

## Report of the Directors

The Board presents their report together with the audited financial statements for the year ended 31 December 2005.

### **CORPORATE REORGANISATION**

The Company was incorporated with limited liability in the Cayman Islands on 22 July 2004. In preparation of the public listing of the shares of the Company ("Share") on the Stock Exchange, the Group underwent a reorganization and the Company became the holding company of the Group. Details of the reorganization are set out in the Prospectus.

### **ISSUE AND LISTING OF SHARES**

The Shares were listed on The Stock Exchange on 29 June 2005 by way of public offer and placing.

Under the public offer and placing, 125,000,000 shares were issued at the share offer of HK\$1.14.

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 8 to the consolidated financial statements.

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

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated income statement on page 47.

An interim dividend of HK3.2 cents per share (2004: NIL) was paid on 31 October 2005. The Director now recommend the payment of a final dividend of HK2.85 cents per share (2004: NIL) in respect of the year ended 31 December 2005

### **RESERVES**

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

### **PROPERTY, PLANT AND EQUIPMENT**

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

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### PRINCIPAL PROPERTIES

No principal properties were held for development or sale nor for investment purposes.

### SHARE CAPITAL

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

### DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for cash distribution, as computed in accordance with the Companies Law (2003 Revision) of the Cayman Islands, amounted to RMB246,090,000, of which RMB14,820,000 has been proposed as final dividend for the year.

### PRE-EMPTIVE RIGHT

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

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save as disclosed above, neither the Company nor its subsidiary companies has purchased or sold any of the Company's shares during The year ended 31 December 2005 and the Company has not redeemed any of its shares during the year ended 31 December 2005.

### SHARE OPTIONS

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.

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

### DIRECTORS

The directors during the year were:

#### *Executive Director*

Mr. Au Pak Yin (*Chairman*)

Mr. Au Kwok Lun (*Chief Executive Officer*)

Mr. Ou Guo Liang

Mr. Ng Shu Kai

#### *Independent Non-Executive Director*

Mr. Lai Ming, Joseph (*Chairman of Audit Committee*)

Mr. Meng Yan

Mr. Xu Guangmao

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

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

### DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial terms of 3 years commencing from March 2005.

Save as above, none of the Directors has entered into a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### INTERESTS IN CONTRACTS

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

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### DIRECTOR'S RIGHTS TO ACQUIRE SHARES

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

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on pages 13 to 16.

### EMPLOYEES AND REMUNERATION POLICY

#### Retirement benefit plans

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

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

In Hong Kong, the Group has set up a retirement scheme according with the mandatory provident fund requirement prescribed by the Mandatory Provident Scheme Ordinance, Chapter 485 of the Laws of Hong Kong. All the Hong Kong based employees and the Group is requiring contributing 5% of their respective monthly wages (up to a maximum contribution of HK\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

### DISCLOSURE OF INTERESTS

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

At 31 December 2005, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which are required to notified the Company on the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and/ or short positions which they have taken, or deemed to have taken under such

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provisions) or are required, to be entered in the register required to be kept therein or are required pursuant to the Model Code of Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

<b>Name of Director</b>	<b>Company/name of associated corporation</b>	<b>Capacity</b>	<b>Name and class of securities (Note 1)</b>
Mr. Au Pak Yin ("Mr. Au")	Company	Interest in controlled corporation (Note 2)	364,195,533 shares (L)
Mr. Au	Company	Interest in controlled corporation (Note 2)	2 ordinary shares (L)
Mr. Au	Kytronics Holdings Limited ("Kytronics")	Beneficial owner	2 ordinary shares (L)
Mr. Au Kwok Lun	Kytronics	Beneficial owner	1 ordinary share (L)
Mr. Ou Guo Liang	Kytronics	Beneficial owner	1 ordinary share (L)

*Note:*

1. The letter "L" denotes the Director's long position in such securities.
2. 364,195,533 Shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 20% by each of Mr. Au and his spouse Ms. Tai Noi Kit. Mr. Au is therefore deemed to be interested in these shares by virtue of his interests in Kytronics pursuant to Part XV of the SFO.
3. Each of Mr. Au and his spouse, Ms. Tai Noi Kit is the beneficial owner of an ordinary share in Kytronics.

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### (b) Interests and short positions of substantial shareholders

At 31 December 2005, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

So far as the Directors are aware, the following persons (not being a Director or a chief executive of the Company) had an interest and/or long position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of the SFO as at 31 December 2005.

<b>Name</b>	<b>Capacity</b>	<b>Class and number of securities (Note 1)</b>	<b>Approximately percentage of shareholding</b>
Kytronics	Beneficial owner	364,195,533 shares (L)	72.84% (L)
Tai Noi Kit	Interest in controlled corporation (Note 2)	364,195,533 shares (L)	72.84% (L)

*Note:*

1. The letter "L" denotes the person's long position in such securities.
2. 364,195,533 shares were owned by Kytronics. The issued share capital of Kytronics is owned as to 20% by each of Ms. Tai Noi Kit and her spouse Mr. Au. Ms. Tai is therefore deemed to be interested in these Shares by virtue her interests in Kytronics pursuant to Part XV of the SFO.

### MANAGEMENT CONTRACTS

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

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### MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases	
— the largest supplier	64%
— five largest suppliers combined	79%
Sales	
— the largest customer	55%
— five largest customers combined	67%

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

### CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 30 to the consolidated financial statements also constituted connected transactions under the Listing Rules, required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosures had been made in the Prospectus.

#### (I) Property leasing agreements

- (i) *Property leasing agreement between Kong Yue Industrial Park (Xinhui) Limited ("Industrial Park") and Kong Yue Electronics & Information Industry (Xinhui) Limited ("Kongyue Information")*

On 19 July 2004, Industrial Park entered into a property leasing agreement (the "Kongyue Information Lease") as landlord with Kongyue Information as tenant under which Industrial Park agreed to let to Kongyue Information premises of a total floor area of 17,027.37 sq.m. situated in Kong Yue Industrial Park, Jiangmen, the PRC for a term of nine years commencing from 1 September 2000 and ending on 1 September 2009 for industrial, office, dormitory and other ancillary uses. The Kongyue Information Lease with retrospective effect from September 2000 was entered into by the parties in July 2004 to, among others, record their leasing arrangement with reference to the fair market rental between the period from September 2000 to July 2004. The annual rental under the Kongyue Information Lease is approximately RMB1,303,177 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Kongyue Information Lease, the parties may adjust the rent with reference to, among others, the then prevailing market rate. Based on the

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Kongyue Information Lease, the annual rental payable by Kongyue Information will be approximately RMB1,303,177 (exclusive of management fees and utilities charges) for each of the five years ending 31 December 2009.

In addition, pursuant to a supplementary property leasing agreement dated 18 March 2005, Kongyue Information has been granted an option to renew the Kongyue Information Lease for a further term of 3 years, and for any exercise of a renewal option by Kongyue Information by giving written notice of not less than 3 months before the expiry of the relevant lease to Industrial Park, Industrial Park will be deemed to have granted a new option for a further extension of 3 years, at the then prevailing market rental to be determined by an independent property valuer and subject to compliance with the disclosure and/or other requirements under the Listing Rules then in force. Further, Industrial Park has granted an option in favour of Kongyue Information to purchase such premises from Industrial Park at fair market value as determined by an independent property valuer at any time during the term of the Kongyue Information Lease if the Directors consider that it would be appropriate and beneficial to the Group as a whole to do so and the purchase will be effected in such manner as in compliance with the then applicable Listing Rules. Kongyue Information has also been granted a first right of refusal over any future sales by Industrial Park (if any) of such premises.

Industrial Park is a wholly foreign owned enterprise (“WFOE”) whose entire interest is held by Kong Yue Holding Limited which in turn is wholly owned by Mr. Au Pak Yin (“Mr. Au”) and associates of the Au Family Shareholders<sup>(Note)</sup>. Therefore, the transaction under the Kongyue Information Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

*Note:* Mr. Au Pak Yin, Ms. Tai Noi Kit (Mr. Au's spouse), Mr. Au Kwok Lun, Ms. Ou Ri Ai and Mr. Ou Guo Liang, each of them is shareholder of Kytronics Holdings Limited, Mr. Au and Ms. Tai being the parents of Mr. Au Kwok Lun, Ms. Ou Ri Ai and Mr. Ou Guo Liang (“Au Family shareholders”).

The annual rental under the Kongyue information lease for the year ended 31 December 2005 amounted to approximately RMB1,303,177.

(ii) *Property leasing agreement between Industrial Park and Jiangmen Kong Yue Jolimark Information Technology Limited (“Kongyue Jolimark”)*

On 19 July 2004, Industrial Park entered into a property leasing agreement (the “Kongyue Jolimark Lease”) as landlord with Kongyue Jolimark as tenant under which Industrial Park agreed to let to Kongyue Jolimark premises of a total floor area of 17,027.37 sq.m. situated in Kong Yue Industrial Park, Jiangmen, the PRC for a term of nine years commencing from 1 May 2001 and ending on 1 May 2010 for industrial, office, dormitory and other ancillary uses. The Kongyue Jolimark Lease with retrospective effect from May 2001 was entered into by the parties in July, 2004 to, among others, record their leasing arrangement with reference to the fair market rental between the period from May 2001 to July 2004. The annual rental under the

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Kongyue Jolimark Lease is approximately RMB1,303,177 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Kongyue Jolimark Lease, the parties may adjust the rent with reference to, among others, the then prevailing market rate. Based on the Kongyue Jolimark Lease, the annual rental payable by Kongyue Jolimark will be approximately RMB1,303,177 (exclusive of management fees and utilities charges) for each of the six years ending 31 December, 2010.

In addition, pursuant to a supplementary property leasing agreement dated 18 March 2005, Kongyue Jolimark has been granted an option to renew the Kongyue Jolimark Lease for a further term of 3 years, and for any exercise of a renewal option by Kongyue Jolimark by giving a written notice of not less than 3 months before the expiry of the relevant lease to Industrial Park, Industrial Park will be deemed to have granted a new option for a further extension of 3 years, at the then prevailing market rental to be determined by an independent property valuer and subject to compliance with the disclosure and/or other requirements under the Listing Rules then in force. Further, Industrial Park has granted an option in favour of Kongyue Jolimark to purchase such premises from Industrial Park at fair market value as determined by an independent property valuer at any time during the term of the Kongyue Jolimark Lease if the Directors consider that it would be appropriate and beneficial to the Group as a whole to do so and the purchase will be effected in such manner as in compliance with the then applicable Listing Rules. Kongyue Jolimark has also been granted a first right of refusal over any future sales by Industrial Park (if any) of such premises.

Industrial Park is a WFOE whose entire interest is held by Kong Yue Holding Limited which in turn is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Kongyue Jolimark Lease constitutes a continuing connected transaction for the Company.

The annual rental under the Kongyue Jolimark Lease for the year ended 31 December 2005 amounted to approximately RMB1,303,177.

(iii) *Storage leasing agreement between Industrial Park and Kongyue Jolimark*

On 19 July 2004, Industrial Park entered into a property leasing agreement (the "Storage Lease") as landlord with Kongyue Jolimark as tenant under which Industrial Park agreed to let to Kongyue Jolimark premises of a total floor area of 5,143.4 sq.m. situated in Kong Yue Industrial Park, Jiangmen, the PRC for a term of nine years commencing from 1 November 2003 and ending on 1 November 2012 for storage and office uses. The storage lease with retrospective effect from November 2003 was entered into by the parties in July 2004 to, among others, record their leasing arrangement with reference to the fair market rental between the period from November 2003 to July 2004. The annual rental under the Storage Lease is RMB393,646 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Storage Lease, the parties may

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adjust the rent with reference to, among others, the then prevailing market rate. Based on the Storage Lease, the annual rental payable by Kongyue Jolimark will be RMB393,646 (exclusive of management fees and utilities charges) for each of the eight years ending 31 December 2012.

In addition, pursuant to a supplementary property leasing agreement dated 18 March 2005, Kongyue Jolimark has been granted an option to renew the Storage Lease for a further term of 3 years, and for any exercise of a renewal option by Kongyue Jolimark by giving a written notice of not less than 3 months before the expiry of the relevant lease to Industrial Park, Industrial Park will be deemed to have granted a new option for a further extension of 3 years, at the then prevailing market rental to be determined by an independent property valuer and subject to compliance with the disclosure and/or other requirements under the Listing Rules then in force. Further, Industrial Park has granted an option in favour of Kongyue Jolimark to purchase such premises from Industrial Park at fair market value as determined by an independent property valuer at any time during the term of the Storage Lease if the Directors consider that it would be appropriate and beneficial to the Group as a whole to do so and the purchase will be effected in such manner as in compliance with the then applicable Listing Rules. Kongyue Jolimark has also been granted a first right of refusal over any future sales by Industrial Park (if any) of such premises.

Industrial Park is a WFOE whose entire interest is held by Kong Yue Holding Limited which in turn is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Storage Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Storage Lease for the year ended 31 December 2005 amounted to approximately RMB393,646.

(iv) *Dormitory leasing agreement between Industrial Park and Kongyue Information*

On 13 December 2004 and 6 June 2005, Industrial Park entered into a property leasing agreement and a supplemental property leasing agreement respectively (collectively the "Information Dormitory Lease") as landlord with Kongyue Information as tenant under which Industrial Park agreed to let to Kongyue Information premises of a total floor area of 3,438.03 sq.m. situated in Kong Yue Industrial Park, Jiangmen, the PRC, for a term of nine years commencing from 1 January 2005 and ending on 31 December 2013 as dormitory. The annual rental under the Information Dormitory Lease is RMB294,840 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Information Dormitory Lease, the parties may adjust the rent with reference to, among others, the then prevailing market rate. Based on the Information Dormitory Lease, the annual rental payable by Kongyue Information will be RMB294,840 (exclusive of management fees and utilities charges) for each of the nine years ending 31 December 2013.

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Industrial Park is a WFOE whose entire interest is held by Kong Yue Holding Limited which in turn is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Information Dormitory Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Information Dormitory Lease for the year ended 31 December 2005 amounted to approximately RMB294,840.

(v) *Dormitory leasing agreement between Industrial Park and Kongyue Jolimark*

On 13 December 2004 and 6 June 2005, Industrial Park entered into a property leasing agreement and a supplemental property leasing agreement respectively (collectively the "Jolimark Dormitory Lease") as landlord with Kongyue Jolimark as tenant under which Industrial Park agreed to let to Kongyue Jolimark premises of a total floor area of 933.02 sq.m. situated in Kong Yue Industrial Park, Jiangmen, the PRC for a term of nine years commencing from 1 January 2005 and ending on 31 December 2013 as dormitory. The annual rental under the Jolimark Dormitory Lease is RMB90,564 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Jolimark Dormitory Lease, the parties may adjust the rent with reference to, among others, the then prevailing market rate. Based on the Jolimark Dormitory Lease, the annual rental payable by Kongyue Jolimark will be RMB90,564 for each of the nine years ending 31 December 2013.

Industrial Park is a WFOE whose entire interest is held by Kong Yue Holding Limited which in turn is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Jolimark Dormitory Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Jolimark Dormitory Lease for the year ended 31 December 2005 amounted to approximately RMB90,564.

(vi) *Property leasing agreement between the Company and Kong Yue Technology Limited ("Kongyue Technology")*

On 13 June 2005, Kongyue Technology entered into a property leasing agreement (the "Lippo Lease") as landlord with the Company as tenant under which Kongyue Technology agreed to let to the Company premises of a lettable floor area of 36 sq.m. being portion of Unit 3701, 37th Floor, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong for a term commencing on the Listing Date and ending on 31 December 2007 at the rent of HK\$93,120 per annum (inclusive of rates, Government rent, management charges and utilities charges) for office use. The rent is determined with reference to the prevailing market rent. Based on the Lippo Lease, the annual rental payable by the Company will be HK\$93,120 for each of the three years ending 31 December 2007.

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Kongyue Technology is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Lippo Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Lippo Lease for the year ended 31 December 2005 amounted to approximately HK\$93,120.

(vii) *Property leasing agreement between Jolimark Information Technology (China) Limited (“Jolimark China”) and Mr. Ou Guo Liang*

On 4 March 2005, Mr. Ou Guo Liang entered into a property leasing agreement (the “Beijing Office Lease”) as landlord with Jolimark China as tenant under which Mr. Ou Guo Liang agreed to let to Jolimark China premises of a total floor area of 1,274.99 sq.m. situated in Shuangqiao Building, No. 68 North 4th Ring West Road, Haidian District, Beijing, the PRC, for a term of six years commencing from 1 January 2005 and ending on 31 December 2010 for office use.

The annual rental under the Beijing Office Lease is RMB1,650,852 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Beijing Office Lease, the parties may adjust the rent with reference to, among others, the then prevailing market rate. Based on the Beijing Office Lease, the annual rental payable by Jolimark China will be RMB1,650,852 for each of the six years ending 31 December 2010.

Mr. Ou Guo Liang is a Director and an Au Family Shareholder. Therefore, the transaction under the Beijing Office Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Beijing Office Lease for the year ended 31 December 2005 amounted to approximately RMB1,650,852.

(viii) *Property leasing agreement between Shenzhen Jolimark Business Appliances Limited (“Shenzhen Jolimark”) and Industrial Park*

On 4 March 2005, Industrial Park entered into a property leasing agreement (the “Shenzhen Jolimark Lease”) as landlord with Shenzhen Jolimark as tenant under which Industrial Park agreed to let to Shenzhen Jolimark premises of a total floor area of 261.07 sq.m. situated in Units 2408–10, 24th Floor, Dongfang Plaza, Jianshe Road, Luohu District, Shenzhen, the PRC, for a term of six years commencing from 1 January 2005 and ending on 31 December 2010 for office use.

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The annual rental under the Shenzhen Jolimark Lease is RMB109,644 (exclusive of management fees and utilities charges). The rent is determined with reference to the prevailing market rent. During the term of the Shenzhen Jolimark Lease, the parties may adjust the rent with reference to, among others, the then prevailing market rate. Based on the Shenzhen Jolimark Lease, the annual rental payable by Shenzhen Jolimark will be RMB109,644 for each of the six years ending 31 December 2010.

Industrial Park is a WFOE whose entire interest is held by Kong Yue Holding Limited which in turn is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Shenzhen Jolimark Lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Shenzhen Jolimark Lease for the year ended 31 December 2005 amounted to approximately RMB109,644.

(ix) *Property leasing agreement between Xin Yue Logistics Limited ("Xin Yue") and Kongyue Technology*

On 13 June 2005, Kongyue Technology entered into a property leasing agreement (the "Xin Yue Lease") as landlord with Xin Yue as tenant under which Kongyue Technology agreed to let to Xin Yue warehouse premises of a total gross floor area of 95.86 sq.m. situated in Workshop B5, 13th Floor, Block B, Kailey Industrial Centre, 12 Fung Yip Street, Chai Wan, Hong Kong for a term of five years commencing from 1 January 2005 and ending on 31 December 2009 as warehouse.

The annual rental under the Xin Yue Lease is HK\$55,200 (inclusive of rates, government rent and utilities charges (other than telephone and electricity charges) but exclusive of management fees). The rent is determined with reference to the prevailing market rent. Based on the Xin Yue Lease, the annual rental payable by Xin Yue will be HK\$55,200 for each of the five year ending 31 December 2009.

Kongyue Technology is wholly owned by Mr. Au and associates of the Au Family Shareholders. Therefore, the transaction under the Xin Yue lease constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The annual rental under the Xin Yue Lease for the year ended 31 December 2005 amounted to approximately HK\$55,200.

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### (II) Import and Export Agency Agreement with Jiangmen Kong Yue Information Product Import Export Limited (“KY Import/Export”)

KY Import/Export served as an interface between the Group and its overseas suppliers and purchase agents to import direct materials from overseas countries and Hong Kong.

Kongyue Information and KY Import/Export entered into an agreement dated 19 July 2004 (as amended by the supplemental agreement dated 13 June 2005) (the “Import and Export Agency Agreement”) on normal commercial terms in their respective ordinary course of business. The agreement is for a period commencing on 29 June 2005 until 31 December 2007. Pursuant to the Import and Export Agency Agreement, KY Import/Export agreed to provide import services relating to the Group’s direct materials and equipment and export services relating to the Group’s products. The terms of the Import and Export Agency Agreement were negotiated on an arm’s length basis.

KY Import/Export is wholly owned by the Au Family Shareholders and their associates. Therefore, the transactions under the Import and Export Agency Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules after the listing of the Shares on the Stock Exchange.

#### (a) *Handling fees for import services*

The Group has started to engage KY Import/Export in provision of import services in 2002. The service fees to be charged by KY Import/Export in relation to the direct materials imported are charged in a “mark-up” equal to approximately 1% on the contract price of the materials imported. The rate of such service fees charged by KY Import/Export is comparable to those charged by Independent Third Parties<sup>(Note)</sup>. *As the Group is going to expand its EMS/ODM/OEM business and internal sales of Jolimark branded products as part of its future plans, it is expected that demand for direct materials, for example electronic components, will be increased. Such direct materials will be best purchased from overseas suppliers.*

*Note:* an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates.

The proposed annual value of the transactions will not exceed RMB2,181,000, RMB2,836,000 and RMB3,686,000 for the financial year ended 31 December 2005 and the two financial years ending 31 December 2006 and 2007, respectively. The proposed annual value for the transactions are based on the historical amounts of the relevant transactions and the Company’s assumption of increase in the Group’s turnover of 25%, 30% and 30% in years 2005, 2006 and 2007.

The handling fees for the year ended 31 December 2005 amounted to approximately RMB1,191,000.

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(b) *Export sales*

The Group has started to engage KY Import/Export in provision of export services in 2002. The rate of such service fees charged by KY Import/Export is comparable to those charged by Independent Third Parties.

The service fee in relation to the products exported represent approximately 1% of the contract price of such products. The amount of sales to KY Import/Export represents the reduced amount of sales (after deduction of the service fee).

The proposed annual value of the sales to KY Import/Export will not exceed RMB6 million for each of the three years ending 31 December 2007.

The sales to KY Import/Export for the year ended 31 December 2005 amounted to approximately RMB3,357,000.

KY Import/Export is not responsible for procuring customers and negotiating the terms of sales. Its functions are (1) to handle the customs documentation in the PRC for the Group; and (2) to assist the Group in necessary foreign currency conversions to settle the trade payables due to the overseas suppliers. In respect of exports, the transactions between the Group and KY Import/Export relate to export of certain products through KY Import/Export, which are effected by sale to KY Import/Export and resale to the ultimate customers in order to comply with customs regulations.

Each of (1) the aggregate annual rental payable under the above property leasing agreements; and (2) the import and export agency agreement will exceed HK\$1,000,000 and each of the percentage ratio (other than the profits ratio) under Chapter 14 of the Listing Rules, where applicable, in respect of these continuing connected transactions is, on an annual basis, expected to be less than 2.5%. The above transactions constitute continuing connected transactions for the Company and fall under Rule 14A.34 of the Listing Rules.

## Report of the Directors

### (III) Supply agreements with Guangdong Kong Yue Precision Industry Limited (“Guangdong Precision”)

Guangdong Precision, a manufacturer of plastic parts, was established in 2002 in Kong Yue Industrial Park. Currently, the Group has adopted the policy of having not less than two preferred suppliers for each type of key direct materials. The Directors consider that Guangdong Precision is one of the preferred suppliers of precision plastic parts because (1) it satisfies the Group’s quality requirement as a preferred supplier; (2) the quotations given by Guangdong Precision are comparable to those offered by other independent suppliers; and (3) the vicinity of Guangdong Precision, which translates into (i) simpler logistic requirements and shorter delivery time; and (ii) greater ease in monitoring product quality of precision plastic parts supplied by Guangdong Precision. Since the second half of 2003, the Group has been purchasing precision plastic components (such as plastic casing) from Guangdong Precision.

Two agreements (the “Precision Agreements”), both dated 19 July 2004 (as amended by two supplemental agreements both dated 13 June 2005), were entered into on normal commercial terms in the ordinary course of business between (i) Kongyue Information and Guangdong Precision; and (ii) Kongyue Jolimark and Guangdong Precision under which Guangdong Precision agreed to supply precision plastic parts to the Group from time to time as requested by the Group. The plastic parts supplied by Guangdong Precision to Kongyue Information and Kongyue Jolimark are used for manufacturing and new product development purpose respectively. Each of the Precision Agreements is for a period commencing on 29 June 2005 until 31 December 2007. The terms of the two agreement were negotiated on an arm’s length basis and the sale prices of the products offered by Guangdong Precision are determined with reference to the prevailing market price that are comparable to those offered by independent suppliers.

Guangdong Precision is a WFOE held by Dinomax on trust for the Au Family Shareholders. Therefore, the transactions under the Precision Agreements will continuing constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The proposed annual value of the transactions will not exceed RMB8,319,000, RMB10,814,000 and RMB14,059,000 for the financial year ended 31 December 2005 and the two financial years ending 31 December 2006 and 2007, respectively. The proposed annual value for the transactions are based on the historical amounts of the relevant transactions and the Company’s assumption of increase in the Group’s turnover of 25%, 30% and 30% in years 2005, 2006 and 2007.

Such transactions for the year ended 31 December 2005 amounted to approximately RMB7,713,000.

## Report of the Directors

### **(IV) Supply agreement with Guang Dong Jotech Kong Yue Precision Industries Limited (“Jiangmen Yida”)**

Jiangmen Yida, a manufacturer of metal stamped parts, was established in 2003 also in Kong Yue Industrial Park. Currently, the Group has adopted the policy of having not less than two preferred suppliers for each type of key direct materials. The Directors consider that Jiangmen Yida is one of the preferred suppliers of metal stamped parts because (1) it satisfies the Group’s quality requirement as a preferred supplier; (2) the quotations given by Jiangmen Yida are comparable to those offered by other independent suppliers; and (3) the vicinity of Jiangmen Yida, which translates into (i) simpler logistic requirements and shorter delivery time; and (ii) greater ease in monitoring product quality of metal stamped supplied by Jiangmen Yida. Since the second half 2003, the Group has been purchasing metal components from Jiangmen Yida.

Kongyue Information and Jiangmen Yida entered into an agreement dated 19 July 2004 (as amended by a supplemental agreement dated 13 June 2005) (the “Yida Agreement”) on normal commercial terms and in their respective ordinary course of business. The Yida Agreement is for a period commencing on the Listing Date until 31 December 2007. Pursuant to the Yida Agreement, Jiangmen Yida agreed to supply metal stamped parts to the Group for printer manufacturing from time to time as requested by the Group. The terms of the Yida Agreement were negotiated on an arm’s length basis and the sale prices of the products offered by Jiangmen Yida are determined with reference to the prevailing market price that are comparable to those offered by independent suppliers.

Jiangmen Yida is held as to 35% by Dinomax on trust for the Au Family Shareholders. Therefore, the transactions under the Yida Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The proposed annual value of the transactions will not exceed RMB6,553,000, RMB8,518,000 and RMB11,074,000 for the financial year ended 31 December 2005 and the two financial years ending 31 December 2006 and 2007, respectively. The proposed annual value for the transactions are based on the historical amounts of the relevant transactions and the Company’s assumption of increase in the Group’s turnover of 25%, 30% and 30% in years 2005, 2006 and 2007.

Such transactions for the year ended 31 December 2005 amounted to approximately RMB4,145,000.

The transactions under the Precision Agreements and the Yida Agreement constituted non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and a waiver from strict compliance with the announcement requirement and the independent shareholders’ approval requirement under Rule 14A of the Listing Rules have been granted by the Stock Exchange.

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transaction were entered into (a) in the ordinary and usual course of business of the Group;

## Report of the Directors

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

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

### SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital is held by the public at all times.

### SUBSEQUENT EVENTS

No significant events occurred after the balance sheet date.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a new code of conduct regarding Director's securities transactions on terms no less exact than the required standard set out in the Model Code of Securities by Directors of Listed Issuers as set out in Model Code. The Directors confirmed that there was not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transaction during the year ended 31 December 2005

### AUDITORS

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

## Report of the Directors

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 25 April 2006 to 28 April 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 24 April 2006.

On behalf of the Board

**Au Pak Yin**

*Chairman*

Hong Kong, 31 March 2006