

REPORT OF THE DIRECTORS

The Board of Directors of the Company is pleased to present its report together with the audited financial statements for the year ended 31 December 2006.

ISSUE AND LISTING OF SHARES

The Board considered that placing and the subscription represented an opportunity to raise capital for the financial payment terminal business, while broadening the shareholder base and the capital base of the Company. Pursuant to a placing and subscription agreement entered into between the Company and a placing agent on 14 June 2006, the Company issued 60,000,000 new ordinary Shares of HK\$0.01 (aggregate nominal value equivalent to HK\$600,000) each to not less than six independent institutional investors at a price of HK\$1.47 per Share (market price at HK\$1.56 per Share). The gross proceeds and net proceeds amounted to approximately HK\$88.2 million and HK\$85 million respectively. The net proceeds raised under the Subscription was equivalent to a net placing price of about HK\$1.42 per Share. The use of net proceeds were as follows: (i) HK\$40 million will be used for the development of payment terminal business involving electronic cash register, (ii) approximately HK\$25 million will be used for the acquisition of new machinery and equipments for enhancing and expanding the production capacity of the Group and (iii) approximately HK\$20 million will be used for future working capital.

As the Group intended to acquire the industrial complex, warehouse and dormitory building from Kongyue Industrial Park (Xinhui) Ltd. ("Industrial Park") (the "Properties") for injection into Kongyue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information") so as to increase its chance to be selected in tenders, in particular, in the third phase of the Golden Tax Project. The Group satisfied partial consideration amounting to approximately RMB27.2 million in cash by placing Shares to independent institutional investors. Pursuant to a placing and subscription agreement entered into amongst the Company, Kytronics Holdings Limited and a placing agent on 31 July 2006, the Company issued 23,000,000 Shares of HK\$0.01 each to not less than six independent institutional investors at a price of HK\$1.34 per Share (market price at HK\$1.36 per Share). The gross proceeds and net proceeds amounted to approximately HK\$30.8 million and HK\$29.8 million respectively. The net proceeds raised under the Subscription was equivalent to a net placing price of about HK\$1.30 per Share. The net proceeds were mainly to satisfy the cash consideration of approximately RMB27.2 million for acquisition of the Properties and the balance of approximately RMB3.7 million to be used as general working capital of the Company.

Pursuant to a sales and purchase agreement entered into amongst certain of the Group companies, Kytronics Holdings Limited, Industrial Park and Jiangmen Kongyue Information Technology Limited ("Jiangmen Information") on 31 July 2006, the Company has issued 23,000,000 new Shares to Kytronics Holdings Limited as consideration for acquisition of the Properties.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 9 to the financial statements.

An analysis of the Group's performance by business and geographical segments for the year ended 31 December 2006 is set out in the Management Discussion & Analysis.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 32.

An interim dividend of 1.03 HK cents per ordinary share (2005: 3.2 HK cents) was paid on 31 October 2006. The directors of the Company now recommend a final dividend of 2 HK cents per ordinary share (2005: 2.85 HK cents) in respect of the year ended 31 December 2006.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Note 16 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 15 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserve available for cash distribution as computed in accordance with the Companies Law (2003 Revision) of the Cayman Islands, amounted to RMB 92,279,000 of which RMB 11,820,000 has been proposed as final divided for the year.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emption rights under the Company's Article of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rate basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

On 12 April 2006, the Directors 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.

At the board meeting dated 18 September 2006, the Board approved the repurchase of a total of not more than 20,000,000 Shares of the Company on the Stock Exchange. Such repurchase was made pursuant to the general mandate granted by the shareholders at the annual general meeting held on 15 May 2006 and in accordance with the Rules Governing the Listing of Securities on the Stock Exchange. During the year ended 31 December 2006, a total of 8,790,000 Shares at an aggregate price of HK\$9,173,840 were repurchased and cancelled.

Save as disclosed above, neither the Company nor its subsidiaries purchased or sold any of the Company's Shares during the year ended 31 December 2006 and the Company did not redeem any of its Shares during the year ended 31 December 2006.

SHARE OPTIONS

Pursuant to the share option scheme approved by a written resolution of all shareholders of the Company on 13 June 2005 (the "Scheme"), the Company may grant to, amongst others, the Directors and employees of the Company and its subsidiaries, for the recognition of their contribution to the Group, to subscribe for the Shares. According to the Scheme, the Board may, at its discretion, invite any eligible participants to take up options to subscribe for the Shares of the Company in aggregation not exceeding 30% of the Shares in issue from time to time. The total number of Shares which may issued upon exercise of all options to be granted under the Scheme and any other scheme must not, in aggregate, exceed 10% of the number of Shares in issue as at the date dealings in the Shares first commence on the Stock Exchange unless further shareholders' approval had been obtained pursuant to the conditions set out in the Scheme. The total number of Shares in issue and to be issued upon exercise of all option under the Scheme and any other schemes (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company.

The offer for the grant of options ("Offer") must be taken up within 28 days from the date of offer, with a payment of HK\$1.00 as consideration for the agent. The exercise price of the share option will be determined at the higher of (i) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding to the date on the date of Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of Offer; and (iii) the nominal value of the Shares. The total number of shares available for issue should be 50 million which is equivalent to 10% the shares in issue when the Scheme was adopted by the shareholders. The share options are exercisable at any time during a period of no more than 10 years from the date of Offer, subject to the terms and conditions of the Scheme and any conditions of grant as may be stipulated by the Board. Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

During the year under review, no share options were granted under the Scheme.

DIRECTORS

As at date of this annual report, the Directors of the Company are as follows:

Executive Directors

Mr. Au Pak Yin (*Chairman*)
 Mr. Au Kwok Lun (*Chief Executive Officer*)
 Mr. Ou Guo Liang
 Mr. Ng Shu Kai

Independent Non-Executive Directors

Mr. Lai Ming, Joseph
 Mr. Meng Yan
 Mr. Xu Guangmao

Pursuant to Article 108(a) of the Articles of Association, at each of the annual general meeting, one third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every 3 years, Mr. Lai Ming Joseph, Mr. Au Kwok Lun and Mr. Ou Guo Liang hold office only until the Annual General Meeting (the "AGM") and, being eligible, will offer themselves for re-election at the AGM.

Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao are Independent Non-Executive Directors and were appointed for a three-year term expiring on 12 June 2008.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for a term of 3 years commencing from 13 June 2005. Save as above, none of the Directors has entered into a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

On 4 March 2005, Mr. Ou Guo Liang entered into a property agreement with Jolimark Information Technology (China) Limited ("Jolimark China") under which Mr. Ou Gou Liang agreed to let to Jolimark China premises of a total floor area of 1,274.99 sq.m. situated in Shuangquiao Building, No. 68 North 4th Ring West Road, Haidian District, Beijing, the PRC at an annual rent of RMB1,650,852 for a term of six years ending 31 December 2010 for office use.

Save as above, no contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Apart from the Scheme disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on page 19.

EMPLOYEES AND REMUNERATION POLICY

Retirement benefit plans

As stipulated by the rules and regulations in the PRC, the Group participates in the retirement benefit scheme operated by the relevant local government authorities. The Group is required to make contribution on behalf of its employees in the PRC in accordance with the relevant PRC regulations.

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute 17% of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

In Hong Kong, the Group has set up a retirement scheme according to the mandatory provident fund requirement prescribed by the Mandatory Provident Scheme Ordinance. All the Hong Kong based employees and the Group is requiring contributing 5% of their respective monthly wages (up to a maximum contribution of HK\$ 1,000 by each of the employee and the Group) on a monthly basis to the fund.

Disclosure of Interests

(a) *Interests and short positions of the Directors and chief executives of the Company*

As at 31 December 2006, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which are required to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Company/name of associated corporation	Capacity	Name and class of securities ^(Note 1)
Mr. Au Pak Yin ("Mr. Au")	Company	Interest in controlled corporation ^(Note 2)	361,695,533 shares (L)
Mr. Au	Kytronics Holdings Limited ("Kytronics")	Beneficial owner	2 ordinary shares (L)
Mr. Au Kwok Lun	Kytronics	Beneficial owner	1 ordinary share (L)
Mr. Ou Guo Liang	Kytronics	Beneficial owner	1 ordinary share (L)

Note:

1. The letter "L" denotes the Director's long position in such securities.
2. 361,695,533 Shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 20% by each of Mr. Au and his spouse Ms. Tai Noi Kit. Mr. Au is therefore deemed to be interested in these shares by virtue of his interests in Kytronics pursuant to Part XV of the SFO.
3. Each of Mr. Au and his spouse, Ms Tai Noi Kit is the beneficial owner of an ordinary share in Kytronics.

Save as disclosed above, as at 31 December 2006, none of the Directors or Chief Executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders and other person's interest in the Shares

As at 31 December 2006, as far as is known to the Directors and the Chief Executive of the Company, the following person (not being a Director or Chief Executive of the Company) had an interest of short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Company/ Name of associated corporation	Capacity	Number of shares held	Percentage of total issued share capital <small>(Note 1)</small>
Kytronics	Company	Beneficial Owner	361,695,533 <small>(Note 2)</small>	60.56%(L)
Tai Noi Kit	Kytronics Holdings Limited ("Kytronics")	Interest in controlled corporation	361,695,533 <small>(Note 2)</small>	60.56%(L)
Kent C. McCarthy	Company	Interest in controlled corporation	96,364,000 <small>(Note 3)</small>	16.13%(L)
Legg Mason Inc	Company	Interest in controlled corporation	37,694,000 <small>(Note 4)</small>	6.31%(L)

Note:

1. The letter "L" denotes the person's long position in such securities.
2. 361,695,533 Shares were owned by Kytronics. The issued share capital of Kytronics Holdings is owned as to 20% by each of Mr. Au Pak Yin and his spouse Ms. Tai Noi Kit. Mr. Au is therefore deemed to be interested in these shares by virtue her interests Kytronics pursuant to Part XV of the SFO.
3. The 96,364,000 shares were held by Jayhawk China Fund (Cayman) Limited and Buffalo Jayhawk China Fund, both being companies wholly-owned by Mr. Kent C. McCarthy.
4. The 37,694,000 shares were held by Legg Mason International Equities (Singapore) Limited, an indirect wholly-owned subsidiary of Legg Mason Inc.

Saved as disclosed above, the Directors and the Chief Executive of the Company are not aware of any person (other than a Director or Chief Executive of the Company) who, as at 31 December 2006, had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT CONTRACTS

Save as disclosed under the heading "Connected Transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	61%
— five largest suppliers combined	72%

Sales

— the largest customer	29%
— five largest customers combined	57%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Details of the connected transactions entered into by the Group during the year are set out below:

		Note	Amount RMB'000
(1)	Connected transactions		
	(I) Acquisitions of industrial complex, warehouse and dormitory buildings	(i)	62,460
(2)	Continuing connected transactions		
	(I) Leasing agreements	(ii)	4,548
	(II) Import and Export Agency Agreement with KY Import/Export		
	(a) Handling fees for import service	(iii)	1,910
	(b) Export sales amount	(iv)	1,208
	(III) Supply agreements with Guangdong Precision	(v)	9,348
	(IV) Supply agreement with Jiangmen Yida	(vi)	6,469

Note:

(i) Pursuant to a sales and purchase agreement amongst of the Group companies, Kytronics Holdings Limited and Kongyue Industrial Park (Xinhui) Limited ("Industrial Park") and Jiangmen Kongyue Information Technology Limited ("Jiangmen Information") on 31 July 2006, the Group acquired the industrial complex, warehouse and dormitory building which were leased to Jiangmen Kongyue Jolimark Information Technology Limited ("Kongyue Jolimark") and Kongyue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information"), from Industrial Park at a consideration of approximately RMB62.4 million which will be satisfied by (i) the Group by cash of approximately RMB27.2 million from proceeds of placing new share to not less six independent institutional investor; (ii) the issue of 23,000,000 consideration shares at an issue price of HK\$1.34 per share to Kytronics Holdings Limited; and (iii) Jiangmen Information by cash of approximately RMB 3.1 million.

(ii) Leasing agreements entered into between the connected parties as landlords and the Group companies as tenants include:

- (1) Property leasing agreements between Industrial Park and Kongyue Information;
- (2) Property leasing agreements between Industrial Park and Kongyue Jolimark;
- (3) Property leasing agreements between the Company and Kongyue Technology Limited ("Kongyue Technology");
- (4) Property leasing agreements between Jolimark Information Technology (China) Limited and Mr. Ou Guo Lang;

- (5) Property leasing agreements between Shenzhen Jolimark Business Appliance Ltd and Industrial Park;
- (6) Property leasing agreements between Xin Yue Logistics Limited and Kongyue Technology;
- (7) Storage leasing agreement between Industrial Park and Kongyue Jolimark;
- (8) Dormitory leasing agreements between Industrial Park and Kongyue Information and
- (9) Dormitory leasing agreements between Industrial Park and Kongyue Jolimark.

The leasing agreements for (1), (2) and (7) of the above were terminated in September 2006 upon the acquisition of relevant land and buildings after the connected transaction in (ii) above.

The leasing agreements for (3) and (6) of the above were terminated in December 2006 upon the change of principal place of business of the Company and Xin Yue Logistics Limited.

- (iii) The service fee to be charged by Jiangmen Kongyue Information Product Import Export Limited in relation to the direct materials imported are charged in a "mark-up" equal to approximately 1% contract price of materials imported.
- (iv) The service fee in relation to the products export represents approximately 1% of the contract price of such product.
- (v) Two agreements (the "Precision Agreement") both dated 19 July 2004 (as amended by two supplementary agreements dated 13 June 2005), were entered between into normal commercial terms in the ordinary course of business between (i) Kongyue Information and Guangdong Kongyue Precision Industry Ltd ("Guangdong Precision"); and (ii) Kongyue Jolimark and Guangdong Precision under which Guangdong Precision agree to supply precision plastic parts to the Group from time to time as requested by the Group. The plastic parts supplied by Guangdong Precision to Kongyue Information and Kongyue Jolimark are used for manufacturing and new product development purpose.
- (vi) Kongyue Information and Guang Dong Jotech Kongyue Precision Industries Ltd ("Jiangmen Yida") entered into an agreement dated 19 July 2004 (as amended by a supplementary agreement dated 13 June 2005) (the "Yida Agreement") on normal commercial terms and in their respective ordinary course of business. Pursuant to the Yida Agreement, Jiangmen Yida agreed to supply metal stamped parts to the Group for printer manufacturing from time to time as requested by the Group.

The aforesaid continuing connected transactions have been reviewed by Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) have not exceed the caps allowed by the Stock Exchange in the previous waiver.

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2006, as far as the Company is aware, the public float of the Company is approximately 23.31%. As a result, the Company did not fulfill the requirement of having at least 25% of its total issued share capital held by the public under Rule 8.08 of the Listing Rules.

The controlling shareholder of the Company, Kytronics Holdings Limited ("Kytronics"), currently holds 361,695,533 Shares, representing approximately 60.56% of the total issued share capital of the Company. As far as the Company is aware, Mr. Kent C McCarthy ("Mr. McCarthy"), via his interests in Jayhawk China Fund (Cayman), Ltd and Buffalo Jayhawk China Fund, currently indirectly holds 96,364,000 Shares, representing approximately 16.13% of the total issued share capital of the Company. By virtue of his shareholding interest in the Company, Mr. McCarthy becomes a substantial shareholder of the Company and therefore a connected person of the Company. The shareholding interest of Kytronics, when aggregated with Mr. McCarthy's interests is approximately 76.69%, thereby resulting in the public float of below 25% as required under Rule 8.08 of the Listing Rules.

Mr. McCarthy is independent of and is not connected with Kytronics. The Company is of the view that the shortfall in the prescribed percentage arose solely from an increase holding of the Company's Shares by a person who becomes a connected person by virtue only of its being a substantial shareholder of the Company. Also, Mr. McCarthy is not the controlling or single largest shareholder of the Company nor does he have any representative on the board of directors of the Company, or been involved in the management of the Company at any time.

The Company is considering steps, including the issue of new shares or procures Kytronics to place down its existing holdings to independent third parties, to restore the public float of the Company.

SUBSEQUENT EVENTS

On 31 March 2006, Visionic Investment Holding Limited ("Visionic"), a wholly-owned subsidiary of the Company and Phenix Optics Company Limited ("Phenix Optics") entered into a First Supplementary Agreement ("Original Agreement") pursuant to which Visionic agreed to acquire and Phenix Optics agreed to dispose of 10% interest in the registered capital of Phenix Digital Technology (Shanghai) Limited ("Phenix Digital") ("Original Acquisition"). The consideration of the Original Acquisition was RMB3,000,000 (or approximately HK\$2,921,621). The completion of Original Agreement was subject to the settlement of unpaid capital which could be contributed as to 65% and 35% by Visionic and Phenix Optics respectively. However, after negotiations that spanned over one year of negotiations, Phenix Optics has not injected its portion of the unpaid capital. The Original Agreement has not yet completed.

On 23 March 2007, Visionic and Phenix Optics entered into the second Supplementary Agreement ("Amended Agreement") pursuant to which the parties agreed to vary the terms of the Original Agreement. Pursuant to the Amended Agreement, Visionic agreed to acquire and Phenix Optics agreed to sell 35% interest in Phenix Digital Technology (Shanghai) Limited for a consideration of RMB4,340,000 (or approximately HK\$4,253,000) ("Amended Acquisition"), which will be payable in cash upon completion of the Amended Acquisition.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Director's securities transactions on terms no less exactly than the required standard set out in the Model Code of Securities by Directors of Listed Issuers as set out in Model Code. The Directors confirmed that there was not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transaction during the year ended 31 December 2006.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

CLOSURE OF REGISTER OF MEMBERS

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 Service Limited at shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 22 April 2007.

On behalf of the Board

Au Pak Yin
Chairman

Hong Kong, 17 April 2007