OVERVIEW

The Group is a provider of business equipment and tax control equipment based in the PRC. The Group excels, in particular, in the production of SDM printers. Its headquarters and operation base are located in Jiangmen. The Group's core activities are (i) the design, manufacture and sales of business equipment and tax control equipment under its owned brand name "Jolimark" (ii) the distribution in the PRC of Epson branded SDM printers and (iii) the manufacture in the PRC of business equipment, tax control equipment and other electronic products on EMS/ODM/OEM basis. Substantially all of the Group's products are sold domestically in the PRC.

The Group's Jolimark branded products include SDM printers, LED colour printers, mini printers, anti-fraud invoice printers (VAT invoice), tax control printers, and other tax control equipment. The Group's Jolimark branded products are applicable to users in various industries, including government authorities and business sectors such as the banking, finance and medical healthcare sectors.

The Group is experienced in producing business equipment utilising optical, mechanical and electrical engineering technology. Such business equipment includes SDM printers, projectors and other digital display products. In addition, the Group has produced, on an EMS/ODM/OEM basis, tax control equipment and other electronic products by capitalising on its know-how in SMT and PCBA. Most of the Group's top five EMS/ODM/OEM customers are international brand owners of consumer electronics and business equipment, which include Epson, OKI and Neopost.

The Group's turnover grew from approximately RMB565.9 million for the financial year ended 31st December, 2002, to approximately RMB814.1 million for the financial year ended 31st December, 2003 and to approximately RMB966.0 million for the financial year ended 31st December, 2004 representing a year-on-year increase of approximately 43.9% and 18.7%, respectively. At the same time, The Group's net profit grew from approximately RMB68.2 million for the financial year ended 31st December, 2002 to approximately RMB77.5 million for the financial year ended 31st December, 2003 and to approximately RMB86.2 million for the financial year ended 31st December, 2004 representing a year-on-year increase of approximately 13.6% and 11.2% respectively.

FACTORS AFFECTING THE GROUP'S RESULT OF OPERATIONS

The Group's turnover and its ability to continue to generate profits are substantially affected by a number of factors, including the following principal factors:

1. Government policy

The Group intends to capitalise on the PRC government's "Golden Tax Project" to develop, manufacture and sell tax control equipment, for which the Directors perceive there to be immense market potential. However, the market for tax control equipment in the PRC is policy driven. Any delay in the promulgation or implementation of relevant legislation, policies and standards and/or change in government policy (which currently encourages the use of such products) could adversely affect the Group's prospects and future profitability. For more details, see the paragraph headed "Viability of the Group's tax control equipment related business" in the section headed "Risk Factors".

Being one of the 28 members of the Tax Control ECR Standards Working Group which was established by the MII and tasked with the drafting of national standards for tax control ECRs, the Directors believe that with its early participation in the market of tax control equipment, the Group would be able to closely monitor the change in the relevant government policy and revise its business strategies for development of tax control equipment market effectively.

2. The Group's effectiveness in competing with international and local competitors

Sales and distribution of Jolimark branded products

The Group competes with both domestic and international branded manufacturers of SDM printers and tax control equipment in the PRC market. The selling price of SDM printers and tax control equipment has been significantly influenced by the intense competition in the PRC market.

In particular, the Group are affected by the ability of its international and domestic competitors to introduce new products and features that have the potential to replace or shorten the life cycles of the Group's products and may cause SDM printers and tax control equipment users to defer purchasing the Group's existing products.

To maintain its competitiveness in the SDM printers and tax control equipment market in the PRC, the Group's strategy is to focus on establishing its own brand in association with affordable and versatile printing equipment and tax control equipment, designed to meet the needs of PRC end users.

EMS/ODM/OEM business

Amid the trend of globalisation, the cost advantages of the PRC have attracted substantial foreign companies to outsource its manufacturing activities to the manufacturers in the PRC. There are a large number of OEM manufacturers in the PRC which may compete with the Group, and may affect the Group's turnover and profitability.

To the best knowledge of the Directors, most OEM manufacturers in the PRC do not have an established distribution and after-sales services network. To differentiate from the Group's competitors and strengthen the Group's competitiveness in developing its EMS/ODM/OEM business, the Group provides a range of value-added services to its customers. Such value-added services include direct materials procurement, after-sales services and sale distribution. In addition, the Directors consider that offering such value-added services not only assists the Group in securing business with its customers, but also allows the Group to sustain its profitability.

To further explore the outsourcing market in overseas countries, the Group intends to establish overseas offices in Singapore, Japan and Hong Kong to proactively develop its overseas EMS/ODM/OEM customer base.

RECENT ACCOUNTING PRONOUNCEMENT

As stated in Appendix I to this prospectus, the Group's audited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with statements of standard accounting practice issued by the HKICPA.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the new HKFRSs is unlikely to have a significant impact on the Group's financial position as at 31st December, 2004 and the Group's results of operation for the year then ended. A summary of significant differences between new HKFRSs and current accounting policies that are expected to affect the Group are as follows:

Goodwill

Under HKFRS 3 "Business Combinations", goodwill will no longer be amortised but instead will be subject to rigorous annual impairment testing. This will result in a change to the Group's current accounting policy under which goodwill is amortised over its useful life up to 10 years and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortisation will no longer be charged, but goodwill will be tested annually for impairment, as well as when there are indications of impairment. This new policy will be applied prospectively from 1st January, 2005. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the conditions under which impairment will be assessed are not yet known.

Intangible asset arising from business combinations

Under HKFRS 3 "Business Combinations", intangible asset should be recognised separately from goodwill in a business combination when it arises from contractual or other legal rights, or if it is separable. This will result in more intangible assets and less goodwill will be recognised on business combinations. Such as trademarks and customer relationships will be recognised on business combinations under the new policy, whereas such assets are not recognised under the Group's current accounting policy. This new accounting policy will be applied to the accounting for business combinations for which the agreement date is on or after 1st January, 2005.

Financial instruments

Under HKAS 39 "Financial Instruments: Recognition and Measurement", financial instruments will be carried at either amortised cost or fair value, depending on their classification. Depending on the classification of the financial instruments, movements in fair value will be either charged to net profit or loss or taken to equity in accordance with the standard.

This new accounting policy will be applied prospectively from 1st January, 2005 and there is no material effect on the current group accounting policy. The requirements to recognise derivatives and certain other financial instruments with changes in fair value being reflected in the profit and loss account may result in increased volatility in the Group's profit and net assets.

Functional currency

Under HKAS 21 "The Effects of Changes in Foreign Exchange Rates", the Group has re-evaluated the functional currency of each of the consolidated entities based on HKAS 21. All the Group entities have the same functional currency as their measurement currency. There is no material effect on the Group's policy.

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Group's financial statements are in accordance with accounting principles generally accepted in Hong Kong and conform with HKFRS issued by HKICPA. A summary of the principal accounting policies used in the preparation of the Group's financial statements is set forth in note 2 of the accountants' report in Appendix I to this prospectus. The Group's reported financial performance and financial conditions are sensitive to accounting policies, assumptions and estimates that underlie the preparation of the combined financial statements.

In reporting the Group's financial performance and conditions, the Directors are required to exercise their judgments based on their experience, their knowledge of other companies in the industry and on other assumptions that they consider reasonable. The Directors believe that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Group's financial statements. There had been no changes to the following estimation and assumption in the past.

Turnover

The Group's turnover mainly include, sales, excluding relevant VAT, of business equipment, tax control equipment and other electronic products manufactured and distributed by the Group, and is recognised once goods have been delivered to the Group's customers, including the Connected Distributors, and title has been passed.

Depreciation of fixed assets

The Group depreciates its fixed assets at rates sufficient to write off their costs or revalued amounts less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. The Group reviews the useful lives periodically to ensure that method and rates of depreciation are consistent with the expected pattern of economic benefits from fixed assets. The Group estimates the useful lives of fixed assets based on Directors' historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense in the future periods will change if there are significant changes from previous estimates.

Impairment of non-current assets

At each balance sheet date, the Group consider both internal and external sources of information to assess whether there is any indication that non-current assets, including fixed assets, are impaired. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised to reduce the carrying amount of the asset to its recoverable amount. Estimated recoverable amounts are determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use or net selling price. Such impairment losses are recognised in the income statement, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the Group's future results if there is a significant change of the recoverable amounts of the Group's non-current assets.

Provision for doubtful debts

The Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of the Group's accounts receivable balance, customer creditworthiness, and historical write-off experience. If the financial condition of the Group's customers are to deteriorate, actual write-offs might be higher than expected, the Group would be required to revise the basis of making the allowance and the Group's future results would be affected. The Group's doubtful debts provision during the Track Record Period amounted to approximately RMB267,000, RMB1.1 million and RMB3.1 million respectively. The increase of the Group's provision for bad and doubtful debts during the Track Record Period was mainly attributable to the increase of the Group's turnover.

Inventories

The inventories reported in the Group's balance sheet comprise raw materials, work-in-progress and finished goods and their values are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

The Group has not adopted a general provision policy for inventories. The Group will make provision for obsolete and slow-moving inventories where their net realisable values are estimated to be lower than their costs.

During the three years ended 31st December, 2004, the write-down of inventories amounted to approximately RMB2,195,000, RMB1,684,000 and RMB1,488,000 respectively.

Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development have been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset to generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The Group only incurred research expenses during the Track Record Period, such expenses were not capitalised as they did not fulfill the capitalisation criteria of the Group's accounting policy. The Group's research and development cost during the Track Record Period amounted to approximately RMB1.4 million, RMB4.2 million and RMB3.6 million respectively.

SELECTED COMBINED FINANCIAL DATA AND OPERATING DATA

The selected combined financial data set forth below, is extracted from, and should be read in conjunction with, the Group's combined financial information during the Track Record Period ("Financial Information") set forth in the accountants' report, the text of which is set forth in Appendix I to this prospectus. The Financial Information has been prepared in accordance with the accounting principles generally accepted in Hong Kong.

The combined profit and loss account data set forth below presents the results of operations of the companies now comprising the Group as if the current structure of the Group had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment or effective date of acquisition, whichever is the shorter period.

For the purposes of this section, unless the context otherwise requires, references to “2002”, “2003” and “2004” refer to the Group’s financial year ended 31st December of such year.

Profit and loss account data

	Year ended 31st December, 2002	2003	2004
	RMB’000	*RMB’000*	*RMB’000*
Turnover	565,923	814,127	965,972
Cost of sales	(452,172)	(673,722)	(810,959)
Gross profit	113,751	140,405	155,013
Other revenues	3,928	7,207	5,243
Distribution costs	(15,242)	(22,919)	(24,322)
Administrative expenses	(23,790)	(30,587)	(30,691)
Operating profit	78,647	94,106	105,243
Finance costs	(602)	(1,887)	(3,979)
Share of losses of associated companies	(46)	(26)	(1,373)
Profit before taxation	77,999	92,193	99,891
Taxation	(3,340)	(12,088)	(12,590)
Profit after taxation	74,659	80,105	87,301
Minority interests *(note)*	(6,440)	(2,625)	(1,076)
Profit for the year	68,219	77,480	86,225
Dividends	108,328	69,000	92,275

Note:

The amounts of minority interests decreased continuously during the Track Record Period due to the following reasons:

Year 2003

The Group’s minority interests decreased from approximately RMB6.4 million in 2002 to approximately RMB2.6 million in 2003. Such decrease was primarily due to the acquisition of 10% shareholding in Kongyue Jolimark by the Group from its then minority shareholder in May 2003. After the acquisition, there was no minority interest in Kongyue Jolimark.

Year 2004

The Group’s minority interests decreased from approximately RMB2.6 million in 2003 to approximately RMB1.1 million during 2004. Such decrease primarily reflected the transformation of Kongyue Jolimark into a wholly-owned subsidiary after May 2003.

The selected balance sheet data set forth below presents the financial position of the companies now comprising the Group as if the current structure of the Group had been in existence throughout the periods under review.

Selected balance sheet data

	As at 31st December,		
	2002	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	54,711	52,358	73,407
Current assets	349,102	432,406	388,054
Total assets	403,813	484,764	461,461
Current liabilities	269,958	340,030	256,808
Net current assets	79,144	92,376	131,246
Total assets less current liabilities	133,855	144,734	204,653
Owners' equity	122,252	140,321	194,282

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP'S COMBINED RESULTS

Investors should read the following discussion and analysis in conjunction with the Group's combined financial information during the Track Record Period set forth in the accountants' report included as Appendix I to this prospectus.

Principal income statements components

(1) ***Turnover***

(a) *Sales of business equipment and tax control equipment under Jolimark brand*

The Group derives turnover from the sales of Jolimark branded products, including SDM printers, LED colour printers and tax control equipment. The turnover from the sales of Jolimark branded products represents the invoiced value for the sales of goods net of rebates, discount and value-added tax.

(b) *Sales of Epson branded SDM printers*

Being a major distributor of certain models of Epson branded SDM printers in the PRC, the Group derives turnover from the sales of Epson branded SDM printers sourced from Epson.

(c) *Provision of EMS/ODM/OEM services ("EMS/ODM/OEM Businesses")*

The Group derives turnover by way of fees from the provision of EMS/ODM/OEM services. Products of the Group on EMS/ODM/OEM businesses include tax control equipment and other electronic products.

Revenue derived from Epson branded SDM printers manufactured by the Group on an OEM basis (including those SDM printers manufactured and distributed by the Group as part of the value-added services it provides) has been accounted for under EMS/ODM/OEM businesses. Since 2004, the Group has ceased producing SDM printers for Epson on an OEM basis. During the Track Record Period, the revenue attributed to the production of SDM printers for Epson on an OEM basis amounted to approximately RMB97.4 million, RMB105.4 million, and RMB28.9 million respectively. The Directors consider that the termination of the Group's production of SDM printers for the Epson Group on OEM basis (while it affected the Group's gross profit and gross profit margins for EMS/ODM/OEM in 2003) did not pose a significant negative impact on the Group' business as a whole because (1) the Group has continued to develop its OEM/ODM/EMS business with other new customers; and (2) the Group has continued to produce LCD projectors and PCBAs for the Epson Group on OEM basis.

Set out below is the breakdown of turnover by product categories and business activities:

By product categories

	Year ended 31st December,					
	2002		**2003**		**2004**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Printers *(Note 1)*	314,200	55.5	383,649	47.1	464,955	48.1
Projectors	146,506	25.9	189,447	23.3	230,600	23.9
Other electronic products	11,347	2.0	71,736	8.8	98,130	10.2
PCBAs	38,006	6.7	94,243	11.6	80,342	8.3
Tax control equipment *(Note 2)*	55,864	9.9	75,052	9.2	91,945	9.5
Total	565,923	100.0	814,127	100.0	965,972	100.0

Notes:

(1) Includes printers for general printing purposes.

(2) Includes tax control printers and anti-fraud invoice printers (VAT invoice).

By business activities

	Year ended 31st December,					
	2002		**2003**		**2004**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sales of business equipment and tax control equipment under Jolimark brand	94,727	16.7	177,323	21.8	277,963	28.8
Sales of Epson branded SDM printers	142,498	25.2	180,961	22.2	242,576	25.1
EMS/ODM/OEM Businesses	328,698	58.1	455,843	56.0	445,433	46.1
Total turnover	565,923	100.0	814,127	100.0	965,972	100.0

(2) *Cost of sales*

It mainly comprises direct materials, direct labour and manufacturing overheads.

The table below summarises the breakdown of cost of sales of the Group:

	2002	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Direct materials	435,869	654,328	790,856
Director labour	3,385	5,474	6,405
Overheads			
— Depreciation cost	4,187	5,532	7,052
— Others	8,731	8,388	6,646
Total	452,172	673,722	810,959

During the Track Record Period, direct materials accounted for approximately 96.4%, 97.1% and 97.5% of the Group's cost of sales.

(3) *Other revenues*

Other revenues mainly comprise the repair and maintenance service fees, incentive funds granted by Industrial Park and bank interest income.

(4) *Distribution costs*

Distribution costs include warranty expenses, transportation expenses, advertising and promotional expenses, salaries and travelling expenses for sales staff, and management fees paid to the Connected Distributors.

(5) *Administrative expenses*

Administrative expenses mainly include staff costs (salaries, staff welfare and compensation), travelling expenses, depreciation, research and development costs, office expenses, provisions for inventory and doubtful debts.

The table below summarises the breakdown of administrative expenses of the Group:

	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*
Travelling expenses	2,526	3,933	3,363
Telephone	709	871	635
Office expenses	410	1,000	1,678
Water and electricity	262	299	368
Company image promotion	43	704	254
Charges for verification	222	295	260
Postage	56	125	111
Staff costs	10,364	8,494	7,580
Depreciation	1,003	2,236	2,234
Bad debts provision	267	1,088	3,110
Write-down of inventories	2,195	1,684	1,488
Research and development costs	1,423	4,188	3,615
Others	4,310	5,670	5,995
Total	23,790	30,587	30,691

During the three years ended 31st December, 2004, the write-down of inventories amounted to approximately RMB2,195,000, RMB1,684,000 and RMB1,488,000 respectively.

(6) *Taxation*

Pursuant to the PRC Foreign Investment Enterprises and Foreign Enterprise Income Tax Law 《中華人民共和國外商投資企業和外國企業所得稅法》and the PRC Foreign Investment Enterprises and Foreign Enterprises Income Tax Law Implementation Rules 《中華人民共和國外商投資企業和外國企業所得稅法實施細則》, and confirmed by the PRC legal advisers to the Company, Kongyue Jolimark and Kongyue Information, being foreign investment enterprises established in Xinhui (a Coastal Open Economic Zone of the PRC), are subject to an annual income tax rate of 27% which comprised 24% of national income tax and 3% of local municipal income tax. Moreover, pursuant to the PRC Foreign Investment Enterprises and Foreign Enterprise Income Tax Law, Kongyue Jolimark and Kongyue Information, being foreign investment manufacturing enterprises with an operating period of over ten years, are entitled to full exemption from national enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Subject to the approval of local tax authorities, local municipal income tax can also be exempted in the tax holiday period. Kongyue Jolimark and Kongyue Information started to derive taxable income in 2001 and 2000, respectively, and have obtained the approvals from the local tax authority, Xin Hui State Taxation Bureau (新會區稅務部門) to enjoy the aforementioned preferential tax treatment.

As advised by the PRC legal advisers to the Company, Xin Hui State Taxation Bureau was the appropriate tax authority to grant the approvals of preferential tax treatments to Kongyue Information and Kongyue Jolimark in accordance with the PRC Foreign Investment Enterprises and Foreign Enterprise Income Tax Law《中華人民共和國外商投資企業和外國企業所得稅法》.

The tax payable by the Group amounted to approximately RMB5.9 million as at 31st December, 2004. Up to 30th April, 2005, a total of tax payment of approximately RMB4.5 million has been made.

As confirmed by the Directors, the Group has settled all its tax obligations during the Track Record Period. During the Track Record Period, the Group paid VAT tax to relevant tax authorities in the PRC on behalf of its customers and the customers reimbursed the Group for such tax payment later in the form of mark up of the goods purchased from the Group.

Review of past performance

2004 compared with 2003

Turnover

The Group's total turnover increased by approximately RMB151.9 million, or 18.7%, from approximately RMB814.1 million in 2003 to approximately RMB966.0 million in 2004. Such increase was primarily due to the increase in turnover for the sales of Jolimark branded products and Epson branded SDM printers.

Turnover mix

Set out below is a breakdown of the Group's total turnover, gross profit and gross profit margin by business activities and product categories in 2003 and 2004 respectively:

(1) *By business activities*

	2003			**2004**		
	Turnover *(RMB'000)*	**Gross profit** *(RMB'000)*	**Gross profit margin** %	**Turnover** *(RMB'000)*	**Gross profit** *(RMB'000)*	**Gross profit margin** %
Sales of business equipment and tax control equipment under Jolimark brand	177,323	57,420	32.4	277,963	86,066	31.0
Sales of Epson branded SDM printers	180,961	21,183	11.7	242,576	17,474	7.2
EMS/ODM/OEM Businesses	455,843	61,802	13.6	445,433	51,473	11.6
Total	814,127	140,405	17.2	965,972	155,013	16.1

In 2004, the EMS/ODM/OEM businesses was the largest turnover contributor which accounted for approximately 46.1% of the Group's total turnover. The remaining 28.8% and 25.1% of the Group's total turnover were contributed by the sales of business equipment and tax control equipment under Jolimark brand and the sales of Epson branded SDM printers respectively.

Set out below is a detailed analysis for the Group's business segments:

(a) *Sales of business equipment and tax control equipment under Jolimark brand*

The turnover derived by the Group from the sales of business equipment and tax control equipment under Jolimark brand increased by approximately RMB100.7 million, or 56.8%, from approximately RMB177.3 million in 2003 to approximately RMB278.0 million in 2004. Such increase was primarily due to the Group's marketing efforts and the introduction of three new models of Jolimark branded products in 2004.

(b) *Sales of Epson branded SDM printers*

The turnover derived by the Group from the sales of Epson branded SDM printers in the PRC increased by approximately RMB61.6 million, or 34.0%, from approximately RMB181.0 million in 2003 to approximately RMB242.6 million in 2004. The Directors believe that such an increase was primarily due to the continued increase in demand for SDM printers in governmental and commercial sectors in the PRC after the implementation of "Twelve Gold Projects" which stimulated the usage of SDM printers for printing computerised reports, forms and invoices.

During the preparation for the listing of the Shares, the Directors discovered that the Group's distribution activities was inconsistent with the PRC national regulations. Until Kongyue Information obtained a new business licence with an expanded scope of business, the Group was not allowed to distribute Epson branded printers procured by it in order to ensure compliance with the prevailing PRC national laws. Therefore, during July to August 2004, the sales of Epson branded SDM printers by the Group were interrupted. After the Group obtained a new business licence with an expanded scope of business on 3rd September, 2004, the Group's distribution activities for Epson branded SDM printers resumed.

(c) *EMS/ODM/OEM Businesses*

The turnover derived by the Group from the EMS/ODM/OEM Businesses decreased by approximately RMB10.4 million, or 2.3%, from approximately RMB455.8 million in 2003 to approximately RMB445.4 million in 2004. Such decrease primarily reflected the decrease in the sales of PCBAs during 2004.

(2) *By product categories*

	2003					2004				
	Number of units sold	**Average selling price** *(RMB)*	**Turnover** *(RMB'000)*	**Gross profit** *(RMB'000)*	**Gross profit margin** *(%)*	**Number of units sold**	**Average selling price** *(RMB)*	**Turnover** *(RMB'000)*	**Gross profit** *(RMB'000)*	**Gross profit margin** *(%)*
Printers	278,309	1,379	383,649	74,613	19.4	320,240	1,452	464,955	74,282	16.0
Tax control equipment	38,159	1,967	75,052	33,536	44.7	48,978	1,877	91,945	40,449	44.0
Projectors	19,210	9,862	189,447	10,454	5.5	28,873	7,987	230,600	19,559	8.5
PCBAs	792,759	119	94,243	8,937	9.5	735,111	109	80,342	6,873	8.6
Other electronic products	30,665	2,339	71,736	12,865	17.9	114,468	857	98,130	13,850	14.1
Total	1,159,102	702	814,127	140,405	17.2	1,247,670	774	965,972	155,013	16.1

In 2004, printers was the largest product segment of the Group which contributed approximately 48.1% of the Group's total turnover. The remaining 23.9%, 10.2%, 9.5% and 8.3% of the Group's turnover were contributed by the sales of projectors, other electronic products, tax control equipment and PCBAs respectively.

Set out below is a detailed analysis for the Group's product segments:

(a) *Printers*

The total number of printers sold by the Group increased by approximately 41,931 units, or 15.1% from approximately 278,309 units in 2003 to approximately 320,240 units in 2004.

The total number of Jolimark branded printers sold by the Group increased by approximately 11,867 units, or 19.3% from approximately 61,638 units in 2003 to approximately 73,505 units in 2004. The percentage of Jolimark branded printers over the total number of printers sold by the Group increased from 22.1% in 2003 to 23.0% in 2004. The Directors consider that the increase in the sales of Jolimark branded printers was primarily attributable to the Group's marketing efforts and the introduction of three new models of Jolimark branded printers in 2004.

The average selling price of printers sold by the Group increased by RMB73, or 5.3%, from RMB1,379 in 2003 to RMB1,452 in 2004.

The total turnover derived by the Group from the sales of printers increased by approximately RMB81.4 million, or 21.2%, from approximately RMB383.6 million in 2003 to approximately RMB465.0 million in 2004.

(b) *Tax control equipment*

The total number of tax control equipment sold by the Group increased by approximately 10,819 units, or 28.4% from approximately 38,159 units in 2003 to approximately 48,978 units in 2004.

The average selling price of tax control equipment sold by the Group decreased by RMB90, or 4.6% from RMB1,967 in 2003 to RMB1,877 in 2004.

The total turnover derived by the Group from the sales of tax control equipment increased by approximately RMB16.9 million, or 22.5% from approximately RMB75.1 million in 2003 to approximately RMB92.0 million in 2004.

(c) *Projectors*

The total number of projectors sold by the Group increased by approximately 9,663 units, or 50.3% from approximately 19,210 units in 2003 to approximately 28,873 units in 2004, and such increase reflected the increase of purchases by Epson during 2004.

The average selling price of projectors sold by the Group decreased by RMB1,875, or 19.0%, from RMB9,862 in 2003 to RMB7,987 in 2004. The fall of average selling price of projectors reflected the competition in projectors market in the PRC.

The total turnover derived by the Group from the sales of projectors increased by approximately RMB41.2 million, or 21.7%, from approximately RMB189.4 million in 2003 to approximately RMB230.6 million in 2004.

(d) *PCBAs*

The total number of PCBAs sold by the Group decreased by approximately 57,648 units, or 7.3%, from approximately 792,759 units in 2003 to approximately 735,111 units in 2004.

The average selling price of PCBAs sold by the Group decreased by RMB10, or 8.4%, from RMB119 in 2003 to RMB109 in 2004.

The total turnover derived by the Group from the sales of PCBA decreased by approximately RMB13.9 million, or 14.8%, from approximately RMB94.2 million in 2003 to approximately RMB80.3 million in 2004. The Directors confirm that the fall in the sales of PCBAs was due to the decrease in purchases by Epson in 2004.

(e) *Other electronic products*

The total number of other electronic products sold by the Group increased by approximately 83,803 units, or 273.3% from approximately 30,665 units in 2003 to approximately 114,468 units in 2004.

The average selling price of other electronic products sold by the Group decreased by RMB1,482, or 63.3%, from RMB2,339 in 2003 to RMB857 in 2004. The fall of average selling price of other electronic products was due to the change of product mix manufactured by the Group for its customers as more products with lower selling price, including car audio products, were manufactured by the Group in 2004.

The total turnover derived by the Group from the sales of other electronic products increased by approximately RMB26.4 million, or 36.8%, from approximately RMB71.7 million in 2003 to approximately RMB98.1 million in 2004. Such increase primarily reflected that the Group commenced the manufacturing of car audio products and mail folder inserter machines for its customer on OEM basis in the first quarter of 2004 and the third quarter of 2003 respectively.

Gross profit

The Group's gross profit increased by approximately RMB14.7 million, or 10.5%, from approximately RMB140.4 million in 2003 to approximately RMB155.0 million in 2004.

(1) *By business activities*

In 2004, the sales of business equipment and tax control equipment under Jolimark brand contributed approximately 55.5% of the Group's gross profit. The remaining 33.2% and 11.3% of the Group's gross profit were contributed by the EMS/ODM/OEM Businesses and the sales of Epson branded SDM printers respectively.

The Group's gross profit margin decreased slightly from 17.2% in 2003 to 16.1% in 2004. The decrease was mainly due to the fall in gross profit margin of the sales of Epson branded SDM printers and the EMS/ODM/OEM Businesses which reflected the keen competition in the PRC market.

(a) *Sales of business equipment and tax control equipment under Jolimark brand*

The gross profit for the sales of business equipment and tax control equipment under Jolimark brand increased by approximately RMB28.7 million, or 50.0%, from approximately RMB57.4 million in 2003 to approximately RMB86.1 million in 2004.

The gross profit margin for the sales of business equipment and tax control equipment under Jolimark brand decreased slightly from 32.4% in 2003 to 31.0% in 2004. The slight decrease in the gross profit margin was a result of the fall of average selling price of Jolimark branded products.

(b) *Sales of Epson branded SDM printers*

The gross profit for the sales of Epson branded SDM printers decreased by approximately RMB3.7 million, or 17.5%, from approximately RMB21.2 million in 2003 to approximately RMB17.5 million in 2004.

The gross profit margin for the sales of Epson branded SDM printers decreased from 11.7% in 2003 to 7.2% in 2004. The Directors consider that the fall in gross profit and gross profit margin from the sales of Epson branded SDM printers were mainly due to the keen competition in the PRC market and the negative impact from the interruption of the Group's distribution activities for Epson branded SDM printers during July to August 2004.

(c) *EMS/ODM/OEM Businesses*

The gross profit for the EMS/ODM/OEM Businesses decreased by approximately RMB10.3 million, or 16.7%, from approximately RMB61.8 million in 2003 to approximately RMB51.5 million in 2004.

The gross profit margin for the EMS/ODM/OEM Businesses decreased from 13.6% in 2003 to 11.6% in 2004. The Directors consider that the fall in gross profit and gross profit margin from the EMS/ODM/OEM Businesses was mainly due to the keen competition in the PRC market and the negative impact from the discontinuation of the Group for the production of Epson branded SDM printers since the end of 2003.

(2) *By product categories*

In 2004, the sales of printers contributed approximately 47.9% of the Group's gross profit. The remaining 26.1%, 12.6%, 8.9% and 4.4% of the Group's gross profit were contributed by the sales of tax control equipment, projectors, other electronic products and PCBAs respectively.

The Group's gross profit margin decreased slightly from 17.2% in 2003 to 16.1% in 2004. The fall in the Group's gross profit margin was mainly due to the fall in gross profit margin of the sales of printers and other electronic products.

(a) *Printers*

The gross profit for the sales of printers decreased by approximately RMB0.3 million, or 0.4%, from approximately RMB74.6 million in 2003 to approximately RMB74.3 million in 2004.

The gross profit margin for the sales of printers decreased from 19.4% in 2003 to 16.0% in 2004 which was mainly due to the decrease in the gross profit margin for the sales of Epson branded SDM printers during the same period.

(b) *Tax control equipment*

The gross profit for the sales of tax control equipment increased by approximately RMB6.9 million, or 20.6%, from approximately RMB33.5 million in 2003 to approximately RMB40.4 million in 2004.

The gross profit margin for the sales of tax control equipment decreased slightly from 44.7% in 2003 to 44.0% in 2004. The decrease was mainly attributable to the decease of average selling price of tax control equipment which reflected the competition of the tax control equipment market in the PRC.

(c) *Projectors*

The gross profit for the sales of projectors increased by approximately RMB9.1 million, or 86.7%, from approximately RMB10.5 million in 2003 to approximately RMB19.6 million in 2004.

The gross profit margin for the sales of projectors increased from 5.5% in 2003 to 8.5% in 2004.

The Directors consider that the increase in gross profit and gross profit margin from the sales of projectors were mainly due to the fall of average production cost as the scale of production increased during 2004.

(d) *PCBAs*

The gross profit for the sales of PCBAs decreased by approximately RMB2.0 million, or 22.5%, from approximately RMB8.9 million in 2003 to approximately RMB6.9 million in 2004.

The gross profit margin for the sales of PCBAs decreased from 9.5% in 2003 to 8.6% in 2004.

(e) *Other electronic products*

The gross profit for the sales of other electronic products increased by approximately RMB1.0 million, or 7.8%, from approximately RMB12.9 million in 2003 to approximately RMB13.9 million in 2004.

The gross profit margin for the sales of other electronic products decreased from 17.9% in 2003 to 14.1% in 2004 which was due to (1) keen competition in the PRC market; and (2) the change of product mix manufactured by the Group as more products with lower gross profit margin were manufactured during 2004.

Other revenues

The Group's other revenues decreased by approximately RMB2 million, or 27.8%, from approximately RMB7.2 million in 2003 to approximately RMB5.2 million in 2004, which was primarily due to the decrease of incentive subsidies provided by Industrial Park from approximately RMB4.3 million in 2003 to RMB3.2 million in 2004.

Distribution costs

The Group's distribution costs increased by approximately RMB1.4 million, or 6.1%, from approximately RMB22.9 million in 2003 to approximately RMB24.3 million in 2004. Such increase was primarily due to the increase in advertising and promotion expenses for brand building in 2004.

In July 2004, 106 staff members employed by the Connected Distributors, representing 93% of the total staff members of the Connected Distributors, were transferred to the Group.

Although the transfer of the staff members previously employed by the Connected Distributors had resulted in the Group incurring additional monthly staff cost of approximately RMB158,000, the Directors confirm that such increase in staff cost did not have a significant impact to the Group's distribution cost as Group no longer need to pay the management fee and service fee to the Connected Distributors for the services provided by the Connected Distributors after the transfer of employees.

Administrative expenses

The Group's administrative expenses increased slightly by approximately RMB0.1 million, or 0.3%, from approximately RMB30.6 million in 2003 to approximately RMB30.7 million in 2004.

As at 31st December, 2004, the trade receivables aged over 90 days amounted to approximately RMB29.4 million. As at 30th April, 2005, approximately RMB24.8 million of trade receivables aged over 90 days as at 31st December, 2004 were subsequently settled. Based on the above, the Directors consider that the provision for bad and doubtful debts was adequate and no further provision would need to be made for the bad and doubtful debts.

Taxation

In 2004, the Group's taxation amounted to approximately RMB12.6 million, representing an increase of approximately RMB0.5 million or 4.1% in comparison with 2003. The applicable enterprise income tax rate was 27%, which comprised 24% attributable to national income tax and 3% attributable to local municipal income tax. In accordance with the relevant applicable tax regulations, Kongyue Jolimark and Kongyue Information are entitled to full exemption from national enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local municipal income tax is exempted in the tax holiday period. Kongyue Jolimark and Kongyue Information started to derive taxable income in 2001 and 2000, respectively. Hence, the effective tax rate of both Kongyue Jolimark and Kongyue Information was 12% in 2003 and 2004 respectively.

Profit for the year

As a result of the factors discussed above, the Group's profit for the year increased by approximately RMB8.7 million, or 11.2%, from approximately RMB77.5 million in 2003 to approximately RMB86.2 million in 2004.

The net profit margin decreased from 9.5% in 2003 to 8.9% in 2004. The fall was principally due to the decline in the Group's gross profit margin.

2003 compared with 2002

Turnover

The Group's total turnover increased by approximately RMB248.2 million, or 43.9%, from approximately RMB565.9 million in 2002 to approximately RMB814.1 million in 2003. The increase in the Group's total turnover was primarily due to the increase in turnover for all business segments of the Group.

Turnover mix

Set out below is a breakdown of the Group's total turnover, gross profit and gross profit margin by business activities and product categories in 2002 and 2003 respectively:

(1) *By business activities*

	2002			2003		
	Turnover *(RMB'000)*	**Gross profit** *(RMB'000)*	**Gross profit margin** *%*	**Turnover** *(RMB'000)*	**Gross profit** *(RMB'000)*	**Gross profit margin** *%*
Sales of business equipment and tax control equipment under Jolimark brand	94,727	36,753	38.8	177,323	57,420	32.4
Sales of Epson branded SDM printers	142,498	23,541	16.5	180,961	21,183	11.7
EMS/ODM/OEM Businesses	328,698	53,457	16.3	455,843	61,802	13.6
Total	565,923	113,751	20.1	814,127	140,405	17.2

In 2003, the EMS/ODM/OEM Businesses was the largest turnover contributor which contributed 56.0% of the Group's total turnover. The remaining 22.2% and 21.8% of the Group's total turnover were contributed by the sales of Epson branded SDM printers and the sales of business equipment and tax control equipment under Jolimark brand respectively. Set out below is a detailed analysis of the Group's business segments:

(a) *Sales of business equipment and tax control equipment under Jolimark brand*

The turnover derived by the Group from the sales of business equipment and tax control equipment under Jolimark brand increased by approximately RMB82.6 million, or 87.2%, from approximately RMB94.7 million in 2002 to approximately RMB177.3 million in 2003. Such increase was primarily due to the continued increase in sales of the Jolimark branded SDM printers and anti-fraud invoice printers (VAT invoice) in 2003.

In 2003, the turnover from the sales of Jolimark branded anti-fraud invoice printers (VAT invoice) increased by approximately RMB19.3 million, or 34.6%, from approximately RMB55.8 million in 2002 to approximately RMB75.1 million in 2003. Such increase was primarily due to (1) the increased demand for tax control equipment which was stimulated by the resumption of the implementation of the "Golden Tax Project" since March 2002; (2) a new model of anti-fraud invoice printers (VAT invoice), FP-5800K, was introduced by the Group in March 2003; and (3) the Group's increased advertising and promotional efforts, such as joint marketing program organised by the Group and its core distributors.

In addition, the sales of the Jolimark branded printers increased by approximately RMB63.4 million, or 163%, from approximately RMB38.9 million in 2002 to approximately RMB102.3 million in 2003. The Directors consider that the strong performance of the sales of Jolimark branded printers in 2003 was primarily attributable to (1) the robust demand for SDM printers in governmental and commercial sectors under the implementation of the "Twelve Gold Projects"; (2) the Group's increased advertising and promotional efforts; and (3) the continuous development of the Group's nationwide distribution network.

(b) *Sales of Epson branded SDM printers*

The turnover derived by the Group from the sales of Epson branded SDM printers increased by approximately RMB38.5 million, or 27.0%, from approximately RMB142.5 million in 2002 to approximately RMB181.0 million in 2003. Such increase was primarily due to the continued increase in demand for SDM printers in governmental and commercial sectors in the PRC.

(c) *EMS/ODM/OEM Businesses*

The turnover derived by the Group from EMS/ODM/OEM Businesses increased by approximately RMB127.1 million, or 38.7%, from approximately RMB328.7 million in 2002 to approximately RMB455.8 million in 2003. Such increase primarily reflected the increase in demand for the EMS/ODM/OEM Businesses from the existing customers and the establishment of new customers. In the third quarter of 2003, the Group was appointed by Neopost, a leading supplier of mailroom equipment in Europe, for the production of folder inserter machines on an OEM basis, which contributed a turnover of approximately RMB20.1 million to the turnover of Group in 2003.

(2) *By product categories*

	2002					2003				
	Number of units sold	Average selling price	Turnover	Gross profit	Gross profit margin	Number of units sold	Average selling price	Turnover	Gross profit	Gross profit margin
		(RMB)	*(RMB'000)*	*(RMB'000)*	*%*		*(RMB)*	*(RMB'000)*	*(RMB'000)*	*%*
Printers	210,114	1,495	314,200	69,278	22.0	278,309	1,379	383,649	74,613	19.4
Tax control equipment	24,108	2,317	55,864	26,389	47.2	38,159	1,967	75,052	33,536	44.7
Projectors	11,301	12,964	146,506	13,833	9.4	19,210	9,862	189,447	10,454	5.5
PCBAs	290,150	131	38,006	2,435	6.4	792,759	119	94,243	8,937	9.5
Other electronic products	6,309	1,799	11,347	1,816	16.0	30,665	2,339	71,736	12,865	17.9
Total	541,982	1,044	565,923	113,751	20.1	1,159,102	702	814,127	140,405	17.2

In 2003, printers was the largest product segment of the Group which contributed approximately 47.1% of the Group's total turnover. The remaining 23.3%, 11.6%, 9.2% and 8.8% of the Group's turnover were contributed by the sales of projectors, PCBA, tax control equipment and other electronic products respectively.

Set out below is a detailed analysis of the Group's product segments:

(a) *Printers*

The total number of printers sold by the Group increased by approximately 68,195 units, or 32.5% from approximately 210,114 units during 2002 to approximately 278,309 units during 2003.

The total number of Jolimark branded printers sold by the Group increased by approximately 38,822 units, or 170.2% from approximately 22,816 units in 2002 to approximately 61,638 units in 2003. The percentage of Jolimark branded printers over the total number of printers sold by the Group increased from 10.9% during 2002 to 22.1% during 2003.

The average selling price of printers sold by the Group decreased by RMB116, or 7.8% from RMB1,495 during 2002 to RMB1,379 during 2003. The fall of average selling price of printers reflected the competition in printers market in the PRC and the launch of low-priced SDM printers by the Group in 2003.

The total turnover derived by the Group from the sales of printers increased by approximately RMB69.4 million, or 22.1%, from approximately RMB314.2 million in 2002 to approximately RMB383.6 million in 2003.

(b) *Tax control equipment*

The total number of tax control equipment sold by the Group increased by approximately 14,051 units, or 58.3% from approximately 24,108 units during 2002 to approximately 38,159 units during 2003.

The average selling price of tax control equipment sold by the Group decreased by RMB350, or 15.1% from RMB2,317 in 2002 to RMB1,967 in 2003.

The total turnover derived by the Group from the sales of tax control equipment increased by approximately RMB19.2 million, or 34.3%, from approximately RMB55.9 million in 2002 to approximately RMB75.1 million in 2003.

(c) *Projectors*

The total number of projectors sold by the Group increased by approximately 7,909 units, or 70.0% from approximately 11,301 units in 2002 to approximately 19,210 units in 2003.

The average selling price of projectors sold by the Group decreased by RMB3,102, or 23.9% from RMB12,964 during 2002 to RMB9,862 during 2003. The fall of average selling price of projectors reflected the competition in projectors market in the PRC.

The total turnover derived by the Group from the sales of projectors increased by approximately RMB42.9 million, or 29.3%, from approximately RMB146.5 million in 2002 to approximately RMB189.4 million in 2003.

(d) *PCBAs*

The total number of PCBAs sold by the Group increased by approximately 502,609 units, or 173.2% from approximately 290,150 units in 2002 to approximately 792,759 units in 2003.

The average selling price of PCBAs sold by the Group decreased by RMB12, or 9.2% from RMB131 in 2002 to RMB119 in 2003.

The total turnover derived by the Group through the sales of PCBAs increased by approximately RMB56.2 million, or 148%, from approximately RMB38.0 million in 2002 to approximately RMB94.2 million in 2003.

(e) *Other electronic products*

The total number of other electronic products sold by the Group increased by approximately 24,356 units, or 386% from approximately 6,309 units in 2002 to approximately 30,665 units in 2003.

The average selling price of other electronic products sold by the Group increased by RMB540, or 30.0% from RMB1,799 in 2002 to RMB2,339 in 2003.

The total turnover derived by the Group from the sales of other electronic products increased by approximately RMB60.4 million, or 535%, from approximately RMB11.3 million in 2002 to approximately RMB71.7 million in 2003.

Gross profit

The Group's gross profit increased by approximately RMB26.6 million, or 23.4%, from approximately RMB113.8 million in 2002 to approximately RMB140.4 million in 2003.

(1) *By business activities*

In 2003, the EMS/ODM/OEM Businesses contributed 44.0% of the Group's gross profit. The remaining 40.9% and 15.1% of the Group's gross profit were contributed by the sales of business equipment and tax control equipment under Jolimark brand, and sales of Epson branded SDM printers respectively.

The Group's overall gross profit margin decreased from 20.1% in 2002 to 17.2% in 2003, which reflected (1) the keen competition in the SDM printer market in the PRC and the pricing pressure from customers of the EMS/ODM/OEM Businesses; and (2) the negative impact of strong yen on the procurement costs for direct material in 2003.

(a) *Sales of business equipment and tax control equipment under Jolimark brand*

The gross profit for the sales of business equipment and tax control equipment under Jolimark brand increased by approximately RMB20.6 million, or 56.0%, from approximately RMB36.8 million in 2002 to approximately RMB57.4 million in 2003.

The gross profit margin for the sales of business equipment and tax control equipment under Jolimark brand decreased from 38.8% in 2002 to 32.4% in 2003. The decrease in the gross profit margin reflected (1) the competitive price strategy adopted by the Group in order to maintain the competitiveness of Jolimark branded products; and (2) the negative impact of strong yen on the procurement costs for direct material in 2003. The cost of direct materials increased by approximately RMB218.4 million or 50.1% from approximately RMB435.9 million in 2002 to approximately RMB654.3 million in 2003.

(b) *Sales of Epson branded SDM printers*

The gross profit for the sales of Epson branded SDM printers decreased by approximately RMB2.3 million, or 9.8%, from approximately RMB23.5 million in 2002 to approximately RMB21.2 million in 2003.

The gross profit margin for the sales of Epson branded SDM printers also decreased from 16.5% in 2002 to 11.7% in 2003. The Directors consider that the decrease in gross profit margin was mainly attributable to the decrease of selling price of Epson branded SDM printer in the PRC which reflected the keen competition in the SDM printer market in the PRC.

(c) *EMS/ODM/OEM Businesses*

The gross profit for the EMS/ODM/OEM Businesses increased by approximately RMB8.3 million, or 15.6%, from approximately RMB53.5 million in 2002 to approximately RMB61.8 million in 2003.

The gross profit margin for the EMS/ODM/OEM Businesses decreased from 16.3% in 2002 to 13.6% in 2003. The Directors consider that the fall in the gross profit margin was the result of the pricing pressure from customers of the EMS/ODM/OEM Businesses which reflected the keen competition of EMS/ODM/OEM market in the PRC.

(2) *By product categories*

In 2003, the sales of printers contributed approximately 53.1% of the Group's gross profit. The remaining 23.9%, 9.2%, 7.4% and 6.4% of the Group's gross profit were contributed by the sales of tax control equipment, other electronic products, projectors and PCBAs respectively.

The Group's gross profit margin decreased from 20.1% in 2002 to 17.2% in 2003. The fall in the Group's gross profit margin was mainly due to the fall in gross profit margin of the sales of printers and tax control equipment.

(a) *Printers*

The gross profit for the sales of printers increased by approximately RMB5.3 million, or 7.7%, from approximately RMB69.3 million in 2002 to approximately RMB74.6 million in 2003.

The gross profit margin for the sales of printers decreased from 22.0% in 2002 to 19.4% in 2003. The decrease was mainly attributable to the decease of average selling price of SDM printers which reflected the competition of the SDM printers market in the PRC.

(b) *Tax control equipment*

The gross profit for the sales of tax control equipment increased by approximately RMB7.1 million, or 26.9%, from approximately RMB26.4 million in 2002 to approximately RMB33.5 million in 2003.

The gross profit margin for the sales of tax control equipment decreased from 47.2% in 2002 to 44.7% in 2003. The decrease was mainly attributable to the decease of average selling price of tax control equipment which reflected the competition of the tax control equipment market in the PRC.

(c) *Projectors*

The gross profit for the sales of projectors decreased by approximately RMB3.3 million, or 23.9%, from approximately RMB13.8 million in 2002 to approximately RMB10.5 million in 2003.

The gross profit margin for the sales of projectors decreased from 9.4% in 2002 to 5.5% in 2003. The decrease in gross profit margin was mainly attributable to the decease of average selling price of projectors which reflected the competition of the projectors market in the PRC.

(d) *PCBAs*

The gross profit for the sales of PCBAs increased by approximately RMB6.5 million, or 270.8%, from approximately RMB2.4 million in 2002 to approximately RMB8.9 million in 2003.

The gross profit margin for the sales of PCBAs increased from 6.4% in 2002 to 9.5% in 2003. The increase in gross profit margin was due to (1) the Group's efforts in sourcing direct materials from different suppliers lowering its direct materials procurement cost and (2) the decrease in the average production cost with the significant increase in the Group's production volume of PCBAs in 2003.

(e) *Other electronic products*

The gross profit for the sales of other electronic products increased by approximately RMB11.1 million, or 616.7%, from approximately RMB1.8 million in 2002 to approximately RMB12.9 million in 2003.

The gross profit margin for the sales of other electronic products increased from 16.0% in 2002 to 17.9% in 2003. The increase in gross profit margin was due to the commencement of manufacturing of mail folder inserter machines which had a higher gross profit margin compared to that of the other electronic products.

Other revenues

Other revenues increased by approximately RMB3.3 million, or 84.6%, from approximately RMB3.9 million in 2002 to approximately RMB7.2 million in 2003. The increase of other revenues reflected the Group's effort in developing its repair and maintenance services which contributed a total service fee of approximately RMB2.7 million in 2003, compared to a service fee of approximately RMB0.3 million in 2002. In addition, the incentive subsidies granted by Industrial Park to the Group increased from approximately RMB3.6 million in 2002 to approximately RMB4.3 million in 2003.

Distribution costs

The Group's distribution costs increased by approximately RMB7.7 million, or 50.7%, from approximately RMB15.2 million in 2002 to approximately RMB22.9 million in 2003. Such increase was primarily attributable to the rise of advertising and promotion cost incurred by the Group in order to promote and build up potential customers' awareness of the Jolimark branded products. The Group's advertising and promotion activities in the year included advertising in relevant trade journals and participating in trade fairs and exhibitions.

Administrative expenses

The Group's administrative expenses increased by approximately RMB6.8 million, or 28.6%, from approximately RMB23.8 million in 2002 to approximately RMB30.6 million in 2003. Such an increase was primarily attributable to (1) the rise of office expenses from approximately RMB0.4 million in 2002 to approximately RMB1 million in 2003, which was a result of the establishment of new branches in Hunan and Nanning, and Jolimark Tax in 2003; (2) the increase in travelling expenses which increased from approximately RMB2.5 million in 2002 to approximately RMB3.9 million in 2003 due to the business expansion of the Group; (3) the increase in depreciation expense arising from the increase of office equipment; (4) the increased provision for doubtful debts for certain trade receivables with problems in collectability; and (5) the increase in technical upgrade expenses and research cost in relation to the development of tax control equipment incurred by the Group in 2003.

Taxation

In 2003, the Group's taxation amounted to approximately RMB12.1 million, representing an increase of approximately RMB8.8 million or 2.7 times in comparison with 2002. Due to the aforementioned tax holiday to which Kongyue Information and Kongyue Jolimark are entitled, the effective tax rate of Kongyue Information in 2002 and 2003 was 12% while that of Kongyue Jolimark in both 2002 and 2003 was zero and 12% respectively. The increment of the Group's taxation was mainly due to the expiry of the tax exemption enjoyed by Kongyue Jolimark in 2003.

Profit for the year

As a result of the factors discussed above, the Group's profit for the year increased by approximately RMB9.3 million, or 13.6%, from approximately RMB68.2 million in 2002 to approximately RMB77.5 million in 2003.

The net profit margin decreased from 12.1% in 2002 to 9.5% in 2003. The fall in net profit margin from 2002 to 2003 was in line with the decline in the Group's gross profit margin.

Other receivables and prepayments

Increase in "other receivables and prepayments" from RMB103 million as at 31st December, 2002 to RMB107.9 million as at 31st December, 2003 was mainly due to the net impact of increase of prepaid input VAT of RMB14.1 million and prepayments for purchase of goods made to related parties of RMB35.9 million, advances made to Mr. Ou Guo Liang and Jiangmen Information of RMB6.3 million which were offset partly by the settlement of advances made to Industrial Park and Jiangmen Palace Hotel of RMB52.4 million.

Financial ratios

The Group's current ratio, gearing ratio, inventory turnover days, debtors' turnover days and creditors' turnover days during the Track Record Period are set forth below:

	As at 31st December,		
	2002	**2003**	**2004**
Current ratio *(Note 1)*	1.3	1.3	1.5
Gearing ratio (%) *(Note 2)*	2.0	12.4	21.7
Inventory turnover days *(Note 3)*	105	102	85
Debtors' turnover days *(Note 4)*	47	35	48
Creditors' turnover days *(Note 5)*	59	57	48

Notes:

(1) The calculation of the current ratio is based on current assets as at the year end divided by current liabilities as at the year end.

(2) The calculation of gearing ratio is based on the amount of bank borrowing as at the year end divided by total assets as at the year end and multiplied by 100%.

(3) The calculation of the inventory turnover days is based on the average inventories as at the year divided by Group's cost of sales during the relevant year and multiplied by the number of days in the relevant year.

(4) The calculation of debtors' turnover days is based on the average trade receivables for the year divided by turnover during the relevant year and multiplied by the number of days in the relevant year.

(5) The calculation of creditors' turnover days is based on the average trade payables as at the year divided by cost of sales during the relevant year and multiplied by the number of days in the relevant year.

Current ratio

The current ratio of the Company remained largely stable during the Track Record Period.

Gearing ratio

The Group's gearing ratio, calculated by dividing total assets by total bank borrowings, increased from approximately 2.0% as at 31st December, 2002 to 21.7% as at 31st December, 2004 due to the substantial increase in short-term bank loans over the period. As at 31st December, 2004, the short-term bank loans outstanding amounted to RMB100 million, compared to the Group's short-term bank loans of RMB8 million as of the 31st December, 2002. A significant portion of the increase of short term loan were used for (1) working capital for the Group to finance its growing business (during the year ended 31st December, 2004, the Group has extended the credit period to its customers in order to provide more incentive to its customers and to strengthen the competitiveness of the Group, and to cope with the increasing cash flow demand arising from the extended credit period, the Group increased its short term borrowing to strengthen its cash flow ability); (2) the purchase of fixed assets for the Group's growing business; and (3) the settlement of dividend to the shareholders of the Group.

Inventory turnover days

The inventory turnover days of the Group has gradually decreased from 105 days as at 31st December, 2002 to 85 days as at 31st December, 2004. The decrease in inventory turnover days was attributable to the increase in sales of tax control equipment because the implementation of the "Golden Tax Project" was resumed in May 2002.

Although the Group maintained a relatively high inventory level during the Track Record Period, the amounts of write-down of inventories were, relative to its inventory level, immaterial to the Group.

During the three years ended 31st December 2004, the write-down of inventories amounted to approximately RMB2,195,000, RMB1,684,000 and RMB1,488,000 respectively.

The Group has not adopted a general provision policy for inventories. The Group makes provision for obsolete and slow-moving inventories where their net realisable values are estimated to be lower than their costs.

Debtors' turnover days

The decrease in debtors' turnover days from 47 days in 2002 to 35 days in 2003 was primarily attributable to a stringent credit control policy adopted by the Group and a credit control department was set up by the Group in 2003. Such measures caused the Group's trade receivables aged over 90 days to decrease from approximately RMB8.4 million in 2002 to approximately RMB1.9 million in 2003.

The Group's debtors' turnover days increased from 35 days in 2003 to 48 days in 2004 was primarily attributable to the longer credit period granted to the Group's customers in order to strengthen the competitiveness of the Group.

There is no difference between the credit policy for the related parties and Independent Third Parties.

Creditors' turnover days

The creditors' turnover days gradually decreased from 59 days in 2002 to 57 days in 2003 because the proportion of cash settlement for trade payable increased in order to enjoy the cash discount granted by the suppliers of the Group. In 2004, the creditors' turnover days further decreased to 48 days because of quicker settlement of trade payables and decrease of trade payables due to related parties.

INDEBTEDNESS

Borrowings

As at the close of business on 30th April, 2005, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately RMB98 million comprising bank loans which were repayable within one year.

Securities and guarantees

At the close of business on 30th April, 2005, the Group's bank borrowings amounting to approximately RMB30 million was secured by a mortgage on a piece of land and factory and warehouse premises owned by Industrial Park. Repayment of such borrowings were guaranteed by a corporate guarantee given by each of Industrial Park and Kongyue Jolimark. On 31st May, 2005, the lending bank has approved in principal that they will release such mortgage and corporate guarantee given by Industrial Park upon successful listing of the Company on the Stock Exchange.

The Group's bank borrowings as at 30th April, 2005 amounting to approximately RMB50 million was also secured by a corporate guarantee given by Kongyue Information.

The remaining bank borrowings of the Group as at 30th April, 2005 amounting to approximately RMB18 million were unsecured.

Debt securities

As at the close of business on 30th April, 2005, the Group had no debt securities issued outstanding, or authorised or otherwise created but unissued.

Mortgages and charges

As at 30th April, 2005, the Group had no mortgages or charges.

Contingent liabilities

As at 30th April, 2005, the Group had no material contingent liabilities.

Financial commitments

As at 30th April, 2005, the unpaid registered capital of Phenix Digital amounted to RMB12 million. As the Group held 65% of equity interest in Phenix Digital, the financial commitments of the Group for Phenix Digital amounted to RMB7.8 million. The commitment has to be fulfilled before 30th June, 2005. As at 30th April, 2005, the unpaid capital of Jolimark China amounted to RMB50 million out of which RMB7.5

million and RMB42.5 million are required to be paid before 6th June, 2005 and 7th September, 2006 respectively. RMB7.5 million of the registered share capital of Jolimark China due before 6th June, 2005 has been paid by the Group on 3rd June, 2005.

Disclaimer

Save as disclosed or as otherwise disclosed herein, and apart from any intra-Group liabilities, the Group did not, as at the close of business on 30th April, 2005, have any outstanding loan capital issued and outstanding or agreed to be issued, shares or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30th April, 2005, the Group had net current assets of approximately RMB154,328,000. Current assets of the Group comprised inventories of approximately RMB153,208,000, trade and other receivables of approximately RMB210,800,000 and cash and bank balances of approximately RMB11,870,000. Current liabilities of the Group comprised trade and other payables of approximately RMB118,979,000, short term bank loan of RMB98,000,000 and tax payable of approximately RMB4,570,000.

Capital structure

As at 30th April, 2005, the Group had net tangible assets of approximately RMB208,068,000, comprising non-current assets of approximately RMB64,524,000 (mainly comprising fixed assets), net current assets of approximately RMB154,328,000 and minority interests of approximately RMB10,784,000.

Borrowings and bank facilities

The Group generally finances its operations with internally generated cashflow and facilities provided by its principal bankers in the PRC.

As at 31st December of each of 2002, 2003 and 2004, the Group's total bank borrowings represented approximately 2.0%, 12.4% and 21.7%, respectively of its then total assets.

As at 30th April, 2005, the Group had in total banking facilities amounting to RMB100 million, of which RMB30 million was loan facility and RMB70 million was for trade finance. These banking facilities were secured by a mortgage on the properties of Industrial Park, and a corporate guarantee given by each of Industrial Park and Kongyue Jolimark. On 31st May, 2005, the lending bank has approved in principal that they will release such mortgage and corporate guarantee upon successful listing of the Company on the Stock Exchange. As at 30th April, 2005, the Group has drawdown the said loan facility of RMB30 million and utilised approximately RMB56.90 million from trade finance facility.

The Group services its debts primarily through cash generated from its operations. After taking into consideration the financial resources available to the Group including internally generated funds, the available unutilised bank facilities and the estimated net proceeds of the Share Offer, the Directors are of the opinion that the Group has sufficient resources to meet its foreseeable capital expenditure and debt repayment requirements.

Cash flows

The Group has historically satisfied its capital requirements primarily through cash from operations and bank borrowings. In the Group's future development plans, the Group will expand and develop further its business in the growing business equipment and tax control equipment markets in China which have been stimulated by the implementation of the "Golden Tax Project" and the "Twelve Gold Projects". Besides, the Group also plans to strengthen its position as a key EMS/ODM/OEM services provider for business equipment and tax control equipment for domestic and overseas customers.

To achieve the above business objectives, the Group plans to finance the above investments by its internal resources, proceeds from the Share Offer and bank facilities.

The following table summarises the Group's cash flows for each financial year during the Track Record Period:

	Year ended 31st December,		
	2002	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Net cash inflow/(outflow) from operating activities	107,089	(23,850)	81,482
Net cash (outflow)/inflow from investing activities	(89,278)	41,284	25,425
Net cash outflow from financing activities	(10,245)	(29,679)	(78,742)
Net increase/(decrease) in cash and cash equivalents held	7,566	(12,245)	28,165
Cash and cash equivalents at the beginning of the year	15,465	23,031	10,786
Cash and cash equivalents at the end of the year	23,031	10,786	38,951

Net cash flow from operating activities

Net cash inflow/(outflow) from the Group's operating activities amounted to approximately, RMB107.1 million, (RMB23.9 million) and RMB81.5 million respectively during 2002, 2003 and 2004.

For 2004, the Group's operating cash flow before working capital change was approximately RMB115.0 million, whilst net cash inflow from operating activities from operating activities amounted to about RMB81.5 million. The difference was mainly attributable to a substantial increase in the Group's trade receivables of approximately RMB109.6 million, offset largely part by a decrease in inventories of approximately RMB64.7 million.

During 2004, the Group's trade receivables increased substantially because (1) the Group extended credit period to its customers in order to strengthen the competitiveness of the Group; and (2) a relatively large amount of sales of Epson branded SDM printers were achieved by the Group during September 2004 after the Group's distribution activities for Epson branded SDM printers were suspended temporarily from July to August 2004 while the Group applied to the relevant PRC authorities to amend its business licence to extend its business scope.

For 2003, the Group's operating cash flow before working capital change was approximately RMB101.9 million, whilst net cash outflow from operating activities from operating activities amounted to about RMB23.9 million. The difference was mainly attributable to an increase in inventories of approximately RMB67.1 million, an increase in other receivables and trade receivables of approximately RMB51.4 million and RMB23.1 million respectively, offset partially by an increase in other payables of approximately RMB16.9 million. The increase of the Group's inventories in 2003 was mainly due to the increase in demand of direct materials required to meet the production schedule. During the same period, the increase of other receivables was mainly attributable to the net impact of increase of prepaid input VAT of RMB14.1 million and prepayments for purchase of goods made to related parties of approximately RMB35.9 million.

For 2002, the Group's operating cash flow before working capital change was approximately RMB83.8 million, whilst net cash inflow from operating activities from operating activities amounted to about RMB107.1 million. The difference was mainly attributable to a decrease in trade receivables of approximately RMB13.5 million, an increase in trade payables and other payables of approximately RMB58.3 million and RMB12.4 million respectively, offset partially by an increase in inventories of approximately RMB50.3 million and increase in other receivables of approximately RMB7.9 million. The increase of the Group's inventories in 2002 was mainly due to the increase in demand of direct materials required to meet the production schedule. During the same period, the increase of trade payables mainly reflected the increase in purchase of direct materials from the related parties and independent suppliers.

Net cash flow from investing activities

Net cash inflow/(outflow) from the Group's investing activities amounted to approximately (RMB89.3 million), RMB41.3 million and RMB25.4 million respectively during the Track Record Period.

For 2004, the Group's net cash inflow from the Group's investing activities was approximately RMB25.4 million, which reflected the cash receipts from repayment of cash advances from related parties of approximately RMB47.7 million and the net cash inflow of approximately RMB14.7 million arising from the acquisition of 65% equity interest in Phenix Digital during the period. For details, please refer to Section II Note 27-c of accountants' report. However, the net cash inflow from the Group's investing activities were offset largely by the acquisition of associate companies of approximately RMB12.7 million and cash advances made to related parties of approximately RMB14.5 million.

For 2003, the Group's net cash inflow from investing activities was approximately RMB41.3 million which was primarily attributable to the cash receipts from repayment of cash advances from related parties of approximately RMB79.3 million, partially offset by cash advances made to related parties of approximately RMB33.1 million and purchase of fixed assets of approximately RMB4.0 million.

For 2002, the Group's net cash outflow from investing activities was approximately RMB89.3 million which was primarily attributable to the purchase of fixed assets of approximately RMB19.6 million and cash advances made to related parties of approximately RMB75.0 million, partially offset by cash receipts from repayment of cash advances from related parties of approximately RMB5.3 million. The cash advances made by the Group mainly comprised of cash advances to Industrial Park on a rolling basis in 2002.

Net cash flow from financing activities

Net cash outflow from the Group's financing activities amounted to approximately RMB10.2 million, RMB29.7 million and RMB78.7 million respectively during the Track Record Period.

For 2004, the Group's net cash outflow from its financing activities was approximately RMB78.7 million, which was primarily attributable to dividends the Group paid amounting to approximately RMB121.6 million, repayment of amounts borrowed of approximately RMB60 million and repayments of cash advance to related parties of approximately RMB7.0 million, partially offset by the new bank loan of approximately RMB100 million and cash advances from related parties of approximately RMB14.1 million.

For 2003, the Group's net cash outflow from its financing activities was approximately RMB29.7 million, which was primarily attributable to dividends the Group paid amounting to approximately RMB74.1 million, repayment of amounts borrowed of approximately RMB72 million and repayments of cash advance to related parties of approximately RMB15.4 million, partially offset by the new bank loan of approximately RMB124 million and cash advances from related parties of approximately RMB7.7 million.

For 2002, the Group's net cash outflow from its financing activities was approximately RMB10.2 million, which was primarily attributable to dividends the Group paid amounting to approximately RMB14.7 million and repayment of amounts borrowed of approximately RMB13 million, partially offset by the new bank loans of approximately RMB10 million, capital contribution from the then shareholders of the Group of approximately RMB4.4 million and cash advances from related parties of approximately RMB3.9 million.

Advances to and from related parties

Advances to related parties

During the Track Record Period, the Group made unsecured and interest free advances to four companies wholly or partially owned by the Au Family Shareholders. These related companies include Industrial Park, Jiangmen Palace Hotel, Dinomax and Jiangmen Information.

The balance of advances made by the Group are summarized as below:

			As at 31st December,		
Name			**2002**	**2003**	**2004**
		Note	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* *(Note 1)*
(1)	Industrial Park	(2&3)	77,407	34,281	—
(2)	Jiangmen Palace Hotel	(2)	9,290	—	—
(3)	Dinomax	(2)	—	—	—
(4)	Jiangmen Information	(2)	2,850	4,511	—
Total			89,547	38,792	—

Notes:

(1) The balance of advances made by the Group were fully settled on 30th September, 2004 pursuant to an off-setting agreement.

(2) These advances are investing in nature.

(3) The advances to Industrial Park were made by the Group on a rolling basis and such advances was to enable Industrial Park to finance the second phase of construction of Kong Yue Industrial Park which included the construction of staff dormitory premises leased by the Group from Industrial Park. The advances made in 2002 were significantly greater than that in 2003 and 2004 because payment for the bulk of the construction works had been made in 2002.

Advances from related parties

During the Track Record Period, the Group also received unsecured and interest free advances from four companies wholly or partially owned by the Au Family Shareholders. These related companies include Kongyue Printing, Kongyue Technology, Guangdong Kong Yue Zhongding Rubber Component Co., Ltd. ("Guangdong Zhongding") and KY Import/Export.

The balance of advances received by the Group are summarized as below:

			As at 31st December,		
Name			**2002**	**2003**	**2004**
		Note	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
(1)	Kongyue Printing	(1)	3,931	3,022	—
(2)	Kongyue Technology	(1)	—	6,509	—
(3)	Guangdong Zhongding	(1)	—	1,137	—
(4)	KY Import/Export	(1)	14,511	—	—
Total			18,442	10,668	—

Note:

(1) These advances are financing in nature.

Since the related companies which made advances to and received advances from the Group are companies controlled by the Au Family Shareholders and their associates, such advances were unsecured and interest free.

The above advances were settled by off-setting with current accounts between the Group and its related parties. As at 31st December, all the advances to and advances from related parties had been settled.

The Company has been advised by its PRC legal advisers that advances made by the Group, being a non-financial institution in the PRC, were in breach of PRC financial regulations. The relevant members of the Group is liable to penalties up to a maximum penalty of an amount equals to five times of the interest receivable on the amount of the advances made and for the period of the amount advanced based on the then bank lending interest rates of the People's Bank of China.

However, having considered the fact that (1) the whole amount of advances have been fully settled on 30th September, 2004 pursuant to an off-setting agreement; (2) the advances were unsecured and interest free; and (3) the Group does not expect to make or receive any similar advance to or from any related parties in the future, the Company's PRC legal advisers have advised that the risk of such penalties being imposed is very low. Based on the above and the fact that the borrowers of the relevant advances have executed undertakings in favour of the Group to indemnify it for any loss and damages in relation to the advances made, the Directors do not consider that the historical existence of such advances and the possible penalties are material to the Group.

Provision policy for bad and doubtful debts

The Directors decide to make a provision against account receivables to the extent they are considered to be doubtful. Accounts receivables in the balance sheet are stated net of such provision.

Provision for bad and doubtful debts (included in administrative expenses) during the three years ended 31st December, 2004 amounted to approximately RMB267,000, RMB1,088,000 and RMB3,110,000 respectively.

As at 30th April, 2005, the subsequent settlement for the Group's trade receivables amounted to approximately RMB147.5 million, representing approximately 89.3% of the gross trade receivables of the Group as at 31st December, 2004.

Directors' opinion on sufficiency of working capital

The Group services its debts primarily through cash generated from its operations. The Directors are of the opinion that, taking into account its internally generated funds, its currently available banking facilities and the estimated net proceeds of the Share Offer, the Group has sufficient working capital to satisfy its present requirements, that is for at least the next 12 months from the date of this prospectus.

Dividend and dividend policy

For each of the three years ended 31st December, 2004, certain companies now comprising the Group declared, in aggregate, dividends totalling approximately RMB108.3 million, RMB69.0 million and RMB92.3 million respectively, to their respective shareholders (except the minority shareholder) which represent 61.7%, 67.9% and 81.6% respectively of the retained earnings and other distributable reserve before dividend of the Group during the respective year. According to the relevant laws and regulation in the PRC, the Group is allowed to distribute dividends legally as long as such dividends are no more than the retained earnings during the same year or period.

The dividends were paid as the relevant companies had sufficient profits and reserves for that purpose, to provide a return to its shareholders for their investment in the relevant companies. At the same time, the shareholders had also made further investments in the Group during the Track Record Period through the capitalisation of dividend (totalling approximately RMB60.0 million), the capitalisation of retained earnings (totalling approximately RMB46.7 million) and cash injections (totalling approximately RMB4.4 million) during the Track Record Period.

Taking into account the reinvestments by shareholders referred to above, the Group having generated positive cash flow from operating activities in the year ended 31st December, 2004, the healthy gearing level of the Group as at 31st December, 2004 and the estimated net proceeds from the Share Offer, the Directors consider that the Group will have sufficient resources to fund its expansion as presently planned notwithstanding the amount of dividends that has been paid.

The Directors currently anticipate that the total dividend for the financial year ending 31st December, 2005 will be not less than 40% of the Company's distributable profit for 2005.

Prospective investors should be reminded that the historical records of the dividends paid by the Group and the anticipated dividend for the financial year ending 31st December, 2005 have no correlation to the Group's future dividend policy, which is subject to change from time to time. There is no assurance that dividends of similar amounts or at similar rates will be made in the future, and past dividend payments referred to above should not be used as a reference or basis to determine the amount of dividends payable in the future.

A recommendation to declare or to pay dividends in the future, and the amount of any dividends, will be at the full discretion of the Directors after taking into consideration of the Group's earnings, working capital requirements, financial conditions, cash flow, profits available for distribution by subsidiaries, the progress and the funding requirement of the Group's future business plans.

Tax

Pursuant to the PRC Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (《中華人民共和國外商投資企業和外國企業所得稅法》) and the PRC Foreign Investment Enterprises and Foreign Enterprises Income Tax Law Implementation Rules (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》), the PRC subsidiaries of the Group are subject to an annual income tax rate of 27% per annum, which comprised 24% attributable to national income tax and 3% attributable to local municipal income. Kongyue Information and Kongyue Jolimark enjoyed preferential tax treatment whereby they are exempted from national income tax for the first two profit-making years of operation and enjoyed a 50% reduction for the three years following the expiry of the two years tax holiday. Local municipal income tax are exempted during the tax holiday period. Kongyue Jolimark and Kongyue Information started to derive taxable income in the year ended 31st December, 2001 and 31st December, 2002, respectively.

The Group was not subject to tax in any other jurisdictions during the Track Record Period.

DISTRIBUTABLE RESERVES

The Company was incorporated on 22nd July, 2004. Accordingly, the Company had no reserves available for distribution to the shareholders as at 31st December, 2004, being the date to which the Company's latest audited financial statements were made up.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there is no material adverse change in the financial or trading position or prospects, of the Group since 31st December, 2004, the date to which the latest audited combined financial statements of the Group were made up.

UNAUDITED PROFORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group is to illustrate the impact of the estimated net proceeds of the Share offer on the combined net tangible assets of the Group as if the Share Offer had taken place on 31st December, 2004. It is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the Group's financial position or results.

The unaudited pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31st December, 2004, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Audited combined net asset of the Group as at 31st December, 2004	**Less: intangible assets**	**Add: Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**
		(Note 1)	*(Note 2)*		*(Note 3)*
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	
Based on an Offer Price of HK$1.14 per Share	194,282	9,409	127,200	312,073	RMB0.62 (or HK$0.59)

Notes:

1. Amount comprises goodwill on acquisition of an associated company less amortisation of RMB7,467,000 at 31st December, 2004 and carrying amount of trademark of RMB1,942,000 at 31st December, 2004.

2. Estimated net proceeds from the Share Offer is based on the Offer Price of HK$1.14 per Offer Share, after deducting the underwriting fees and other related expenses payable by the Company.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in this section and on the basis of 500,000,000 Shares in issue after the Share Offer but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors confirm that they were not aware of any circumstance which give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.