A DISCUSSION OF RISKS APPLICABLE TO US AND AN INVESTMENT IN OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is February __, 2005.

TABLE OF CONTENTS

SUMMARY

We were incorporated in Delaware in 1987. Our business consists of three groups, all of which operate within the outsourcing and telecommunications industries in Asia, primarily greater China, which includes the People's Republic of China, or mainland China, Hong Kong, Macau and Taiwan. Through our subsidiaries we provide the following outsourcing services, value-added telecom services (VAS), and communication products distribution services:

- Our outsourcing services include, business processing outsourcing (BPO), primarily through the operation of call centers, and information technology outsourcing (ITO) system integration, which includes software programming.

- We are value-added resellers and providers of telecom VAS, which comprises interactive voice response (IVR) systems and voice over Internet Protocol (VoIP), and mobile phone VAS, such as short messaging services (SMS) and multimedia messaging services (MMS).

- We provide training and consulting in customer relationship management (CRM) and software programming.

- We have recently commenced our communication products distribution service, through wholesale and, to a lesser extent, retail sale and distribution of calling cards in China, and we have recently invested in a company that distributes multimedia interactive self-service kiosks.

We intend to continue to grow our business by acquiring and managing growing technology and network communications businesses with established products and customers in Asia. Our goal is to take a leading role in providing information technology services and network communications, which are rapidly expanding business sectors in Asia. Our clients include leading telecom operators, banks, insurance, travel and marketing services companies and telecom consumers in greater China, such as China Telecom (NYSE: CHA), China Netcom (NYSE: CN) China Mobile (NYSE: CHL), China Unicom (NYSE: CHU), PCCW (NYSE: PCW), Hutchison Telecom (NYSE: HTX), Sunday (Nasdaq: SDAY), Sony, Swire Travel and The Hong Kong Housing Authority.

SERVICES AND PRODUCTS

We provide the following services to our customers, among others:

- OUTSOURCING SERVICES

  CALL CENTER SERVICES. Our business processing outsourcing (BPO) includes operating call centers, and providing CRM, customer acquisition and retention services, technical support, telemarketing services, customer service support and administrative services.

  SOFTWARE PROGRAMMING SERVICES. In greater China, we provide information technology outsourcing (ITO) and software development services, including R&D, and project management services.

- TELECOM VALUE-ADDED SERVICES

  VOICE AND IP RELATED SERVICES. We provide integration services in voice and IP related products. We are value-added resellers of IVR systems, SMS and related VAS, and we provide our clients with post-sale maintenance and technical support. WISE-xb, which is our proprietary call center management system and software package, is used in our call center and is sold directly to clients for use in their call centers. We provide mobile phone VAS, such as mobile chat, mobile karaoke, and color ring back tone.

  CONSULTING AND TRAINING SERVICES. We offer comprehensive operational and managerial training programs for call center management professionals at all levels, including on-site training courses and seminars for clients who have their own call centers.

o COMMUNICATION PRODUCTS DISTRIBUTION SERVICE

CALLING CARD AND MOBILE PRODUCTS. We distribute wholesale, and through our own retail stores, pre-paid calling cards, mobile subscriber information module (SIM) cards, prepaid stored-value cards, and international direct dialing (IDD) calling cards, bundled insurance cards and customer loyalty membership cards in mainland China.

MULTI-MEDIA KIOSKS. We have an ownership interest in a company that designs, develops and manufactures multimedia interactive entertainment and communication kiosk products, including internet, photo and video entertainment kiosks.

EXECUTIVE OFFICES

Our corporate headquarters and development center is located at 601 New Bright Building, 11 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The telephone number at our corporate headquarters in Hong Kong is 011-852-2876-2900. We also have a corporate office in the United States located at 860 Blue Gentian Road, Suite 360, Eagan, MN 55121. The telephone number at our corporate office in the United States is 1-651-209-3102.

FORWARD-LOOKING STATEMENTS

Statements in this prospectus that are not descriptions of historical facts are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Reference is made in particular to the description of our plans and objectives for future operations and assumptions underlying such plans and objectives and other forward-looking terminology such as "may," "expects," "believes," "anticipates," "intends," "projects," or similar terms, variations of such terms or the negative of such terms. Forward-looking statements are based on management's current expectations. Actual results could differ materially from those currently anticipated due to a number of factors, including those set forth under "Risk Factors."

RISK FACTORS

Investing in our securities involves a great deal of risk. You should carefully consider the following factors as well as other information included in this prospectus before deciding to purchase our common stock. You should pay particular attention to the fact that we conduct a majority of our operations in China and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in other countries. Our business, financial condition or results of operations could be affected materially and adversely by any or all of these risks.

THE FOLLOWING MATTERS MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, LIQUIDITY, RESULTS OF OPERATIONS OR PROSPECTS, FINANCIAL OR OTHERWISE. REFERENCE TO THIS CAUTIONARY STATEMENT IN THE CONTEXT OF A FORWARD-LOOKING STATEMENT OR STATEMENTS SHALL BE DEEMED TO BE A STATEMENT THAT ANY ONE OR MORE OF THE FOLLOWING FACTORS MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENT OR STATEMENTS.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY. We were founded and commenced operations in December 1994, and we were incorporated in July 1999. Our operating history may be insufficient for you to evaluate our business and future prospects. Although, since inception, our revenues have grown rapidly through acquisition, we cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- implement our business model and strategy and adapt and modify them as needed;

- increase awareness of our brands, protect our reputation and develop customer loyalty;

- manage our expanding operations and service offerings, including the integration of any future acquisitions;

- maintain adequate control of our expenses; and

- anticipate and adapt to changing conditions in the markets in which we operate as well as the impact of any changes in government regulation, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

THE ACQUISITION OF NEW BUSINESSES IS COSTLY AND SUCH ACQUISITIONS MAY NOT ENHANCE OUR FINANCIAL CONDITION. Our growth strategy is to acquire companies, and identify and acquire assets and technologies from businesses in greater China that have services, products, technologies, industry specializations or geographic coverage that extend or complement our existing business. We may be unable to successfully identify or acquire such companies on favorable terms. Furthermore, any acquisitions we pursue may be subject to approval by the relevant Chinese government authorities, which approval we may not obtain. Even if we are able to identify an acquisition or joint venture candidate, the resources expended may be significant. Any future acquisitions will be subject to a number of challenges, including:

- the diversion of management time and resources and the potential disruption of our ongoing business;

- difficulties in maintaining uniform standards, controls, procedures and policies; and

- potential unknown liabilities associated with acquired businesses.

We recently acquired a controlling interest in Smartime Holdings Limited (Smartime), and entered into an agreement to acquire a controlling interest in GuangZhou Dianxun Digital Network Technology Co., Ltd.(Clickcom). We expect that acquisitions will strengthen our position as a provider of outsourced call center, VAS and communication products in Asia. However, we may not achieve the anticipated benefits of these acquisitions.

OUR COMMUNICATION PRODUCTS ARE PROVIDED CASH-ON-DELIVERY, WHICH LEAVES US VULNERABLE TO THEFT AND EMPLOYEE EMBEZZLEMENT. The purchase of calling cards, SIM cards and other mobile phone products are made with cash. Although there is a low risk that clients will not pay for these services when delivered, our retail stores maintain large sums of money which might make them robbery targets. We also face the risk that employees who collect the cash and others who may be aware that cash is available at these sites might embezzle the money. Theft or embezzlement could have a material adverse effect on the revenues generated and the financial condition of our business operations.

WE INTEND TO OPERATE EACH OF OUR ACQUIRED BUSINESSES ON A STANDALONE BASIS. We do not intend to integrate the information or communications systems, management, or other aspects of the businesses we acquire. If we integrated the businesses, we might be able to reduce expenses by eliminating duplicative personnel, facilities, or technology and other costs. In addition, facilities and technology integration might make inter-company communications and transactions more efficient. By declining to integrate the acquired businesses, we might forego opportunities to operate more profitably. Furthermore, our decision not to integrate these businesses might result in difficulties in evaluating the effectiveness of our internal control over financial reporting, which could complicate compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

BECAUSE WE DO NOT HAVE EMPLOYMENT AGREEMENTS WITH MANAGEMENT OF THE ACQUIRED COMPANIES, OUR BUSINESS OPERATIONS MIGHT BE INTERRUPTED IF THEY WERE TO RESIGN AND SEEK EMPLOYMENT WITH COMPETITORS. As part of our acquisition strategy we do not use our own employees or members of our management team to operate the acquired companies. Key management at these companies have been in place for several years and have established solid relationships with their customers. Competition in our industry for executive-level personnel is strong and we can make no assurance that we will be able to hire, motivate and retain highly effective executive employees. Although we provide incentives to management to stay with the acquired business, we have not entered into employment agreements with them. If such key persons were to resign we might face impairment of relationships with remaining employees or customers, which might result in further resignation by employees, which would adversely affect our ability to provide services, and might cause long-term clients to terminate their relationship with us, which could have an adverse effect on our business operations and revenues. Furthermore, non-competition and confidentiality agreements are hard to enforce in China. Due to the limited enforceability of these types of agreements, we face the risk that employees of the acquired subsidiaries might divulge our software and other protected intellectual property secrets to competitors.

OUR CUSTOMERS ARE CONCENTRATED IN A LIMITED NUMBER OF INDUSTRIES. Our clients are concentrated primarily in the telecommunications, telemarketing and technology industries, and to a lesser extent, the insurance and financial services industries, where the current trend is to outsource certain CRM and VAS. Our ability to generate revenue depends on the demand for our services in these industries. An economic downturn, or a slowdown or reversal of the tendency in any of these industries to rely on outsourcing could have a material adverse effect on our business, results of operations or financial condition.

THE MARKET IN WHICH WE COMPETE IS HIGHLY COMPETITIVE AND FRAGMENTED AND WE MAY NOT BE ABLE TO MAINTAIN MARKET SHARE. We expect competition to persist and intensify in the future. Our competitors are mainly leaders in the CRM services market, such as PCCW Teleservices (Hong Kong) Limited, China Motion Telecom International Limited, and Teletech (Hong Kong) Limited. Our competitors also include small firms offering specific applications, divisions of large entities and other large independent firms. We face the risk that new competitors with greater resources than ours will enter our market. Furthermore, increasing competition among telecom companies in greater China has led to a reduction in telecommunication services fees that can be charged by such companies. If a reduction in telecommunication services fees negatively impacts revenues generated by our clients, they may require us to reduce the price of our services, or seek competitors of ours that charge less. If we must significantly reduce the price of our services, the decrease in revenues could adversely affect our profitability.

KEY EMPLOYEES ARE ESSENTIAL TO GROWING OUR BUSINESS. Tony Tong, our Chairman and Chief Executive Officer, and Victor Tong, our President, are essential to our ability to continue to grow through acquisitions. Messrs. Tong and Tong have established relationships within our industry. Their business contacts have been critical in identifying, and negotiating with, acquisition candidates. If either of them were to leave our employ, our growth strategy might be hindered, which could limit our ability to increase revenues.

THE ESTABLISHMENT AND EXPANSION OF INTERNATIONAL OPERATIONS REQUIRES SIGNIFICANT MANAGEMENT ATTENTION. All of our current, as well as any anticipated future revenues, are or are expected to be derived from Asia. Our international operations are subject to risks, including the following, which, if not planned and managed properly, could materially adversely affect our business, financial condition and operating results:

- legal uncertainties or unanticipated changes regarding regulatory requirements, liability, export and import restrictions, tariffs and other trade barriers;

- longer customer payment cycles and greater difficulties in collecting accounts receivable;

- uncertainties of laws and enforcement relating to the protection of intellectual property; and

- potentially uncertain or adverse tax consequences.

OUR OPERATIONS COULD BE CURTAILED IF WE ARE UNABLE TO OBTAIN REQUIRED ADDITIONAL FINANCING. Since inception our investments and operations primarily have been financed through sales of our common stock. Subsequent to September 30, 2004, we completed two private placements of our common stock in which we received approximately $9,300,000 of gross proceeds. In the future we may need to raise additional funds through public or private financing, which may include the sale of equity securities, including securities convertible into our common stock. The issuance of these equity securities could result in dilution to our stockholders. If we are unable to raise capital when needed, our business growth strategy may slow, which could severely limit our ability to increase revenue.

EFFORTS TO COMPLY WITH RECENTLY ENACTED CHANGES IN SECURITIES LAWS AND REGULATIONS WILL INCREASE OUR COSTS AND REQUIRE ADDITIONAL MANAGEMENT RESOURCES AND WE STILL MAY FAIL TO COMPLY. As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-KSB. In addition, the public accounting firm auditing the company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement will first apply to our annual report on Form 10-KSB for our fiscal year ending December 31, 2005. If we are unable to conclude that we have effective internal controls over financial reporting or, if our independent auditors are unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as of December 31, 2005 and future year ends as required by Section 404 of the Sarbanes-Oxley Act of 2002, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our securities. We have only recently begun a formal process to evaluate our internal controls over financial reporting. Given the status of our efforts, coupled with the fact that guidance from regulatory authorities in the area of internal controls continues to evolve, substantial uncertainty exists regarding our ability to comply by applicable deadlines.

FLUCTUATIONS IN THE VALUE OF THE HONG KONG DOLLAR OR RMB RELATIVE TO FOREIGN CURRENCIES COULD AFFECT OUR OPERATING RESULTS. We have historically conducted transactions with customers outside the United States in United States dollars. Payroll and other costs of foreign operations are payable in foreign currencies, primarily Hong Kong dollars and Chinese Renminbi. To the extent future revenue is denominated in foreign currencies, we would be subject to increased risks relating to foreign currency exchange rate fluctuations that could have a material adverse affect on our business, financial condition and operating results. The value of Hong Kong dollars and Chinese Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. As our operations are primarily in Asia, any significant revaluation of Hong Kong dollars or the Chinese Renminbi may materially and adversely affect our cash flows, revenues and financial condition. For example, to the extent that we need to convert U.S. dollars into Hong Kong dollars or Chinese Renminbi for our operations, appreciation of either currency against the U.S. dollar could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we decide to convert our Hong Kong dollars or Chinese Renminbi into U.S. dollars for other business purposes and the U.S. dollar appreciates against either currency, the U.S. dollar equivalent of the respective currency we convert would be reduced. To date, we have not engaged in any hedging transactions in connection with our international operations.

WE HAVE NEVER PAID CASH DIVIDENDS AND ARE NOT LIKELY TO DO SO IN THE FORESEEABLE FUTURE. We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate.

RISKS ASSOCIATED WITH DOING BUSINESS IN GREATER CHINA

THERE ARE SUBSTANTIAL RISKS ASSOCIATED WITH DOING BUSINESS IN GREATER CHINA, AS SET FORTH IN THE FOLLOWING RISK FACTORS.

OUR OPERATIONS AND ASSETS IN GREATER CHINA ARE SUBJECT TO SIGNIFICANT POLITICAL AND ECONOMIC UNCERTAINTIES. Changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

WE ARE REQUIRED TO OBTAIN LICENSES TO EXPAND OUR BUSINESS INTO MAINLAND CHINA. Our activities must be reviewed and approved by various national and local agencies of the Chinese government before they will issue business licenses to us. There can be no assurance that the current Chinese government, or successors, will continue to approve and renew our licenses. If we are unable to obtain licenses or renewals we will not be able to continue our business operations in mainland China which would have a material adverse effect on our business, financial condition and results of operations.

WE MAY HAVE LIMITED LEGAL RECOURSE UNDER CHINESE LAW IF DISPUTES ARISE UNDER OUR CONTRACTS WITH THIRD PARTIES. The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these acquired companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under Chinese law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

WE MUST COMPLY WITH THE FOREIGN CORRUPT PRACTICES ACT. We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business, or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we can not assure that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

RISKS RELATED TO OUR TECHNOLOGY AND EQUIPMENT

OUR INSURANCE MAY NOT BE SUFFICIENT TO RESTORE OUR CALL CENTER IF OPERATIONS ARE INTERRUPTED BY NATURAL DISASTER OR OTHER DESTRUCTION OF OUR FACILITIES OR EQUIPMENT. Our operations depend on our ability to protect our call centers, data centers, CRM information, customer database, data warehouse, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, hacker attacks, natural disaster, epidemic, terrorism, act of war and other similar events. In the event we experience a temporary or permanent interruption at one or more of our call centers, through casualty, operating malfunction or otherwise, our business could be materially adversely affected and we may be required to pay contractual damages to some clients or allow some clients to terminate or renegotiate their contracts with us. While we maintain certain property and business interruption insurance, such insurance may not adequately compensate us for all losses that we may incur and may not be adequate to cover the costs of rebuilding these centers. If we are unable to restore our operations, our business activities would cease.

WE MUST RESPOND QUICKLY AND EFFECTIVELY TO NEW TECHNOLOGICAL DEVELOPMENTS. Our VAS business is highly dependent on our computer and telecommunications equipment and software systems. Our failure to maintain the superiority of our technological capabilities or to respond effectively to technological changes could adversely effect our business, results of operations or financial condition. Our future success also depends on our ability to enhance existing software and systems and to respond to changing technological developments. If we are unable to successfully develop and bring to market new software and systems in a timely manner, our competitors' technologies or services may render our products or services noncompetitive or obsolete.

RISKS SPECIFIC TO THIS OFFERING

THE PRICE OF OUR STOCK HAS FLUCTUATED IN THE PAST AND MAY CONTINUE TO DO SO. Our stock price has fluctuated dramatically. There is a significant risk that the market price of our common stock will decrease in the future in response to any of the following factors, some of which are beyond our control:

- variations in our quarterly operating results;
- announcements that our revenue or income are below analysts' expectations;
- general economic slowdowns;
- changes in market valuations of similar companies;
- sales of large blocks of our common stock;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- fluctuations in stock market prices and volumes, which are particularly common among highly volatile securities of internationally-based companies.

The price in this offering will fluctuate based on the prevailing market price of our common stock on The Nasdaq Small Cap Market. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

YOU MAY SUFFER DILUTION UPON THE EXERCISE OF OUTSTANDING OPTIONS AND WARRANTS. We currently have stock options outstanding to purchase approximately 800,000 shares of common stock and warrants to purchase 1,621,138 shares of common stock, some of which have exercise prices at or below the price of our shares of common stock on the public market. To the extent such options or warrants are exercised, there will be further dilution. In addition, in the event that any future financing should be in the form of securities convertible into, or exchangeable for, equity securities, investors may experience additional dilution upon the conversion or exchange of such securities.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders. Assuming that all of the warrants held by selling stockholders are exercised for cash, we will realize proceeds of approximately $6,400,000. We would use these funds for general corporate purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on The Nasdaq SmallCap Market under the symbol "PACT". The following table sets forth the range of high and low bid prices of common stock reported by Nasdaq in each fiscal quarter from January 1, 2002 to December 31, 2004. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	High	Low
FISCAL 2002		
Quarter Ended March 31, 2002	$2.25	$0.65
Quarter Ended June 30, 2002	$2.25	$0.65
Quarter Ended September 30, 2002	$1.75	$0.40
Quarter Ended December 31, 2002	$2.10	$0.45
FISCAL 2003		
Quarter Ended March 31, 2003	$3.65	$0.85
Quarter Ended June 30, 2003	$3.90	$2.30
Quarter Ended September 30, 2003	$10.29	$2.18
Quarter Ended December 31, 2003	$6.41	$4.10
FISCAL 2004		
Quarter Ended March 31, 2004	$7.11	$4.98
Quarter Ended June 30, 2004	$5.65	$2.71
Quarter Ended September 30, 2004	$3.85	$1.91
October 1, 2004 through December 31, 2004	$14.08	$2.43

As of January 25, 2005, there were 108 record holders of our common stock. However, the total number of beneficial holders is unknown as they hold our common stock in street name, and such number is not provided to us by our Transfer Agent and Registrar. We have not paid any cash dividends on our common stock, and we currently intend to retain any future earnings to fund the development and growth of our business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FORWARD-LOOKING STATEMENTS. This registration statement contains forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "we believe," "management believes" and similar language. The forward-looking statements are based on our current expectations and are subject to certain risks, uncertainties and assumptions, including those set forth in the discussion under "Description of Business," including the "Risk Factors" described in that section, and "Management's Discussion and Analysis or Plan of Operation." Our actual results may differ materially from results anticipated in these forward-looking statements.

OVERVIEW

We were incorporated in Delaware in 1987. Through our subsidiaries we provide outsourcing services, including, the operation of call centers, customer relationship management (CRM) and software development, value-added telecom services (VAS), primarily consisting of interactive voice response (IVR) systems, and we distribute calling cards and other telecom products in greater China. Our goal is to take a leading role in providing information technology services and network communications, which are rapidly expanding business sectors, in Asia.

China continues to be one of the fastest-growing and largest markets for communications services in the world. We believe that Chinese companies are beginning to focus on customer service, rather than price only, as a major competitive factor. During the last three years, we have seen strengthening demand for CRM services among these companies, to gain and retain customers by providing quality customer services. We believe that the services we provide position us to compete effectively for business from these companies.

We have increased our business by acquiring growing technology and network communications businesses in greater China that fit our strategy. Since December 2003, we have acquired controlling interests in Epro Telecom Holdings Limited (Epro), Beijing Linkhead Technologies Co., Limited (Linkhead), Guangzhou Yueshen TaiYang Technology Limited (Yueshen), and Smartime Holdings Limited (Smartime). Each of these businesses has significantly contributed to broadening the services we provide. Previously, we concentrated on providing systems integration and software applications, but were able to generate only limited revenue. Because of the rapid changes in our company these acquisitions have caused, our current year financial information cannot usefully be compared with previous years'.

CRITICAL ACCOUNTING POLICIES.

Our discussion and analysis or plan of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies reflect the most significant estimates and assumptions used in the preparation of its consolidated financial statements.

RESEARCH AND DEVELOPMENT

We evaluate research and development costs to identify any research and development activities that could be objectively measured and recognized as an asset for accounting purposes at the time they are acquired or at the time they have developed future economic benefits. Some costs and expenses are recognized as costs and expenses incurred during the period, provided that (a) there are no discernible future benefits, (b) costs recorded as assets in prior periods no longer provide discernible benefits, and (c) allocating costs either on the basis of association with revenue or among several accounting periods is considered to serve no useful purposes.

VALUATION OF LONG-LIVED ASSETS INCLUDING GOODWILL AND PURCHASED INTANGIBLE ASSETS

We review property, plant and equipment, goodwill and purchased intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Our asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. This approach uses our estimates of future market growth, forecasted revenue and costs, expected periods the assets will be utilized and appropriate discount rates. Such evaluations of impairment of long-lived assets including goodwill arising on a business combination and purchased intangible assets are an integral part of, but not limited to, our strategic reviews of our business and operations performed in conjunction with restructuring actions. When an impairment is identified, the carrying amount of the asset is reduced to its estimated fair value. Deterioration of our business in a geographic region or within a business segment in the future could also lead to impairment adjustments as such issues are identified. The accounting effect of an impairment loss would be a charge to income, thereby reducing our net profit.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

We evaluate the collectibility of our trade receivables based on a combination of factors. We regularly analyze our significant customer accounts, and, when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, we record a specific reserve for bad debt to reduce the related receivable to the amount we reasonably believe is collectible. We also record reserves for bad debt for all other customers based on a variety of factors including the length of time the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted. In the event that our trade receivables become uncollectible, we would be forced to record additional adjustments to receivables to reflect the amounts at net realizable value. The accounting effect of this entry would be a charge to income, thereby reducing our net profit. Although we consider the likelihood of this occurrence to be remote based on past history and the current status of our accounts, there is a possibility of this occurrence.

TAXES ON EARNINGS

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

RESULTS OF OPERATIONS

Please refer to our interim financial statements as of September 30, 2004, which are included at the end of this document beginning on page Q-1 and our audited financial statements, which are included at the end of this document beginning on page F-1.

The following table sets forth selected statement of operations data, and their respective percentages of revenues for the periods indicated.

	SELECTED STATEMENT OF OPERATIONS DATA FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004	PERCENTAGE OF REVENUES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004	SELECTED OF OPE DATA F NINE MON SEPTEMBE
Revenues	$19,640,000	100.0%	$3
Cost of Revenues	(15,724,000)	80.0	(1
GROSS MARGIN	3,916,000	20.0	1
Selling, general and administrative expense	(2,487,000)	12.7	(1,0
Depreciation and amortization	(214,000)	1.1	
Provision for written off fixed assets	--	--	(
PROFIT/(LOSS) FROM OPERATIONS	1,215,000	6.2	(9
Interest income, net	16,000	0.08	
Sundry income	136,000	0.7	
Equity earnings in undistributed earnings of investee company	23,000	0.1	
Provision for income taxes	--	--	
Minority interest	(1,062,000)	5.4	
Discontinued operations	--	--	(1
NET PROFIT/(LOSS)	$328,000	1.68%	($1,0

NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2003

REVENUES. For the nine months ended September 30, 2004, revenues derived from the call center and value-added telecom services rendered by the Company's newly acquired subsidiaries, YueShen, Epro, Linkhead and Smartime, in the aggregate, contributed to 96% of total revenues. Summarized financial information concerning each of these subsidiaries is set forth in the following table. The "Other" column includes our other insignificant subsidiaries and corporate related items.

FOR THE NINE MONTHS
ENDED SEPTEMBER 30,

2004	LINKHEAD	EPRO	YUESHEN	SMARTIME	OTHE
Revenues	$4,270,000	$6,706,000	$7,793,000	$ 141,000	$ 73
Operating gain/(loss)	1,133,000	729,000	100,000	14,000	(58
TOTAL ASSETS	$3,252,000	$3,713,000	$ 273,000	$1,032,000	$11,28

15

COST OF REVENUES AND GROSS MARGIN. The significant increase in cost of revenues is directly associated with the increase in revenues. The significant decrease in gross margin as a percentage of revenue is attributable to the changes in operations, from supplying systems integration and software application in 2003 to becoming value-added telecom services and product providers in 2004. We believe that our gross margin overall approximates the industry standards. The decrease in gross margin came primarily from Yueshen, our calling card business, which, typically for that industry, has lower gross margins. However, we expect our gross margin percentage to increase gradually as a result of cost reduction and efficient utilization of assets.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. The increase in selling, general and administrative expenses reflects the expansion of our operations.

INTEREST INCOME. The decrease in interest is due to a lower average outstanding bank balance in 2004 than 2003.

EQUITY EARNINGS IN UNDISTRIBUTED EARNINGS OF INVESTEE COMPANY. For the nine months period ended September 30, 2004, we recorded income of $23,000 with respect to our 30% ownership interest in Cheer Era Limited, acquired in April 2004.

INCOME TAXES. No tax provision has been recorded for the nine months ended September 30, 2004, as a result of the cumulative operating losses we generated. Interim income tax provisions are based upon management's estimate of taxable income and the resulting consolidated effective income tax rate for the full year. As a result, such interim estimates are subject to change as the year progresses and more information becomes available.

MINORITY INTEREST. Minority interest represents the interests of third parties in our subsidiaries' results. Amounts so recorded were PacSo, $(5,000); Epro, $451,000; Linkhead, $560,000; YueShen, $48,000; and Smartime, $8,000.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

REVENUES, COST OF REVENUES AND GROSS MARGIN. The decrease in revenues and cost of revenues from 2002 to 2003 resulted from reduced operations in our IT systems integration business. The decrease in gross margin for 2003 as compared to 2002, resulted from a reduction of revenues, not offset by reduced expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. The decrease in selling, general and administrative expenses is the result of reducing the size of our operations, which resulted in decreased premises costs and staff costs.

INTEREST INCOME. The decrease in interest income is due to a lower interest rate in 2003 compared to 2002.

WRITTEN-OFF TANGIBLE AND INTANGIBLE ASSETS. As of each annual balance sheet date, or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable, we review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have to make provision for the impairment loss. We wrote off tangible assets of $208,000, and intangible assets of $761,000, which mainly included research and development. R&D costs and expenses are recognized as incurred, if there are no discernible future benefits.

PROVISION FOR IMPAIRMENT LOSS OF AFFILIATED COMPANIES. Our provision for impairment loss of affiliated companies in 2002 related to our investments in Xmedia ($95,000) and in PacSo ($2,000).

DISCONTINUED OPERATIONS. Discontinued operations represents the net loss resulting from downsizing our operations in Laptizen during the fourth quarter of 2001. Revenues were $15,000 and net loss was $107,000 for 2002.

INCOME TAXES. Income tax was recognized for our only subsidiary that generated operating profit in 2003. The lack of operating profits by all of our subsidiaries resulted in no income tax recognition in 2002.

MINORITY INTEREST. Minority interest represents the interests of third parties in our subsidiaries' results. Amounts so recorded included $25,000 for PacSo, which we owned at the beginning of 2003, and $380,000 and $191,000 for Epro and Linkhead, respectively, acquired in 2003.

16

CONTRACTUAL OBLIGATIONS

CONTRACTUAL OBLIGATIONS. We have significant cash resources to meet our contractual obligations as of September 30, 2004, as detailed below:

	Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years
Line of credit (1)	$1,277,000	$1,277,000	--	--
Bank loans	$1,488,000	$1,396,000	$ 92,000	--
Operating leases (2)	$ 136,000	$ 136,000	--	--
Capital leases (3)	$ 170,000	$ 81,000	$ 89,000	--
Total cash contractual obligations	$3,071,000	$2,890,000	$ 181,000	

OFF-BALANCE SHEET ARRANGEMENTS

We have no outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL. Our working capital increased to $4,490,000 at September 30, 2004 as compared to $1,442,000 at December 31, 2003. The increase in working capital at September 30, 2004 primarily reflects proceeds of a $3,000,000 private placement and a decrease in current liabilities of $817,000.

ISSUANCE OF COMMON STOCK. For the nine month period ended September 30, 2004, we issued (i) 1,300,000 shares to acquire subsidiaries (ii) 617,285 shares for cash pursuant to a private placement, and (iii) 39,500 shares as a result of the exercise of share options for $74,000 in cash and $2,000 in noncash consideration.

FUTURE LIQUIDITY NEEDS

As of September 30, 2004, we had approximately $1,322,000 in cash. Since that date we added $9.3 million of proceeds from private placements of our common stock. We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and possible future public or private equity offerings. We evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, credit arrangements, access to equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional funds through the sale of public or private equity as well as from other sources.

17

CURRENCY EXCHANGE FLUCTUATIONS. All of the Company's revenues are denominated either in U.S. dollars or Hong Kong dollars, while its expenses are denominated primarily in Hong Kong dollars and Renminbi ("RMB"), the currency of the People's Republic of China. The value of the RMB-to-U.S. dollar or Hong Kong dollar-to-United States dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rate generally has been stable. Recently there has been increased political pressure on the Chinese government to decouple the RMB from the United States dollar. Although a devaluation of the Hong Kong dollar or RMB relative to the United States dollar would likely reduce the Company's expenses (as expressed in United States dollars), any material increase in the value of the Hong Kong dollar or RMB relative to the United States dollar would increase the Company's expenses, and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company has never engaged in currency hedging operations and has no present intention to do so.

CONCENTRATION OF CREDIT RISK. All of the Company's revenues are derived in Asia and Greater China. The Company does not have any single customer that accounts for more than 10% of its revenues or 10% of its purchases. If the Company was unable to derive any revenue from Asia and Greater China, it would cause a significant, financially disruptive effect on the normal operations of the

Company. Based on the current economic environment in China, the Company does not expect any material adverse impact to its business, financial condition and results of operations.

DESCRIPTION OF BUSINESS

OVERVIEW

We were incorporated in the state of Delaware in 1987. Our business consists of three groups, all of which operate within the outsourcing and telecommunications industries in Asia, primarily greater China, which includes the People's Republic of China, or mainland China, Hong Kong, Macau and Taiwan. Through our subsidiaries we provide outsourcing services, value-added telecom services (VAS), and communication products distribution services. Our business process outsourcing (BPO) services, include call centers, provide customer relationship management (CRM), and telemarketing services, and our information technology outsourcing (ITO) includes software programming and development. We are value-added resellers and providers of telecom VAS, which comprises interactive voice response (IVR) systems, call center management systems, and VOIP, as well as mobile phone VAS, such as short messaging services (SMS) and multimedia messaging services (MMS). Recently, we commenced our communication products distribution service, through wholesale and, to a lesser extent, retail sale and distribution of calling cards in China, and we have recently invested in a company that distributes multimedia interactive self-service kiosks. We intend to continue to grow our business by acquiring and managing growing technology and network communications businesses with established products and customers in Asia.

Our business process outsourcing services generate revenues from call center services, call center management software sales, and training and consulting. We invoice our call center clients monthly at per seat monthly rates, a base price plus commission per call, or a per hour charge rate, depending on the customer's preference. Our call center software clients pay per license, for which there is usually a one-time charge on sale of the software and annual maintenance fees for service. We charge per project for our consulting and training services and for our telecom VAS, which are invoiced throughout the project. Our telecom VAS often includes a post-sale service contract for systems integration and consulting services for which we bill separately. Our calling card and related mobile telecom products are sold cash-on-delivery.

INDUSTRY OVERVIEW

In China, over the last three years, a trend has developed among companies to compete for customers and gain customer loyalty by providing quality customer service, both before and after a sale, instead of relying on price, alone. This trend, we believe, has prompted rapidly increasing demand for large-scale customer-contact centers. Together with our subsidiaries, we have over 10 years experience providing CRM and contact center management in Hong Kong and China. We believe that our experience positions us to capture the rapidly growing demand for CRM, contact center services and call center management systems, such as IVR systems.

At the end of 2002, China Mobile, a leading telecom operator in China, launched an IVR service. In 2003, the IVR market reached $400 million in China We believe that due to heavy competition within the SMS market, many of China's largest internet portals including Sohu, Netease, Sina and Tom have entered the

IVR market. As an IVR systems integrator, increased growth in this market may mean increased demand for our services.

PRINCIPAL CUSTOMERS

Our principal customers are located in Hong Kong, mainland China and other regions of Asia. Our key clients consist of leading telecom operators, banks, insurance, travel, marketing, government, services companies and telecom consumers.

Our principal clients in each of our business groups are:

- CALL CENTER SERVICES: Hong Kong CSL Limited, PCCW Limited, The Kong Kong Housing Authority, SmarTone, Sony (So-net), American Express, New World, SUNDAY Communications Limited, Swire Travel, and The Hong Kong Housing Authority.

- VAS/CONSULTING AND SOFTWARE PROGRAMMING: China Telecom Corporation Limited, China Mobile (Hong Kong) Limited, China Unicom Limited, China Netcom, China Railcom, and UTStarcom.

- CALLING CARD AND MOBILE PRODUCT DISTRIBUTION: Shenzhen Longyin and Zhongyu.

GROWTH STRATEGY

Our objective is to be the leading provider of information technology and network communications services in greater China. Our strategy to accomplish this objective focuses on vertical growth to increase revenue and profit margin. We believe that our continued focus on increasing revenue and profit margin while minimizing operating costs will allow us to build a strong, profitable and growing business model.

We believe that the most effective way to accomplish our vertical growth objective is by acquiring companies and forming joint ventures or other partnership relationships. We have recently acquired businesses that provide complementary services to our operations. If we are successful in our vertical integration strategy, we may be able to enhance our profit margin.

SERVICES

Our goal is to take a leading role in providing information technology services and network communications, which are rapidly expanding business sectors in Asia. The services offered by each of our subsidiaries can be classified within one of the following three business groups:

OUTSOURCING SERVICES

BUSINESS PROCESS OUTSOURCING. Our call center offers 24 hour staff-answering and automatic-answering service hotlines in our service areas, handling customer enquiries regarding services, billing, and technical support, as well as customer complaints. We offer services targeted at high-value and corporate customers, including dedicated account executives, on-site visits, and systems for collecting comments and handling complaints.

- We acquired Epro in December 2003. Epro is a leading provider of outsourced call-center services with over 13 years of field experience in greater China. Epro's business consists of the following three major categories:

OUTSOURCED CALL CENTER SERVICES. Epro's ISO 9001 certified outsourcing contact center hosts over 1,000 workstations and 500 agents, processing over 100,000 calls daily and provides multi-lingual inbound and outbound CRM services. The call center is the largest outsourced call center in Hong Kong. Epro permits its clients to recruit and hire their own personnel to work in its call center, for whom Epro provides managerial services, call center seats, and equipment. Our inbound call center services include sales inquiry hotline, telephone orders, technical helpdesk, and customer service. Certain of our clients also engage us to provide telemarketing and telesales for their products and for promotions, to conduct market surveys, and to provide administrative process, such as appointment setting.

TRAINING AND CONSULTING SERVICES. The Epro Call Center Training Institute (ECCTI) is a leading provider of Contact Center Management Consulting and Training services, which helps clients maximize the return on investment of their CRM operations. Through ECCTI, we provide on-site training and consulting services, and we offer courses and seminars for call center managers and professionals, sales representatives, customer service representatives and telemarketing service representatives and in-house trainers.

CALL CENTER MANAGEMENT SOFTWARE PRODUCTS AND SOLUTIONS. WISE-xb Call Center agent performance management and reporting software is Epro's proprietary call center management software. Wise-xb has been installed in over 60 customer sites in the PRC. Epro's products also include Automatic Call Distribution (ACD) System, Unified Messaging System (UMS), SMS, and VAS.

INFORMATION TECHNOLOGY OUTSOURCING. In September 2004, we acquired Smartime Holdings Limited (Smartime). Through Soluteck Technology (Shenzhen) Company Limited, its operating subsidiary in Shenzhen, China, Smartime employs over 200 staff and provides outsourced consulting services and programming services, including software development, R&D, and project management to leading telecom, banking and financial services companies including Huawei, IBM, Bank of East Asia and others.

VALUE-ADDED TELECOM SERVICES

- In December 2003, we acquired 51% of the shares of a private mainland China company, Beijing Linkhead Technologies Co., Limited (Linkhead). Linkhead is a value-added reseller and provider of VAS, such as IVR system development and integration, SMS, and voice-portal services. Linkhead is also a channel partner, or a master reseller, of NMS Communications system hardware, a leading provider of communications technologies. Linkhead also acts as a mobile phone systems integrator for service providers in China, providing the hardware, know-how, and software for mobile phone VAS, such as mobile chat, mobile karaoke, and color ring back tone. The service providers ultimately provide the Linkhead systems to telecom operators, such as China Unicom and China Netcom.

- In December 2004, we entered into an agreement to acquire GuangZhou Dianxun Digital Network Technology Co., Ltd.(Clickcom). Once completed, the acquisition will allow us to offer, directly to China's telecom operators, a wide variety of wireless internet services for mobile phones, such as SMS, Wireless Application Protocol, or WAP, which allows uses to access information instantly via handheld wireless devices, and Java mobile applications. The contemplated acquisition of Clickcom is our first step in entering the VAS service provider market in which we will be able to design our own mobile phone VAS for distribution directly to telecom operators.

- PacificNet Solutions Ltd. (PacSo), is a subsidiary that specializes in systems integration, software application, and on-line business solution services in greater China. PacSo's products and services include smart card solutions, web-based user applications, including kiosks and IVR, and web based connections to remote or fixed database servers, which are also referred to as back-end enterprise planning systems.

COMMUNICATION AND TELECOM PRODUCTS

- In April 2004, we acquired a 51% controlling interest in Guangzhou Yueshen TaiYang Technology Limited (Yueshen). Yueshen distributes telecom services for mobile phones, such as calling cards, mobile SIM cards, prepaid stored-value cards, wireless broadband and internet services for mobile phones. There are approximately 268.7 million people with mobile phones in China. Because so few people subscribe to service plans, the mobile calling card business has become very popular. We sell calling cards wholesale to distributors who in turn sell to retail shops, such as newsstands. We have begun to enter the retail calling card market and have established nine retail stores in the Guangzhou Metro. Yueshen is the designated distributor of China Netcom's XiaoLingTone/PHS mobile phone products, prepaid calling cards, wireless broadband and internet services.

- Also in April 2004, we acquired a 30% interest in Cheer Era Limited (Cheer Era). Cheer Era is engaged in the business of designing, developing, and manufacturing interactive multimedia entertainment and communication kiosk products, including photo

and video entertainment kiosks, digital camera photo development stations, internet, MMS, ring-tone and mobile content download, payment and delivery stations for mobile phones, and other coin-operated kiosks and kiosk consumables. These kiosks have been marketed and sold to restaurants, gaming facilities and amusement parks in the USA, Korea, China, India, and Southeast Asia. We sell the kiosks to channel operators who pay a placement fee or rental fee for the kiosks.

SALES AND MARKETING

We do not engage in any significant marketing activities. We advertise our services by attending various CRM and VAS trade shows and conferences in China. There are a limited number of competitors in our industry; accordingly, new business opportunities are generated mainly through business contacts and by word of mouth. We rely on our reputation for quality and efficiency among our customers and leveraging our strategic investors to obtain new business.

COMPETITION

We expect competition to persist and intensify in the future. Our competitors include small firms offering specific applications, divisions of large entities, large independent firms. A number of competitors have or may develop greater capabilities and resources than ours. We also face the risk that new competitors with greater resources than ours will enter our market. Our competitors are mainly leaders in the CRM and VAS services market. Competitive pressures from current or future competitors could cause our services to lose market acceptance or require a significant reduction in the price of our services.

RESEARCH AND DEVELOPMENT

We place great emphasis on the continued enhancement of our existing products and solutions, including designing, development and supporting a portfolio of converged voice and data enhanced services, products and solutions to help wireless, wire-line and Internet service providers offer unprecedented access to communications, information and commerce. We have ongoing research and development activities with respect to the following products and solutions:

- multi-media information on demand systems, which integrates the dynamics of the Internet with voice based communication applications, including text-to-speech and voice recognition capabilities;
- web-based multimedia call center/ customer relationship management for service providers and corporations; and
- Wise-xb, which is a Call Center agent performance management and reporting software. It provides intelligent routing, comprehensive ACD/ PBX capabilities, Email, IVR, Voice Mail, Messaging, Conference, Recording, Coaching/ Supervising, Reporting and Interface.
- voice mail systems; and
- color ringback tone systems; and
- value-added services for mobile users;

EMPLOYEES

As of December 28, 2004, we, together with our subsidiaries, had approximately 1,000 employees and contractors. We have not experienced any labor stoppages. None of our employees are covered by collective bargaining agreements.

EXECUTIVE OFFICES

Our executive offices are located at 601 New Bright Building, 11 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. Our telephone number is 011-852-2876-2900.

DESCRIPTION OF PROPERTY

A description of our property is as follows:

HONG KONG - We maintain our corporate headquarters, development center and our Call Center in Hong Kong located at Units 601-603 New Bright Building, 11 Sheung Yuet Road, Kowloon Bay, Kowloon where we lease approximately 17,739 square feet for a monthly fee of $16,365 and our branch office is located at Units 2-3, 17th Floor, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Hong Kong where we lease approximately 2,359 square feet for a monthly rental fee of $1,815.

UNITED STATES - Our current U.S. corporate office is located at 860 Blue Gentian Road, Suite 360, Eagan, Minnesota 55121, where we sublease space for a monthly rental fee of $1,000.

CHINA -Our current Chinese corporate office is located at Room 1708, Tower B, Stars Plaza, Hongli Road, FuTian District, Shenzhen, China where we lease approximately 1,000 square feet for a monthly rental fee of $449. We lease space from a shareholder. Our offices are located in Beijing, Shanghai and Shenzhen. Details are as follows:-

Locations	Are
1601, 26 Building, 3 Block, Anzhenxili, ChaoYang District, Beijing	
1407, 2# Building, Hengji Plaza, 547 Tianmuxilu, Shanghai	
901, Tower A, Tian An High-Tech Plaza, Tian An Cyber Park, Fu Tian District, Shenzhen	

We believe that our offices are adequate for our current operations.

LEGAL PROCEEDINGS

We are not aware of any material pending or threatened legal proceedings that involve us.

RECENT DEVELOPMENTS

On September 15, 2004, we acquired an 81% controlling interest in Smartime for $500,000 in cash, 100,000 shares of common stock and a warrant to purchase up to 50,000 shares of common stock. All of the shares of common stock are held in escrow pursuant to the terms of an escrow agreement, which provides that the Common Stock will be released in specified amounts based on Smartime's achievement of certain earnings criteria over the twelve month period ending on September 30, 2005. If at the end of the second twelve month period ending on September 30, 2006, there is a shortfall in Smartime's net income, a portion of the shares equivalent to the dollar amount of the shortfall divided by $5.00 shall be returned to us.

On November 17, 2004, we consummated a private placement (the "November Private Placement") for the sale of 588,410 restricted shares of our Common

Stock. With the exception of 482,310 of the shares that are being registered for resale under this prospectus, no other registration rights were granted pursuant to the terms of the November Private Placement. The aggregate proceeds from the sale of the shares in the November Private Placement was $1,829,955. In connection with the November Private Placement we issued warrants to purchase 117,852 shares of our Common Stock in the aggregate. The exercise price of the warrants are $3.89 and they are exercisable for a period of five years from the date of issuance. 96,462 of the shares underlying the warrants issued to certain investors are being registered for resale on this prospectus.

On December 16, 2004, we consummated a private placement (the "December Private Placement") for the sale of 1,000,002 restricted shares of our Common Stock. The aggregate proceeds from the sale of the shares in the December Private Placement was $7,500,000. In connection with the December Private Placement we issued warrants to purchase 350,000 shares of our Common Stock in the aggregate. The exercise price of the warrants are $12.21 and they are exercisable for a period of five years from the date of issuance. All of the shares issued and shares underlying the warrants are being registered for resale on this prospectus.

On December 16, 2004, we entered into an agreement to acquire a controlling interest in GuangZhou Dianxun Digital Network Technology Co., Ltd. ("Clickcom"), through the purchase of a 51% interest in Clickcom's parent company, PacificNet Clickcom Limited, a British Virgin Islands Company ("Clickcom-BVI"). PacificNet Holdings agreed to purchase 1,625 shares (the "Sale Shares") of Clickcom-BVI from Ming Zhang, Jinnan Lai and Dong Liu (the "Sellers"), and directly subscribed to Clickcom-BVI to purchase 670 shares (the "Subscribed Shares"). The closing of the transactions is subject to the completion of various closing conditions specified in the agreement.

The total consideration paid for the Sale Shares was payable as follows:

(i) USD$650,000

- by delivery of 130,000 shares of common stock, par value $0.0001 per share (the "Common Stock") of the Registrant (the "Registrant Shares") to the Sellers. The Registrant Shares are to be held in an escrow account with an Escrow Agent designated by PacificNet Holdings. The Registrant Shares will be released to Sellers in equal installments of 26,000, the first installment to be released 45 days after the closing of the transaction. The remaining installments will be released within 30 days after the end of each quarter, provided that Clickcom attains certain net income milestones by the end of each quarter. The Sellers will be entitled to receive all of the Registrant Shares if Clickcom has achieved cumulative net income for the year ended December 31, 2004 of not less than USD$600,000 and issuance of warrants to purchase up to 50,000 shares of the Registrant's Common Stock. The exercise price of the warrants is the 5-Day Volume Weighted Average Price of the Registrant's Common Stock prior to December 16, 2004. The warrant is exercisable for a period of 3 years.

(ii) USD$268,000

- PacificNet Holdings subscribed to Clickcom-BVI to purchase an additional 670 shares. The total purchase price for the Subscribed Shares is USD$268,000, payable within 45 days after the delivery of (i) stock powers transferring the Sale Shares to PacificNet Holdings; (ii) stock certificates for the Sale Shares and the Subscribed Shares; (iii) an executed Subscription Agreement for the Subscribed Shares; and (iv) minutes of the Board of Directors and shareholders of Clickcom and Clickcom-BVI approving the transaction.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Set forth below are the names of the directors, executive officers and key employees of the Company as of January 25, 2005:

Name	Age	Title
Tony Tong	36	Chairman and Chief Executive Officer
Victor Tong	33	President, Secretary, and Director
ShaoJian (Sean) Wang	39	Chief Financial Officer, Vice President, and Director
Peter Wang	50	Director
Michael Ha	34	Director
Jeremy Goodwin	31	Director
Tao Jin	37	Director

Our executive officers are appointed at the discretion of our board of directors with no fixed term. There are no family relationships between or among any of our executive officers or our directors other than the relationship between Mr. Tony Tong and Mr. Victor Tong.

The following is a brief description of each director's and executive officer's business experience:

Mr. Tony Tong, age 36, is the Chairman, CEO, Executive Director, and founder of PacificNet. From 1995 to 1997, Mr. Tong served as the Chief Information Officer of DDS Inc., a leading SAP-ERP consulting company in the USA, which was later acquired by CIBER, Inc. (NYSE: CBR). From 1993 to 1994, Mr. Tong worked for Information Advantage, Inc. (Nasdaq:IACO), a leading business intelligence, Data-Mining and CRM technology provider serving Fortune 500 clients. IACO consummated an IPO on Nasdaq in 1997 and was later acquired by Sterling Software and Computer Associates (NYSE: CA). From 1992 to 1993, Mr. Tong worked as a Business Process Re-engineering Consultant at Andersen Consulting (now Accenture, NYSE:ACN). From 1990 to 1991, Mr. Tong worked for ADC Telecommunications (Nasdaq: ADCT), a global supplier of telecom equipment. Mr. Tong's R&D achievements include being the inventor and patent holder of US Patent Number 6,012,066 (granted by the US Patent and Trademark Office) titled "Computerized Work Flow System, an Internet-based workflow management system for automated web creation and process management." Mr. Tong also serves on the board of advisors of Fortune Telecom (listed on Hong Kong Stock Exchange: 0110.HK), a leading distributor of mobile phones, PDAs, telecom services, and accessories in China and Hong Kong. Mr. Tong is a frequent speaker on technology investment in China, and was invited to present at the Fourth APEC International Finance & Technology Summit in 2001. Mr. Tong is the Vice Chairman (PRC) of Hong Kong Call Centre Association, a Fellow of Hong Kong Institute of Directors, a consultant on privatization and securitization for China's State-Owned Assets Supervision and Administration Commission (SASAC), and a frequent speaker for LexisNexis, a licensed Continued Professional Development (CPD) trainer, on China investment. Mr. Tong graduated with Bachelor of Mechanical/Industrial Engineering Degree from the University of Minnesota and served on the Computer Engineering Department Advisory Board and was an Adjunct Professor at the University of Minnesota, USA. Tony Tong is the brother of Victor Tong.

Mr. Victor Tong, age 33, currently is the President, Secretary and an Executive Director of the Company. Mr. Victor Tong gained his consulting, systems integration, and technical expertise in client/server systems through his experience at Andersen Consulting (now Accenture), American Express Financial Advisors (IDS), 3M, and the Superconductivity Center at the University of Minnesota. In 1994, Victor co-founded Talent Information Management ("TIM"). The Company was originally founded as an operating division of TIM. As the managing partner, Mr. Tong sold GoWeb consulting division of TIM to a billionaire in Minnesota USA in late 1997 and became the President of KeyTech, a leading information technology consulting company based in Minnesota. In 1999, he was recognized in "CityBusiness 40 Under 40" as one of the future business and community leaders in Minnesota. Mr. Tong won the Student Commencement Speaker Award while graduated with honors with a Bachelor of Science in Physics from the University of Minnesota. Mr. Tong is a guest professor at College of Software of Beihang University, one of the top software colleges in China. Victor Tong is the brother of Tony Tong.

26

Mr. ShaoJian (Sean) Wang, age 39, is the Chief Financial Officer, Vice President of International Business and is one of our Directors. Mr. Wang has served on our board of directors since 2002. Mr. Wang is also a Director of Thian Bing Investments Pte Ltd - a Singapore based investment holding company, a Director on the board of Alliance PKU Co. Ltd - a company owned and controlled by Guanghua School of Management, Peking University, a Director of the board of Portcullis International Group - a Singapore based investment consulting company, and a Director and Partner of the Overseas Chinese Scholar Fund, a leading venture capital firm headquartered in Zhongguancun Beijing and Guangzhou, China. Mr. Wang started his professional career as a Market/Financial analyst with Ecolab Inc. in 1987, where he moved quickly to become Territory Manager and Marketing Manager. In 1990, Mr. Wang was posted to Ecolab's Asia Pacific regional headquarters as its Business Development Manager. In 1992, Mr. Wang was appointed as Country Manager of Ecolab for Indonesia. Mr. Wang is an investor and Director in Alliance PKU Co. Ltd., which owns two premier companies in China. Alliance PKU Consulting is a leading management consulting firm in China, and Beidabiz & E-learning Co. (a venture of Peking University) is a well-known online education provider. Mr. Wang also advises some local governments in China. The Municipal government of Yantai appointed him as the city's representative for investment. He worked with the Wei Fang government on setting up the Agricultural Development Park. Mr. Wang attended Peking University and received his MBA degree at the Carlson School of Management, University of Minnesota, and a B.S. in Economics at Hemline University.

Mr. Peter Wang, age 50, is a Director. Mr. Wang has served on our board of directors since 2003. Mr. Wang serves as Chief Executive Officer of China Quatum Communications Ltd., a privately-held company. Mr. Wang was a founder of Unitech Telecom (now named UTStarcom, NASDAQ: UTSI). Under his management, UTStarcom created the first digital loop carrier system and installed the first PHS (Personal Handyphone System) system in China. As an entrepreneur, he has successfully co-founded and built other ventures in the US, including World Communication Group and World PCS, Inc. Before forming his own companies, he worked at AT&T Bell Labs and Racal-Milgo Information System. With AT&T Bell Labs, he worked on Network Evolution Planning and representing AT&T Network System Division served on Network Management Protocol Forum. With Racal-Milgo, he worked on network management system architecture as a senior engineer. As part of the technologically trained community in China, he was elected Deputy Chairman of the Association of Privately Owned High-tech Enterprises in China. He has been elected president of the first Chinese PACS User and Providers Forum that promotes the international PCS standard worldwide. He also served on the boards of directors of many U.S. and Chinese companies, specifically Joray Enterprises Inc., Phoenix Tech Ltd. and World Communication Group. Mr. Wang has a BS in Computer Science and a MS in Electrical Engineering from University of Illinois, as well as an MBA in Marketing from Southeast-Nova University.

Mr. Michael Chun Ha, age 34, is a Director. Mr. Ha has served on our board of directors since 2003. Mr. Ha graduated from the Faculty of Law, University of Hong Kong in 1994 with a bachelor degree in law and was admitted as a solicitor of the High Court of the Hong Kong Special Administrative Region in 1997 and a solicitor of the Supreme Court of England and Wales in 1998. From 1995 to 2002, Mr. Ha worked as a lawyer in a number of prestigious international and Hong Kong law firms, specializing in the areas of corporate finance, securities offerings, takeovers, cross-border mergers and acquisitions, venture capital, corporate restructuring, regulatory and compliance issues, project finance, and general commercial transactions and services in Hong Kong and the People's Republic of Hong Kong. In 2002, Mr. Ha commenced his own practice in the trade name of "Ha and Ho Solicitors". Mr. Ha specializes in the areas of general commercial transactions, corporate finance and civil and criminal litigation. Mr. Ha has been the company secretary of Shanxi Central Pharmaceutical International Company Limited, a Hong Kong main board listed company, and since 2003 Mr. Ha has been a director of a private investment company, Metro Concord Investment Limited.

Mr. Jeremy Goodwin, age 31, is a Director. Mr. Goodwin is a Vice President with Global Capital Group. He began his career in 1995 as an intern at Mees Pierson Investment Finance S.A. in Geneva, Switzerland where he provided administrative support to the fund raising/private placement team. Noteworthy transactions executed by the group included assistance on the placements of the $1.2 Billion Carlyle Partners II Limited Partnership. In 1997 he went to work for the then parent institution, ABN Amro, in Beijing, China where he established the Global Clients desk representing the bank's multinational clients to sovereign regulatory agencies and local financial institutions while monitoring their working capital needs. During his time there, the office was approved by the Central Bank of China to operate as a fully licensed branch. Noteworthy transactions executed by the group included assistance in the business development and project management for the Royal Dutch Shell Oil project and the Beijing Capital International Airport listing on the Hong Kong Stock Exchange arranged by the Hong Kong office of ABN Amro Rothschild. He also assisted the Singapore Debt Capital Markets team in the business development origination of Sovereign Euro Debt Issuances for the Ministry of Finance and the State Development Bank in Beijing for the People's Republic of China. In 1999, He went to work for ING Barings in London as an International Associate working directly for the business manager to the CEO. One of his primary assignments was in Hong Kong with the ING Beijing Investment arm of Baring Private Equity Partners, a joint venture with the Beijing Municipal Government established in

1994 at the decree of then Chinese Premier Zhu Rong Ji and widely considered the first domestic Chinese Private Equity fund. Mr. Goodwin received his BS from Cornell University in 1996 in conjunction with the Institute of Higher International Studies in Geneva, Switzerland. He later pursued his advanced degree with Princeton University with a concentration in Chinese affairs which he completed at the prestigious Nanjing Chinese Studies Center of the Johns Hopkins School of Advanced International Studies. Jeremy is fluent in written and spoken Mandarin Chinese, French and has working knowledge of Dutch.

Mr. Tao Jin, age 37, is a Director. Mr. Jin is a Vice President and Assistant General Counsel of J.P. Morgan Chase Bank. From 1999 to 2002, Mr. Jin served as a Senior New York Qualified Lawyer for Sullivan & Cromwell, which represented China Unicom, PetroChina and China Telecom in their IPO's and dual listings in New York and Hong Kong. From 1996 to 1999, Mr. Jin served as Associate Lawyer for Cleary, Gottlieb Steen & Hamilton, which represented various Fortune 500 companies and investment banks in public and private securities offerings and M&A activities. Mr. Jin received his Juris Doctor in 1996 with high honors from Columbia University, and received B.S. in Psychology in 1990 from Beijing University.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee is responsible for nominating the Company's independent auditors and reviewing any matters that might impact the auditors' independence from the Company; reviewing plans for audits and related services; reviewing audit results and financial statements; reviewing with management the adequacy of the Company's system of internal accounting controls, including obtaining from independent auditors management letters or summaries on such internal accounting controls; determining the necessity and overseeing the effectiveness of the internal audit function; reviewing compliance with the U.S. Foreign Corrupt Practices Act and the Company's internal policy prohibiting insider trading in its Common Stock; reviewing compliance with the SEC requirements for financial reporting and disclosure of auditors' services and audit committee members and activities; reviewing related-party transactions for potential conflicts of interest; and reviewing with corporate management and internal and independent auditors the policies and procedures with respect to corporate officers' expense accounts and perquisites, including their use of corporate assets.

The board of directors has established an audit committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The members of the Audit Committee are Messrs. Peter Wang, Michael Chun Ha, Jeremy Goodwin and Tao Jin, each of whom are considered "independent" under the Nasdaq SmallCap Market listing standards currently in effect.

The board of directors has determined that each of the members of the audit committee qualify as an "audit committee financial expert" under the Securities and Exchange Commission's definition.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth all cash compensation paid or to be paid by us, as well as certain other compensation paid or accrued, during each of our last three fiscal years to each named executive officer.

Name/Principal Position	Fiscal Year	Annual Compensation Salary ($)	Bonus ($)	Other ($)	Long Term Compensation Restricted Stock Award ($)	St Opt
Tony Tong, CEO	2003	$100,000	-	-	-	120
	2002	$110,000	-	-	$57,900	206
	2001	$106,226	-	$15,384		50

(1) Represents amounts received for life and health insurance coverage.

OPTION GRANTS DURING 2003 FISCAL YEAR
(INDIVIDUAL GRANTS)

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE	EX
Tony Tong, CEO	70,000	64%	$2.20	Jun
	50,000	36%	$4.25	Nov

AGGREGATED OPTION EXERCISES DURING 2003 FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NO. OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END 12/31/03 (#) EXERCISABLE	UNEXERCISABLE	VALUE ($ IN-THE M FISCAL Y EXERCISABL
Tony Tong, CEO	200,000	$394,000	6,000	120,000	$21,090

COMPENSATION OF DIRECTORS

DIRECTORS' FEES. All of the Company's directors are reimbursed for out-of-pocket expenses relating to attendance at meetings. Each director is paid a sign-on bonus of 10,000 shares of common stock of the Company. Each director is also entitled to US$500 for each board meeting that such director attends in person, by conference call, or by committee action and US$200 for each committee meeting, payable by cash, common stock or stock options of the Company, at the option of the Company.

ANNUAL RETAINER FEE. Each director is paid an annual retainer fee of US$10,000 in the form of common stock or stock option of the Company. Such retainer fee is paid semi-annually in arrears. The number of shares of common stock issued is based on the average closing market price over the ten trading days prior to the end of the six month period that the retainer fee is due.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT, AND CHANGE-IN-CONTROL

On December 30, 2002, we entered into an Executive Employment Contract with Tony Tong. Mr. Tong currently serves as our Chief Executive Officer. The employment agreement provides for Mr. Tong to earn an annual base salary of $100,000 in cash, plus $60,000 in stock compensation annually until April 1, 2005. Mr. Tong is also eligible for an annual bonus for each fiscal year during the term of his contract based on performance standards as the Board or compensation committee designates. Mr. Tong is entitled to receive a monthly housing allowance of $2,500, monthly automobile allowance of $500, tax preparation expenses of $2,000 per year, and cash bonus based on our net profit.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On March 28 2002, we completed a $3,480,000 private placement by issuing 2,400,000 shares of restricted common stock at a price of $1.45 per share to Sino Mart Management Limited ("Sino Mart"), whose executive director is the father of our chairman and CEO. In addition, we issued Sino Mart a warrant to purchase up to an additional 600,000 shares of restricted common stock at $1.45 per share. The fully exercisable warrant expires on April 25, 2005. The $3,480,000 private placement transaction was approved at a special stockholder meeting held on March 25, 2002.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of January 25, 2005, the number of shares of our common stock beneficially owned by (i) each person who is known by us to be the beneficial owner of more than five percent of the Company's common stock; (ii) each director; (iii) each of the named executive officers in the Summary Compensation Table; and (iv) all directors and executive officers as a group. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

NAME AND ADDRESS OF BENEFICIAL OWNER**	NUMBER OF SHARES BENEFICIALLY OWNED(1)	% OF COMMO BENEFICIAL
Kin Shing Li (2) Rm. 3813, Hong Kong Plaza 188 Connaught Road West, Hong Kong	1,150,000	12.3
Sino Mart Management Ltd. (3) c/o ChoSam Tong 16E, Mei On Industrial Bldg. 17 Kung Yip Street, Kwai Chung, NT, Hong Kong	1,880,000	18.9
ChoSam Tong (4) 16E, Mei On Industrial Bldg. 17 Kung Yip Street, Kwai Chung, NT, Hong Kong	1,943,000	19.5
Tony Tong (5)	212,891	2.2
ShaoJian (Sean) Wang (6)	22,500	*

Victor Tong (7)	57,700	*
Peter Wang (8)	22,500	*
Michael Chun Ha (9)	27,500	*
Jeremy Goodwin	0	N/A
Tao Jin	0	N/A
All directors and officers as a group (7 persons)	343,091	3.6

* Less than one percent.

** The address for each beneficial owner not otherwise specified is: c/o PacificNet Inc., 860 Blue Gentian Rd., Suite 360, Eagan, MN 55121. USA.

*** Based on 9,312,609 shares issued and outstanding as of January 25, 2005. In order to calculate the percentage of common stock beneficially owned by those beneficial owners who have Currently Exercisable Options, such person's Currently Exercisable Options must be added to the number of shares issued and outstanding.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to the shares shown. Except as indicated by footnote and subject to community property laws where applicable, to our knowledge, the stockholders named in the table have sole voting and investment power with respect to all common stock shares shown as beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days upon the exercise of options, warrants or convertible securities (in any case, the "Currently Exercisable Options"). Each beneficial owner's percentage ownership is determined by assuming that the Currently Exercisable Options that are held by such person (but not those held by any other person) have been exercised and converted.

(2) Information obtained from the Schedule 13D/A filed by Mr. Kin Shing Li on October 14, 2003.

(3) Includes currently exercisable warrants to acquire 600,000 shares of common stock. The warrants were to be sold pursuant to an agreement, dated October 6, 2003. The purchaser defaulted in payment of the warrants and, accordingly, the agreement was terminated and the warrants returned to Sino Mart Management Ltd. Sino Mart Management Ltd. is owned by Mr. ChoSam Tong, the father of Messrs. Tony Tong and Victor Tong.

(4) Includes shares of common stock of Sino Mart Management Ltd., which is owned by Mr. ChoSamTong and Currently Exercisable Options to acquire 10,000 shares of common stock.

(5) Includes Currently Exercisable Options to acquire 22,500 shares of common stock. Excludes 1,250,000 shares owned by Sino Mart Management Ltd., as to which shares Mr. Tony Tong disclaims beneficial ownership.

(6) Represents shares issuable upon exercise of Currently Exercisable Options.

(7) Includes Currently Exercisable Options to acquire 22,500 shares of common stock. Excludes 1,250,000 shares owned by Sino Mart Management Ltd., as to which shares Mr. Victor Tong disclaims beneficial ownership.

(8) Represents shares issuable upon exercise of Currently Exercisable Options.

(9) Includes 22,500 shares issuable upon exercise of Currently Exercisable Options.

SELLING STOCKHOLDERS

CONSULTING AGREEMENT

On June 8, 2004, we entered into a consulting agreement with CEOCast, Inc., our current investor relations and public relations firm. Pursuant to the terms of the agreement, part of the compensation to CEOCast consisted of the issuance of 50,000 shares of our Common Stock. We granted CEOCast piggyback registration rights with respect to those shares. The following table sets forth as of January 25,2005, information regarding the current beneficial ownership of our common stock held by CEOCast, and its beneficial ownership assuming sale of all of the shares offered hereby. Information as to current ownership is based upon information provided to us by the selling stockholders, which we have not independently verified. The selling stockholders are not making any representation that the shares covered by this prospectus will be offered for sale.

CEOCast has not held any position nor had any material relationship with us or our affiliates during the past three years.

Name of Selling Stockholder	Shares Beneficially Owned Prior to Offering	Maximum Number of Shares to be Sold	Number of Shares Beneficially Owned After Offering
CEOCast, Inc.	50,000	50,000	0

NOVEMBER PRIVATE PLACEMENT

On November 17, 2004, we completed a private placement in which we sold an aggregate of 588,410 shares of common stock and issued warrants to purchase up to an aggregate of 117,682 shares of common stock. Pursuant to the terms of the securities purchase agreement certain of the investors in the private placement were granted piggyback registration rights with respect to the shares issued and shares underlying the warrants. The following table sets forth as of January 25, 2005, information regarding the current beneficial ownership of our common stock held by the selling stockholders listed below, and their beneficial ownership assuming sale of all of the shares offered hereby and the sale of all shares underlying the warrants. Information as to current ownership is based upon information provided to us by the selling stockholders, which we have not independently verified. The selling stockholders are not making any representation that the shares covered by this prospectus will be offered for sale.

No selling stockholder listed below has held any position nor had any material relationship with us or our affiliates during the past three years.

Name of Selling Stockholder	Shares Beneficially Owned Prior to Offering	Maximum Number of Shares to be Sold	Number of Shares Beneficially Owned After Offering
Sino Strategic Investment Limited (1)	385,848	385,848	0
Sunshine Ocean Investment Limited (2)	192,924	192,924	0

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(1) Includes 64,308 shares of common stock issuable upon exercise of a warrant.

(2) Includes 32,154 shares of common stock issuable upon exercise of a warrant.

DECEMBER PRIVATE PLACEMENT

On December 16, 2004, we completed a private placement in which we sold an aggregate of 1,000,002 shares of common stock and issued warrants to purchase up to an aggregate of 350,000 shares of common stock to the selling stockholders listed in the table below. The issuance of the two shares was the result of rounding of fractional shares. We are filing this registration statement pursuant to the terms of a registration rights agreement between each investor and us. We also agreed to bear expenses in connection with the registration and sale of the shares. See "Plan of Distribution."

The following table sets forth as of January 25, 2005, information regarding the current beneficial ownership of our common stock by the selling stockholders and their beneficial ownership assuming sale of all of the shares of common stock offered hereby. Information as to current ownership is based upon information provided to us by the selling stockholders, which we have not independently verified. The selling stockholders are not making any representation that the shares covered by this prospectus will be offered for sale.

No selling stockholder listed below has held any position nor had any material relationship with us or our affiliates during the past three years.

Name of Selling Stockholder	Shares Beneficially Owned Prior to Offering	Maximum Number of Shares to be Sold	Number of Shares Beneficially Owned After Offering
SF Capital Partners Ltd.(1)	135,000	135,000	0
Bluegrass Growth Fund LP(2)	45,001	45,001	0
Bluegrass Growth Fund Ltd.(3)	45,001	45,001	0
Omicron Master Fund(4)	115,720	90,000	25,270
Iroquois Capital LP(5)	450,001	450,001	0
Smithfield Fiduciary LLC(6)	89,999	89,999	0
Portside Growth and Opportunity Fund(7)	90,000	90,000	0
Satellite Strategic Finance Associates, LLC(8)	405,000	405,000	0

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(1) Includes 35,000 shares of common stock issuable upon exercise of a warrant.

(2) Includes 11,667 shares of common stock issuable upon exercise of a warrant.

(3) Includes 11,667 shares of common stock issuable upon exercise of a warrant.

(4) Includes (i) 23,333 shares of common stock issuable upon exercise of a warrant, and (ii) 25,270 shares of common stock issuable upon exercise of a warrant that were previously registered.

(5) Includes 116,667 shares of common stock issuable upon exercise of a warrant.

(6) Includes 23,333 shares of common stock issuable upon exercise of a warrant.

(7) Includes 23,333 shares of common stock issuable upon exercise of a warrant.

(8) Includes 105,000 shares of common stock issuable upon exercise of a warrant.

JANUARY PRIVATE PLACEMENT

On January 15, 2004, we completed a private placement (the "January Private Placement") in which we sold an aggregate of 617,285 shares of common stock and issued warrants to purchase up to an aggregate of 154,320 shares of common stock to the selling stockholders listed in the table below. The registration statement (Registration No. 333-113209) covering the shares and underlying warrant shares in the January Private Placement was declared effective on April 30, 2004.

The following table sets forth as of January 25, 2005, information regarding the current beneficial ownership of our common stock by the selling stockholders from the January Private Placement and their beneficial ownership assuming sale of all of the shares of common stock offered hereby. Information as to current ownership is based upon information provided to us by the selling stockholders, which we have not independently verified. The selling stockholders are not making any representation that the shares covered by this prospectus will be offered for sale.

No selling stockholder has held any position nor had any material relationship with the Company or its affiliates during the past three years.

Name of Selling Stockholder	Shares Beneficially Owned Prior to Offering	Maximum Number of Shares to be Sold	Number Benef Ow After
Whalehaven Fund Limited(1)	5,144	5,144	

Omicron Master Fund(2)	115,720	25,720	90,0
Excalibur Limited Partnership(3)	15,432	15,432	
Vertical Ventures LLC(4)	25,720	25,720	
Stonestreet LP(5)	25,720	25,720	
Alpha Capital AG(6)	25,720	25,720	

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* Less than one percent.

(1) Represents shares of common stock issuable upon exercise of a warrant.

(2) Includes (i) 25,720 shares of common stock issuable upon exercise of a warrant, and (ii) 90,000 shares currently being registered under this registration statement.

(3) Represents shares of common stock issuable upon exercise of a warrant.

(4) Represents shares of common stock issuable upon exercise of a warrant.

(5) Represents shares of common stock issuable upon exercise of a warrant.

(6) Represents shares of common stock issuable upon exercise of a warrant.

WARRANTS

In connection with a private placement consummated in March 2002, PacificNet granted warrants to purchase up to 600,000 shares of Common Stock. The holder of this warrant