Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

1. GENERAL INFORMATION

(a) Jolimark Holdings Limited (the "Company") was incorporated in the Cayman Islands on 22 July 2004 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands. The address of its registered offices is Clifton House, 75 Fort Street, PO Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

(b) The Company and its subsidiaries (the "Group") is a provider of business equipment and tax control equipment based in the People's Republic of China (the "PRC"). The Group's principal activities are (i) design, manufacture and sale of business equipment and tax control equipment under its owned brand name "Jolimark"; (ii) distribution in the PRC of other branded business equipment and (iii) manufacture and sales of business equipment, tax control equipment and other electronic products on electronics manufacturing services ("EMS"), original equipment manufacturer ("OEM") or original design manufacturer ("ODM") basis.

(c) The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 June 2005.

(d) These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 17 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(a) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

- HKAS 39 and HKFRS 4 Amendment, Financial Guarantee Contracts;
- HKAS 19 Amendment, Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 Amendment, Net Investment in a Foreign Operation;

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations (Continued)

- HKAS 39 Amendment, Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment, The Fair Value Option;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 and HKFRS 6 Amendment, First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources;
- HKFRS — Int 4, Determining whether an Arrangement Contains a Lease;
- HKFRS — Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC) — Int 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published that are relevant to the Group's operations but are not yet effective for annual period beginning on 1 January 2006 and have not been early adopted by the Group.

- HKFRS 7, Financial instruments: Disclosures, and HKAS 1, Amendments to capital disclosures, (effective for annual periods beginning on or after 1 January 2007).
- HKFRS 8, Operating Segment (effective for annual periods beginning on or after 1 January 2009);
- HK(IFRIC) — Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006); and

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC) — Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

(c) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC) — Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006);
- HK(IFRIC) — Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- HK(IFRIC) — Int 11, HKFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007); and
- HK(IFRIC) — Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2.7).

(c) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services whin a particular economic environment that are subject to risks and returns that are different from those of segments operation in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi Yuan ("RMB"), which is the Company's functional and presentation currency.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all other group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. When the property, plant and equipment is acquired through transfers of equity instruments of the Group companies or the parent of the Company, the item is recognised at its fair value with a corresponding increase in equity; unless that fair value cannot be estimated reliably, in which case the item and the corresponding increase of equity are measured at the fair value of the equity instruments granted.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Plant and machinery	10–20 years
Furniture and fixtures	5 years
Leasehold improvements	10–20 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Land use rights

Cost of acquiring rights to use certain land for the Group's operations over a certain period is recorded as land use rights. Land use rights with specific term are recognised as an expense on a straight-line basis over the unexpired period of the rights.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the associated company at the date of acquisition. Goodwill on acquisitions of associates is included in "interests in associates".

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating unit ("CGU") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose (note 2.8).

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(b) Trademark

Trademark is shown at historical cost. Trademark has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademark over its estimated useful live (20 years).

(c) Proprietary technology

Proprietary technology is shown at historical cost. Proprietary technology has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of proprietary technology over its estimated useful live (10 years).

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its financial assets as the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified as ‘‘trade and other receivables’’ in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently carried at cost less impairment provisions.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A significant or prolonged decline in the fair value of the available-for-sale financial assets below its cost is considered an indicator that the available-for-sale financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised is recognised in the income statement.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks.

2.13 Share capital and premium

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net off income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in the income statement during the period in which they are incurred.

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Deferred income tax (Continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong, the assets of which are generally administrated by the relevant authority of the PRC or held in separate trustee-administered funds in Hong Kong. The pension plans are generally funded by payments from employees and the relevant group companies. The Group pays contributions to the pension plans on a mandatory, contractual or voluntary basis which are calculated as a percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to fully vesting in the contributions.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Provision

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised on the transfer of risks and rewards of ownership and collectibility of the related receivables is reasonably assured, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

(c) Interest income

Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(d) Incentive subsidy

Incentive subsidy is recognised on an accruals basis in accordance with the relevant agreements.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Leases

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Japanese Yen, Euro and Hong Kong dollars ("HK$"). The Group's businesses are principally conducted in RMB, except for import of certain of the raw materials and machinery and sales of goods to overseas customers that are mainly conducted in US$, Japanese Yen, Euro and HK$. Given the general expectations about the strengthening of RMB, the Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

(ii) Price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities.

(d) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets and long term borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has a policy to place surplus funds with creditable financial institutions which offer the best return for the Group on a short-term basis.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The nominal value less impairment provision of the Group's short-term financial assets and liabilities are reasonable approximation of their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates, as stated in note 10.

If the revised estimated gross margin is 10% lower than management's estimates at 31 December 2006, the recoverable amount of CGU would still be above the carrying value of goodwill.

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% higher than management's estimates, the recoverable amounts of CGU would still be above the carrying value of goodwill.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Net realisable value of inventories

Net realisable value of inventories is based on the management's best estimations of selling price of the inventories in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are made with reference to the current market conditions and the historical experience of selling goods of similar nature. It could change significantly as a result of changes in market condition. The management will reassess these estimations at each of the balance sheet date.

(c) Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of receivables basing on the credit history of the Group's customers and the current market conditions. Although the provision is based on the management's best estimations, it could change significantly as a result of change in financial positions of customers and market conditions. The management will reassess the provision at each of the balance sheet date.

5. SEGMENT INFORMATION

No business segment information of the Group is presented as the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacturing and sales activities of business equipment, tax control equipment and other electronic products.

The directors of the Company also consider that the presentation of geographical segment information is not meaningful as less than 10% of the Group's consolidated turnover and results are attributable to the market outside the PRC and less than 10% of the Group's consolidated assets are located outside the PRC.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings	Plant and Machinery *(note (c))*	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
At 1 January 2005						
Cost	—	70,452	6,947	3,822	2,686	83,907
Accumulated depreciation	—	(24,534)	(2,138)	(913)	(405)	(27,990)
Net book amount	—	45,918	4,809	2,909	2,281	55,917
Year ended 31 December 2005						
Opening net book amount	—	45,918	4,809	2,909	2,281	55,917
Additions	—	10,050	1,840	298	1,255	13,443
Disposals	—	(43)	—	—	—	(43)
Depreciation	—	(8,814)	(1,435)	(584)	(648)	(11,481)
Closing net book amount	—	47,111	5,214	2,623	2,888	57,836
At 31 December 2005						
Cost	—	80,451	8,776	4,120	3,941	97,288
Accumulated depreciation	—	(33,340)	(3,562)	(1,497)	(1,053)	(39,452)
Net book amount	—	47,111	5,214	2,623	2,888	57,836
Year ended 31 December 2006						
Opening net book amount	—	47,111	5,214	2,623	2,888	57,836
Additions (note (a))	50,910	3,369	1,057	515	2,017	57,868
Transfer (note(b))	1,821	—	—	(1,821)	—	—
Disposals	—	(462)	(11)	—	—	(473)
Depreciation	(415)	(10,179)	(1,394)	(497)	(845)	(13,330)
Closing net book amount	52,316	39,839	4,866	820	4,060	101,901
At 31 December 2006						
Cost	54,317	82,988	9,739	1,228	5,958	154,230
Accumulated depreciation	(2,001)	(43,149)	(4,873)	(408)	(1,898)	(52,329)
Net book amount	52,316	39,839	4,866	820	4,060	101,901

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT — GROUP (CONTINUED)

(a) Pursuant to a sales and purchase agreement entered into amongst certain of the Group companies, Kytronics Holdings Limited, Kong Yue Industrial Park (Xinhui) Limited ("Industrial Park", a related party of the Group) and Jiangmen Kongyue Information Technology Limited ("Jiangmen Information", a minority interest of the Group which holds 5% equity interest in Kong Yue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information")) on 31 July 2006, the Group acquired the usage right of a parcel of land (note 7) together with industrial complex, warehouse and dormitory building erected thereon which were previously leased to the Group from Industrial Park at an aggregated consideration of approximately RMB62.5 million. The consideration of approximately RMB59.4 million was satisfied by the Company by cash of approximately RMB27.2 million and by the issue of 23,000,000 consideration shares at an issue price of HK$1.34 per share to Kytronics Holdings Limited, and of approximately RMB3.1 million was satisfied by Jiangmen Information by cash.

(b) Relevant lease hold improvements were transferred to buildings after the Group acquired the industrial complex, warehouse and dormitory building from Industrial Park (note (a)).

(c) Certain equipment of the Group amounting to RMB24.1 million as at 31 December 2006 (2005: RMB26.6 million) have been pledged for bank facilities of the Group (note 18).

Depreciation was expensed in the following category in the income statement:

	2006	2005
Cost of goods sold	**9,347**	8,323
Selling and marketing costs	**806**	630
Administrative expenses	**2,765**	2,360
	12,918	11,313

7. LAND USE RIGHT — GROUP

Year ended 31 December 2006	
Addition	11,550
Amortisation	(72)
Closing net book amount	11,478
At 31 December 2006	
Cost	11,550
Accumulated amortisation	(72)
Net book amount	11,478

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(All amounts in Renminbi thousands unless otherwise stated)

7. LAND USE RIGHT — GROUP (CONTINUED)

Usage right of a parcel of land together with the buildings erected thereon was acquired by the Group from Industrial Park pursuant to a sale and purchase agreement detailed in note 6 (a). The land use right has been granted for a term due to expire on 9 December 2046.

Amortisation of RMB72,000 is included in the cost of goods sold in the income statement.

8. INTANGIBLE ASSETS — GROUP

	Trademark	Proprietary technology	Total
At 1 January 2005			
Cost	1,942	—	1,942
Accumulated amortisation	—	—	—
Net book amount	1,942	—	1,942
Year ended 31 December 2005			
Opening net book amount	1,942	—	1,942
Amortisation	(100)	—	(100)
Closing net book amount	1,842	—	1,842
At 31 December 2005			
Cost	1,942	—	1,942
Accumulated amortisation	(100)	—	(100)
Net book amount	1,842	—	1,842
Year ended 31 December 2006			
Opening net book amount	1,842	—	1,842
Additions	—	1,344	1,344
Amortisation	(100)	(67)	(167)
Closing net book amount	1,742	1,277	3,019
At 31 December 2006			
Cost	1,942	1,344	3,286
Accumulated amortisation	(200)	(67)	(267)
Net book amount	1,742	1,277	3,019

Amortisation of RMB167,000 (2005: RMB100,000) is included in the cost of goods sold in the income statement.

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9. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2006	2005
Unlisted shares	211,751	211,751

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital/paid-in capital	Attributable equity interest held
Ying Mei Investment	British Virgin Island ("BVI")	Investment holdings/PRC	US$50,000	*100%
Kong Yue Investment	BVI	Investment holdings/PRC	US$50,000	*100%
Visionic Investment	BVI	Investment holdings/PRC	US$50,000	*100%
Kong Yue Jolimark Information Technology Limited ("Kongyue Jolimark")	PRC	Manufacturing and sales of business equipment and tax control equipment/PRC	HK$93,815,000	100%
Jolimark (S) Pte. Limited	Singapore	Wholesale of computer hardware and peripheral equipment/Singapore	SG$100,000	100%
Shanghai Jiangnuo Digital Technology	PRC	Wholesale of business equipment and tax control equipment/PRC	RMB20,000,000	95.25%
Jolimark Technology Limited	Hong Kong	Investment holdings/PRC	HK$10,000	100%
Kongyue Information	PRC	Manufacturing and sales of business equipment and tax control equipment/PRC	US$16,620,000	95%
Xin Yue Logistics Limited	Hong Kong	Logistics agent/Hong Kong	HK$2	100%
Phoenix Digital Technologies (Shanghai) Limited	PRC	Manufacturing and sales of digital display products/PRC	RMB18,049,000	65%
Jolimark Information Technology (China) Limited	PRC	Manufacturing and sales of Jolimark branded products/PRC	RMB22,492,000	100%
Shenzhen Jolimark Business Appliances Limited	PRC	Research and development of tax control products/PRC	RMB3,000,000	98.75%
Jiangmen Kong Yue Jolimark Tax Control Services Limited	PRC	Marketing of tax control equipment/PRC	RMB500,000	95%
Jiangmen Jolimark Information System Engineering Limited	PRC	Development of tax control software/PRC	RMB1,000,000	95%
Shanghai Guang'ao Jolimark Business equipment Limited	PRC	Marketing of tax control equipment/PRC	RMB1,000,000	60%
AUI Co., Limited	Japan	Procurement of raw materials/Japan	JPY10,000,000	95%

* The shares are directly held by the Company.

** All the subsidiaries are limited liability companies.

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(All amounts in Renminbi thousands unless otherwise stated)

10. INTERESTS IN ASSOCIATES — GROUP

	2006	2005
Beginning of the year	9,879	11,947
Acquisition of associates	—	350
Share of losses of associates	(872)	(2,418)
End of the year	9,007	9,879

Interests in associates at 31 December 2006 include goodwill of RMB7,467,000 (2005: RMB7,467,000) arising from investment in Beijing Stone Business Information Technology Limited ("Beijing Stone") of which Kongyue Information held its 20% equity interest.

Impairment test for goodwill

For the purpose of impairment testing, investment in Beijing Stone was identified as a CGU.

The recoverable amount of the CGU is determined based on value-in-use calculation. This calculation used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated assuming there is no growth in the business of Beijing Stone after the fifth year.

Key assumptions used for value-in-use calculations	
— Gross margin	25%~29%
— Discount rate	15%

Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to Beijing Stone.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

10. INTERESTS IN ASSOCIATES — GROUP (CONTINUED)

The Group's interest in its associates, all of which are unlisted, were as follows:

Name	Country of establishment	Assets	Liabilities	Revenues	Loss	% Interest held
2005						
Beijing Stone	PRC	11,637	662	6,129	7,925	20%
Shanghai Liang Biao Business Appliances Limited	PRC	1,617	998	—	2,381	35%
		13,254	1,660	6,129	10,306	
2006						
Beijing Stone	PRC	6,629	908	4,109	4,859	20%
Shanghai Liang Biao Business Appliances Limited	PRC	650	2,477	—	2,446	35%
		7,279	3,385	4,109	7,305	

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2006	2005
Beginning of the year	**1,750**	1,750
Addition	**500**	—
Disposals	**(1,200)**	—
End of the year	**1,050**	1,750

Available-for-sale financial assets are equity investments in unlisted companies.

During the year, the Group has disposed of certain available-for-sale financial assets, resulting in losses of RMB233,000.

No impairment provision on available-for-sale financial assets has been made in 2006 or 2005.

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(All amounts in Renminbi thousands unless otherwise stated)

12. INVENTORIES — GROUP

	2006	2005
Raw materials	**128,987**	110,154
Work in progress	**15,154**	5,797
Merchandise	**24,773**	22,181
Finished goods	**74,496**	32,246
	243,410	170,378

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB802,554,000 (2005: RMB828,622,000).

As at 31 December 2006, inventories of RMB10,415,000 (2005: RMB7,197,000) were written down to their net realisable value of nil (2005: nil), of which having been included in cost of goods sold for the year amounted to RMB3,218,000 (2005: RMB1,163,000).

13. TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2006	2005	**2006**	2005
Trade receivables				
— Third parties	**256,090**	245,530	**—**	—
— Related parties *(note 32)*	**4,124**	—	**—**	—
	260,214	245,530	**—**	—
Less: provision for impairment of receivables	**(6,288)**	(3,426)	**—**	—
Trade receivables — net	**253,926**	242,104	**—**	—
Prepayments				
— Third parties	**23,955**	8,960	**—**	—
— Related parties *(note 32)*	**5,674**	3,340	**—**	—
Other receivables				
— Third parties	**11,154**	9,531	**1,166**	225
— Amounts due from associates	**1,072**	—	**—**	—
— Related parties *(note 32)*	**8,510**	2,589	**—**	—
Amounts due from subsidiaries *(note (a))*	**—**	—	**300,626**	160,208
	304,291	266,524	**301,792**	160,433

(a) Amounts due from subsidiaries were unsecured, interest free and repayable on demand.

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(All amounts in Renminbi thousands unless otherwise stated)

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group's sales to corporate customers are entered into on credit terms ranging from 30 to 180 days or extended as considered appropriate by the director in charge of sales department. At 31 December 2006, the ageing analysis of the trade receivables, including amounts due from related parties of trading in nature, were as follows:

	2006	2005
0–30 days	**136,217**	146,449
31–90 days	**57,817**	45,932
91–180 days	**14,483**	6,746
181–365 days	**38,597**	44,187
Over 365 days	**13,100**	2,216
	260,214	245,530

There is no concentration of credit risk with respect to trade receivables, the customers of the Group are widely dispersed.

The Group has recognised a loss of RMB2,862,000 (2005: RMB563,000) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included in administrative expenses in the income statement.

14. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2006	2005	**2006**	2005
Cash at bank and in hand	**100,834**	95,832	**256**	542
Short-term bank deposits	**—**	17,009	**—**	17,009
	100,834	112,841	**256**	17,551
Dominated in RMB	**87,775**	74,399	**—**	—
Dominated in other currencies	**13,059**	38,442	**256**	17,551
	100,834	112,841	**256**	17,551

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

Notes to the Consolidated Financial Statements

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15. SHARE CAPITAL AND PREMIUM

Movements were:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised					
Ordinary shares HK$0.01 each upon incorporation	10,000,000	100	106	—	106
Increase in authorised share capital	9,990,000,000	99,900	105,894	—	105,894
Ordinary shares of HK$0.01 each	10,000,000,000	100,000	106,000	—	106,000
Issued and fully paid					
At 1 January 2005					
— Ordinary share of HK$0.01 each allotted and issued at nil paid	1	—	—	—	—
Share issued as consideration for acquisition of Ying Mei Investment, Kong Yue Investment and Visionic Investment	2,999,999	30	32	—	32
Issue of shares for cash	89,000	1	1	12,401	12,402
Capitalisation issue	371,911,000	3,719	3,942	(3,942)	—
Issue of shares in connection with the listing	125,000,000	1,250	1,325	149,725	151,050
Placing and listing expenses	—	—	—	(22,989)	(22,989)
At 31 December 2005	500,000,000	5,000	5,300	135,195	140,495
At 1 January 2006	500,000,000	5,000	5,300	135,195	140,495
Placement of shares for cash *(note (a))*	83,000,000	830	854	121,693	122,547
Placement of shares as consideration for the acquisition of properties *(note (b))*	23,000,000	230	234	31,903	32,137
Share placement costs	—	—	—	(3,589)	(3,589)
Repurchase of the shares of the Company *(note (c))*	(8,790,000)	(88)	(89)	(9,307)	(9,396)
At 31 December 2006	597,210,000	5,972	6,299	275,895	282,194

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

15. SHARE CAPITAL AND PREMIUM (CONTINUED)

(a) 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 each to certain independent institutional investors at a price of HK$1.47 per share. The gross proceeds to the Company from the placing amounted to approximately HK$88.2 million (equivalent to RMB90.9 million).

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 certain independent institutional investors at a price of HK$1.34 per share. The gross proceeds from the placing amounted to approximately HK$30.8 million (equivalent to RMB31.6 million), which is mainly to satisfy the cash consideration of approximately RMB27.2 million for acquisition of properties (notes 6 and 7).

(b) Pursuant to a sales and purchase agreement entered into amongst certain of the Group companies, Kytronics Holdings Limited, Industrial Park and Jiangmen Information on 31 July 2006, the Company has issued 23,000,000 new shares to Kytronics Holdings Limited as consideration for acquisition of properties (notes 6 and 7).

(c) The Company repurchased 8,790,000 of its own shares through purchases on the Stock Exchange during the year ended 31 December 2006. The shares have been cancelled upon being reacquired. The total amounts paid to acquire the shares were approximately HK$9.3 million (equivalent to RMB9.4 million), which have been deducted from shareholders' equity.

16. OTHER RESERVES

(a) Group

	Merger reserve *(note (i))*	Statutory reserve and enterprise expansion fund *(note (ii))*	Total
Balance at 1 January 2005	136,904	36,581	173,485
Transfer from retained earnings	—	6,647	6,647
Balance at 31 December 2005	136,904	43,228	180,132
Balance at 1 January 2006	136,904	43,228	180,132
Transfer from retained earnings	—	5,120	5,120
Balance at 31 December 2006	**136,904**	**48,348**	**185,252**

(i) Merge reserve of the Group represents the difference between the share capital of subsidiaries acquired pursuant to the Group's reorganisation over the nominal value of the share capital of the Company issued in exchange.

(ii) In accordance with relevant rules and regulation on foreign investment enterprise established in the PRC, the Company's PRC subsidiaries are required to transfer an amount of their profit after taxation to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund may be distributed to shareholders in the form of bonus issue. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

16. OTHER RESERVES (CONTINUED)

(b) Company

Other reserves of the Company represented the difference between the cost of investments in subsidiaries acquired pursuant to the Group's reorganisation over the nominal value of the shares of the Company issued in exchange.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
Trade payables				
— Third parties	**109,869**	77,093	**—**	—
— Related parties *(note 32)*	**3,417**	4,321	**—**	—
	113,286	81,414	**—**	—
Amounts due to subsidiaries	**—**	—	**4,388**	3,150
Other payables to third parties	**18,550**	22,758	**937**	—
Staff welfare benefits payable	**90**	3,405	**—**	—
Advances from customers	**2,139**	161	**—**	—
	134,065	107,738	**5,325**	3,150

At 31 December 2006, the ageing analysis of the trade payables, include amounts due to related parties of trading in nature, were as follows:

	2006	2005
0–30 days	**25,012**	35,887
31–90 days	**85,696**	19,876
91–180 days	**1,086**	23,883
181–365 days	**906**	363
Over 365 days	**586**	1,405
	113,286	81,414

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(All amounts in Renminbi thousands unless otherwise stated)

18. BORROWINGS — GROUP

	2006	2005
Bank borrowings — unsecured	**57,809**	96,160

The effective interest rates of short-term borrowings at the balance sheet date were 5.78% per annum (2005: 5.77% per annum).

The carrying amounts of the borrowings are denominated in the following currencies:

	2006	2005
US$	**7,809**	16,160
RMB	**50,000**	80,000
	57,809	96,160

The Group has the following undrawn borrowing facilities:

	2006	2005
Floating rate		
— expiring within one year	**82,091**	80,000

These bank facilities were secured by pledge of the equipments of the Group amounting to RMB24.1 million as at 31 December 2006 (2005: RMB26.6 million).

19. DEFERRED INCOME TAX — GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. As at 31 December 2006, the Group had no deferred income tax liabilities. The deferred income tax assets are as follows:

	2006	2005
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**2,005**	1,815

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(All amounts in Renminbi thousands unless otherwise stated)

19. DEFERRED INCOME TAX — GROUP (CONTINUED)

The movement on the deferred income tax assets is as follows:

	2006	2005
Beginning of the year	**1,815**	1,851
Credit/(charged) to the income statement	**190**	(36)
End of the year	**2,005**	1,815

	Provision for doubtful debts	Write-down of inventories	Others	Total
Deferred tax assets:				
At 1 January 2005	411	724	716	1,851
Credit/(charged) to the income statement *(note 26)*	—	140	(176)	(36)
At 31 December 2005	411	864	540	1,815
Credit/(charged) to the income statement *(note 26)*	344	386	(540)	190
At 31 December 2006	**755**	**1,250**	**—**	**2,005**

The Group did not recognise deferred income tax assets of approximately RMB5.5 million (2005: RMB3.0 million) in respect of the losses amounting to approximately RMB20.0 million (2005: RMB11.6 million) that can be carried forward to off set against future taxable income.

20. TURNOVER

Turnover recognised during the year are as follows:

	2006	2005
Sales of business equipment and tax control equipment under "Jolimark" brand	**164,150**	195,139
Distribution of other branded business equipment	**330,350**	328,975
OEM/ODM/EMS businesses	**448,752**	457,536
	943,252	981,650

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21. OTHER INCOME

	2006	2005
Interest income	**1,580**	1,063
Incentive subsidy *(note (a))*	**2,787**	3,739
Tax refund on reinvestment *(note (b))*	**4,311**	7,928
Repair and maintenance service income — net	**2,915**	2,060
	11,593	14,790

(a) As an incentive to attract tenants, Industrial Park signed an agreement with Kongyue Information and Kongyue Jolimark on 16 April 2002 that Industrial Park agreed to subsidise Kongyue Information and Kongyue Jolimark by incentive subsidies received from local government based on a percentage of tax payable by Kongyue Information and Kongyue Jolimark for subsidising their initial setting up and removal costs for establishment of premises in Kong Yue Industrial Park. The agreement can be terminated by Industrial Park when it serves notice to its tenants.

(b) In 2006, Kongyue Information issued shares from capitalisation of its retained earnings to their respective shareholders totalling RMB33,280,000. Pursuant to relevant PRC income tax regulation, Kong Yue Investment, shareholder of Kongyue Information, was entitled to a refund of the income tax of approximately RMB4,311,000 previously levied on Kongyue Information in relation to corresponding retained earnings. The tax refund has been received by the Group in 2006.

22. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2006	2005
Depreciation of property, plant and equipment and amortisation of land use right and intangible assets *(notes 6, 7 and 8)*	**13,157**	11,413
Raw materials and consumables recognised in cost of goods sold and expenses	**471,043**	500,273
Cost of goods sold in distribution business	**309,867**	307,491
Write down of inventories	**3,218**	1,163
Provision for bad debts	**2,862**	563
Employee benefit expenses *(note 23)*	**40,711**	29,652
Operating leases — building	**5,034**	5,091
Research and development costs	**5,791**	4,081
Transportation expenses	**7,370**	4,569
Auditors' remuneration	**1,472**	1,385
Others	**35,567**	29,230
	896,092	894,911

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(All amounts in Renminbi thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES

	2006	2005
Wages and salaries	**35,529**	24,051
Staff welfare and insurance	**4,162**	4,479
Pension costs — defined contribution plans	**1,020**	1,122
	40,711	29,652

(a) Directors' and senior management's emoluments

The remuneration of directors of the Company for the year ended 31 December 2006 is set out below:

	Fees	Salaries	Bonus	Inducement fees	Other benefits	Contribution to pension scheme	Compensation for loss of office	Total
Mr. Au Pak Yin	246	574	—	—	—	12	—	832
Mr. Au Kwok Lun	246	779	—	—	121	12	—	1,158
Ms. Ou Guo Liang	246	267	—	—	147	—	—	660
Mr. Ng Shu Kai	246	207	—	—	—	12	—	465
Mr. Lai Ming, Joseph*	246	—	—	—	—	—	—	246
Mr. Meng Yan*	123	—	—	—	—	—	—	123
Mr. Xu Guangmao*	123	—	—	—	—	—	—	123
	1,476	1,827	—	—	268	36	—	3,607

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(All amounts in Renminbi thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of directors of the Company for the year ended 31 December 2005 is set out below:

	Fees	Salaries	Bonus	Inducement fees	Other benefits	Contribution to pension scheme	Compensation for loss of office	Total
Mr. Au Pak Yin	125	297	—	—	—	—	—	422
Mr. Au Kwok Lun	125	521	—	—	—	—	—	646
Ms. Ou Guo Liang	125	279	—	—	—	—	—	404
Mr. Ng Shu Kai	125	111	—	—	—	—	—	236
Mr. Lai Ming, Joseph*	125	—	—	—	—	—	—	125
Mr. Meng Yan*	62	—	—	—	—	—	—	62
Mr. Xu Guangmao*	62	—	—	—	—	—	—	62
	749	1,208	—	—	—	—	—	1,957

* Mr. Lai Ming, Joseph, Mr. Meng Yan and Mr. Xu Guangmao are independent non-executive directors of the Company.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 (2005: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2005: 2) individuals during the year are as follows:

	2006	2005
Salaries and other benefits	**1,523**	1,574
Retirement scheme contributions	**12**	—
Compensation for loss of office	**—**	—
	1,535	1,574

The emoluments fell within the following bands:

	2006	2005
Nil to RMB1,000,000	**2**	2

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24. OTHER GAINS/(LOSSES) — NET

	2006	2005
Losses from disposal of available-for-sale investments	(233)	—
Net foreign exchange gains/(losses)	665	(1,843)
	432	(1,843)

25. FINANCE COSTS

	2006	2005
Interest expenses on bank borrowings	7,168	5,628

26. INCOME TAX EXPENSES

	2006	2005
Current income tax		
— Hong Kong profits tax	289	898
— PRC enterprise income tax	7,749	10,579
	8,038	11,477
Deferred income tax *(note 19)*	(190)	36
	7,848	11,513

The income tax on the Group's profit before taxation differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Group companies as follows:

	2006	2005
Profit before tax	51,145	91,640
Tax calculated at tax rates applicable to profits in the respective entities of the Group	15,397	24,986
Income tax exemption and reduction *(note (a))*	(10,086)	(16,028)
Tax losses for which no deferred income tax asset was recognised	2,291	1,711
Tax effect of shares of results of associates	105	290
Expenses not deductible for tax purposes	141	554
Tax expenses	7,848	11,513

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26. INCOME TAX EXPENSES (CONTINUED)

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% for the year ended 31 December 2006.

PRC enterprise income tax

PRC enterprise income tax of the Group's entities established in the mainland China, mainly Kongyue Jolimark and Kongyue Information, is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expenses items, which are not assessable or deductible for income tax purpose. As Kongyue Jolimark and Kongyue Information are established in the Coastal Open Economic Zones of the PRC, their applicable enterprise income tax rate is 27%, which comprised 24% attributable to national tax and 3% attributable to local municipal income tax.

(a) 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 the year ended 31 December 2001 and 31 December 2000, respectively.

Moreover, if foreign enterprise is recognised as "Advance Technology Enterprise", it will be entitled to a further extension of 50% tax reduction in national enterprise income tax and exemption of local municipal income tax for three years after the end of tax holiday. Both Kongyue Jolimark and Kongyue Information are currently recognised as "Advance Technology Enterprise" which is subject to annual renewal with Guangdong Province Foreign Trade Economic Cooperation Bureau.

27. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB1,298,000 (2005: RMB51,011,000).

28. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to shareholders of the Company	**42,426**	78,603
Weighted average number of ordinary shares in issue *(thousands)*	**544,626**	434,673
Basic earnings per share *(RMB per share)*	**0.078**	0.181

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive shares in issue during the years ended 31 December 2006 and 2005.

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29. DIVIDENDS

	2006	2005
Interim dividend of HK$0.0103 (2005: HK$0.032) per ordinary share *(note (a))*	**6,288**	16,640
Proposed final dividend of HK$0.02 (2005: HK$0.0285) per ordinary share *(note (b))*	**11,820**	14,820
	18,108	31,460

(a) An interim dividend for the six months ended 30 June 2006 of HK$0.0103 per ordinary share, totaling approximately HK$6,173,000 (equivalent to RMB6,288,000) has been approved in the meeting of board of directors of the Company on 18 September 2006.

(b) At a meeting held on 17 April 2007, the directors of the Company proposed a final dividend of HK$0.02 per share, totalling approximately HK$11,944,000 (equivalent to RMB11,820,000 which is translated based on the exchange rate prevailing at 17 April 2007) for the year ended 31 December 2006. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2007.

A final dividend in respect of 2005 of HK$0.0285 per ordinary share, totaling approximately HK$14,250,000 (equivalent to RMB14,820,000) has been declared in the Company's Annual General Meeting on 15 May 2006.

30. CASH FLOWS FROM OPERATING ACTIVITIES

	2006	2005
Profit for the year	**43,297**	80,127
Adjustments for:		
— Income tax expenses	**7,848**	11,513
— Depreciation	**12,918**	11,313
— Amortisation	**239**	100
— Loss on disposal of property, plant and equipment	**473**	43
— Interest income	**(1,580)**	(1,063)
— Finance cost	**7,168**	5,628
— Losses from disposal of available-for-sale financial assets	**233**	—
— Exchange losses on cash and cash equivalents	**526**	2,650
— Share of loss from associates	**872**	2,418
	71,994	112,729
Changes in working capital:		
— Inventories	**(72,620)**	(11,063)
— Trade and other receivables	**(37,467)**	(76,568)
— Trade and other payables	**26,127**	(31,477)
Cash used in operations	**(11,966)**	(6,379)

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

30. CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

Non-cash transactions

The principal non-cash transaction is the issue of shares as consideration for the acquisition of properties from Industrial Park (note 15(b)).

31. COMMITMENTS — GROUP

Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	2006	2005
No later than 1 year	**2,511**	5,091
Later than 1 year and not later than 5 years	**6,865**	17,977
Later than 5 years	**771**	1,911
	10,147	24,979

Financial commitments

	2006	2005
Contributions to paid-in-capital of Jolimark Information Technology (China) Limited	**27,494**	42,500

In accordance with the approved document issued by Beijing Haidian District Bureau of Commerce on 9 October 2006, the Group should contribute registered capital of RMB27,494,000 to Jolimark Information Technology (China) Limited on or before 15 October 2007.

32. RELATED-PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	**Relationship**
Au Family	Beneficial owner of the Company which include Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang and Ms. Ou Ri Ai
Close Au Family Members	Close family members of Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang and Ms. Ou Ri Ai
Guangdong Kong Yue Precision Manufacturing Limited ("Guangdong Precision")	Company under significant influence of Au Family
Jiangmen Kong Yue Information Products Import Export Limited ("KY Import/Export")	Company directly controlled by Jiangmen Information (a company beneficially owned by Mr. Ou Guo Liang and Close Au Family Members) and Close Au Family Members
Industrial Park	Company beneficially owned by Mr. Au Pak Yin and Close Au Family Members
Xinhui Kong Yue Printing Equipment Manufacturing Limited ("Kongyue Printing")	Company directly controlled by Kong Yue Technology Limited (a company beneficially owned by Mr. Au Pak Yin and Close Au Family Members)
Guangdong Kong Yue Zhongding Rubber Component Limited ("Guangdong Zhongding")	Company under significant influence of Au Family
Jiangmen Kong Yue Yida Precision Limited ("Jiangmen Yida")	Company under significant influence of Au Family

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties:

	2006	2005
i) Sales of goods *(note (1))*		
— KY Import/Export	**1,208**	3,357
— Industrial Park	**214**	—
— Guangdong Precision	**34**	—
	1,456	3,357
ii) Purchase of goods *(note (1))*		
— KY Import/Export	**2,383**	—
— Guangdong Precision	**9,348**	7,713
— Guangdong Zhongding	**9,964**	7,365
— Jiangmen Yida	**6,469**	4,145
	28,164	19,223
iii) Purchase of properties *(note (1))*		
— Industrial Park *(note 6 and 7)*	**62,460**	—
— Guangdong Precision	**117**	—
— Guangdong Zhongding	**34**	—
— Jiangmen Yida	**141**	941
	62,752	941
iv) Key management compensation (exclusive of directors' emoluments)		
Salary and other short-tem employee benefits	**3,372**	3,709

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties: (Continued)

	2006	2005
v) Other transactions		
Rental expenses due to		
— Industrial Park *(note (2))*	**2,745**	3,495
— Mr. Ou Guo Liang *(note (3))*	**1,651**	1,651
	4,396	5,146
Handling fee due to		
— KY Import/Export *(note (4))*	**1,910**	1,191
Incentives granted by		
— Industrial Park *(note 21(a))*	**2,787**	3,739
vi) Year-end balances		
Receivables from related parties *(note 13)*		
— KY Import/Export	**4,124**	3,340
— Industrial Park	**8,510**	2,589
— Guangdong Precision	**5,674**	—
	18,308	5,929
Payable to related parties *(note 17)*		
— Guangdong Zhongding	**2,152**	2,521
— Jiangmen Yida	**1,265**	1,800
	3,417	4,321

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

32. RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Significant transactions with related parties: (Continued)

Notes:

(1) The above sales and purchase transactions were negotiated with related parties in a normal cause of business with a margin on the same basis with non-related parties.

(2) Rental expenses due to Industrial Park, which were mainly related to lease of land and buildings in Kong Yue Industrial Pack, were determined with reference to the prevailing market price. The rental contract of land and buildings in Kong Yue Industrial Pack has been terminated upon acquisition of relevant land and buildings in September 2006 (note 6(a)).

(3) Rental expenses due to Mr. Ou Guo Liang were related to lease of an office building of which the renal charges were determined with reference to the prevailing market price and in accordance with the terms of underlying agreement.

(4) Handling fee due to KY Import/Export represents service charge for handling customs documents for the Group during import process, which is based on approximately 1% of the aggregate value of goods handled by KY Import/Export.

(5) All balances with related parties were unsecured, interest free and repayable on demand.

33. EVENTS AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. The Company will continue to evaluate the impact as more detailed regulations are announced.

34. ULTIMATE HOLDING COMPANY

The directors of the Company regard Kytronics Holdings Limited, a company incorporated in the BVI, as the ultimate holding company of the Group.