

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



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PricewaterhouseCoopers
22nd Floor, Prince's Building
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20th June, 2005

The Directors
Jolimark Holdings Limited
Kingsway Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Jolimark Holdings Limited (the “Company”) and its subsidiaries for inclusion in the prospectus of the Company dated 20th June, 2005 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company and its subsidiaries are hereinafter collectively referred as the “Group”.

The Company was incorporated in the Cayman Islands on 22nd July, 2004 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as described in note 1 of section II, the Company became the holding company of the subsidiaries. Details of the Company’s direct and indirect interests in its subsidiaries and associated companies at the date of this report are set out in note 29 of section II below.

All companies now comprising the Group and its associated companies have adopted 31st December, as their financial year-end date. The management accounts of these entities were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises of the People’s Republic of China (the “PRC”), or those relevant accounting principles applicable to their respective place of incorporation. Details of the auditors of these entities are set out in note 29 of section II below. No audited accounts have been prepared for certain of these entities as they were not subject to any statutory audit requirements in their respective jurisdiction of establishment.

No audited accounts have been prepared for the Company since the date of its incorporation as it is newly incorporated and have not been involved in any business transactions since incorporation other than the Reorganisation. For the purpose of the Reorganisation, the directors of the Company have prepared the accounts of Jiangmen Kong Yue Jolimark Information Technology Ltd. (“Kongyue Jolimark”) and Kong Yue Electronics & Information Industry (Xinhui) Ltd. (“Kongyue Information”) for the years ended 31st December, 2002, 2003 and 2004 (the “Relevant Periods”) in accordance with the accounting principles generally accepted in Hong Kong. For the purpose of this report, we have carried out an independent audit of the accounts of Kongyue Jolimark and Kongyue Information in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The financial information as set out in sections I to V below (the "Financial Information") has been prepared based on the audited accounts or, where appropriate, unaudited management accounts of all companies now comprising the Group and associated companies on the basis set out in note 1 of section II below, after making such adjustments as are appropriate. We have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies now comprising the Group and associated companies for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. The directors of the respective companies are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis as set out in note 1 of section II below, gives a true and fair view of the combined state of affairs of the Group as at 31st December, 2002, 2003 and 2004 and of the combined results and combined cash flows of the Group for the Relevant Periods.

I COMBINED ACCOUNTS

(a) Combined profit and loss accounts

The following is a summary of the combined profit and loss accounts of the Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below, after making adjustments as are appropriate:

	<i>Note</i>	Years ended 31st December,		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	565,923	814,127	965,972
Cost of sales		<u>(452,172)</u>	<u>(673,722)</u>	<u>(810,959)</u>
Gross profit		113,751	140,405	155,013
Other revenues	3	3,928	7,207	5,243
Distribution costs		(15,242)	(22,919)	(24,322)
Administrative expenses		<u>(23,790)</u>	<u>(30,587)</u>	<u>(30,691)</u>
Operating profit	4	78,647	94,106	105,243
Finance costs	5	(602)	(1,887)	(3,979)
Share of losses of associated companies		<u>(46)</u>	<u>(26)</u>	<u>(1,373)</u>
Profit before taxation		77,999	92,193	99,891
Taxation	6	<u>(3,340)</u>	<u>(12,088)</u>	<u>(12,590)</u>
Profit after taxation		74,659	80,105	87,301
Minority interests		<u>(6,440)</u>	<u>(2,625)</u>	<u>(1,076)</u>
Profit for the year		<u>68,219</u>	<u>77,480</u>	<u>86,225</u>
Dividends	7	<u>108,328</u>	<u>69,000</u>	<u>92,275</u>

(b) Combined balance sheets

The following is a summary of the combined balance sheets of the Group as at 31st December, 2002, 2003 and 2004 prepared on the basis as set out in note 1 of section II below, after making adjustments as are appropriate:

	<i>Note</i>	31st December,		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Fixed assets	12	54,175	50,175	55,917
Intangible assets — trademark	27 (c-i)	—	—	1,942
Interests in associated companies	13	54	28	11,947
Investment securities	14	—	1,000	1,750
Deferred tax assets	24	482	1,155	1,851
		<u>54,711</u>	<u>52,358</u>	<u>73,407</u>
Current assets				
Inventories	15	156,840	224,018	159,147
Trade receivables	16	66,529	89,662	165,214
Other receivables and prepayments	17	102,702	107,940	24,742
Bank balances and cash	18	23,031	10,786	38,951
		<u>349,102</u>	<u>432,406</u>	<u>388,054</u>
Current liabilities				
Trade payables	19	103,092	111,787	104,851
Other payables and accruals	20	60,017	69,135	46,096
Taxation payable		1,396	6,760	5,861
Dividend payable		97,453	92,348	—
Short-term bank loans	21	8,000	60,000	100,000
		<u>269,958</u>	<u>340,030</u>	<u>256,808</u>
Net current assets		<u>79,144</u>	<u>92,376</u>	<u>131,246</u>
Total assets less current liabilities		133,855	144,734	204,653
Non-current liability				
Deferred tax liabilities	24	426	—	—
Minority interests		11,177	4,413	10,371
Net assets		<u>122,252</u>	<u>140,321</u>	<u>194,282</u>
Financed by:				
Share capital	22	35,233	76,925	136,936
Reserves	23	87,019	63,396	57,346
		<u>122,252</u>	<u>140,321</u>	<u>194,282</u>

(c) Combined statements of changes in equity

The following is a summary of the combined statements of changes in equity of the Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below:

	Share capital <i>(Note 22)</i> RMB'000	Reserves <i>(Note 23)</i> RMB'000	Total RMB'000
At 1st January, 2002	25,294	132,648	157,942
Capital injection to subsidiaries of the Group by their then shareholders	4,419	—	4,419
Share issued from capitalisation of retained earnings	5,520	(5,520)	—
Profit for the year	—	68,219	68,219
Dividend	—	(108,328)	(108,328)
At 31st December, 2002	35,233	87,019	122,252
Contribution from owners	532	9,057	9,589
Share issued from capitalisation of retained earnings	41,160	(41,160)	—
Profit for the year	—	77,480	77,480
Dividend	—	(69,000)	(69,000)
At 31st December, 2003	76,925	63,396	140,321
Issue of shares	11	—	11
Share issued from capitalisation of dividend <i>(note 27(b))</i>	60,000	—	60,000
Profit for the year	—	86,225	86,225
Dividend	—	(92,275)	(92,275)
At 31st December, 2004	<u>136,936</u>	<u>57,346</u>	<u>194,282</u>

(d) Combined cash flow statements

The following is a summary of the combined cash flow statements of the Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below:

	<i>Note</i>	Years ended 31st December,		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operations	27(a)	109,691	(14,140)	98,950
PRC enterprise income tax paid		(2,000)	(7,823)	(13,489)
Interest paid		(602)	(1,887)	(3,979)
Net cash inflow/ (outflow) from operating activities		<u>107,089</u>	<u>(23,850)</u>	<u>81,482</u>
Investing activities				
Purchase of fixed assets		(19,563)	(4,037)	(9,101)
Purchase of investment securities		—	(1,000)	(750)
Acquisition of associated companies		(100)	—	(12,700)
Interest received		125	156	130
Net cash inflow from acquisition of a subsidiary	27(c)	—	—	14,679
Cash advances made to related parties		(74,994)	(33,094)	(14,543)
Cash receipts from repayments of cash advances from related parties		5,254	79,259	47,710
Net cash (outflow)/inflow from investing activities		<u>(89,278)</u>	<u>41,284</u>	<u>25,425</u>
Net cash inflow before financing		<u>17,811</u>	<u>17,434</u>	<u>106,907</u>
Financing activities				
Capital injections to a subsidiary of the Group from its then shareholders	27(b)	4,419	—	—
Capital injections by minority shareholders	27(b)	982	200	—
New loans payable	27(b)	10,000	124,000	100,000
Repayment of amounts borrowed	27(b)	(13,000)	(72,000)	(60,000)
Dividend paid	27(b)	(14,698)	(74,105)	(121,555)
Dividend paid to minority shareholders	27(b)	(1,879)	—	(4,293)
Cash advances from related parties		3,931	7,646	14,056
Repayments of cash advance to related parties		—	(15,420)	(6,950)
Net cash outflow from financing		<u>(10,245)</u>	<u>(29,679)</u>	<u>(78,742)</u>
Net increase/(decrease) in cash and cash equivalents		7,566	(12,245)	28,165
Cash and cash equivalents at the beginning of the year		15,465	23,031	10,786
Cash and cash equivalents at the end of the year		<u>23,031</u>	<u>10,786</u>	<u>38,951</u>

Cash and cash equivalents at the end of each of the Relevant Periods represent the bank balances and cash in the combined balance sheets.

II NOTES TO THE COMBINED ACCOUNTS

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 22nd July, 2004 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands in the preparation of the initial listing of the shares of the Company on the Main Board of the Stock Exchange, and became the holding company of the Group as a result of the Reorganisation that principally comprises Kongyue Jolimark and Kongyue Information.

Kongyue Jolimark was established on 22nd March, 2001 as a sino-foreign joint venture company, and became a wholly-owned foreign investment enterprise in May 2003 and wholly-owned by Dinomax Pte. Ltd. ("Dinomax"). Dinomax was held on trust for the Au Family Shareholders in equal shares. Kongyue Jolimark principally engages in the research and development, manufacture and sale of printers, printed circuit board assembly, tax control equipment, electronic cash registers, point-of-sales devices, liquid crystal display monitors, computer software and related information technology/electronics products and related services.

Kongyue Information was established on 11th December, 1998 as a sino-foreign joint venture company and owned by Dinomax as to 95% and Jiangmen Kongyue Information Technology Ltd. (formerly known as Jiangmen Jolimark Information Technology Ltd.) ("Jiangmen Information"), a related company, as to 5% before the Reorganisation. Kongyue Information was established to engage in the production of new printed circuit board assembly, printers, tax control devices, digital projectors and electronic cash registers, point-of-sales devices, liquid crystal display monitors and other computer peripherals and information/electronic products.

The Reorganisation undertaken by the Group in anticipation of the listing of the Company principally comprised the following:

- Ying Mei Investment Limited ("Ying Mei Investment"), a company wholly owned by Kytronics Holdings Limited ("Kytronics Holdings"), the ultimate holding company of the Company, acquired the entire interest in Kongyue Jolimark which is satisfied by the issue and allotment of 99 shares of US\$1 in Ying Mei Investment to Kytronics Holdings as directed by Dinomax;
- Kong Yue Investment Limited ("Kong Yue Investment"), a company wholly owned by Kytronics Holdings, acquired the 95% interest in Kongyue Information which is satisfied by the issue and allotment of 99 shares of US\$1 in Kong Yue Investment to Kytronics Holdings as directed by Dinomax;
- Visionic Investment Limited ("Visionic Investment"), a company wholly owned by Kytronics Holdings, acquired the 65% interest in Phenix Digital Technology (Shanghai) Ltd. ("Phenix Digital") at a cash consideration of RMB11.7 million;
- The Company acquired the entire shares in each of Ying Mei Investment, Kong Yue Investment and Visionic Investment, which is satisfied by the issue and allotment of 2,999,999 shares to Kytronics Holdings credited as fully paid, and crediting as fully paid up at par the then existing one nil-paid share, and become the holding company of the companies comprising the Group.

For the purpose of this report, the combined profit and loss accounts, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods, include the Financial Information of the companies now comprising the Group as a result of the Reorganisation as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or effective date of acquisition, whichever is the shorter period.

The combined balance sheets of the Group as at 31st December, 2002, 2003 and 2004 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates. As at 31st December, 2004, the Reorganisation was not yet completed. Accordingly, the owners' equity of the Group as at 31st December, 2002, 2003 and 2004 mainly represents the combined equities of Kongyue Jolimark and Kongyue Information, which, upon the completion of the Reorganisation, is held by the Company's wholly owned subsidiaries. The minority interests in the combined profit and loss accounts of the Group represent the net profit attributable to the shareholders outside the Group for the Relevant Periods. Under acquisition accounting, the net assets acquired by the Group from Phenix Digital will be included in the financial statements of the Group from the date of acquisition. Particulars of the subsidiaries of the Group are set out in note 29.

All significant intercompany transactions and balances have been eliminated on combination.

2. Principal accounting policies

The Financial Information set out in this report is prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA, under the historical cost convention. “HKFRS 1” First-time Adoption of Hong Kong Financial Reporting Standard has been applied in preparing the Financial Information.

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

Goodwill

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

Intangible asset arising from business combinations

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

Financial instruments

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

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

Functional currency

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

The principal accounting policies adopted by the Group in arriving at the Financial Information, are set out below.

(a) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the period are included in the combined profit and loss accounts from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) *Associated companies*

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The combined profit and loss accounts include the Group's share of the results of associated companies for the period, and the combined balance sheets include the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(c) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) *Intangibles*

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over its estimated useful life which is generally five to ten years.

(ii) *Trademark*

Expenditure on acquired trademark is capitalised and amortised using the straight-line method over their estimated useful lives but not exceeding 20 years. Trademark is not revalued as there is no active market for these assets.

(iii) *Impairment*

Where an indication of impairment exists, the carrying amount of any intangibles is assessed and written down immediately to its recoverable amount.

(e) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses and estimated residual value of 10% on cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	9%–18%
Furniture and fixtures	18%
Leasehold improvements	9%–18%
Motor vehicles	18%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) *Assets under operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) *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 defined contribution scheme administered by the relevant authority of the PRC.

Contributions to the schemes are calculated as a percentage of employees' salaries. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(k) *Deferred taxation*

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) *Revenue recognition*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from processing and maintenance services is recognised upon the related services is performed. The unrecognised portion is accounted for as advances from customers.

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

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

(n) *Borrowing costs*

All borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(o) *Related parties*

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

(p) *Segment reporting*

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 also consider that the presentation of geographical segmental information is not meaningful as less than 10% of the Group's turnover and results are attributable to the market outside the PRC.

(q) Research and development costs

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

(r) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in bank.

3. Turnover and revenues

The Group is principally engaged in the manufacture of business equipment, tax control equipment and other electronic products on an electronics manufacturing services (“EMS”), original equipment manufacturer (“OEM”) or original design manufacturer (“ODM”) basis. It also designs, manufactures and sells such business equipment and tax-control equipment, with its own brand, “Jolimark”. Through its distribution network, the Group sells and distributes both “Jolimark” products and products of other customers. Revenues recognised during the Relevant Periods are as follows:

	Years ended 31st December,		
	2002	2003	2004
	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>
Turnover			
Sales of business equipment and tax control equipment under “Jolimark” brand	94,727	177,323	277,963
Sales of Epson branded printer	142,498	180,961	242,576
OEM/ODM/EMS businesses	<u>328,698</u>	<u>455,843</u>	<u>445,433</u>
	<u>565,923</u>	<u>814,127</u>	<u>965,972</u>
Other revenues			
Bank interest income	127	158	130
Repairs and maintenance service fee	251	2,744	1,896
Incentive subsidies (<i>note</i>)	<u>3,550</u>	<u>4,305</u>	<u>3,217</u>
	<u>3,928</u>	<u>7,207</u>	<u>5,243</u>
Total revenues	<u><u>569,851</u></u>	<u><u>821,334</u></u>	<u><u>971,215</u></u>

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

4. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Depreciation of fixed assets	5,447	8,025	9,696
Add: amount absorbed in opening inventories	398	604	662
Less: amount absorbed in closing inventories	(604)	(662)	(512)
	5,241	7,967	9,846
Staff costs (excluding directors' remuneration)	16,198	17,194	21,796
Write-down of inventories (included in administrative expenses)	2,195	1,684	1,488
Provision for bad and doubtful debts (included in administrative expenses)	267	1,088	3,110
Operating leases			
— buildings	2,606	2,672	3,000
— hire of machinery	849	835	348
Research and development costs	1,423	4,188	3,615
Auditors' remuneration	35	30	33
Cost of inventories sold	452,172	673,722	810,959
Exchange loss/(gain)	385	631	(234)
	<u>385</u>	<u>631</u>	<u>(234)</u>

5. Finance costs

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interest on unsecured short-term bank loans	53	1,887	3,979
Interest on secured short-term bank loans	549	—	—
	<u>602</u>	<u>1,887</u>	<u>3,979</u>

6. Taxation

The amount of taxation charged to the combined profit and loss accounts represents:

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
PRC enterprise income tax	3,396	13,187	13,286
Deferred taxation relating to the origination and reversal of temporary differences	(56)	(1,099)	(696)
Taxation charge	<u>3,340</u>	<u>12,088</u>	<u>12,590</u>

PRC enterprise income tax 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 the Company's subsidiaries 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 income tax and 3% attributable to local municipal income tax.

In accordance with the relevant applicable tax regulations, Kongyue Jolimark and Kongyue Information are entitled to full exemption from national enterprise income tax for the first two years and 50% reduction in national enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local municipal income tax is exempted in the tax holiday period. Kongyue Jolimark and Kongyue Information were started to derive taxable income in the years ended 31st December, 2001 and 31st December, 2000, respectively. Hence, both Kongyue Jolimark and Kongyue Information have triggered their first profitable year for the enterprise income tax exemption and reduction purposes.

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

The taxation on the Group’s profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the companies now comprising the Group as follows:

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Profit before taxation	77,999	92,193	99,891
Calculated at a taxation rate of 27%	21,060	24,892	26,971
Income tax exemption and reduction	(18,554)	(13,829)	(14,984)
Expenses not deductible for taxation purposes	834	1,025	603
Taxation charge	3,340	12,088	12,590

7. Dividends

No dividend was declared by the Company since its date of establishment to 31st December, 2004. The following dividends were declared by the Company’s subsidiaries to their then shareholders, excluding minority interests, throughout the Relevant Periods:

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Dividends (note 27(b))	108,328	69,000	92,275

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

8. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Relevant Periods on the combined basis as disclosed in note 1 above.

9. Staff costs — excluding directors’ remuneration

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Wages and salaries	9,911	13,761	18,283
Staff welfare and insurance	5,962	2,761	2,783
Pensions	325	672	730
	16,198	17,194	21,796

10. Emoluments for directors and five highest paid individuals

(a) Directors’ emoluments

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Basic salaries	109	109	223

No emoluments were paid to independent non-executive directors during the Relevant Periods.

The emoluments of the executive directors of the Company fell within the following bands:

	Number of directors		
	Years ended 31st December,		
	2002	2003	2004
Emolument bands			
Nil to RMB1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

(b) *Five highest paid individuals*

During each of the Relevant Periods, one of the five highest paid individuals is a director of the Company. The aggregate amounts of emoluments of the five highest paid individuals are as follows:

	Years ended 31st December,		
	2002	2003	2004
	RMB' 000	RMB' 000	RMB' 000
Wages and salaries	370	368	457
Staff welfare and insurance	6	7	7
Pensions	<u>8</u>	<u>9</u>	<u>9</u>
	<u>384</u>	<u>384</u>	<u>473</u>

The emoluments fell within the following bands:

	Number of individuals		
	Years ended 31st December,		
	2002	2003	2004
Nil to RMB1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

- (c) During the Relevant Periods, no emolument was paid by the companies now comprising the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Pensions — defined contribution plans

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.

The details of retirement scheme contributions for the employees, which have been dealt with in the combined profit and loss accounts of the Group for the Relevant Periods, are as follows:

	Years ended 31st December,		
	2002	2003	2004
	RMB' 000	RMB' 000	RMB' 000
Gross scheme contributions	<u>325</u>	<u>672</u>	<u>730</u>

12. Fixed assets

	Plant and machinery <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1st January, 2002	42,558	854	1,585	—	44,997
Additions	15,817	2,531	742	473	19,563
Disposals	—	(47)	—	—	(47)
At 31st December, 2002	58,375	3,338	2,327	473	64,513
Additions	1,984	1,464	287	302	4,037
Disposals	—	(13)	—	—	(13)
At 31st December, 2003	60,359	4,789	2,614	775	68,537
Additions	10,093	2,158	1,208	2,086	15,545
Disposals	—	—	—	(175)	(175)
At 31st December, 2004	70,452	6,947	3,822	2,686	83,907
Accumulated depreciation					
At 1st January, 2002	4,802	69	32	—	4,903
Charge for the year	4,946	355	128	18	5,447
Disposals	—	(12)	—	—	(12)
At 31st December, 2002	9,748	412	160	18	10,338
Charge for the year	6,897	662	360	106	8,025
Disposals	—	(1)	—	—	(1)
At 31st December, 2003	16,645	1,073	520	124	18,362
Charge for the year	7,889	1,065	393	349	9,696
Disposals	—	—	—	(68)	(68)
At 31st December, 2004	24,534	2,138	913	405	27,990
Net book value					
At 31st December, 2002	48,627	2,926	2,167	455	54,175
At 31st December, 2003	43,714	3,716	2,094	651	50,175
At 31st December, 2004	45,918	4,809	2,909	2,281	55,917

No fixed assets of the Group is pledged as security for the Group's short term bank loans.

13. Interests in associated companies

	31st December,		
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Share of net assets	54	28	4,480
Goodwill on acquisition of an associated company less amortisation	—	—	7,467
	54	28	11,947

Particulars of the Group's associated companies are set out in note 29 below.

On 2nd March, 2004, Kongyue Information jointly with Beijing Stone Computer Limited, an independent third party, established Beijing Stone Business Information Technology Ltd. ("Beijing Stone"). According to relevant joint venture agreement, Kongyue Information contributed an amount of RMB12,000,000 for equity interest of RMB3,780,000 in Beijing Stone, which amounts to 20% of the total equity of Beijing Stone. The excess of investment cost over the said equity interest amount in Beijing Stone amounted to RMB8,220,000 is recognised as goodwill. The goodwill is subject to amortisation of ten years. The amortisation charge for the year ended 31st December, 2004 amounted to RMB753,000.

On 2nd July, 2004, Kongyue Jolimark jointly with Shanghai Liang Biao Intellectual Terminus Shares Limited and Shanghai Dunxun Electronic Technology Limited, independent third parties, established Shanghai Liang Biao Business Appliances Ltd. ("Shanghai Liang Biao"). According to relevant joint venture agreement, Kongyue Jolimark contributed an amount of RMB700,000 for equity interest of RMB700,000 in Shanghai Liang Biao, which amounts to 35% of the total equity of Shanghai Liang Biao.

In 2004, Kongyue Jolimark has entered into a purchase and sales agreement with Mr. Ou Guo Liang, a related party as more detailed described in note 28, to transfer 20% equity interest in Shenyang Kongyue Jolimark Information Technology Ltd. ("Shenyang Kongyue") at a cash consideration of RMB100,000, which is equivalent to the original capital injections to Shenyang Kongyue made by Kongyue Jolimark. The net income arising from disposal of this investment amounted to approximately RMB72,000.

14. Investment securities

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity securities	—	1,000	1,750

As at 31st December, 2002, 2003 and 2004, unlisted equity securities are stated at cost.

15. Inventories

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	91,655	143,426	103,036
Work-in-progress	6,644	11,147	6,165
Finished goods	58,541	69,445	49,946
	<u>156,840</u>	<u>224,018</u>	<u>159,147</u>

As at 31st December, 2002, 2003 and 2004, the carrying amount of inventories that are carried at net realisable value are RMB2,862,000, RMB4,546,000 and RMB6,034,000, respectively.

16. Trade receivables

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from:			
Associated companies	1,791	969	—
Other related parties	15,366	31,145	9,287
Third parties	49,873	59,137	159,353
	<u>67,030</u>	<u>91,251</u>	<u>168,640</u>
Provisions for bad and doubtful debts	(501)	(1,589)	(3,426)
	<u>66,529</u>	<u>89,662</u>	<u>165,214</u>

The Group's sales to corporate customers are entered into on credit terms ranging from 30 to 90 days. The ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
0-30 days	46,498	73,843	90,117
31-90 days	12,084	15,517	49,120
91-180 days	7,354	847	22,522
181-365 days	234	385	6,380
Over 365 days	860	659	501
	<u>67,030</u>	<u>91,251</u>	<u>168,640</u>

17. Other receivables and prepayments

	31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Due from:			
Associated companies			
— Operating	309	300	—
Directors			
— Operating	52	16	—
— Investing	631	5,221	—
Other related parties			
— Operating	3,845	44,073	4,968
— Investing	89,547	38,792	—
Other receivables	8,057	18,202	18,718
Prepaid expenses	261	1,336	1,056
	<u>102,702</u>	<u>107,940</u>	<u>24,742</u>

The balance includes loans to directors, particulars of which disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 31st December,			Maximum amount outstanding during the Years ended 31st December,		
	2002	2003	2004	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr Au Kwok Lun	52	16	—	52	50	379
Mr Ou Guo Liang	<u>631</u>	<u>5,221</u>	<u>—</u>	<u>1,034</u>	<u>5,221</u>	<u>6,326</u>
	<u>683</u>	<u>5,237</u>	<u>—</u>	<u>1,086</u>	<u>5,271</u>	<u>6,705</u>

The amounts are unsecured, interest free and have no fixed repayment terms.

18. Bank balances and cash

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Denominated in Renminbi	21,020	10,757	37,335
Denominated in other currencies	<u>2,011</u>	<u>29</u>	<u>1,616</u>
	<u>23,031</u>	<u>10,786</u>	<u>38,951</u>

The conversion of Renminbi 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.

19. Trade payables

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due to:			
Other related parties	40,683	59,870	38,443
Third parties	<u>62,409</u>	<u>51,917</u>	<u>66,408</u>
	<u>103,092</u>	<u>111,787</u>	<u>104,851</u>

The ageing analysis of trade payables at the respective balance sheet dates is as follows:

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0–30 days	40,807	74,888	68,455
31–90 days	53,540	32,357	35,186
91–180 days	7,897	108	895
181–365 days	438	69	232
Over 365 days	<u>410</u>	<u>4,365</u>	<u>83</u>
	<u>103,092</u>	<u>111,787</u>	<u>104,851</u>

20. Other payables and accruals

	31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Due to:			
Associated company			
— Operating	328	516	—
Other related parties			
— Operating	16,350	31,625	—
— Financing	18,442	10,668	—
Other payables to third parties	10,061	10,221	22,613
Staff welfare benefits payable	14,232	15,018	11,609
Advance from customers	604	1,087	142
Payable for acquisition of Phenix Digital (note 27(c))	—	—	11,732
	<u>60,017</u>	<u>69,135</u>	<u>46,096</u>

21. Short-term bank loans

	31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Short-term bank loans			
— unsecured	<u>8,000</u>	<u>60,000</u>	<u>100,000</u>

22. Share capital

For the purpose of this report, the combined share capital of the Group as at 31st December, 2002, 2003 and 2004 represented the aggregate amount of nominal value of the share capital of Kongyue Jolimark, Kongyue Information and Jolimark Technology Limited (“Jolimark Technology”) at the respective dates.

The share capital of the Company is as follows:

	Authorised ordinary shares of		Total
	HK\$0.01		
	Number of shares	HK\$'000	HK\$'000
At 22nd July, 2004 (date of incorporation) and at 31st December, 2004	<u>10,000,000</u>	<u>100</u>	<u>100</u>
	Issued ordinary shares of HK\$0.01		Total
	Number of shares	HK\$'000	HK\$'000
At date of incorporation and at 31st December, 2004	<u>1</u>	<u>—</u>	<u>—</u>

- (a) The Company was incorporated on 22nd July, 2004 with authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. At the date of incorporation of the Company, one nil-paid share was allotted and issued to Mr Au Kwok Lun.
- (b) On 13th June, 2005, the Company increased its authorised share capital from HK\$100,000 to HK\$100,000,000, by creation of an additional 9,990,000,000 shares of HK\$0.01 each.
- (c) In preparation of the Company's listing of its shares on the Main Board of the Stock Exchange, on 10th May, 2005, the Company acquired entire issued share capital in each of Ying Mei Investment, Kong Yue Investment and Visionic Investment for RMB123,692,000, RMB88,059,000 and US\$1, respectively, which were satisfied by the allotment and

issue of 2,999,999 shares to Kytronics Holdings credited as fully paid and crediting as fully paid up at par the then existing one nil-paid share on capitalisation of an amount of HK\$0.01 standing to the credit of the share premium account of the Company.

23. Reserves

	Statutory reserve and enterprise expansion fund	Retained earnings/ other distributable reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1st January, 2002	13,396	119,252	132,648
Share issued from capitalisation of retained earnings	—	(5,520)	(5,520)
Profit for the year	—	68,219	68,219
Transfer to the statutory reserve and enterprise expansion fund	6,432	(6,432)	—
Dividend	—	(108,328)	(108,328)
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	19,828	67,191	87,019
Contributions from owners (<i>note c</i>)	174	8,883	9,057
Share issued from capitalisation of retained earnings	—	(41,160)	(41,160)
Profit for the year	—	77,480	77,480
Transfer to the statutory reserve and enterprise expansion fund	10,752	(10,752)	—
Dividend	—	(69,000)	(69,000)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	30,754	32,642	63,396
Profit for the year	—	86,225	86,225
Transfer to the statutory reserve and enterprise expansion fund	5,827	(5,827)	—
Dividend	—	(92,275)	(92,275)
	<hr/>	<hr/>	<hr/>
At 31st December, 2004	<u>36,581</u>	<u>20,765</u>	<u>57,346</u>

(a) *Statutory reserve and enterprise expansion fund*

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.

(b) *Retained earnings*

For the purpose of this report, the combined retained earnings of the Group at the end of each of the Relevant Periods represented the aggregate amount of the retained earnings of all the companies now comprising the Group at the respective dates.

(c) *Contributions from owners*

Consequent to the acquisition of 10% interest in Kongyue Jolimark by Dinomax from Jiangmen Information in May 2003, the statutory reserve and enterprise expansion fund of RMB174,000 and retained earnings of RMB8,883,000 which, before the acquisition, were attributable to Jiangmen Information are accounted for in this report as the Group's reserves contributed from owners.

24. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using an effective taxation rate of 12% for each of the Relevant Periods.

The movement in deferred tax assets and liabilities is as follows:

Deferred tax assets	Provision for bad and doubtful debts <i>RMB'000</i>	Write-down of inventories <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2002	—	—	—	—
Credited to the combined profit and loss account	<u>60</u>	<u>343</u>	<u>79</u>	<u>482</u>
At 31st December, 2002	60	343	79	482
Credited to the combined profit and loss account	<u>131</u>	<u>202</u>	<u>340</u>	<u>673</u>
At 31st December, 2003	191	545	419	1,155
Credited to the combined profit and loss account	<u>220</u>	<u>179</u>	<u>297</u>	<u>696</u>
At 31st December, 2004	<u><u>411</u></u>	<u><u>724</u></u>	<u><u>716</u></u>	<u><u>1,851</u></u>
Deferred tax liabilities			Temporary difference of incentive funds <i>RMB'000</i>	
At 1st January, 2002			—	
Charged to the combined profit and loss account			<u>(426)</u>	
At 31st December, 2002			(426)	
Credited to the combined profit and loss account			<u>426</u>	
At 31st December, 2003			—	
Credited/(charged) to the combined profit and loss account			<u>—</u>	
At 31st December, 2004			<u><u>—</u></u>	
			31st December,	
			2002	2003
			<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets to be recovered after more than 12 months		<u>403</u>	<u>736</u>	<u>1,135</u>

25. Contingent liabilities

	31st December,	2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees for bank loans of a related party		<u>—</u>	<u>50,000</u>	<u>50,000</u>

Note: The guarantee was released by the lending bank on 25th March, 2005.

26. Commitments under operating lease

(a) *Commitments under operating lease*

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings and equipment as follows:

	31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Not later than one year	3,442	3,348	3,385
Later than one year and not later than five years	10,773	12,000	13,216
Later than five years	5,430	4,365	3,233
	<u>19,645</u>	<u>19,713</u>	<u>19,834</u>

(b) *Financial commitments*

	31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Contributions to paid-in capital of Phenix Digital and Jolimark Information Technology (China) Limited	—	—	57,800

In accordance with two approval documents issued by Shanghai Jiabei District Foreign Economic Committee on 10th August, 2004 and 22nd December, 2004, respectively, the outstanding registered capital of Phenix Digital amounting to RMB12,000,000 should be paid up before 30th June, 2005, included in which Visionic Investment should contribute RMB7,800,000.

In accordance with the approval document issued by Beijing Haidian District Bureau of Commerce on 9th December, 2004, the Group should contribute registered capital of RMB7,500,000 and RMB42,500,000 to Jolimark Information Technology (China) Limited on or before 6th June, 2005 and 7th September, 2006 respectively.

27. Combined cash flow statements

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities is as follows:

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Profit before taxation	77,999	92,193	99,891
Share of losses of associated companies	46	26	1,373
Depreciation	5,241	7,967	9,846
Interest income	(127)	(158)	(130)
Interest expense	602	1,887	3,979
Operating cash inflow before working capital change	83,761	101,915	114,959
Decrease/(increase) in trade receivables	13,510	(23,133)	(109,571)
(Increase)/decrease in other receivables	(7,929)	(51,403)	42,070
(Increase)/decrease in inventories	(50,302)	(67,120)	64,721
Increase/(decrease) in trade payables	58,282	8,695	(6,159)
Increase/(decrease) in other payables	12,369	16,906	(7,070)
Net cash generated from/(used in) operations	<u>109,691</u>	<u>(14,140)</u>	<u>98,950</u>

(b) Analysis of changes in financing during the Relevant Periods:

	Dividend payable RMB'000	Owners' equity RMB'000	Minority interests RMB'000	Loans RMB'000
At 1st January, 2002	—	157,942	9,457	11,000
Capital injections to a subsidiary of the Group by its then shareholders	—	4,419	—	—
Capital injections by minority shareholders	—	—	982	—
Share of profit for the year	—	68,219	6,440	—
Dividend	114,030	(108,328)	(5,702)	—
Net cash outflow	<u>(16,577)</u>	<u>—</u>	<u>—</u>	<u>(3,000)</u>
At 31st December, 2002	97,453	122,252	11,177	8,000
Capital injections by minority shareholders	—	—	200	—
Contributions from owners	—	9,589	(9,589)	—
Share of profit for the year	—	77,480	2,625	—
Dividend	69,000	(69,000)	—	—
Net cash (outflow)/inflow	<u>(74,105)</u>	<u>—</u>	<u>—</u>	<u>52,000</u>
At 31st December, 2003	92,348	140,321	4,413	60,000
Acquisition of Phenix Digital	—	—	6,317	—
Acquisition of equity interests from minority shareholders	—	—	(210)	—
Share of profit for the year	—	86,225	1,076	—
Dividend	93,500	(92,275)	(1,225)	—
Issue of share at nil paid	—	11	—	—
Share issued for capitalisation of dividend (note)	(60,000)	60,000	—	—
Net cash (outflow)/inflow	<u>(125,848)</u>	<u>—</u>	<u>—</u>	<u>40,000</u>
At 31st December, 2004	<u>—</u>	<u>194,282</u>	<u>10,371</u>	<u>100,000</u>

Note: This is part of the 2004 interim dividend declared by Kongyue Jolimark to Dinomax, who reinvested the said dividend in Kongyue Jolimark as capital injection.

(c) Acquisition of a subsidiary

	RMB'000
Net assets acquired	
Fixed assets	189
Intangible assets — trademark usage right (<i>note(i)</i>)	1,968
Other receivables and prepayments	1,361
Bank balances and cash	14,679
Other payables	(148)
Minority interests	<u>(6,317)</u>
	<u>11,732</u>
Satisfied by	
Cash consideration	<u>11,732</u>

On 30th September, 2004, Visionic Investment has entered into a purchase and sale agreement with Visionic Pte Limited, a related company as more described in note 28, to acquire 65% interest in Phenix Digital from Visionic Pte Limited at a cash consideration of RMB11,732,000, which is equivalent to 65% unaudited net assets value of Phenix Digital at the date of acquisition.

As at 31st December, 2004, the cash consideration of RMB11,732,000 was not yet paid by the Group. Therefore, net cash inflow in respect of acquisition of Phenix Digital amounted to RMB14,679,000.

Note (i): Amount represents the fair value of a usage right of trademark for a term of 20 years, which approximated to initial acquisition cost less subsequent amortisation. The consideration paid by Phenix Digital to Phenix Optics Ltd., the minority shareholder of Phenix Digital, for acquisition of the usage right of trademark amounted to Rmb2 million.

The amortisation of the usage right of trademark for the three months ended 31st December, 2004 amounted to RMB26,000 and its carrying value as at 31st December, 2004 is RMB1,942,000.

28. Related party transactions

Parties are considered to be related if they have the ability, directly and indirectly, to control the parties or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

(a) Name and relationship with related parties

Name	Relationship
Au Family	Beneficial owners 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 or Ms Ou Ri Ai
Kong Yue Technology Limited (“Kongyue Technology”)	Company beneficially owned by Mr Au Pak Yin and Close Au Family Members
Kong Yue Technology (S) Pte Ltd.	Company beneficially owned by Mr Au Pak Yin and Ms Ou Ri Ai
Guangdong Kong Yue Precision Industry Ltd. (“Guangdong Precision”)	Company directly owned by Dinomix
Jiangmen Palace Hotel	Company under significant influence by Mr Au Pak Yin
Jiangmen Kong Yue Information Products Import Export Ltd. (“KY Import/Export”)	Company directly controlled by Jiangmen Information and Close Au Family Members
Dinomax	Company beneficially owned by Au Family
Visionic Pte Limited	Company beneficially owned by Ms Ou Ri Ai and Close Au Family Members
New Success Logistics Limited (“New Success”)	Company beneficially owned by Mr Ou Guo Liang and Close Au Family Members
Industrial Park	Company beneficially owned by Mr Au Pak Yin and Close Au Family Members
Jiangmen Information	Company beneficially owned by Mr Ou Guo Liang and Close Au Family Members
Guangdong Kong Yue Jolimark Investment Limited	Company beneficially owned by Mr Ou Guo Liang and Close Au Family Members
Guangdong Jolimark Technology Services Ltd. (“Guangdong Jolimark”)	Company under significant influence by Kongyue Jolimark
Beijing Kong Yue Jolimark Information Technology Ltd. (“Beijing Kongyue”)	Company beneficially owned by Close Au Family Members and Mr Ou Guo Liang

Name	Relationship
Shanghai Kong Yue Electronics Ltd. (“Shanghai KY Electronics”)	Company indirectly controlled by KY Import/Export
Chengdu City Wuhou District Kong Yue Information Product Limited (“Chengdu Kongyue”)	Company directly controlled by Close Au Family Members and Mr Ou Guo Liang
Guangzhou Kong Yue Information Technology Ltd. (“Guangzhou Kongyue”)	Company directly controlled by KY Import/Export and Mr Ou Guo Liang
Shenyang Kongyue	Company directly controlled by Close Au Family Members and Mr Ou Guo Liang
Dalian Kong Yue Information Technology Ltd. (“Dalian Kongyue”) (Having be dissolved in 2003”)	Company directly controlled by KY Import/Export and Mr Ou Guo Liang
Xi’an Kong Yue Information Technology Ltd. (“Xi’an Kongyue”)	Company directly controlled by KY Import/Export and Mr Ou Guo Liang
Wuhan Kong Yue Information Technology Ltd. (“Wuhan Kongyue”)	Company directly controlled by KY Import/Export and Mr Ou Guo Liang
Xinhui Kong Yue Printing Equipment Manufacturing Ltd. (“Kongyue Printing”)	Company directly controlled by Kongyue Technology
Guangdong Kong Yue Zhongding Rubber Component Ltd. (“Guangdong Zhongding”)	Company owned as to 25% by Kongyue Technology and 75% by an independent third party
Guang Dong Jotech Kong Yue Precision Industries Ltd. (“Jiangmen Yida”)	Company under significant influence by Dinomix
Beijing Stone	Company under significant influence by Kongyue Information

The names of certain of the companies referred to in these reports represent management’s best efforts at translating the Chinese names of these companies as no English names have been registered or available.

(b) *Transactions with related parties*

During the Relevant Periods, the Group had the following significant transactions with related parties:

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Sales of goods to:			
<i>Continuing transactions</i>			
— KY Import/Export	3,138	5,938	41,160
<i>Non-continuing transactions</i>			
— Beijing Kongyue	22,127	47,755	4,247
— Shanghai KY Electronics	63,833	106,436	20,362
— Chengdu Kongyue	9,646	29,437	3,737
— Guangzhou Kongyue	24,769	38,221	10,460
— Xi'an Kongyue	12,461	18,952	2,219
— Wuhan Kongyue	4,894	11,105	1,438
— Kongyue Technology	38,428	45,805	—
— Shenyang Kongyue	13,716	19,229	5,835
— Dalian Kongyue	1,468	—	—
— New Success	—	—	93,552
— Guangdong Precision	—	—	21
	<u>194,480</u>	<u>322,878</u>	<u>183,031</u>

	Years ended 31st December,		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Purchase of direct materials			
<i>Continuing transactions</i>			
— Guangdong Precision	—	938	6,655
— Guangdong Zhongding	—	6,258	9,594
— Jiangmen Yida	—	479	5,242
<i>Non-continuing transactions</i>			
— KY Import/Export (<i>note (i)</i>)	139,962	227,054	—
— Kongyue Technology (<i>note (ii)</i>)	32,294	18,641	—
— New Success (<i>note (ii)</i>)	—	8,893	314,604
Purchase of Epson branded printers			
<i>Non-continuing transactions</i>			
— KY Import/Export (<i>note (i)</i>)	40,678	—	—
— Kongyue Technology (<i>note (ii)</i>)	16,575	123,747	—
— New Success (<i>note (ii)</i>)	—	—	19,785
— Shanghai KY Electronics	18,209	—	—
Purchase of spare parts			
<i>Non-continuing transactions</i>			
— Shanghai KY Electronics	—	—	504
— Beijing Kongyue	7	784	297
— Xi'an Kongyue	—	10	63
— Shenyang Kongyue	—	—	270
— Guangzhou Kongyue	—	—	113
— Wuhan Kongyue	—	—	319
— Chengdu Kongyue	1	433	321
Purchase of plant and machinery			
<i>Non-continuing transactions</i>			
— Dinomax	5,962	—	5,648
— Kongyue Technology	6,520	—	—
— Kongyue Printing	—	—	3,185
— Industrial Park	—	—	372
	<u>260,208</u>	<u>387,237</u>	<u>366,972</u>

	Years ended 31st December,		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Handling fee due to:			
<i>Continuing transactions</i>			
— KY Import/Export (<i>note (iii)</i>)	—	—	1,745
Rental expenses due to:			
<i>Continuing transactions</i>			
— Industrial Park (<i>note (iv)</i>)	2,606	2,672	3,000
<i>Non-continuing transactions</i>			
— Kongyue Printing (<i>note (v)</i>)	849	835	348
	<u>3,455</u>	<u>3,507</u>	<u>3,348</u>
Incentive granted by Industrial Park			
<i>Continuing transactions</i>	<u>3,550</u>	<u>4,305</u>	<u>3,217</u>
Management fee charged by: (<i>note (vi)</i>)			
<i>Non-continuing transactions</i>			
— Beijing Kongyue	272	525	62
— Shanghai KY Electronics	988	942	171
— Guangzhou Kongyue	278	417	146
— Wuhan Kongyue	67	123	27
— Xi'an Kongyue	141	176	25
— Chengdu Kongyue	121	233	32
— Shenyang Kongyue	173	194	59
	<u>2,040</u>	<u>2,610</u>	<u>522</u>
Acquisition of Phenix Digital from Visionic Pte Limited (<i>note 27(c)</i>)	<u>—</u>	<u>—</u>	<u>11,732</u>

Note (i): Purchase of direct materials and Epson branded printers from KY Import/Export for the years of 2002 and 2003 included the cost of purchase and handling fee, which is based on approximately 1% of the aggregate value of goods handled by KY Import/Export. The Group cannot separate the cost of direct materials and handling fee because KY Import/Export has not isolated the expenses from each other in its invoices billed to the Group. Effective 1st January, 2004, the Group has stopped transacting with KY Import/Export for purchase of direct materials. Accordingly, customs duties related to purchase of direct materials from New Success/Kongyue Technology preciously made through KY Import/Export are dealt directly by the Group with the Jiangmen Customs. Since then, the Group also settles the related cost of purchases to New Success directly.

Note (ii): Amounts represent cost of purchases directly billed by Kongyue Technology and New Success for purchases of direct materials and Epson branded printers.

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

Note (iv): Rental expenses due to Industrial Park represent lease of land and buildings based on the market price as provided by an independent valuer.

Note (v): Rental expenses due to Kongyue Printing represent lease of a production line with reference to annual depreciation charges of this production line.

Note (vi): Management fee is for compensation of market development cost and customer services expenses incurred by the above seven related parties which was based on approximately 1% of net sales made by the above seven related parties.

Note (vii): On 4th March, 2005, Industrial Park has mortgaged certain of its land and buildings and provided a corporate guarantee as securities for the banking facilities granted to Kongyue Information up to an amount of RMB100 million for periods from 4th March, 2005 to 4th September, 2006 and from 4th March, 2005 to 31st March, 2006, respectively. According to the letter issued by the Bank of China Jiangmen Branch on 31st May, 2005, the bank provided an in-principal approval to the Group that the bank will release such mortgages and corporate guarantee upon the successful listing of the Company on the Stock Exchange.

In the opinion of the directors of the Company, the above related party transactions were carried out on normal commercial terms and in accordance with the terms of underlying agreements and/or the invoices issued by the respective parties.

(c) *Balances with related parties*

As at 31st December, 2002, 2003 and 2004, the Group had the following significant balances with related parties:

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from related parties: (note (i))			
— Kongyue Technology	1,722	20,798	—
— KY Import/Export (note (ii))	—	18,472	13,157
— Industrial Park (note (iii))	80,957	42,136	786
— Jiangmen Information	2,850	4,511	—
— Beijing Kongyue	4,013	7,221	—
— Shanghai KY Electronics	6,088	10,276	—
— Shenyang Kongyue	2,100	1,269	—
— Chengdu Kongyue	468	2,654	—
— Guangzhou Kongyue	2,151	5,203	—
— Xi'an Kongyue	1,177	1,512	—
— Wuhan Kongyue	—	998	—
— Jiangmen Palace Hotel	9,290	—	—
— Guangdong Precision	27	—	—
— Mr Au Kwok Lun	52	16	—
— Mr Ou Guo Liang	631	5,221	—
— Guangdong Zhongding	15	3	—
— Guangdong Jolimark	—	23	—
— Guangdong Kong Yue Jolimark Investment Limited	—	203	—
— Jiangmen Yida	—	—	312
	<u>111,541</u>	<u>120,516</u>	<u>14,255</u>
Due to related parties: (note (i))			
— Guangdong Precision	—	1,988	—
— New Success	—	5,309	36,547
— KY Import/Export	24,316	47,749	—
— Beijing Kongyue	616	1,214	—
— Shanghai KY Electronics	2,232	3,921	—
— Guangzhou Kongyue	519	1,551	—
— Shenyang Kongyue	328	516	—
— Chengdu Kongyue	260	469	—
— Xi'an Kongyue	331	665	—
— Wuhan Kongyue	202	270	—
— Kongyue Technology	30,566	12,977	—
— Kongyue Printing	6,110	6,036	—
— Guangdong Zhongding	—	1,137	939
— Jiangmen Yida	—	—	957
— Industrial Park	5,768	4,455	—
— Dinomax	4,555	14,422	—
	<u>75,803</u>	<u>102,679</u>	<u>38,443</u>

Note (i): All balances with related parties were unsecured, interest free and had no fixed terms of repayment.

Note (ii): Amounts mainly represent prepayments for purchases of direct materials.

Note (iii): Amounts due from Industrial Park comprises:

	31st December,		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating nature	3,550	7,855	786
Investing nature	<u>77,407</u>	<u>34,281</u>	<u>—</u>
Total	<u><u>80,957</u></u>	<u><u>42,136</u></u>	<u><u>786</u></u>

29. Particulars of subsidiaries and associated companies

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries and associated companies which are all limited liability company.

Company	Date of incorporation/ establishment	Place of incorporation and operation	Issued/registered and fully paid share capital	Attributable equity interests to the Group	Principal activities
<i>Subsidiaries incorporated in the British Virgin Islands (the "BVI") and directly held by the Company</i>					
Ying Mei Investment	16th April, 2004	BVI	US\$50,000 Ordinary shares	100%	Investment holdings
Kong Yue Investment	16th April, 2004	BVI	US\$50,000 Ordinary shares	100%	Investment holdings
Visionic Investment	26th April, 2004	BVI	US\$50,000 Ordinary shares	100%	Investment holdings
<i>Subsidiaries established in the PRC and directly held by Ying Mei Investment</i>					
Kongyue Jolimark <i>(note a)</i>	22nd March, 2001	PRC	HK\$61,604,000	100%	Manufacturing and sales of business equipment and tax control equipment
<i>Subsidiaries established in Hong Kong and directly held by Ying Mei Investment</i>					
Jolimark Technology	17th May, 2004	Hong Kong	HK\$10,000	100%	Investment holdings
<i>Subsidiaries established in the PRC and directly held by Kong Yue Investment</i>					
Kongyue Information <i>(note b)</i>	11th December, 1998	PRC	US\$9,080,000	95%	Manufacturing and sales of business equipment and tax control equipment
<i>Subsidiaries established in Hong Kong and directly held by Kong Yue Investment</i>					
Xin Yue Logistics Limited	18th October, 2004	Hong Kong	HK\$2	100%	Logistics agent

Company	Date of incorporation/ establishment	Place of incorporation and operation	Issued/registered and fully paid share capital	Attributable equity interests to the Group	Principal activities
<i>Subsidiaries established in the PRC and directly held by Visionic Investment</i>					
Phenix Digital	25th February, 2004	PRC	RMB18,049,000	65%	Manufacturing and sales of digital display products
<i>Subsidiaries established in the PRC and directly held by Jolimark Technology</i>					
Jolimark Information Technology (China) Limited	7th September, 2004	PRC	RMB50,000,000	100%	Manufacturing and sales of Jolimark branded products
<i>Subsidiaries established in the PRC and directly held by Kongyue Jolimark and Kongyue Information</i>					
Shenzhen Jolimark Business Appliances Ltd. (note c)	26th February, 2002	PRC	RMB3,000,000	99%	Research and development
<i>Subsidiaries established in the PRC and directly held by Kongyue Jolimark</i>					
Jiangmen Kong Yue Jolimark Tax Control Services Ltd. ("Jolimark Tax") (note d)	16th April, 2003	PRC	RMB500,000	95%	Marketing of tax control equipment
Jiangmen Jolimark Information System Engineering Ltd.	20th January, 2004	PRC	RMB1,000,000	95%	Development of tax control software
<i>Subsidiaries established in Japan and directly held by Kongyue Information</i>					
AUI Co., Ltd.	18th June, 2004	Japan	JPY10,000,000	100%	Raw material sourcing and business development in Japan
<i>Associated companies established in the PRC with interest directly held by Kongyue Jolimark</i>					
Shanghai Liang Biao	2nd July, 2004	PRC	RMB2,000,000	35%	Design, manufacturing and sales of tax control equipment
<i>Associated companies established in the PRC with interest directly held by Kongyue Information</i>					
Beijing Stone	2nd March, 2004	PRC	RMB18,900,000	20%	Manufacturing of tax control equipment

The names of certain of the companies referred to in these reports represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

Notes:

- (a) The accounts for the years ended 31st December 2002, 2003 and 2004 were audited by Chosen Certified Public Accountants, a registered CPA firm in the PRC.
- (b) The accounts for the years ended 31st December, 2002, 2003 and 2004 were audited by Yinxiang Certified Public Accountants of Jiangmen, a registered CPA firm in the PRC.
- (c) The accounts for the period from 26th February, 2002 to 31st December 2002 and the years ended 31st December, 2003 and 2004 were audited by Shenzhen Yida Certified Public Accountants Company Limited, a registered CPA firm in the PRC.
- (d) The accounts for the period from 16th April, 2003 to 31st December, 2003 and the year ended 31st December, 2004 were audited by Chosen Certified Public Accountants, a registered CPA firm in the PRC.

Other than those as disclosed above, the accounts of the subsidiaries were not audited as these are not required by relevant authorities.

III NET ASSETS OF THE COMPANY

The Company was incorporated on 22nd July, 2004. Since its incorporation up to 31st December, 2004, the Company has not been involved in any business transaction other than one nil-paid share allotted and issued to Mr Au Kwok Lun. Accordingly, it has no material assets or liabilities as at 31st December, 2004.

IV SUBSEQUENT EVENTS

Subsequent to 31st December, 2004 and up to the date of this report, the Group completed the Reorganisation in preparing for a listing of shares of the Company on the Main Board of the Stock Exchange, the details of which are set out in Note 1 of Section II of this report.

V SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or its subsidiaries in respect of any period subsequent to 31st December, 2004. In addition, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31st December, 2004.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong