



**JIC**

**J.I.C. Technology Company Limited**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0987)

**07**

Interim Report

## KEY HIGHLIGHTS

- Comparing the results of 2007 to 2006,
  - Q2 sales up 35.5% and net profit down 56.9%; and
  - 1H sales up 34.3% and net profit down 59.4%
- No interim dividends will be declared for the six months ended 30 June 2007

### 1. Summarised Statement of Income

*(In Thousands of HK Dollars, except as otherwise stated)*

	Quarterly Results			Half-year Results		
	Q2 2007	Q2 2006	YoY (%)	1H 2007	1H 2006	YoY (%)
Sales (Revenue)	<b>172,782</b>	127,512	35.5	<b>304,179</b>	226,534	34.3
Gross Profit	<b>18,685</b>	23,837	(21.6)	<b>31,682</b>	40,608	(22.0)
<i>% of sales</i>	<b>10.8%</b>	18.7%		<b>10.4%</b>	17.9%	
Operating income <sup>(a)</sup>	<b>4,889</b>	10,463	(53.3)	<b>2,927</b>	17,672	(83.4)
<i>% of sales</i>	<b>2.8%</b>	8.2%		<b>1.0%</b>	7.8%	
<i>Per share (HK cent(s))</i>	<b>0.64</b>	1.37	(53.3)	<b>0.38</b>	2.31	(83.4)
Profit for the period	<b>4,031</b>	9,361	(56.9)	<b>6,331</b>	15,578	(59.4)
<i>% of sales</i>	<b>2.3%</b>	7.3%		<b>2.1%</b>	6.9%	
Basic earnings per share (HK cent(s))	<b>0.53</b>	1.23	(56.9)	<b>0.83</b>	2.04	(59.4)
Diluted earnings per share (HK cent(s))	<b>0.53</b>	1.23	(56.9)	<b>0.83</b>	2.04	(59.4)
Number of shares ('000)						
Basic	<b>763,535</b>	763,535		<b>763,535</b>	763,535	
Diluted	<b>763,535</b>	763,535		<b>763,535</b>	763,535	

Note:

- (a) Operating income = gross profit + other income - selling and distribution costs - administrative expenses - research and development expenditure.

## 2. Quarterly Sales Breakdown

*(In Thousands of HK Dollars, except percentages)*

Quarter	2007	2006	YoY (%) (Quarterly)	YoY (%) (Quarterly accumulated)
1st Quarter	<b>131,397</b>	99,022	32.7	32.7
2nd Quarter	<b>172,782</b>	127,512	35.5	34.3
3rd Quarter	-	149,545	-	-
4th Quarter	-	128,218	-	-
Total	<b><u>304,179</u></b>	<b><u>504,297</u></b>		

## 3. Key Highlights of Financial Position

*(In Thousands of HK Dollars, except ratio and percentage)*

	As at 30 June		As at 31 December
	2007	2006	2006
Cash on Hand <sup>(a)</sup>	<b>19,925</b>	31,012	26,530
Ratio of Cash <sup>(a)</sup> to Current Liabilities	<b>0.11</b>	0.21	0.19
Current Ratio	<b>1.24</b>	1.22	1.34
Ratio of Total Assets to Total Liabilities	<b>2.00</b>	1.96	2.14
Return on Equity	<b>7.36%</b>	19.94%	17.38%
Ratio of Total Liabilities to Equity	<b>1.00</b>	1.05	0.88
Debtors Turnover <sup>(b)</sup>	<b>75 days</b>	73 days	71 days
Inventory Turnover <sup>(c)</sup>	<b>41 days</b>	50 days	47 days
Average Payable Period <sup>(d)</sup>	<b>60 days</b>	59 days	66 days

*Notes:*

- (a) Include cash equivalents.
  
- (b) The calculation of debtors turnover is based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days and the number of months in that period over 12.
  
- (c) The calculation of inventory turnover is based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days and the number of months in that period over 12.
  
- (d) The calculation of average payable period is based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days and the number of months in that period over 12.

## **UNAUDITED INTERIM RESULTS**

The board (the "Board") of directors (the "Directors") of J.I.C. Technology Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the three months and the six months ended 30 June 2007 respectively together with comparative figures for the corresponding periods of last year as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2007

(In Thousands of HK Dollars, except as otherwise stated)

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2007	2006	2007	2006
Revenue	4	<b>172,782</b>	127,512	<b>304,179</b>	226,534
Cost of sales		<b>(154,097)</b>	(103,675)	<b>(272,497)</b>	(185,926)
Gross profit		<b>18,685</b>	23,837	<b>31,682</b>	40,608
Bank interest income		<b>84</b>	184	<b>107</b>	437
Selling and distribution costs		<b>(3,425)</b>	(2,169)	<b>(7,676)</b>	(4,009)
Administrative expenses		<b>(7,129)</b>	(8,233)	<b>(14,368)</b>	(13,363)
Research and development expenditure		<b>(3,242)</b>	(2,972)	<b>(6,711)</b>	(5,564)
Share of loss of an associate		<b>(903)</b>	-	<b>(903)</b>	-
Interest on bank borrowings		<b>(846)</b>	(1,196)	<b>(1,629)</b>	(2,415)
Profit before tax <sup>(a)</sup>	5	<b>3,224</b>	9,451	<b>502</b>	15,694
Income tax credit <sup>(b)</sup> (expense)	6	<b>807</b>	(90)	<b>5,829</b>	(116)
Profit for the period		<b>4,031</b>	9,361	<b>6,331</b>	15,578
Dividends	7	<b>-</b>	(15,271)	<b>-</b>	(15,271)
Earnings per share (HK cent(s))	8				
Basic		<b>0.53</b>	1.23	<b>0.83</b>	2.04

*Notes:*

- (a) Profit before tax is reconciled to operating income in the Summarised Statement of Income on page 1 of this interim report by excluding bank interest income, interest on bank borrowings and share of loss of an associate.
  
- (b) Income tax credit relates to a deferred tax income of approximately HK\$807,000 and HK\$5,829,000 in the second quarter of 2007 and the six months ended 30 June 2007 respectively arising as a result of the expected changes in the PRC income tax law effective from the year 2008 and onwards.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

(In Thousands of HK Dollars)

	Notes	Unaudited 30 June 2007	Audited 31 December 2006
<b>Non-current assets</b>			
Property, plant and equipment	9	122,918	125,831
Investment in an associate		-	-
Deposits paid for acquisition of plant and equipment		5,865	3,722
Intangible asset		381	381
Deferred tax asset	10	5,829	-
		<b>134,993</b>	<b>129,934</b>
<b>Current assets</b>			
Inventories		60,741	54,577
Trade and other receivables	11	129,470	100,185
Amount due from a fellow subsidiary		328	539
Tax recoverable		5,861	5,620
Bank balances and cash		19,925	26,530
		<b>216,325</b>	<b>187,451</b>
<b>Current liabilities</b>			
Trade and other payables	12	110,653	90,075
Amount due to an associate		909	58
Tax payable		1,200	1,200
Bank borrowings – due within one year	13	61,486	48,543
		<b>174,248</b>	<b>139,876</b>
<b>Net current assets</b>		<b>42,077</b>	<b>47,575</b>
<b>Total assets less current liabilities</b>		<b>177,070</b>	<b>177,509</b>
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	13	1,755	8,525
<b>Net assets</b>		<b>175,315</b>	<b>168,984</b>
<b>Capital and reserves</b>			
Share capital	14	7,635	7,635
Reserves		167,680	161,349
<b>Total capital and reserves</b>		<b>175,315</b>	<b>168,984</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital	Share premium	Goodwill reserve	Special reserve (Note)	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006 (audited)	7,635	175	(8,351)	(6,774)	163,377	156,062
Profit for the period and total recognised income for the period	-	-	-	-	15,578	15,578
Dividends paid	-	-	-	-	(15,271)	(15,271)
	<u>7,635</u>	<u>175</u>	<u>(8,351)</u>	<u>(6,774)</u>	<u>163,684</u>	<u>156,369</u>
At 30 June 2006 (unaudited)	7,635	175	(8,351)	(6,774)	163,684	156,369
Profit for the period and total recognised income for the period	-	-	-	-	12,615	12,615
	<u>7,635</u>	<u>175</u>	<u>(8,351)</u>	<u>(6,774)</u>	<u>176,299</u>	<u>168,984</u>
At 31 December 2006 (audited)	7,635	175	(8,351)	(6,774)	176,299	168,984
Profit for the period and total recognised income for the period	-	-	-	-	6,331	6,331
	<u>7,635</u>	<u>175</u>	<u>(8,351)</u>	<u>(6,774)</u>	<u>182,630</u>	<u>175,315</u>
<b>At 30 June 2007 (unaudited)</b>	<b><u>7,635</u></b>	<b><u>175</u></b>	<b><u>(8,351)</u></b>	<b><u>(6,774)</u></b>	<b><u>182,630</u></b>	<b><u>175,315</u></b>

Note: The special reserve of the Group represents the difference between the nominal value of shares of subsidiaries acquired and the nominal value of shares issued by the Company.



## **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30 June 2007*

*(In Thousands of HK Dollars)*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
Net cash from operating activities	<b>3,381</b>	18,171
Net cash used in investing activities	<b>(14,530)</b>	(4,086)
Net cash from (used in) financing activities	<b>4,544</b>	(23,638)
Net (decrease) increase in cash and cash equivalents	<b>(6,605)</b>	(9,553)
Cash and cash equivalents at beginning of the period	<b>26,530</b>	40,565
Cash and cash equivalents at end of the period, representing bank balances and cash	<b>19,925</b>	31,012

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

*For the three and six months ended 30 June 2007*

### **1. GENERAL**

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Nam Tai Electronics, Inc. ("NTE Inc."), a company incorporated in the British Virgin Islands with its shares listed on the New York Stock Exchange. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is mainly engaged in the manufacture and trading of liquid crystal display products. The financial statements are presented in Hong Kong dollar, which is the functional currency of the Company.

## **2. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## **3. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial information have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial information are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) - INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) - INT 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.

The Directors anticipate that the applications of the new HKFRSs will have no material impact on the results and financial position of the Group.

#### 4. SEGMENT INFORMATION

##### Geographical segments

The Group's primary format for reporting segment information is geographic segments. The Group reports its primary segment information based on the initial destination of shipment of its products, principally Hong Kong and the People's Republic of China (the "PRC"). The Group's subsidiary in the PRC remains as an export based enterprise in the PRC.

The following table provides an analysis of the Group's sales by geographical market:

##### Three months ended 30 June 2007 (unaudited)

	Hong Kong HK\$'000	The PRC HK\$'000	Europe HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
External revenue	<u>111,324</u>	<u>55,291</u>	<u>3,745</u>	<u>905</u>	<u>1,517</u>	<u>172,782</u>
Segment results	<u>4,601</u>	<u>7,842</u>	<u>275</u>	<u>300</u>	<u>232</u>	<u>13,250</u>
Unallocated expenses						(8,361)
Bank interest income						84
Interest on bank borrowings						(846)
Share of results of an associate						(903)
Profit before taxation						<u>3,224</u>
Income tax credit						<u>807</u>
Profit for the period attributable to equity holders of the Company						<u><u>4,031</u></u>

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Three months ended 30 June 2006 (unaudited)

	Hong Kong HK\$'000	The PRC HK\$'000	Europe HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
External revenue	<u>72,574</u>	<u>47,078</u>	<u>5,010</u>	<u>1,185</u>	<u>1,665</u>	<u>127,512</u>
Segment results	<u>7,131</u>	<u>9,083</u>	<u>1,177</u>	<u>535</u>	<u>196</u>	18,122
Unallocated expenses						(7,659)
Bank interest income						184
Interest on bank borrowings						(1,196)
Profit before taxation						9,451
Income tax expense						(90)
Profit for the period attributable to equity holders of the Company						<u>9,361</u>

Six months ended 30 June 2007 (unaudited)

	Hong Kong HK\$'000	The PRC HK\$'000	Europe HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
External revenue	<u>202,367</u>	<u>85,405</u>	<u>10,396</u>	<u>1,931</u>	<u>4,080</u>	<u>304,179</u>
Segment results	<u>6,345</u>	<u>12,166</u>	<u>(157)</u>	<u>527</u>	<u>304</u>	19,185
Unallocated expenses						(16,258)
Bank interest income						107
Interest on bank borrowings						(1,629)
Share of results of an associate						(903)
Profit before taxation						502
Income tax credit						5,829
Profit for the period attributable to equity holders of the Company						<u>6,331</u>



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Six months ended 30 June 2006 (unaudited)

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External revenue	<u>130,927</u>	<u>84,064</u>	<u>7,836</u>	<u>1,649</u>	<u>2,058</u>	<u>226,534</u>
Segment results	<u>13,607</u>	<u>15,955</u>	<u>2,238</u>	<u>738</u>	<u>343</u>	32,881
Unallocated expenses						(15,209)
Bank interest income						437
Interest on bank borrowings						<u>(2,415)</u>
Profit before taxation						15,694
Income tax expense						<u>(116)</u>
Profit for the period attributable to equity holders of the Company						<u>15,578</u>

**5. PROFIT BEFORE TAX**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Profit before tax has been arrived at after charging (crediting):				
Depreciation of property, plant and equipment	8,033	7,680	15,925	15,269
Loss on disposal of property, plant and equipment	328	17	333	18
Allowance for bad and doubtful debts	325	170	662	2,408
Reversal of allowance for bad and doubtful debts	(121)	(595)	(1,119)	(5,940)
Allowance for inventories	203	251	203	576
Reversal of allowance for inventories	(233)	(303)	(326)	(1,266)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**6. INCOME TAX CREDIT (EXPENSE)**

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Current tax				
PRC income tax				
– Current period	–	(90)	–	(116)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Deferred tax credit	807	–	5,829	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income tax credit (expense)	807	(90)	5,829	(116)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

For the three months and six months ended 30 June 2007 and 30 June 2006, no provision for Hong Kong profits tax has been made in the condensed financial statements as the Group did not have any significant assessable profit arising in Hong Kong for both periods.

In accordance with the applicable enterprise income tax laws of the PRC and the relevant rules promulgated by the Shenzhen municipal government, the Company's PRC subsidiary is subject to a tax rate of 15% on the assessable profit for the year. In addition, if a foreign investment enterprise ("FIE") exports 70% or more of the production value of its products on an annual basis ("Export Enterprise"), it is able to enjoy a reduced tax rate of 10%. For the year ended 31 December 2006, the Company's PRC subsidiary exported more than 70% of the production value of their products and was qualified as an Export Enterprise and enjoyed a reduced tax rate of 10%. For the period ended 30 June 2007, the Company's PRC subsidiary also exported more than 70% of the production value of their products and the Directors expect that the Company's PRC subsidiary will also qualify for a reduced tax rate of 10% for the year ending 31 December 2007.

Furthermore, if a foreign investor directly reinvests by way of capital injection of its share of profits obtained from an FIE in establishing or expanding an export-oriented or technologically advanced enterprise in the PRC for a minimum period of five years, a refund of a significant amount of the taxes already paid on those profits may be obtained by the foreign investor, i.e. the Group.

Under the newly promulgated PRC Unified Enterprise Income Tax Law which will become effective from 1 January 2008, the tax refund under the profit reinvestment scheme as described above may be removed. Enterprise income tax has not been provided for the current interim period as the Group did not have assessable profit in the PRC for the period.

As at 30 June 2007, income taxes recoverable under such reinvestment arrangements was approximately HK\$5,753,000 (31 December 2006: HK\$5,512,000) which are included in tax recoverable in the condensed consolidated balance sheet.

J.I.C. (Macao Commercial Offshore) Company Limited, a wholly owned subsidiary of the Company, is exempted from Macao Complementary Tax in accordance with the Macao Decree Law No. 58/99/M.

## 7. DIVIDENDS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Final dividends paid for 2005: – HK\$0.02 per ordinary share	–	15,271	–	15,271

In view of the reduced profits for the six months ended 30 June 2007 and having considered a need to retain the Company's cash for working capital in the coming quarters, the Board decided not to declare any interim dividend for the six months ended 30 June 2007 (for the six months ended 30 June 2006: Nil).

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on profit for the period of approximately HK\$6,331,000 (2006: HK\$15,578,000) and on 763,534,755 (2006: 763,534,755) ordinary shares in issue during the period.

No diluted earnings per share has been presented as there was no potential ordinary shares in issue during the six months ended 30 June 2007.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment amounting to approximately HK\$13,345,000 (2006: HK\$8,890,000), out of which approximately HK\$3,722,000 (2006: HK\$4,367,000) was already paid as deposits before 1 January 2007. In addition, the Group has written off certain of its property, plant and equipment with an aggregate net book value of approximately HK\$333,000 (2006: HK\$18,000).



## 10. DEFERRED TAX

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior periods:

	<b>Accelerated book depreciation</b>	<b>Allowance for doubtful debts</b>	<b>Allowance for inventory</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2006, 30 June 2006 and 31 December 2006	-	-	-	-
Credit to income for the period	(5,717)	(66)	(46)	(5,829)
At 30 June 2007	<u>(5,717)</u>	<u>(66)</u>	<u>(46)</u>	<u>(5,829)</u>

## 11. TRADE AND OTHER RECEIVABLES

The Group's policy is to allow credit periods ranging from 30 days to 90 days (31 December 2006: 30 days to 90 days) to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet dates, prepared on the basis of sales invoice date:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Trade receivables:		
Within 30 days	<b>57,310</b>	42,569
More than 30 days and within 60 days	<b>37,874</b>	28,929
More than 60 days and within 90 days	<b>23,264</b>	17,548
More than 90 days	<b>6,343</b>	8,411
	<u><b>124,791</b></u>	<u>97,457</u>
Other receivables	<b>4,679</b>	2,728
	<u><b>129,470</b></u>	<u>100,185</u>

**12. TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade payables at the balance sheet dates, prepared on the basis of supplier invoice date:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Trade payables:		
Within 30 days	<b>67,214</b>	58,676
More than 30 days and within 60 days	<b>14,087</b>	10,581
More than 60 days and within 90 days	<b>8,661</b>	6,894
More than 90 days	<b>18</b>	4
	<hr/>	<hr/>
	<b>89,980</b>	76,155
Other payables	<b>20,673</b>	13,920
	<hr/>	<hr/>
	<b>110,653</b>	90,075
	<hr/> <hr/>	<hr/> <hr/>

**13. BANK BORROWINGS**

The borrowings are at semi-variable interest rates ranging from 0.55% to 0.75% over Hong Kong/London Interbank Offered Rate for both interim periods ended 30 June 2006 and 30 June 2007. During the period ended 30 June 2007, the Group repaid bank loans (excluding documentary credits) of approximately HK\$6,781,000.

#### 14. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount <i>HK\$'000</i></b>
Authorised:		
As at 1 January 2007 and 30 June 2007		
– Ordinary shares of HK\$0.01 each	2,000,000,000	20,000
– Non-redeemable convertible preference shares of HK\$0.01 each	<u>600,000,000</u>	<u>6,000</u>
	<u><u>2,600,000,000</u></u>	<u><u>26,000</u></u>
Issued and fully paid:		
As at 1 January 2007 and 30 June 2007		
– Ordinary shares of HK\$0.01 each	<u>763,534,755</u>	<u>7,635</u>

#### 15. CAPITAL COMMITMENTS

	<b>30 June 2007 <i>HK\$'000</i></b>	31 December 2006 <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment:		
– Contracted for but not provided in the condensed consolidated financial statements	<u>3,539</u>	930
– Authorised but not contracted for	<u>11,196</u>	<u>2,439</u>
	<u><u>14,735</u></u>	<u><u>3,369</u></u>

**16. RELATED PARTY TRANSACTIONS**

During the period, the Group entered into transactions with the following related party or fellow subsidiaries owned by NTE Inc.:

Name of related party	Nature of transactions	Three months ended 30 June	
		2007 HK\$'000	2006 HK\$'000
Nantai Electronic (Shenzhen) Co., Ltd.	Sales of finished goods by the Group, net	326	1,233
Zastron Precision-Tech Limited	Recharge of office expense	611	508
Namtek Japan Company Limited	Sales commission expense	5	-
Directors of the Company	Remuneration paid by the Group	1,066	1,497

Name of related party	Nature of transactions	Six months ended 30 June	
		2007 HK\$'000	2006 HK\$'000
Nantai Electronic (Shenzhen) Co., Ltd.	Sales of finished goods by the Group, net	1,138	2,291
Zastron Precision-Tech Limited	Recharge of office expense	1,196	1,066
Namtek Japan Company Limited	Sales commission expense	18	-
Directors of the Company	Remuneration paid by the Group	2,028	2,794

## **INTERIM DIVIDEND**

In view of the reduced profits for the six months ended 30 June 2007 and having considered a need to retain the Company's cash for working capital in the coming quarters, the Board decided not to declare any interim dividend for the six months ended 30 June 2007 (for the six months ended 30 June 2006: Nil).

## **MANAGEMENT DISCUSSION & ANALYSIS**

### **Business Review**

The Group recorded sales of HK\$172.8 million for the second quarter of 2007, an increase of 35.5% when compared with the same period last year. Gross profit however decreased by 21.6% from HK\$23.8 million to HK\$18.7 million. Gross profit margin for the second quarter of 2007 dropped by 7.9% to 10.8% when compared with the same period last year. Gross profit margin for the second quarter of 2007 has however improved to 10.8% from 9.9% for the first quarter of 2007. Profit for the period amounted to HK\$4.0 million as compared with HK\$9.4 million in the second quarter last year, a decrease of 56.9%.

The Group recorded sales of HK\$304.2 million for the six months ended 30 June 2007, an increase of 34.3% when compared with the same period last year. Gross profit however dropped by 22.0% from HK\$40.6 million to HK\$31.7 million. Gross profit margin for the six months ended 30 June 2007 dropped by 7.5% to 10.4%. Profit for the period amounted to HK\$6.3 million as compared with HK\$15.6 million of the same period last year, a decrease of 59.4%.

The growth of sales for the first half of 2007 (which was contributed by new LCD module products) demanded a two-fold increase in the capacity of LCD module assembly. In the process of gearing the capacity for the expansion of such business, the Group had acquired new machines and correspondingly, expanded the workforce. While tuning the bottleneck and balancing the productivity, the Group's profits suffered because of overheads expenses and yield losses. As at the end of first half of 2007, the Group was able to attain a high-volume monthly production of 5 million LCD modules. This improved productivity would support the demand of business growth while the expected cost reduction and control in the future quarters should be able to improve profit margins.

### **Outlook**

The LCD market conditions have been competitive and challenging. In order to curb continuous pricing pressure from the market, the Group continues to pursue the business of higher value LCD module products. At the same time, by focusing on manufacturing efficiencies and economies of scale, the Group also hopes to improve the profitability of products with lower margins.

Meanwhile, the management would take remedial actions and implement cost control measures in order to improve the financial results of the Group for the coming quarters.

The Group has recently developed an infrastructure which will cater for an even larger and higher value module business. This includes medium-size coloured TFT module assembly and other monochrome LCD modules that required more customised and complex assembly technology. The Group will continue its efforts in gaining more market share in Europe, United States and North-East Asia. In doing so, the Group shall balance a portfolio of large and small volume LCD businesses with lower and higher margins respectively. The main product applications shall be coming from telecoms, white goods, industrial instruments, medical appliances and automotives.

### **Unsuccessful New Business**

In the financial year 2006, the Company and its fellow company, Nam Tai Electronic & Electrical Products Limited ("NTEEP"), jointly incorporated a company, Nam Tai Solartech, Inc., in the Cayman Islands for the purpose of developing new business of solar cell energy. The shareholding of the Company and NTEEP in this company was 25% and 75% respectively. However, there were technical problems which could not be resolved and in the second quarter of 2007 both parties agreed to put aside this project indefinitely and to deregister this company. The Group will continue to look for opportunities to develop a clean energy business. The Group incurred a loss of HK\$0.9 million as at 30 June 2007 on this project.

### **Liquidity, Financial Resources and Financial Ratios**

As at 30 June 2007, cash per share was 2.61 HK cents (June 2006: 4.06 HK cents) and net asset per share was 22.96 HK cents (June 2006: 20.48 HK cents), based on 763,534,755 (June 2006: 763,534,755) issued ordinary shares.

The Group had, as at 30 June 2007, a cash to current liabilities ratio of 0.11 (June 2006: 0.21), a current ratio of 1.24 (June 2006: 1.22) and a total assets to total liabilities ratio of 2.00 (June 2006: 1.96), and HK\$19.9 million (June 2006: HK\$31.0 million) of bank balances and cash.

As at 30 June 2007, the Company had issued corporate guarantees amounting to HK\$150.0 million (June 2006: HK\$140.0 million) to certain banks in respect of banking facilities granted to its subsidiaries. The extent of banking facilities utilised by the Group amounted to HK\$63.2 million (June 2006: HK\$89.0 million). The banking facilities were utilised to fund trade and to improve production facilities.

The banking facilities are in either United States dollars, Hong Kong dollars or Japanese Yen, total of which 88.6% (June 2006: 71.6%), 11.4% (June 2006: 25.2%) and 0% (June 2006: 3.2%) are repayable on demand within one year, in the second year and in the third to fifth years inclusive respectively. All of the facilities are on floating interest rates.

The Company's gearing ratio, which was calculated on the basis of total bank borrowings to the shareholders' equity, was 0.36 (June 2006: 0.57).

During the six months ended 30 June 2007, the Group has acquired a total of approximately HK\$13.3 million (June 2006: HK\$8.9 million) of capital assets for purchase of new manufacturing facilities and equipment, financial resources of which came from facilities granted by the banks.

The Group recorded debtors turnover of approximately 75 days for the six months ended 30 June 2007 (31 December 2006: 71 days) based on the amount of trade debtors as at the relevant period end divided by sales of the same period and multiplied by 365 days and the number of months in that period over 12.

The Group recorded inventory turnover of approximately 41 days for the six months ended 30 June 2007 (31 December 2006: 47 days) based on the amount of inventories as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days and the number of months in that period over 12.

The Group recorded average payable period of approximately 60 days for the six months ended 30 June 2007 (31 December 2006: 66 days) based on the amount of trade creditors as at the relevant period end divided by cost of sales of the same period and multiplied by 365 days and the number of months in that period over 12.

### **Foreign Exchange Exposure**

Since the Group usually conducts its business transactions in Hong Kong dollars and United States dollars, and over 97% (June 2006: 98%) of the Company's cash is in either Hong Kong dollars or United States dollars, the management of the Company assessed that the exposure to exchange rate fluctuation was not significant and evaluated that commercial hedging exercise was not necessary at present. Meanwhile, the management of the Company has recognized the impact of the appreciation of Chinese Renminbi, though not significant, on the Company's operating costs in the PRC since 2005.

### **Employees and Remuneration Policy**

Up to 30 June 2007, the Group had a total of 3,274 (June 2006: 2,418) dynamic and talented employees, among which 29 (June 2006: 20) were marketing staff and 86 (June 2006: 73) were research and development staff. All staff were dedicated to maintaining and advancing the quality and reliability of our operations. Total staff costs for the six months ended 30 June 2007 was HK\$48.1 million (June 2006: HK\$32.0 million).

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market conditions, and performance of the Group and individual staff. The remuneration policy and remuneration packages of the executive Directors and members of the senior management are reviewed by the Remuneration Committee of the Company, the composition and responsibilities of which are detailed in the section "Remuneration Committee" below.

A share option scheme was established in 2002 in order for the Company to grant options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme were set out in the section "Share Option Scheme" below. No option has been granted by the Company under the Scheme since its adoption.



## **DIRECTORATE**

### **Executive Directors**

Mr. CHUI Kam Wai (*Chairman*)

Dr. YEOH Teck Hooi (*Chief Executive Officer*)

### **Non-executive Directors**

Mr. KOO Ming Kown

Mr. Seitaro FURUKAWA<sup>1</sup>

Mr. LEE Wa Lun, Warren<sup>2</sup>

Mr. John Quinto FARINA<sup>3</sup>

### **Independent Non-executive Directors**

Mr. CHAM Yau Nam

Mr. LEUNG Wai Hung

Mr. CHENG Chi Heng<sup>4</sup>

Mr. CHOI Man Chau, Michael<sup>5</sup>

<sup>1</sup> to resign with effect from 1 August 2007

<sup>2</sup> resigned with effect from 16 April 2007

<sup>3</sup> to be appointed with effect from 1 August 2007

<sup>4</sup> resigned with effect from 11 May 2007

<sup>5</sup> appointed with effect from 11 May 2007

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the 6 months ended 30 June 2007.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2007, the interests or short positions of the Directors and chief executives 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") (Cap. 571 of the Laws of Hong Kong)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules, were as follows:

### **(I) Long position in the shares and the underlying shares of the Company**

As at 30 June 2007, none of the Directors held any shares in the issued share capital of the Company.

### **(II) Long position in the shares and the underlying shares of the associated corporation**

(A) As at 30 June 2007, the Directors who held common shares of US\$0.01 each in NTE Inc.<sup>(a)</sup> are as follows:—

<b>Name of Director</b>	<b>Nature of Interest</b>	<b>Number of common shares held</b>	<b>Approximate percentage of the issued share capital of the associated corporation</b>
CHUI Kam Wai	Personal	545,870	1.22%
YEOH Teck Hooi	Personal	10,000	0.02%
KOO Ming Kown <sup>(b)</sup>	Personal	5,690,786	12.70%
Seitaro FURUKAWA <sup>(c)</sup>	Personal	20,000	0.04%

- (B) As at 30 June 2007, the Directors who held share options granted by NTE Inc. are as follows:-

<b>Name of Director</b>	<b>Number of share options held</b>	<b>Number of underlying shares of the associated corporation</b>
KOO Ming Kown	30,000	30,000
John Quinto FARINA <sup>(d)</sup>	40,000	40,000

*Notes:*

- a. NTE Inc. holds 74.99% shareholding of the Company as at 30 June 2007.
- b. The common shares are held jointly by Mr. KOO Ming Kown and his wife, Ms. CHO Sui Sin.
- c. Seitaro FURUKAWA will resign as a non-executive Director of the Company with effect from 1 August 2007.
- d. John Quinto FARINA will be appointed as a non-executive Director of the Company with effect from 1 August 2007. The share options granted to him is subject to a vesting period of 1 year with effect from 14 May 2007.

Save as disclosed above, no Director nor chief executive has any interests or short position 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 would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

## **DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the sections "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Scheme" below, at no time during the six months ended 30 June 2007 was the Company, its holding company or its subsidiaries a party to any arrangements which enabled the Directors (including their spouses or children under 18 years of age), to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

## **INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO**

So far as is known to any Director or chief executive of the Company, as at 30 June 2007, shareholders who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO or, who were or were expected directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, were as follows:

### **Long position of the substantial shareholder in the shares of the Company**

<b>Name of substantial shareholder</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
NTE Inc.	Beneficial owner	572,594,978	74.99%

Save as disclosed above, the Company has not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would have to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions), or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO or, who were or were expected directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### **Share Option Scheme**

In 2002, a share option scheme (“the Scheme”) was approved under which the Directors may, at their discretion, invite full time employees including executive Directors to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

No option has been granted by the Company under the Scheme since its adoption.

## **CORPORATE GOVERNANCE**

The Group continues to achieve high standards of corporate governance which it believes is crucial to the development of the Group and to safeguard the interests of the Company’s shareholders.

The Board has adopted the terms of the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) as set out in Appendix 10 of the Listing Rules Governing the Listing of Securities on the Stock Exchange. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code for any part of the period ended 30 June 2007.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably practicable the recommended best practices of the Code on Corporate Governance Practices (the “Corporate Governance Code”). In the opinion of the Board, the Company has also fully complied with the code provisions and a majority of the recommended best practice of the Corporate Governance Code throughout the accounting period ended 30 June 2007.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up an Audit Committee and a Remuneration Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board’s collective decision and thus does not intend to adopt the recommended best practice of the Corporate Governance Code to set up a Nomination Committee.

To further enhance its corporate governance and as a subsidiary of NTE Inc., the Company successfully complied with U.S. Sarbanes-Oxley Section 404 (the "Act") at the first attempt as of the year ended 31 December 2006. The Act focuses mainly on the effectiveness of internal control and essentially requires the management to annually state its responsibilities in establishing and maintaining an adequate internal control structure and procedure for financial reporting; and to conduct an assessment of the effectiveness of the Group's internal controls over financial reporting, followed by an attestation of the management's assertions as well as the effectiveness of the Group's internal controls over financial reporting by its external auditors. To this end, the Company set up a task force which followed the methodology and time schedule of NTE Inc. to ensure that the internal control requirements under the Act can be fully complied with accordingly. Besides, the Company has engaged its external auditors to review its financial statements on a quarterly basis in the year 2007.

#### **Audit Committee**

The Audit Committee comprises three Independent Non-executive Directors, Mr. CHAM Yau Nam, Mr. LEUNG Wai Hung and Mr. CHOI Man Chau, Michael. Mr. CHAM is the chairman of the Committee. Mr. CHOI was appointed as a member of the Audit Committee with effect from 11 May 2007 after Mr. CHENG Chi Heng resigned as a director and a member of the Audit Committee of the Company with effect from the same date. The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Group's unaudited financial statements for the six months ended 30 June 2007 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

### **Remuneration Committee**

The Remuneration Committee comprises three Independent Non-executive Directors, Mr. CHAM Yau Nam, Mr. LEUNG Wai Hung and Mr. CHOI Man Chau, Michael. Mr. CHAM is the chairman of the Remuneration Committee. Mr. CHOI was appointed as a member of the Remuneration Committee with effect from 11 May 2007 after Mr. Cheng Chi Heng resigned as a director and a member of the Remuneration Committee of the Company with effect from the same date. The Remuneration Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Remuneration Committee met once at the end of every year to review the remuneration policy and remuneration packages of the executive directors and members of the senior management.

By Order of the Board  
**J.I.C. Technology Company Limited**  
**CHUI Kam Wai**  
*Chairman*

Hong Kong, 30 July 2007