

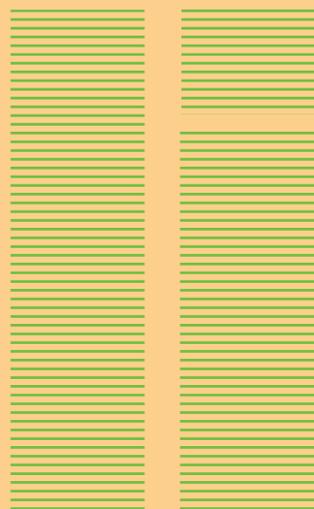


JOLIMARK HOLDINGS LIMITED

映美控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code:2028



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2006
INTERIM REPORT

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Corporate Information

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

REGISTERED OFFICE

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

COMPANY SECRETARY

Wong Kwok Kuen *CPA, ACCA*

QUALIFIED ACCOUNTANT

Wong Kwok Kuen *CPA, ACCA*

AUTHORISED REPRESENTATIVES

Au Kwok Lun
Wong Kwok Kuen

AUDIT COMMITTEE

Mr. Lai Ming, Joseph
(*chairman of audit committee*)
Mr. Meng Yan
Mr. Xu Guangmao

COMPLIANCE ADVISOR

Kingsway Capital Limited
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Central, Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
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LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

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39th Floor
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Services Limited
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183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of China
Industrial and Commercial Bank of China
China Construction Bank
Agricultural Bank of China
Guangdong Development Bank

STOCK CODE

2028

WEBSITE

www.jolimark.com

Management's Discussion and Analysis

BUSINESS REVIEW

“Jolimark” brand business

As a result of the sudden delay of “Golden Tax Project Phase III”, the set up costs incurred were not in line with the actual progress of “Golden Tax Project Phase III” and the dramatic fall of the market demand on value-added tax invoice printers from “Golden Tax Project Phase II”, the Company’s “Jolimark” brand and tax control equipment businesses, which were high gross profit contributors, had been adversely affected.

Given the above factors, the turnover of business equipment and tax control equipment business with “Jolimark” brand was RMB61,330,000, representing a decrease of 51% from the corresponding period of last year, which contributed 16% of the Group’s turnover; gross profit margin increased to 36% from 35% for the corresponding period of the previous year. However, with the full commencement of “Golden Tax Project Phase III” in late 2006, the Group expects its Jolimark brand business will make a robust rebound on the growth track and tax control equipment business will become its major growth driver in the next few years.

The Group has prepared well for the kick off of “Golden Tax Project Phase III”. In the first half of 2006, with excellent quality and sales and service network, the Group was listed as one of the suppliers of tax control electronic cash registers (ECRs) in the bid by the Guangdong Province National Tax Bureau, to provide tax control ECRs to all of the relevant taxpayers covered by it. Guangdong Province contributes the highest tax revenue among all provinces in the PRC, topping all provinces for the 14 consecutive years. Guangdong Province is also one of the pivot provinces where the PRC implements tax control devices for strengthening the tax source monitoring. It is expected that the bid will bring robust growth momentum for the Group’s tax control equipment business in the next few years.

To enhance the Group’s strengths in bidding for tax control equipment projects in the PRC, the Group acquired the existing manufacturing buildings from Kong Yue Industrial Park (Xinhui) Ltd at a consideration of RMB62,400,000 at the end of July 2006, which will save the Group’s rental expense in an amount of approximately RMB3,000,000 per year. In view of the fact that bidders are required to provide details of its fixed assets, particularly the production plant and equipment, in their bidding documents, we believe that the increase in the value of the Group’s fixed assets will help to enhance the PRC government’s confidence towards the Group’s strengths in tax control equipment business and thus increase the opportunities for the Group to win the bid.

In addition to the markets of dot matrix printers and tax control equipments, the computer projector market is another major target of the Group. Accordingly, the Group, through Visionic, its wholly-owned subsidiary, entered into an agreement with Phenix Optics in March 2006 to acquire 10% interests of Phenix Digital at a consideration of RMB3,000,000, thus increasing its equity interests

Management's Discussion and Analysis

in Phenix Digital from 65% to 75%. Phenix Optics is mainly engaged in the development, manufacture and distribution of digital display products. The Group is very optimistic towards the computer projector market in the PRC for the coming five years, and believes that the business of Phenix Digital will benefit from the continuous growth of the projector market in the PRC. In addition, during the period, the Group launched the first series Phenix projector to cater for the demand of quality and price competitive products from the medium-to-small enterprises and the education sector.

EMS business

EMS business maintained stable development. In the first half of 2006, its turnover amounted to RMB168,731,000, representing 44% of the Group's turnover; gross profit margin increased to 15%, compared with 14% for the corresponding period of the previous year.

Leveraging on its strong customer base, high quality assurance and professional services, as well as the advantage of relevantly lower labor costs in the PRC, the Group is confident that the EMS business will maintain stable growth in this year.

Distribution business

Taking the advantage of its established sales network, the Group's distribution business recorded a stable growth. Its turnover amounted to RMB152,696,000, increased by 12% compared with the corresponding period of the previous year, contributing 40% of the Group's turnover; gross profit margin was 8%. The Group primarily distributes printers for Epson, and has been actively exploring new clients. The Group has commenced its distribution of projectors of two international business equipment manufacturing companies since the end of last year.

In June this year, the Group entered into a PRC general distribution agreement with one of the world-largest financial payment terminal manufacturers. It is anticipated that the above distribution business agreement will bring a new momentum to the tremendous growth of the Group's distribution business in the second half of the year and even the coming years.

Furthermore, the Group actively extended its sales and after-sales service network in recent years. A total of 16 branches have been established, covering numerous mid-size and large cities such as Hangzhou, Jinan, Zhengzhou, Kunming, Nanning, Fuzhou, Nanjing, Changsha and Lanzhou, etc. In addition, the Group also operates 146 after-sales service centers in about 20 provinces, 4 autonomous regions and 4 municipalities in the PRC.

Management's Discussion and Analysis

FINANCIAL REVIEW

Results Summary

The turnover of the Group for the six months ended 30 June 2006 was RMB382,757,000, decreased by 12% compared with the corresponding period of last year, due to the dramatic fall of the demand on value-added tax invoice printers from "Golden Tax Project Phase II" the Company's "Jolimark" brand and tax control equipment businesses, which were high gross profit contributors, had been adversely affected, and, thus, resulted in a significant drop of the net profit of the Company.

The gross profit margin decreased to 15%, compared with 18% for the previous year. The decrease was mainly due to the decrease of the turnover of the activities of business equipment and tax control equipment with Jolimark brand which made larger contributions of the gross profit margin. During the period, the Group recorded an operating profit of RMB18,657,000, representing a decrease of 64% from the corresponding period of last year, which was mainly attributed to the higher set up costs incurred from the development of "Golden Tax Project Phase III". However, as "Golden Tax Project Phase III" was not implemented as scheduled, the tax control products with Jolimark brand had no contributions to the revenue during the period, which made obvious decrease in the operating profit. During the period, the profit attributable to shareholders was RMB10,823,000, and the basic earnings per share was RMB0.021, representing a decreases of 73% and 81%, respectively, from the corresponding period of the previous year.

Segment Operating Results

	For the six months ended 30 June 2006			For the six months ended 30 June 2005		
	Turnover	Gross Profit	Gross Profit Margin	Turnover	Gross Profit	Gross Profit Margin
	RMB'000	RMB'000		RMB'000	RMB'000	
"Jolimark" brand						
business	61,330	22,072	36%	126,357	44,199	35%
Distribution business	152,696	11,490	8%	136,881	11,469	8%
EMS business	168,731	24,720	15%	171,123	24,313	14%
	382,757	58,282	15%	434,361	79,981	18%

Management's Discussion and Analysis

Acquisition and Disposal

The Group entered into a Sale and Purchase Agreement (“S&P Agreement”) on 31 July 2006, pursuant to which the Group acquired the existing manufacturing buildings from Kong Yue Industrial Park (Xinhui) Ltd at a consideration of RMB62,400,000. The consideration will be satisfied as to 95% by the Company and 5% by Jiangmen Jolimark Information Technology Limited. The Company will satisfy its portion of consideration amounting to RMB59.3 million (i) by cash of approximately RMB27.2 million payable to the Vendor within a year following the date of completion of the S&P Agreement; and (ii) by the issue of 23,000,000 Consideration Shares at the issue price of HK\$1.34 per Share to Kytronics Holdings at the completion of the S&P Agreement. Jiangmen Information will satisfy its portion of consideration amounting to approximately RMB3.1 million (HK\$3 million) by cash payable to the Vendor within a year following the completion of the S&P Agreement. The Acquisition will raise the fixed assets value of the Group, and accordingly reinforce the Group's strengths in bidding for and winning the tax control equipment projects in the PRC. Meanwhile, it will save the Group's rental expenses in an amount of approximately RMB3,000,000 per year.

Placing of existing shares and subscription of new shares

In June 2006, the Group placed on a top up basis 60,000,000 shares, representing approximately 12.00% of the existing issued share capital and approximately 10.71% of the enlarged share capital of the Group, at a price of HK\$1.47 per share to not less than six independent institution investors. The Group raised approximately HK\$85,000,000 thereby, among which approximately HK\$40,000,000 will be used for the development of the financial payment terminal business, and approximately HK\$25,000,000 will be applied for the acquisition of new machinery and equipment to enhance and expand the production capacity. The remaining amount will be used as the future working capital.

In addition, on 12 April 2006, the Group was notified by Kytronics Holdings Limited, its controlling shareholder, that it had sold 25,500,000 Jolimark shares, representing 5.1% of the issued shares of the Group, to a professional investor. Both placing and share offer sufficiently indicate that the investors are confident in the future business prospects of the Group.

Use of net proceeds from IPO

The Company issued 125 million shares of HK\$1.14 per share by way of Share Offer (as defined in the prospectus of Company dated 20 June 2005 “Prospectus”) in June 2005. The net proceeds after deducting the relevant expenses was approximately HK\$120.8 million.

As at 30 June 2006, the Group utilised the above proceeds in accordance with that disclosed in the Prospectus, namely, (i) HK\$19 million for the Group's marketing and promotional activities in the PRC and overseas markets and enhancing brand recognition of the Group's own brand products in the PRC; (ii) HK\$24 million for strengthening the Group's capacity in research and

Management's Discussion and Analysis

development; (iii) HK\$7 million for acquisition of companies engaged in business equipment, tax control equipment and related business (iv) HK\$14 million for the expanding of sales and distribution network in the PRC; (v) HK\$8 million for the development of overseas EMS business and (vi) HK\$5 million related to the acquisition of new machinery and equipment for the development and production of new products and for the enhancement and expansion of the Group's production capacity.

The remaining balances of the proceeds were placed in banks as bank deposits as at 30 June 2006.

Foreign exchange risk management

The Group's business are principally conducted in RMB, except for import of some of the direct materials and machinery used for production that are mainly conducted in USD, Japanese Yen, Euro and HKD. Therefore, the directors consider the risk to foreign exchange rate fluctuations is low.

Capital Expenditure

For the six months ended 30 June 2006, capital expenditure amounted to RMB4,443,000, which was mainly used for the purchase of moulds for production and R&D equipments.

Liquidity and Financial Position

As at 30 June 2006, the total assets of the Group amounted to RMB779,859,000 (2005: RMB622,865,000), comprising shareholders' fund of RMB481,230,000 (2005: RMB396,708,000), minority interests of RMB12,149,000 (2005: RMB11,895,000) and current liabilities of RMB286,480,000 (2005: RMB214,262,000). The current ratio of the Group was 2.47 (2005: 2.57).

As at 30 June 2006, the cash and cash equivalents of the Group amounted to RMB188,068,000 (2005: RMB112,841,000).

As at 30 June 2006, the bank loans of the Group amounted to RMB96,075,000 (2005: RMB96,160,000), and the gearing ratio was 12.3%. The Group had no assets held under finance leases during the period.

Contingent Liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

Staff

As at 30 June 2006, the Group employed a total staff of 1,170, of which 1,157 were employed in Mainland China and 13 were employed in Hong Kong and overseas. The Group implemented its remuneration policy based on the results and the performance of individual staff. In addition, fringe benefits such as insurance, medical allowance and pension were provided to ensure the competitiveness of the Group.

Management's Discussion and Analysis

FUTURE PROSPECTS

In the first half of July, the second phrase of the bid for supplying goods contractually for central state authorities completed. Leveraging on its quality products and established distribution and after-sales network, the Group won the bid. The "Golden Tax Project Phase III" will launch by the State Administration of Taxation commenced officially in late 2006. It is expected that this policy will be fully implemented in 3–5 years and will boost the demand for the Group's tax control equipment, including tax control ECRs, external tax control devices, tax control printers, mini printers, code printers and ordinary invoice printers. Bulk purchases from the government are expected to appear soon.

With its relatively stable market demand, the Group expects the sales of the value-added invoice printer will have a further increase. In addition, since the Government allocated more resources to the medical and education sectors, plus the requirements of the system of "non-tax income" of the "Golden Tax Project" for the government administrative authorities to install dot matrix printers, all of these will significantly boost the demands for dot matrix printers in these fields.

In view of the above, Jolimark is well positioned to capture the ample opportunities brought about by the full commencement of "Golden Tax Project Phase III" and the "Golden Finance Project". Apart from actively participating in various tenders in different provinces and adjusting its sales network, the Group intends to increase its investment in fixed assets by acquiring the existing production buildings so as to reinforce the Group's strengths in bidding for and winning the tax control equipment projects in the PRC. In light of the launches of more new products and the closer cooperation with major distributors, the management expects that our business for dot matrix printers and tax control equipment will experience a more satisfactory development.

In addition, the Group expects that there will be more population in the PRC using credit cards to make payments, and this, together with the boost by the Olympic Games to be held in Beijing in 2008 and the World Expo to be held in Shanghai in 2010, will bring more demands for payment terminals to make payments by credit cards. In view of this, Jolimark has concluded a cooperation agreement with a well-known international supplier of payment terminals. In the future, Jolimark will make its every effort to capture the growth potential brought about by the popularisation of credit cards in the PRC, so as to further expand its business, facilitate its business growth and eventually improve its overall profits.

Looking forward, in light of the 25% market share captured by "Golden Tax Project Phase II", the established customer relationship and the enlarged value of fixed assets, Jolimark is confident to realize satisfactory operating returns in the third phrase of "Golden Tax Project".

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

	Note	As at	
		30 June 2006 Unaudited	31 December 2005 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	55,383	57,836
Intangible assets	5	3,136	1,842
Interests in associates		8,851	9,879
Available-for-sale financial assets		550	1,750
Deferred income tax assets		1,815	1,815
		69,735	73,122
Current assets			
Inventories		253,950	170,378
Trade and other receivables	6	268,106	266,524
Cash and cash equivalents		188,068	112,841
		710,124	549,743
Total assets		779,859	622,865
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital and premium	7	228,873	140,495
Other reserves		180,132	180,132
Retained earnings			
— Proposed dividend		6,429	14,820
— Unappropriated retained earnings		65,796	61,261
		481,230	396,708
Minority interests		12,149	11,895
Total equity		493,379	408,603

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

		As at	
		30 June	31 December
		2006	2005
	Note	Unaudited	Audited
LIABILITIES			
Current liabilities			
Trade and other payables	8	180,305	107,738
Current income tax liabilities		10,100	10,364
Borrowings	9	96,075	96,160
		286,480	214,262
Total equity and liabilities		779,859	622,865
Net current assets		423,644	335,481
Total assets less current liabilities		493,379	408,603

The notes on pages 14 to 26 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Income Statement

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June 2006	2005
Turnover		382,757	434,361
Cost of goods sold		(324,475)	(354,380)
Gross profit		58,282	79,981
Selling and marketing costs		(15,003)	(12,060)
Administrative expenses		(28,075)	(18,342)
Other income		2,920	1,896
Other gains — net		533	—
Operating profit		18,657	51,475
Finance costs		(3,516)	(3,226)
Share of losses of associates		(1,028)	(917)
Profit before income tax		14,113	47,332
Income tax expenses	10	(3,036)	(6,155)
Profit for the period		11,077	41,177
Attributable to:			
Shareholders of the Company		10,823	40,542
Minority interests		254	635
		11,077	41,177
Basic earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share)			
	11	0.021	0.110
Dividend	12	6,429	16,640

The notes on pages 14 to 26 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

	Unaudited				Total
	Attributable to shareholders				
	of the Company				
	Share				
	capital and	Other	Retained	Minority	
	premium	reserves	earnings	interests	
Balance at 1 January 2005 (Audited)	32	173,485	20,765	10,371	204,653
Issue of shares for cash	12,402	—	—	—	12,402
Issue of shares in connection with the listing	151,050	—	—	—	151,050
Placing and listing costs	(22,989)	—	—	—	(22,989)
Profit for the period	—	—	40,542	635	41,177
Balance at 30 June 2005	140,495	173,485	61,307	11,006	386,293
Balance at 1 January 2006 (Audited)	140,495	180,132	76,081	11,895	408,603
Share placement	90,846	—	—	—	90,846
Share placement costs	(2,468)	—	—	—	(2,468)
Profit for the period	—	—	10,823	254	11,077
Final dividends for 2005	—	—	(14,679)	—	(14,679)
Balance at 30 June 2006	228,873	180,132	72,225	12,149	493,379

The notes on pages 14 to 26 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Cash Flow Statement

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2006	2005
Net cash inflows from operating activities	6,273	14,255
Net cash outflows from investing activities	(4,745)	(19,825)
Net cash inflows from financing activities	73,699	18,211
Net increase in cash and cash equivalents	75,227	12,641
Cash and cash equivalents at 1 January	112,841	38,951
Cash and cash equivalents at 30 June	188,068	51,592
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	188,068	51,592

The notes on pages 14 to 26 form an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

1. GENERAL INFORMATION

Jolimark Holdings Limited (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 core activities are (i) the design, manufacture and sale of business equipment and tax control equipment under its owned brand name “Jolimark”; (ii) the distribution in the PRC of printers; and (iii) the manufacture in the PRC of business equipment, tax control equipment and other electronic products on Electronics Manufacturing Services (“EMS”), Original Design Manufacturer (“ODM”) or Original Equipment Manufacturer (“OEM”) basis.

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.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on 29 June 2005.

The condensed consolidated interim financial information was approved for issue on 18 September 2006.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”, effective for annual periods beginning on or after 1 January 2006;
- Amendment to HKAS 39, amendment to “The fair value option”, effective for annual periods beginning on or after 1 January 2006;

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendment to HKAS 21, amendment “Net investment in a foreign operation”, effective for annual periods beginning on or after 1 January 2006;
- Amendment to HKAS 39, amendment “Cash flow hedge accounting of forecast intra-group transactions”, effective for annual periods beginning on or after 1 January 2006;
- Amendment to HKAS 39 and HKFRS 4, amendment to “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006;
- HKFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1 January 2006;
- HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006;
- HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1 January 2006; and
- HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market — waste electrical and electronic equipment”, effective for annual periods beginning on or after 1 December 2005.

The directors of the Company are of the view that these new standards, amendments and interpretations to existing standards are not relevant to the Group’s operations.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, “Applying the Restatement Approach under HKFRS 29”, effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- HK(IFRIC)-Int 8, “Scope of HKFRS 2”, effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group’s operations;
- HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant for the Group;

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- HKFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1 January 2007. HKAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

4. 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 turnover and results are attributable to the market outside the People’s Republic of China (the “PRC”).

5. CAPITAL EXPENDITURE

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2005		
Opening net book amount as at 1 January 2005	55,917	1,942
Additions	5,742	—
Disposals	(7)	—
Depreciation and amortisation charge	(5,560)	(50)
Closing net book amount as at 30 June 2005	56,092	1,892
Six months ended 30 June 2006		
Opening net book amount as at 1 January 2006	57,836	1,842
Additions	4,443	1,344
Disposals	(302)	—
Depreciation and amortisation charge	(6,594)	(50)
Closing net book amount as at 30 June 2006	55,383	3,136

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

6. TRADE AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2006	2005
Trade receivables	232,222	245,530
Less: provision for impairment of receivables	(3,426)	(3,426)
Trade receivables — net	228,796	242,104
Prepayments		
— Third parties	15,146	8,960
— Related parties	13,547	5,929
Other receivables		
— Third parties	10,617	9,531
	268,106	266,524

The carrying amounts of trade and other receivables approximate their fair value.

The Group's sales to corporate customers are entered into on credit terms ranging from 30 to 90 days or extended as considered appropriate by the director in charge of sales department. At 30 June 2006 and 31 December 2005, the ageing analysis of the trade receivables were as follows:

	As at	
	30 June	31 December
	2006	2005
0–30 days	88,526	146,449
31–90 days	91,240	45,932
91–180 days	19,628	6,746
181–365 days	27,101	44,187
Over 365 days	5,727	2,216
	232,222	245,530

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

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

7. SHARE CAPITAL AND PREMIUM

	For the six month ended 30 June 2005				
	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
Movements were:					
Issued and fully paid					
Opening balance 1 January 2005					
Ordinary shares of HK\$0.01 each allotted and issued nil paid	1	—	—	—	—
On acquisition of Ying Mei Investment Limited, Kong Yue Investment Limited and Visionic Investment Limited					
— nil paid shares credit as fully paid	—	—	—	—	—
— share issued as consideration for acquisition of subsidiaries of the Group	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
Share placing and listing expenses	—	—	—	(22,989)	(22,989)
At 30 June 2005	500,000,000	5,000	5,300	135,195	140,495

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

7. SHARE CAPITAL AND PREMIUM (Continued)

	For the six month ended 30 June 2006				
	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$'000	Equivalent nominal value		Total RMB'000
			of ordinary shares RMB'000	Share premium RMB'000	
Movements were:					
Issued and fully paid					
Opening balance 1 January 2006	500,000,000	5,000	5,300	135,195	140,495
Issue of share — placement (note a)	60,000,000	600	618	90,228	90,846
Share placement costs	—	—	—	(2,468)	(2,468)
At 30 June 2006	560,000,000	5,600	5,918	222,955	228,873

- (a) On 14 June 2006, pursuant to a placing agreement between the Company and a placing agent, the Company issued an aggregate of 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 "Placing"). The net proceeds to the Company from the Placing amounted to approximately HK\$85 million.

8. TRADE AND OTHER PAYABLES

	As at	
	30 June 2006	31 December 2005
Trade payables		
— Third parties	155,020	77,093
— Related parties	2,527	4,321
	157,547	81,414
Other payables to third parties	14,905	22,758
Staff welfare benefits payable	64	3,405
Advances from customers	7,789	161
	180,305	107,738

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

8. TRADE AND OTHER PAYABLES (Continued)

At 30 June 2006, the ageing analysis of the trade payables was as follows:

	As at	
	30 June	31 December
	2006	2005
0-30 days	79,934	35,887
31-90 days	71,075	19,876
91-180 days	2,576	23,883
181-365 days	3,166	363
Over 365 days	796	1,405
	157,547	81,414

9. BORROWINGS

	As at	
	30 June	31 December
	2006	2005
Current		
Bank borrowings		
— unsecured	96,075	96,160

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

9. BORROWINGS (Continued)

Movement in borrowings is analysed as follows:

Six months ended 30 June 2005

Opening amount as at 1 January 2005	100,000
Addition of borrowings	50,000
Repayment of borrowings	(52,000)

Closing amount as at 30 June 2005	98,000
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Six months ended 30 June 2006

Opening amount as at 1 January 2006	96,160
Addition of borrowings	50,000
Repayment of borrowings	(50,000)
Exchange gain	(85)

Closing amount as at 30 June 2006	96,075
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The effective interest rates at the balance sheet date were as follows:

	As at	
	30 June	31 December
	2006	2005
Short-term bank borrowings	5.58%	5.64%

The carrying amounts of short-term bank borrowings approximate their fair value.

Interest expenses on borrowings for the six months ended 30 June 2006 are RMB3,601,000 (30 June 2005: RMB3,226,000).

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

10. INCOME TAX EXPENSES

	For the six months ended	
	30 June 2006	30 June 2005
Current income tax		
— Hong Kong profits tax	348	—
— PRC enterprise income tax	2,688	6,395
Deferred income tax	—	(240)
	3,036	6,155

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% for the six months ended 30 June 2006.

PRC enterprise income tax

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 Jiangmen Kong Yue Jolimark Information Technology Ltd. (“Kongyue Jolimark”) and Kong Yue Electronics & Information Industry (Xinhui) Ltd. (“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.

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. The tax holiday of Kongyue Jolimark and Kongyue Information were expired in 2005 and 2004, respectively.

Moreover, if foreign enterprise is recognised as “Advanced Technology Enterprise”, it will be entitled to a further extension of 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. Kongyue Jolimark and Kongyue Information have also obtained the approval from local tax authorities for a further exemption of local municipal income tax. Therefore, the effective income tax rate of Kongyue Jolimark and Kongyue Information is 12%.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

11. 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 period.

	For the six months ended	
	30 June 2006	30 June 2005
Profit attributable to shareholders of the Company	10,823	40,542
Weighted average number of ordinary shares in issue (thousands)	505,635	368,263
<u>Basic earnings per share (RMB per share)</u>	0.021	0.110

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the six months ended 30 June 2006 and 2005, respectively.

12. DIVIDEND

	For the six months ended	
	30 June 2006	30 June 2005
Interim dividend proposed of HK\$0.0103 per ordinary share (2005: HK\$0.032 per ordinary share) (note (b))	6,429	16,640
	6,429	16,640

(a) A final dividend in respect of 2005 of HK\$0.0285 per ordinary share, totaling approximately HK\$14,250,000 (equivalent to RMB14,679,000) has been declared in the Company's Annual General Meeting on 15 May 2006 and paid in the period.

(b) At a meeting held on 18 September 2006 the directors of the Company proposed an interim dividend of HK\$1.03 cents per share for the six months ended 30 June 2006. The interim dividend has already taken into account for the 23,000,000 consideration shares to be issued to Kytronics Holdings Limited and 23,000,000 new shares issued in the placement after 30 June 2006 (note 14). This proposed dividend is not reflected as a dividend payable in this condensed consolidated interim financial information, but will be reflected as a profit appropriation for the year ending 31 December 2006.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

13. SIGNIFICANT RELATED-PARTY TRANSACTIONS

The directors of the Company regard the Au Family, which include Mr. Au Pak Yin, Mr. Au Kwok Lun, Mr. Ou Guo Liang and Ms. Ou Ri Ai, to be the beneficial owner of the Company.

Save as disclosed elsewhere in the condensed consolidated interim financial information, significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

(i) Sales of goods

	For the six months ended	
	30 June	30 June
	2006	2005
Sales of goods to related parties controlled by Au Family (note (a))	1,897	4,396

(ii) Purchases of goods and services

	For the six months ended	
	30 June	30 June
	2006	2005
Purchases of goods from related parties controlled by Au Family (note (a))	12,885	12,007
Rental expenses paid to a related party controlled by Au Family (note (b))	1,826	1,702
Rental expenses paid to a director of the Company (note (b))	825	825
Handling fee charged by a related party controlled by Au Family (note (c))	156	830
Incentives provided by a related party controlled by Au Family (note (d))	949	891

(iii) Key management compensation

	For the six months ended	
	30 June	30 June
	2006	2005
Salary and other short-term employee benefits	3,375	1,395

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

13. SIGNIFICANT RELATED-PARTY TRANSACTIONS (Continued)**(iv) Period-end balances with related parties (note e)**

	As at	
	30 June	31 December
	2006	2005
Receivables from other related parties	13,547	5,929
Payables to other related parties	2,527	4,321

Notes:

- (a) Sales of goods and purchase of goods and plant and machinery were negotiated with related parties in a normal course of business with a margin on the same basis as non-related parties.
- (b) Rental expenses were determined with reference to the prevailing rental market price and in accordance with the terms of underlying agreement.
- (c) Handling fee represent service charge for handling customs documents for the Group during the import process, which is calculated based on approximately 1% of the aggregate value of goods handled by the related party.
- (d) As an incentive to attract tenants, Kong Yue Industrial Park (Xinhui) Limited ("Industrial Park"), a company controlled by Au Family, agreed to subsidise Kongyue Information and Kongyue Jolimark by incentive subsidies received from local government in Xinhui City, calculated based on a percentage of tax payable by Kongyue Information and Kongyue Jolimark, for subsidising their initial setting up and removal costs of their establishment in Kong Yue Industrial Park. The agreement can be terminated by Industrial Park when it serves notice to its tenants.
- (e) All balances with related parties were unsecured, interest free and had no fixed terms of repayments.

14. SUBSEQUENT EVENTS

Pursuant to a sales and purchase agreement entered into amongst certain of the Group companies, Kytronics Holdings Limited and Kong Yue Industrial Park (Xinhui) Ltd. ("Industrial Park") and Jiangmen Kongyue Information Technology Limited ("Jiangmen Information") on 31 July 2006, the Group acquired the industrial complex, warehouse and dormitory building which are currently leased to Kongyue Jolimark and Kongyue Information, from Industrial Park at a consideration of RMB62.4 million. The consideration of approximately RMB59.3 million will be satisfied by the Group 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 will be satisfied by Jiangmen Information by cash.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Renminbi Thousand Yuan unless otherwise stated)

14. SUBSEQUENT EVENTS (Continued)

Pursuant to a placing agreement entered into amongst the Company, Kytronics Holdings Limited and a placing agent on 31 July 2006, the Company issued an aggregate of 23,000,000 new ordinary shares of HK\$0.01 each to certain independent institutional investors at a price of HK\$1.34 per share (the "Placing"). The net proceeds from the Placing amounted to approximately HK\$29.8 million (equivalent to RMB31 million), which is mainly to satisfy the cash consideration of approximately RMB27.2 million for acquisition of the existing manufacturing buildings from Industrial Park.

Other Information

DISCLOSURE OF INTERESTS**Directors and Chief Executive Interest in the Shares**

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Executive Director	Company/name of associated corporation	Capacity	No. of Shares held (Note 1)
Mr. Au Pak Yin ("Mr. Au")	Company	Interest in controlled corporation (Note 2)	338,695,533 (L)
Mr. Au	Company	Interest in controlled corporation (Note 2)	2 Shares (L)
Mr. Au	Kytronics Holdings	Beneficial owner	2 Shares (L)
Mr. Au Kwok Lun	Kytronics Holdings	Beneficial owner	1 Share (L)
Mr. Ou Guo Liang	Kytronics Holdings	Beneficial owner	1 Share (L)

Note 1: The letter "L" denotes the Director's long position in such securities.

Note 2: 338,695,533 Shares were owned by Kytronics Holdings. The issue share capital of Kytronics Holdings is owned as to 20% by each of Mr. Au and his spouse Ms. Tai Noi Kit. Mr. Au is therefore deemed to be interested in these shares by virtue of his interests in Kytronics Holdings pursuant to Part XV of the SFO. Each of Mr. Au and his spouse, Ms. Tai Noi Kit, is the beneficial owner of an ordinary share in Kytronics Holdings.

Save as disclosed above, as at 30 June 2006, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

Other Information

Substantial Shareholders and Other Person's Interests in the Shares

As at the 30 June 2006, as far as is known to the Directors and the chief executive of the Company, the following person (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

Shareholders	Company/name of associated corporation	Capacity	Number of Shares held	Percentage of issued capital <i>(Note 1)</i>
Kytronics Holdings	Company	Beneficial owner	338,695,533 Shares <i>(Note 2)</i>	60.48% (L)
Tai Noi Kit	Kytronics Holdings	Interest in controlled corporation <i>(Note 2)</i>	338,695,533 Shares <i>(Note 2)</i>	60.48% (L)
Kent C. McCarthy	Company	Interest in controlled corporation <i>(Note 3)</i>	43,814,000 Shares <i>(Note 3)</i>	7.82% (L)
Legg Mason Inc.	Company	Interest in controlled corporation <i>(Note 4)</i>	38,026,000 Shares <i>(Note 4)</i>	6.79% (L)

Note 1: The letter "L" denotes a long position in such securities.

Note 2: 338,695,533 Shares were owned by Kytronics Holdings. The issued share capital of Kytronics Holdings is owned as to 20% by each of Mr. Au and his spouse Ms. Tai Noi Kit. Mr. Au is therefore deemed to be interested in these shares by virtue of his interests in Kytronics Holdings pursuant to Part XV of the SFO.

Note 3: The 43,814,000 Shares were held by Jayhawk China Fund (Cayman) Limited, a company wholly-owned by Mr. Kent C. McCarthy.

Note 4: The 38,026,000 Shares were held by Legg Mason Asset Management (Asia) Pte. Ltd., an indirect wholly-owned subsidiary of Legg Mason Inc.

Other Information

Saved as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at 30 June 2006, had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Share Option Scheme

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

During the six months period ended 30 June 2006 under review, no share options were granted under the Scheme.

PROPOSED DIVIDEND

At the meeting of the board of Directors' held on 18 September 2006, the Directors declared an expected interim dividend of HK\$1.03 cents per Share for the six month ended 30 June 2006 which will be distributed to shareholders whose name appear on the register of members on 17 October 2006 (Tuesday). The expected interim dividend will be distributed on 31 October 2006 (Tuesday). The 23,000,000 consideration shares to be issued to Kytronics Holdings Limited by the Company as a partial consideration of the acquisition of industrial complex, which was approved in the extraordinary general meeting of the Company held on 8 September 2006, are also entitled to the interim dividend.

The register of shareholders of the Company will be closed from 17 October 2006 to 19 October 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 16 October 2006.

Other Information

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company redeemed any share, nor the Company or any of its subsidiaries purchased or sold any shares of the Company.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The directors consider that during the six months ended 30 June 2006, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 under the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 under the Listing Rules as the model code for securities transactions by the relevant Directors. The Company has made specific enquiry of all Directors and the Directors confirmed that, during the six months ended period 30 June 2006, they have complied with all the relevant requirements set out in the Model Code.

AUDIT COMMITTEE

The unaudited interim results for the six months ended 30 June 2006 have been reviewed by PricewaterhouseCoopers in accordance with Statement of Auditing Standard 700 "Engagement to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. The audit committee has reviewed this interim report and has recommended their adoption by the Board.

REMUNERATION COMMITTEE

The Company has established a remuneration committee to consider the remunerations for the Directors and senior managements of the Company. The remuneration committee comprises Mr. Lai Ming, Joseph (chairman), Mr. Meng Yan and Mr. Xu Guangmao who are all Independent Non-Executive Directors.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed interim results announcement of the Company will be submitted to the Stock Exchange for publication on the website.

By order of the Board
Jolimark Holdings Limited
Au Pak Yin
Chairman

Hong Kong, 18 September 2006