

# Management's Discussion and Analysis

## Business Review

### *"Jolimark" Brand Business*

Turnover of business with "Jolimark" brand decreased by 15.9% when comparing with the corresponding period of last year; gross profit margin decreased to 34.4% from 38.0% of the corresponding period of the previous year. The decrease was mainly attributable to the delay of "Golden Tax Project" Phase III, the decline in market demand on value-added tax invoice printers from "Golden Tax Project" Phase II and the more intensive competition in dot matrix printer market, which imposed adverse effects on the sales and gross profit of "Jolimark" brand printers and tax control equipment.

During the year, a number of the Group's tax control products obtained qualification certifications from government authorities, and the Group was chosen as one of the suppliers of tax control ECRs in the tender project of Guangdong Province National Tax Bureau. The Group also carried out much pre-tender preparation work for certain key provinces and municipalities. In order to increase the possibility of success in tenders, the Group acquired more fixed assets to increase the value of our fixed assets. For dot matrix printers, the Group launched a variety of new "Jolimark" brand products, which gained wide acceptance in the market and recorded satisfactory sales results in the second half of the year.

### *EMS Business*

The Group's EMS business recorded a stable growth. Its turnover amounted to RMB448,752,000 in 2006, accounting for 48% of the Group's turnover; gross profit margin increased to 15.1% from 13.2% of the corresponding period of last year.

### *Distribution Business*

Regarding the distribution business, the Group primarily distributes dot matrix printers and projectors. Turnover from distribution business amounted to RMB330,350,000, accounting for 35% of the Group's total turnover and its gross profit margin decreased to 6.2% from 6.5% for the corresponding period of last year.

## Future Prospects

Looking forward, the Company will focus on "Jolimark" brand business, and to develop tax control ECRs, dot matrix printers, mini printers and projectors as its core businesses. Moreover, the Group will also strengthen the establishment of the research and development, brand, sales and service network of the above products, so as to lay a foundation for the leading position of the above commercial equipment in the PRC market.

The management estimated the "Golden Tax Project" Phase III will be resumed in the first half of 2007. The project requires the business places of retail, service and catering sectors to install relevant tax control equipment, and this will significantly boost the demand for tax control ECRs, dot matrix printers and mini printers produced by the Group. The Group was chosen as one of the five authorised suppliers of tax control ECRs in the tender project of Guangdong Province National Tax Bureau in 2006. Guangdong Province contributes the highest tax revenue among all provinces in the PRC, and is also one of the provinces with the greatest potential. The Group expects that the commencement of Guangdong market in 2007 will bring the Group with substantial benefits. Furthermore, the possibility of the Group's success in tenders of other provinces is significantly enhanced riding on the advantage laid by "Golden Tax Project" Phase II. The Group will provide customers with retail solutions based on tax control ECRs, including the provision of financial payment equipment products, thus improving the future profitability of the Group.

Due to “Twelve Golden” Projects in the PRC and the features of the PRC market, dot matrix printer market maintains a very substantial demand. In particular, the government’s determination to allocate more resources to the tax, education and medical sectors further boosts the growth of the market. With years of investments in research and development, the Group has mastered the technique of the production of core parts, including printer heads and excelled in the research and development and production in the field of dot matrix printer, and secured its leading position in domestic brand names as early as 2004. The Group’s dot matrix printers have a wide range of applications in the printing of invoices, receipts and certificates, which are designed for enterprise, retail, medical, communication, financial and education sectors. With strong technological know-how and service capability, the Group is committed to provide “customized printing solutions” for its customers, and continue to enhance its competitiveness and profitability in the fields of printers.

Meanwhile, mini printers, including dot matrix mini printers and thermal printers, have tremendous demand in both the PRC and overseas. After years of efforts, the Group has mastered the core technology and built integrated product lines. As the Group has cost advantage in the PRC, in-depth understanding of customers needs and customization capability, the technique of mini printers will become a key profit driver of the Group.

Projectors will be another strong growth driver of the Group. According to China Centre of Information Industry Development report, market scale of projectors in the PRC is expected to reach RMB7.8 billion in 2008. The Group believes that the projector business will develop rapidly given its advantages in research and development and distribution channels.

For EMS business, the Group will maintain its stable development, and focus on the production of certain optical, mechanical and electrical products with high entry barriers to serve overseas small and medium customers.

With the restart of the “Golden Tax Project” Phase III, and based on the development of its dot matrix printers, mini printers and projectors with self-owned brands as well as EMS business, the Group is confident to bring considerable returns to its shareholders.

## FINANCIAL REVIEW

### Results Summary

For the year ended 31 December 2006, the Group recorded a turnover of RMB943,252,000, representing a decrease of 3.9% from the previous year. The gross profit margin decreased to 15.3% from 15.9% of the previous year. During the year, the Group recorded a profit attributable to shareholders of RMB42,426,000, representing a decrease of 46.0% from the previous year. The basic earnings per share was RMB0.078.

The decrease in the results was mainly attributable to the delay of “Golden Tax Project” Phase III, the decline in market demand on value-added tax invoice printers from “Golden Tax Project Phase II” and the more intensive competition in dot matrix printer market, which imposed adverse effects on the sales and gross profit of “Jolimark” brand printers and tax control equipment. Meanwhile, the Group made further investments in market expansion and new product development after its listing, together with increased management expenses, resulting in a decline of net profit of the Group.

## Segment Information

Set out below is a comparison of the Group's turnover, gross profit and gross profit margin in terms of business segment for the year ended 31 December 2006 and 2005:

	For the year ended 31 December 2006			For the year ended 31 December 2005		
	Turnover (RMB'000)	Gross Profit (RMB'000)	Gross Profit Margin	Turnover (RMB'000)	Gross Profit (RMB'000)	Gross Profit Margin
"Jolimark" brand business	164,150	56,535	34.4%	195,139	74,211	38.0%
Distribution business	330,350	20,483	6.2%	328,975	21,484	6.5%
EMS/ODM/OEM business	448,752	67,646	15.1%	457,536	60,414	13.2%
Total	943,252	144,664	15.3%	981,650	156,109	15.9%

## ANALYSIS ON SALES AND GROSS PROFIT

During the year under review, the EMS business was still the largest contributor to the turnover of the Group, which amounted to RMB448,752,000 and accounted for approximately 48% of total turnover of the Group.

During the year, the turnover of "Jolimark" brand products decreased by 15.9% to RMB164,150,000 from RMB195,139,000 of last year.

Turnover of the distribution business increased by 0.4% to RMB330,350,000 from RMB328,975,000 of the last year, representing 35% of total turnover of the Group.

With regard to gross profit, of "Jolimark" brand business contributed approximately 39% of the total gross profit of the Group. The gross profit margin decreased to 34.4%, compared with 38.0% of the last year.

The EMS business and the distribution business contributed approximately 47% and 14% of the Group's total gross profit respectively. The gross profit margin of the EMS business increased to 15.1%, compared with 13.2% for the previous year, whereas the gross profit margin of the distribution business decreased to 6.2% from 6.5% of the previous year.

## CAPITAL EXPENDITURE

For the year ended 31 December 2006, capital expenditure amounted to RMB70,762,000, which mainly comprised of purchase properties, plant and equipment and land use rights.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the total assets of the Group amounted to RMB776,995,000 (2005: RMB622,865,000), comprising shareholders' fund of RMB559,725,000 (2005: RMB396,708,000), minority interests of RMB15,889,000 (2005: RMB11,895,000) and current liabilities of RMB201,381,000 (2005: RMB214,262,000). The current ratio of the Group was 3.2 (2005: 2.6).

The financial position of the Group was sound. As at 31 December 2006, the cash and cash equivalents of the Group amounted to RMB100,834,000 (2005: RMB112,841,000).

As at 31 December 2006, the bank loans of the Group amounted to RMB57,809,000 (2005: RMB96,160,000), and the gearing ratio\* was 7.4% (2005: 15.4%). During the year, the Group had no assets held under finance leases.

\* Gearing ratio = Borrowings/Total Assets

## CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material contingent liabilities.

## STAFF

As at 31 December 2006, the Group employed a total staff of 1,057, in which 1,046 were employed in Mainland China, while 11 were employed in Hong Kong and overseas. The Group implemented its remuneration policy, bonus and share option schemes based on its results and the performance of individual staff. In addition, fringe benefits such as insurance, medical allowance and pension were provided to ensure the competitiveness of the Group.

## PROPOSED DIVIDEND

The Board recommended a final dividend for 2006 of 2 HK cents per share to shareholders whose names appear on the register of members on Wednesday, 23 May 2007. The final dividend will be paid on Friday, 29 June 2007.

The register of members of the Company will be closed from 23 May 2007 to 28 May 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 22 May 2007.

## PURCHASE, DISPOSAL OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 12 April 2006, the Director of the Company were informed by Kytronics Holdings Limited, the controlling shareholder of the Company, that it has disposed 25,500,000 shares to a professional investor. During the year ended 31 December 2006, the Company has repurchased 8,790,000 shares at an aggregate price of HK\$9,173,840 respectively. Save as above, there was no purchase, redemption or disposal by the Group and any of its subsidiaries and their jointly controlled entities, of the Group's listed securities during the period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) contained in Appendix 10 to the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange. The Company has made specific enquiry of all Directors regarding any non-compliance with the Code during the year ended 31 December 2006 and all Directors confirmed that they have fully complied with the required standard set out in the Model Code during the year.

## AUDIT COMMITTEE

The audit committee of the Company was established on 13 June 2005 in accordance with Appendix 14 to the Listing Rules. The existing committee comprises Mr. Lai Ming, Joseph as the chairman, Mr. Meng Yan and Mr. Xu Guangmao. The committee members are Independent Non-Executive Directors. For the year ended 31 December 2006, the audit committee held four meetings to review the accounting standards and practices adopted by the Group and to discuss on matters regarding the internal control and financial reporting (including the interim and annual results before proposing them to the Board for approval) with the management and external auditors. The audit committee has reviewed the results announcement and 2006 Annual Report of the Company for the year ended 31 December 2006.

## REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to consider the remunerations for the Directors and senior management of the Company. The Remuneration Committee comprises of Mr. Lai Ming, Joseph (Chairman), Mr. Meng Yan and Mr. Xu Guangmao who are all Independent Non-Executive Directors. The Remuneration Committee has reviewed the remuneration policy and remuneration packages for the year ended 31 December 2006.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Since the listing of its shares on the Stock Exchange, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.