NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

Datronix Holdings Limited ("the Company") was incorporated in Bermuda on 15th February, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 22nd June, 2001.

On 6th June, 2001, the Company became the holding company of other companies comprising the group pursuant to a group reorganisation scheme ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control and the Company and its subsidiaries ("the Group") resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of other companies comprising the Group throughout the year ended 31st December, 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 31st December, 2000 have been presented on the same basis.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and trading of electronic components to customers in the United States of America, Europe and Southeast Asia (including Hong Kong).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements are prepared on the historical cost basis, as modified by the valuation of land and buildings.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of new/revised Statements of Standard Accounting Practice

Effective 1st January, 2001, the Group has adopted, for the first time, the following SSAPs issued by the HKSA:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of the above new SSAPs has no significant impact on the Group's financial statements, other than described below:

i. *SSAP 9 (revised): Events after the balance sheet date*

In accordance with SSAP 9 (revised), dividends proposed or declared after the balance sheet date in respect of the financial year ended on the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of shareholders' equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively as a prior year adjustment, resulting in an increase of $40,000,000 in shareholders' equity as at 1st January, 2001, representing the proposed final dividend for the year ended 31st December, 2000.

ii. *SSAP 26: Segment reporting*

Segment information has been disclosed in Note 22 to the financial statements.

In addition, the Group has adopted the consequential changes made to SSAP 17 "Property, plant and equipment" and SSAP 18 "Revenue". These consequential changes do not have a material impact on the financial statements of the Group.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

c. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Except for the Reorganisation as described in Note 1, the results of subsidiaries acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. Subsidiaries

A subsidiary is a company in which the Group can exercise controls, which is normally evidenced when the Group has the power to govern the financial and operating policies of that company so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment losses, while income from subsidiaries is recorded to the extent of dividends received and receivable.

e. Turnover and revenue recognition

Turnover consists of the net invoiced value of merchandise sold after allowances for returns and discounts.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

f. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

g. Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

h. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which the employee's services are rendered.

i. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are written off as incurred except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and the following criteria apply: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce exists and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) a market for the product or process exists or, if it is to be used internally rather than sold, its usefulness can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products or processes are expected to be sold or used, starting from the commencement of sales or utilisation.

All research and development costs for the year ended 31st December, 2001 were expensed as no expenditure met the criteria for deferral.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

j. Property, machinery and equipment and depreciation

Property, machinery and equipment, other than land and buildings, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of property, machinery and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis to write off the cost or the revalued amount less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	4% to 4.5% (lease terms)
Buildings	4% to 4.5%
Machinery and equipment	15% to 30%
Furniture and office equipment	15%
Motor vehicles	18% to 25%

Independent valuations for land and buildings are performed periodically with the last valuation performed on 31st December, 2001. In the intervening years, the directors review the carrying value of land and buildings and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in valuation of land and buildings is credited to the property revaluation reserve; any decrease is first offset against increases from earlier valuations in respect of the same land and buildings and is thereafter charged to the income statement.

Gains or losses on disposals of property, machinery and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from property revaluation reserve to retained profit.

k. Goodwill

Goodwill arises where the fair value of the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired. Goodwill is recognised as an asset in the balance sheet and is amortised to the consolidated income statement on a straight-line basis over five years. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

l. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value is use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

Reversal of an impairment loss recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in, first-out method of costing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

n. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

o. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

p. Subsequent events

Post-year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

q. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are dealt with in the income statement of the individual companies

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date and income and expense items are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

r. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

a. Particulars of significant transactions with related parties are summarised below:

	2001 $'000	2000 $'000
Datatronics Romoland, Inc. ("DRI")*		
– Sales to DRI	17,098	13,356
– Purchases from DRI	2,228	1,372
– Rental and other operating expenses charged by DRI	2,854	2,901

* Mr. Paul Y. Siu, a director, has beneficial interest in Datatronics Romoland, Inc.

In the opinion of the directors, the above related party transactions are carried out in the usual course of business of the Group and on normal commercial terms.

3. RELATED PARTY TRANSACTIONS (Continued)

b. Details of amounts due from related companies (consolidated) are:

	Balance as at 31st December, 2001 $'000	Balance as at 31st December, 2000 $'000	Maximum balance outstanding during the year $'000
Data Express Limited *	7	–	7
Onboard Technology Limited*	4	–	4
	11	–	11

* These companies are beneficially owned by Mr. Paul Y. Siu, a director.

The balances with related companies are unsecured, non-interest bearing and without pre-determined repayment terms.

c. Details of the amount due to a director (consolidated) are:

	Balance as at 31st December, 2001 $'000	Balance as at 31st December, 2000 $'000
Mr. Paul Y. Siu	63	–

The balance with a director is unsecured, non-interest bearing and without pre-determined repayment terms.

d. As at 31st December, 2001, approximately $4,032,000 (2000 – $4,854,000) of the Group's accounts receivable represented trade receivables from DRI.

e. As at 31st December, 2001, the Group had a deposit of approximately $366,000 (2000-Nil) made to DRI for purchase of machinery and equipment.

4. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2001 $'000	2000 $'000
Turnover – sales of merchandise	163,986	242,130
Interest income	1,391	1,253
Total revenue	165,377	243,383

Approximately 46% of the Group's turnover for the year ended 31st December, 2001 (2000 – 50%) arose from the Group's top five customers.

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging and crediting the following:

	2001 $'000	2000 $'000
After charging –		
Cost of inventories sold (excluding (write back of) provision for obsolete and slow-moving inventories)	109,327	147,496
Provision for obsolete and slow-moving inventories	–	5,858
Depreciation of property, machinery and equipment	5,093	3,601
Amortisation of goodwill	994	1,010
Research and development expenditures	6,636	5,517
Staff costs (include directors' emoluments)	38,823	55,723
Less: amounts included in research and development expenditures	(5,346)	(4,917)
	33,477	50,806
Interest expense on bank borrowings wholly repayable within one year	105	77
Operating lease rental charged by		
– a related company (Note 3.a)	460	458
– third parties	2,000	1,630
Net exchange loss	196	1,092
Auditors' remuneration	690	300
After crediting –		
Write back of provision for obsolete and slow-moving inventories	8,212	–
Gain on disposal of property, machinery and equipment	–	19
Interest income from bank deposits	1,391	1,253

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of emoluments paid/payable to directors of the Company are:

	2001 $'000	2000 $'000
Fees for executive directors	–	–
Fees for non-executive directors	100	–
Other emoluments for executive directors		
– Basic salaries and allowances	1,617	1,596
– Pension scheme contributions	39	–
	1,756	1,596

No directors waived any emoluments during the year. No incentive payment nor compensation for loss of office was paid or payable to any directors for the year ended 31st December, 2001.

The number of directors whose remuneration falls within the following bands are as follows:

	2001	2000
Executive directors		
– Nil to $1,000,000	3	3
Non-executive directors		
– Nil to $1,000,000	3	3
	6	6

During the year ended 31st December, 2001, three executive directors received individual emoluments of approximately $696,000 (2000 – $696,000), $921,000 (2000 – $900,000) and Nil (2000 – Nil), respectively. Three non-executive directors received individual fees of approximately $50,000 (2000 – Nil), $50,000 (2000 – Nil) and Nil (2000 – Nil), respectively.

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

b. Details of emoluments of the five highest paid individuals (including directors and other employees) are:

	2001 **$'000**	**2000** **$'000**
Basic salaries and allowances	3,301	3,431
Pension scheme contributions	65	–
	3,366	3,431
Number of directors	2	2
Number of employees	3	3
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The five highest paid individuals received remuneration of less than $1,000,000 each for the year ended 31st December, 2001.

7. TAXATION

Taxation in the consolidated income statement consists of:

	2001 **$'000**	**2000** **$'000**
Current taxation		
– Hong Kong profits tax	4,306	8,001
– Overseas taxation	27	610
	4,333	8,611

Hong Kong profits tax was provided at the rate of 16% (2000 – 16%) on estimated assessable profit arising in or derived from Hong Kong.

7. TAXATION (Continued)

Datatronic (Shunde) Corporation, a wholly foreign owned enterprise established in Shunde, Guangdong Province, Mainland China, is subject to Mainland China enterprise income tax at a rate of 33% (2000 – 33%). However, it is exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next three years. No provision for Mainland China enterprise income tax was recorded as Datatronic (Shunde) Corporation remained in a tax loss position as at 31st December, 2001.

Datamax S.A.R.L., a company incorporated in France and with annual turnover of less than French Francs 50,000,000, is subject to a fixed income tax in France of approximately $27,000 for the year ended 31st December, 2001 (2000 – 36.67% on estimated assessable profit arising in or derived from France).

Datatronic Distribution, Inc., a company incorporated in the State of California, the United States of America, is subject to the federal income tax on progressive rates between 15% to 39% (2000 – 15% to 39%), and California State corporate tax at the rate of 8.84% (2000 – 8.84%), on estimated assessable profit arising in or derived by Datatronic Distribution, Inc. on a worldwide basis. No provision for the federal income tax or state corporate tax was made as Datatronic Distribution, Inc. was in a loss position for the year ended 31st December, 2001.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately $9,069,000 (2000 – Nil) dealt with in the financial statements of the Company.

9. DIVIDENDS

On 25th April, 2002, the Company's directors proposed a final dividend of 3 cents per share, totalling $9,600,000 in respect of the year ended 31st December, 2001 (see Note 27).

On 27th April, 2001, a final dividend of $40,000,000 in respect of the year ended 31st December, 2000 was declared by Datatronic Limited, a subsidiary of the Company to its former shareholders before the Reorganisation.

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st December, 2001 is based on the consolidated profit attributable to shareholders of approximately $21,503,000 (2000 – $41,209,000) and on the weighted average number of approximately 282,301,000 (2000 – 240,000,000) ordinary shares deemed to be in issue during the year on the basis of presentation relating to the Reorganisation as described in Note 1.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the year ended 31st December, 2001 (2000 – Nil).

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. PROPERTY, MACHINERY AND EQUIPMENT

Movements of property, machinery and equipment (consolidated) were:

	2001					2000
	Land and buildings $'000	Machinery and equipment $'000	Furniture and office equipment $'000	Motor vehicles $'000	Total $'000	Total $'000
Cost or valuation						
Beginning of year	30,442	17,058	10,902	4,823	63,225	52,327
Additions	410	887	1,360	–	2,657	11,237
Disposals	–	(209)	(42)	–	(251)	(398)
Revaluation	13,316	–	–	–	13,316	–
Translation adjustments	75	2	3	–	80	59
End of year	44,243	17,738	12,223	4,823	79,027	63,225
Representing:						
At cost	–	17,738	12,223	4,823	34,784	63,225
At valuation	44,243	–	–	–	44,243	–
	44,243	17,738	12,223	4,823	79,027	63,225
Accumulated depreciation						
Beginning of year	3,440	11,275	4,988	4,001	23,704	20,474
Provision for the year	985	2,642	1,235	231	5,093	3,601
Disposals	–	(61)	(32)	–	(93)	(371)
Write back upon revaluation	(4,436)	–	–	–	(4,436)	–
Translation adjustments	11	–	1	–	12	–
End of year	–	13,856	6,192	4,232	24,280	23,704
Net book value						
End of year	44,243	3,882	6,031	591	54,747	39,521
Beginning of year	27,002	5,783	5,914	822	39,521	31,853

11. PROPERTY, MACHINERY AND EQUIPMENT (Continued)

Analysis of land and buildings (consolidated) by geographical location is as follows:

	2001 $'000	2000 $'000
Hong Kong	22,260	13,700
Mainland China	21,983	13,302
	44,243	27,002

Land and buildings located in Hong Kong are held under medium-term leases. Land and buildings located in Mainland China are held under land use rights for 50 years expiring in 2044 and 2047.

Land and buildings located in Hong Kong are stated at open market value as at 31st December, 2001 as determined by Sallmanns (Far East) Limited, independent qualified valuers. Land and buildings located in Mainland China are stated on a depreciated replacement cost basis as at 31st December, 2001 as determined by the same valuers. Had the Group's land and buildings been carried at cost less depreciation, the net book value of the Group's land and buildings as at 31st December, 2001 would have been approximately $26,491,000 (2000 – $27,002,000).

12. GOODWILL

Movements of goodwill (consolidated) were:

	2001 $'000	2000 $'000
Cost		
Beginning of year	5,051	–
Additions	–	5,051
End of year	5,051	5,051
Accumulated amortisation		
Beginning of year	(1,010)	–
Amortisation for the year	(994)	(1,010)
End of year	(2,004)	(1,010)
Net book value		
End of year	3,047	4,041
Beginning of year	4,041	–

13. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consists of:

	2001 $'000	2000 $'000
Unlisted shares, at cost	113,606	–
Due from subsidiaries	713	–
	114,319	–

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable before 1st January, 2003.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT IN SUBSIDIARIES (Continued)

The underlying value of investment in subsidiaries is, in the opinion of the directors, not less than its carrying value as at 31st December, 2001.

Details of the subsidiaries as at 31st December, 2001 are as follows:

Name	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group [i]	Principal activity
Guardsafe Technology Limited	British Virgin Islands	US$1,000	100%	Investment holding
Musthave Technology Limited	British Virgin Islands	US$1	100%	Investment holding
Think Machine Technology Limited	British Virgin Islands	US$2	100%	Investment holding
Century Electronics Trading Limited	Hong Kong	$2	100%	Trading of electronic components
Datatronic Limited	Hong Kong	$10,000 ordinary $200,000 non-voting deferred[ii]	100% –	Investment holding and manufacturing and trading of electronic components
Datatronic (Shunde) Corporation[iii]	Mainland China	US$7,649,779	100%	Manufacturing of electronic components
Datamax S.A.R.L.	France	French Francs 50,000	100%	Trading of electronic components
Datatronic Distribution, Inc.	California, U.S.A.	US$1,000	98.8%	Trading of electronic components
Maxgain Venture Limited	Hong Kong	$2	100%	Property holding
Pulse Tek Trading Limited	Hong Kong	$2	100%	Trading of electronic components

13. INVESTMENT IN SUBSIDIARIES (Continued)

Notes –

(i) Guardsafe Technology Limited is held by the Company directly. Other subsidiaries are held by the Company indirectly.

(ii) The non-voting deferred shares have no voting rights and are not entitled to any dividend on distribution upon winding up unless a sum of $1,000,000,000 has been distributed to each holder of the ordinary shares.

(iii) Datatronic (Shunde) Corporation is a wholly foreign owned enterprise established in Mainland China for a term of 30 years up to September 2023.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2001.

14. INVENTORIES

Inventories (consolidated) consist of:

	2001 $'000	**2000 $'000**
Raw materials	60,758	59,936
Work-in-progress	2,690	4,892
Finished goods	17,235	22,705
	80,683	87,533
Less: Provision for obsolete and slow-moving inventories	(12,721)	(20,933)
	67,962	66,600

As at 31st December, 2001, inventories carried at net realisable value amounted to approximately $15,394,000 (2000 – $4,386,000).

15. ACCOUNTS RECEIVABLE

The Group normally grants to its customers credit periods ranging from one to four months. Aging analysis of accounts receivable (consolidated) is as follows:

	2001 $'000	2000 $'000
Aged:		
0 to 1 month	9,999	19,743
1 to 2 months	5,678	15,219
2 to 3 months	2,273	8,456
3 to 6 months	1,080	353
6 to 12 months	656	1,422
	19,686	45,193

16. ACCOUNTS PAYABLE

Aging analysis of accounts payable (consolidated) is as follows:

	2001 $'000	2000 $'000
Aged:		
0 to 1 month	2,351	7,750
1 to 2 months	721	4,030
2 to 3 months	43	525
3 to 6 months	–	7
	3,115	12,312

17. DEFERRED TAXATION

Deferred taxation represented the taxation effect of accelerated depreciation of property, machinery and equipment for taxation purposes.

As at 31st December, 2001, the Group had an unprovided deferred tax liability of approximately $2,100,000 (2000 – Nil), representing the tax effect on the surpluses arising from revaluation of the Group's land and buildings in Mainland China, which should be recorded as a reduction of surpluses on revaluation of the related land and buildings. The deferred tax liability has not been provided as the directors are of the opinion that the related land and buildings will not be disposed of in the foreseeable future and, accordingly, such deferred tax liability will not crystallise in the foreseeable future.

No deferred tax liabilities on the revaluation surpluses on the Group's land and buildings in Hong Kong have been provided because the revaluation does not constitute a timing difference as the Group intends to hold the land and buildings for the long term and management has no intention to dispose of these land and buildings in the foreseeable future.

There was no other significant unprovided deferred taxation as at 31st December, 2001.

18. SHARE CAPITAL

Movements of share capital were:

	Number of shares '000	Nominal value $'000
Authorised – ordinary shares of $0.10 each		
Beginning of year(i)	1,000	100
Increase in authorised share capital(ii)	999,000	99,900
End of year	1,000,000	100,000
Issued and fully paid – ordinary shares of $0.10 each		
Beginning of year(i)	–	–
Issue of shares arising from the Reorganisation(iii)	239,000	23,900
Capitalisation of contributed surplus(iii)	1,000	100
Issue of shares through public offering and placing(iv)	80,000	8,000
End of year	320,000	32,000

18. SHARE CAPITAL (Continued)

Notes –

i. Upon incorporation, the Company had an authorised share capital of $100,000, divided into 1,000,000 shares of $0.10 each. On 18th February, 2000, 1,000,000 shares were alloted and issued at par as nil paid.

ii. On 6th June, 2001, the authorised share capital of the Company was increased from $100,000 to $100,000,000, by the creation of an additional 999,000,000 shares of $0.10 each ranking pari passu with the then existing shares in all respects.

iii. On 6th June, 2001, 239,000,000 shares were issued at par and credited as fully paid in connection with the Reorganisation referred to in Note 1. In addition, the 1,000,000 shares of $0.10 each issued on 18th February, 2000 were paid up in full by capitalisation of contribution surplus of $100,000.

iv. On 22nd June, 2001, 80,000,000 shares of $0.10 each were issued to the public at $1 per share through public offering and placing, resulting in net proceeds of approximately $65,099,000, which was used as working capital of the Group.

The comparative figure of the Group's share capital as at 31st December, 2000 shown on the consolidated balance sheet represents the aggregate value of the share capital of the Company's subsidiaries as at that date.

19. SHARE OPTION SCHEME

The Company has a share option scheme, under which the Company may grant options to executive directors and full-time employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company, from time to time, excluding for this purpose shares issued on exercise of share options. The subscription price is to be determined by directors, and is not to be less than the higher of (i) the nominal value of the Company's shares, and (ii) 80% of the average of the closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant. Upon acceptance of options, the grantee shall pay $1 to the Company as consideration for the grant.

No options have been granted since the adoption of the share option scheme.

20. RESERVES AND PROPOSED DIVIDEND

Movements were:

Consolidated –

	Share premium $'000	Capital reserve (a) $'000	Property revaluation reserve $'000	Cumulative translation adjustments $'000	Total $'000	Proposed dividend $'000
As at 1st January, 2000						
– as previously reported	–	–	–	(1,528)	(1,528)	–
– prior year adjustment (Note 2.b)	–	–	–	–	–	17,000
As restated	–	–	–	(1,528)	(1,528)	17,000
Proposed final dividend	–	–	–	–	–	40,000
Dividends paid	–	–	–	–	–	(17,000)
Translation adjustments	–	–	–	237	237	–
As at 31st December, 2000	–	–	–	(1,291)	(1,291)	40,000
As at 1st January, 2001						
– as previously reported	–	–	–	(1,291)	(1,291)	–
– prior year adjustment (Note 2.b)	–	–	–	–	–	40,000
As restated	–	–	–	(1,291)	(1,291)	40,000
Effects of the Reorganisation	–	(23,724)	–	–	(23,724)	–
Premium on issue of shares (Note 18.iv)	72,000	–	–	–	72,000	–
Share issue expenses (Note 18.iv)	(14,901)	–	–	–	(14,901)	–
Surpluses on revaluation of land and buildings	–	–	17,752	–	17,752	–
Proposed final dividend	–	–	–	–	–	9,600
Dividends paid	–	–	–	–	–	(40,000)
Translation adjustments	–	–	–	234	234	–
As at 31st December, 2001	57,099	(23,724)	17,752	(1,057)	50,070	9,600

20. RESERVES AND PROPOSED DIVIDEND (Continued)

Company –

	Share premium $'000	Contributed Surplus (b) $'000	Total $'000	Proposed dividend $'000
As at 1st January, 2001	–	–	–	–
Effects of the Reorganisation	–	89,706	89,706	–
Premium on issue of shares (Note 18.iv)	72,000	–	72,000	–
Share issue expenses (Note 18.iv)	(14,901)	–	(14,901)	–
Capitalisation of contributed surplus (Note 18.iii)	–	(100)	(100)	–
Proposed final dividend	–	–	–	9,600
As at 31st December, 2001	57,099	89,606	146,705	9,600

Notes –

a. Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the Reorganisation (see Note 1).

b. Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

Under the Companies Act 1981 of Bermuda (as amended), retained profit and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of retained profit and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

The Company's reserves as at 31st December, 2001 available for distribution to shareholders are approximately $80,537,000 (2000 – Nil).

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	2001 $'000	2000 $'000
Profit before taxation	25,798	49,829
Interest income	(1,391)	(1,253)
Interest expense	105	77
Depreciation of property, machinery and equipment	5,093	3,601
Amortisation of goodwill	994	1,010
Gain on disposals of property, machinery and equipment	–	(19)
(Write back of) Provision for obsolete and slow-moving inventories	(8,212)	5,858
Decrease (Increase) in inventories	6,850	(30,136)
Decrease (Increase) in accounts receivable	25,507	(6,554)
(Increase) Decrease in amounts due from related companies	(11)	7,011
(Increase) Decrease in prepayments, deposits and other receivables	(49)	917
Decrease in bills payable	–	(146)
(Decrease) Increase in accounts payable	(9,197)	7,091
(Decrease) Increase in accruals and other payables	(4,198)	5,802
	41,289	43,088

21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

b. Analysis of changes in financing was as follows:

	Due to a director $'000	Share capital and share premium $'000	Minority interests $'000	Total $'000
Balance as at 31st December, 1999	14,154	–	29	14,183
Repayment of advances from a director	(14,154)	–	–	(14,154)
Capital injected by minority shareholders	–	–	9	9
Balance as at 31st December, 2000	–	–	38	38
Advances from a director	1,014	–	–	1,014
Repayment of advances from a director	(951)	–	–	(951)
Issue of shares through a placing and public offering (Note 18.iv)	–	80,000	–	80,000
Share issue expenses (Note 18.iv)	–	(14,901)	–	(14,901)
Capitalisation of contributed surplus (Note 18.iii)	–	100	–	100
Effect of the Reorganisation (Note 18.iii)	–	23,900	–	23,900
Share of loss of a subsidiary	–	–	(38)	(38)
Balance as at 31st December, 2001	63	89,099	–	89,162

22. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and trading of electronic components to customers in the United States of America, Europe and Southeast Asia (including Hong Kong). Accordingly, the directors consider there is only one business segment and five geographical segments.

An analysis of geographical segment is as follows:

	Hong Kong		Mainland China		The United States of America		Europe		Southeast Asia and others		Eliminations		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover*														
External sales	6,559	10,123	–	–	82,754	115,888	67,750	104,895	6,923	11,224	–	–	163,986	242,130
Intersegment sales	133,016	182,197	–	–	50,976	61,627	9,292	8,844	–	–	(193,284)	(252,668)	–	–
Total	139,575	192,320	–	–	133,730	177,515	77,042	113,739	6,923	11,224	(193,284)	(252,668)	163,986	242,130
Operating results														
Profit/(Loss) from operations	29,197	54,437	(2,109)	1,286	(1,818)	583	380	232	–	–	(1,138)	(7,885)	24,512	48,653
Interest income													1,391	1,253
Interest expense													(105)	(77)
Taxation													(4,333)	(8,611)
Profit before minority interests													21,465	41,218
Other information														
Segment assets	407,523	318,653	67,017	59,968	22,035	39,945	6,182	6,256	–	–	(274,253)	(245,422)	228,504	179,400
Segment liabilities	45,767	119,855	2,167	3,435	22,589	37,976	5,938	6,332	–	–	(54,345)	(130,036)	22,116	37,562
Capital expenditures	736	9,205	1,831	773	73	1,189	17	70	–	–	–	–	2,657	11,237
Depreciation and amortisation	1,662	2,764	3,410	550	1,015	1,270	–	27	–	–	–	–	6,087	4,611

* Turnover by geographical location is determined on the basis of the destination of shipments of merchandise.

23. COMMITMENTS AND CONTINGENT LIABILITIES

a. Capital commitments

The Group has the following authorised and contracted capital commitments:

	Consolidated		Company	
	2001 **$'000**	**2000** **$'000**	**2001** **$'000**	**2000** **$'000**
Purchase of machinery and equipment from DRI (Note 3.e.)	492	–	–	–

b. Operating lease commitments

The Group has operating lease commitments in respect of rented premises under non-cancellable operating lease agreements extending to March 2004. The total amount of commitment payable under these agreements is analysed as follows:

	Consolidated		Company	
	2001 **$'000**	**2000** **$'000**	**2001** **$'000**	**2000** **$'000**
Amounts payable within a period				
– within one year	4,606	1,302	–	–
– of between two to five years	3,687	445	–	–
	8,293	1,747	–	–

23. COMMITMENTS AND CONTINGENT LIABILITIES

b. Operating lease commitments (Continued)

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company	
	2001	**2000**	**2001**	**2000**
	$'000	**$'000**	**$'000**	**$'000**
Leases expiring within a period				
– within one year	460	234	–	–
– of between two to five years	4,146	1,068	–	–
	4,606	1,302	–	–

c. Other commitments

During the year, the Group entered into an agreement with an independent third party in Mainland China ("the PRC party"), whereby the Group agreed to pay a fixed fee of approximately $90,000 per month and a variable fee to be determined based on 0.15% of the sales value of Datatronic (Shunde) Corporation ("DSC"), a subsidiary, for management services provided by the PRC party to DSC. Commitment payable, excluding the variable portion, amounted to approximately $1,075,000 as at 31st December, 2001.

d. Contingent liabilities

	Consolidated		Company	
	2001	**2000**	**2001**	**2000**
	$'000	**$'000**	**$'000**	**$'000**
Guarantee in lieu of utility deposits	128	105	–	–

24. EMPLOYEE RETIREMENT BENEFITS

From 1st December, 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of $1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, Datatronic (Shunde) Corporation, a wholly-owned subsidiary, contributes to a state-sponsored retirement plan for its employees in Mainland China at a rate of 10% of the basic salaries of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The relevant government agency is responsible for the entire pension obligation payable to all retired employees.

Datatronic Distribution, Inc., a 98.8% subsidiary, is required to contribute 6.2% of the basic salaries of its employees to the federal government of the United States of America for social security purposes, and has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions.

For the year ended 31st December, 2001, the aggregate amount of contributions made by the Group to the above retirement plans amounted to approximately $4,286,000 (2000 – $2,247,000).

Group companies to which the above does not apply, do not have any employee retirement schemes for their employees.

25. BANKING FACILITIES

The Group had aggregate banking facilities of approximately $11,000,000 as at 31st December, 2001 (2000 – $11,000,000) for overdrafts and trade financing. Unused facilities as at the same date amounted to approximately $10,863,000 (2000 – $10,863,000).

In addition, Datatronic Limited, a wholly-owned subsidiary, has agreed with a bank to maintain a minimum amount of net worth of not less than $100,000,000.

26. ULTIMATE HOLDING COMPANY

The directors consider Onboard Technology Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

27. SUBSEQUENT EVENT

On 25th April, 2002, the Company's directors proposed a final dividend of 3 cents per share, totalling approximately $9,600,000, in respect of the year ended 31st December, 2001. The proposed dividend is subject to approval by the Company's shareholders in the annual general meeting (see Note 9).