1. BASIS OF PREPARATION

(a) GENERAL

Datronix Holdings Limited ("the Company") was incorporated in Bermuda on 15 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 22 June 2001.

(b) PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing of electronic components in the People's Republic of China (The "PRC") and trading of electronic components to customers in the United States of America, Europe, Hong Kong and other parts of Southeast Asia.

(c) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants (the "HKSA") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties, plant and equipment. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The adoption of these standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equities, but has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

(a) REVENUE RECOGNITION

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

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

(b) BORROWING COSTS

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. All borrowing costs are charged to the income statement in the year in which the costs are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) GOODWILL

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

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the income statement.

(d) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the Group intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Group, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Such development costs are recognised as an asset to the extent of the amount that, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, is probable of being recovered from related future economic benefits. The excess amount is written off as incurred.

(e) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than other properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Other properties are interests in land and buildings. Land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) PROPERTY, PLANT AND EQUIPMENT (Continued)

Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

Subsequent expenditure relating to an asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(f) AMORTISATION AND DEPRECIATION

Property, plant and equipment are depreciated at rates sufficient to write off their cost/valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land	4% to 4.5% or over the lease terms, whichever is shorter
Buildings	4% to 4.5% or over the lease terms, whichever is shorter
Machinery and equipment	15% to 30%
Furniture and fixtures	15%
Motor vehicles	18% to 25%

Amortisation of goodwill is charged to the income statement on a straight-line basis over five years.

(g) OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) IMPAIRMENT OF ASSETS

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– investments in subsidiaries; and
– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(j) RELATED PARTIES

Two 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.

(k) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) TRADE RECEIVABLE

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

(m) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(n) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of significant timing differences between profit as computed for taxation purpose and profit as stated in the financial statements, to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) TRANSLATION OF FOREIGN CURRENCIES

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

The financial statements of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising are dealt with as movement in exchange fluctuation reserves.

(q) RETIREMENT COSTS

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement when incurred.

The Group's contributions to the defined contribution retirement benefit scheme of the subsidiaries outside Hong Kong are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(r) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) SEGMENT REPORTING (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. TURNOVER AND REVENUE

	2002 HK$'000	2001 HK$'000
Turnover		
Sales of merchandise	115,381	163,986
Other revenue		
Interest income	954	1,391
Net foreign exchange gain	162	–
Sundries	63	–
	1,179	1,391
Total revenue	116,560	165,377

Approximately 42% of the Group's turnover for the year ended 31 December 2002 (2001: 46%) arose from the Group's top five customers.

4. SEGMENT INFORMATION

Business segment

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

Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

An analysis of geographical segment is as follows:

	Hong Kong		The PRC		The United States of America		Europe		Other parts of Southeast Asia		Eliminations		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover														
External sales	7,333	6,559	–	–	67,502	82,754	34,742	67,750	5,804	6,923	–	–	115,381	163,986
Intersegment sales	96,076	133,016	–	–	41,388	50,976	7,890	9,292	–	–	(145,354)	(193,284)	–	–
Total	103,409	139,575	–	–	108,890	133,730	42,632	77,042	5,804	6,923	(145,354)	(193,284)	115,381	163,986
Operating results														
(Loss)/profit from operations	(2,864)	29,197	(11,668)	(2,109)	(2,549)	(1,818)	(296)	380	–	–	12,389	(1,138)	(4,988)	24,512
Interest income													954	1,391
Finance costs													(10)	(105)
(Loss)/profit before taxation													(4,044)	25,798
Taxation													(516)	(4,333)
(Loss)/profit before minority interests													(4,560)	21,465
Minority interests													43	38
Net (loss)/profit for the year													(4,517)	21,503

4. SEGMENT INFORMATION (Continued)

Geographical segment (Continued)

	Hong Kong		The PRC		The United States of America		Europe		Other parts of Southeast Asia		Eliminations		Total	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Other information														
Segment assets	486,123	407,112	48,036	67,017	33,827	22,035	6,652	6,182	–	–	(370,770)	(274,253)	203,868	228,093
Segment liabilities	147,126	45,356	1,591	2,167	35,838	22,589	6,643	5,938	–	–	(165,358)	(54,345)	25,840	21,705
Capital expenditures	702	736	4,533	1,831	27	73	66	17	–	–	(2,403)	–	2,925	2,657
Depreciation and amortisation	2,166	1,662	4,286	3,410	1,374	1,015	49	–	–	–	(2,631)	–	5,244	6,087

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is stated after crediting and charging the following:

	2002 HK$'000	2001 HK$'000
Crediting		
Write back of provision for obsolete and slow-moving inventories	–	8,212
Charging		
Amortisation and write-off of goodwill	1,208	994
Auditors' remuneration	409	690
Cost of inventories sold (excluding provision/(write-back) for obsolete and slow-moving inventories)	77,308	109,327
Depreciation	4,036	5,093
Interest expenses on bank borrowings wholly repayable within one year	10	105
Net exchange loss	–	196
Operating lease charges on rented premises and equipment	1,782	2,460
Provision for obsolete and slow-moving inventories	4,042	–
Research and development expenditures	6,461	6,636
Staff costs	38,918	38,823
Less: Amounts included in research and development expenditures	(5,420)	(5,346)
	33,498	33,477
Retirement benefit costs	2,466	4,286

6. TAXATION

Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of taxation prevailing in the country in which the company operates.

The amount of taxation charged to the consolidated income statement represents:

	2002 HK$'000	2001 HK$'000
Hong Kong profits tax	395	4,306
Overseas taxation	121	27
	516	4,333

Taxation in the consolidated balance sheet represents:

	2002 HK$'000	2001 HK$'000
Hong Kong profits tax	10,401	10,657
Overseas taxation	(73)	103
	10,328	10,760

Datatronic (Shunde) Corporation, a wholly foreign owned enterprise established in Shunde, Guangdong Province, the PRC, is subject to the PRC enterprise income tax at a rate of 24% (2001: 24%). 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.

Datamax S.A.R.L., a company incorporated in France and with annual turnover of less than Euro 7,500,000, is subject to a fixed income tax in France of Euro 3,750 for the year ended 31 December 2002 (2001: French Francs 27,000).

6. TAXATION(Continued)

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% (2001: 15% to 39%), and California State corporate tax at the rate of 8.84% (2001: 8.84%), on the estimated assessable profits 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 31 December 2002.

7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a loss of approximately of HK$902,000 (2001: profit of HK$531,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Interim, paid of HK$0.03 (2001: HK$nil) per ordinary share	9,600	–
Final, proposed, of HK$0.04 (2001: HK$0.03) per ordinary share	12,800	9,600
	22,400	9,600

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the following data:

	2002 HK$'000	2001 HK$'000
(Loss)/profit attributable to shareholders	(4,517)	21,503

	Number of shares	
	2002	2001
Weighted average number of shares for the purpose of calculating earnings per share – Basic	320,000,000	282,301,000

Diluted (loss)/earnings per share is not presented as there was no dilutive potential ordinary shares in existence in both years.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

	2002 HK$'000	2001 HK$'000
Fees for executive directors	–	–
Fees for non-executive directors	197	100
Other emoluments for executive directors		
– Basic salaries and allowances	2,453	1,617
– Pension scheme contributions	36	39
	2,686	1,756

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 31 December 2002.

	Number of directors 2002	Number of directors 2001
Executive directors		
– HK$Nil to HK$1,000,000	3	3
Non-executive directors		
– HK$Nil to HK$1,000,000	4	3
	7	6

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2002 HK$'000	2001 HK$'000
Basic salaries and allowances	3,558	3,301
Pension scheme contributions	60	65
	3,618	3,366

	2002	2001
Number of directors	2	2
Number of employees	3	3
	5	5

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2002	2001
HK$Nil to HK$1,000,000	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.

11. GOODWILL

	2002 HK$'000	2001 HK$'000
Cost		
At 1 January and 31 December	5,051	5,051
Accumulated amortisation		
At 1 January	2,004	1,010
Amortisation for the year	1,016	994
At 31 December	3,020	2,004
Net book value		
At 31 December	2,031	3,047

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2002	44,243	17,738	12,223	4,823	79,027
Additions	627	388	1,910	–	2,925
Disposals	–	(683)	(372)	–	(1,055)
Deficit on revaluation	(6,427)	–	–	–	(6,427)
Exchange adjustments	(28)	(1)	17	–	(12)
At 31/12/2002	38,415	17,442	13,778	4,823	74,458
Accumulated depreciation					
At 1/1/2002	–	13,856	6,192	4,232	24,280
Charge for the year	1,853	1,179	855	149	4,036
Disposals	–	(657)	(256)	–	(913)
Written back on revaluation	(1,853)	–	–	–	(1,853)
Exchange adjustments	–	(3)	8	–	5
At 31/12/2002	–	14,375	6,799	4,381	25,555
Net book value					
At 31/12/2002	38,415	3,067	6,979	442	48,903
At 31/12/2001	44,243	3,882	6,031	591	54,747
Representing:					
2002					
At cost	–	17,442	13,778	4,823	36,043
At valuation	38,415	–	–	–	38,415
	38,415	17,442	13,778	4,823	74,458
2001					
At cost	–	17,738	12,223	4,823	34,784
At valuation	44,243	–	–	–	44,243
	44,243	17,738	12,223	4,823	79,027

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2002 HK$'000	2001 HK$'000
Hong Kong	19,965	22,260
The PRC	18,450	21,983
	38,415	44,243

Land and buildings located in Hong Kong are held under long-term leases. Land and buildings located in the PRC 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 31 December 2002 as determined by Sallmanns (Far East) Limited, independent qualified valuers. Land and buildings located in the PRC are stated on a depreciated replacement cost basis as at 31 December 2002 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 31 December 2002 would have been approximately HK$24,638,000 (2001: HK$26,491,000).

13. INTERESTS IN SUBSIDIARIES

Company

	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	113,606	113,606
Amount due from a subsidiary	45,438	713
	159,044	114,319

The amount is unsecured, non-interest bearing and not repayable within one year.

13. INTERESTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2002 are as follows:

Name	Country/ place of incorporation/ establishment	Country/ place of operation	Principal activities	Issued and fully paid share capital	Interests held Directly	Interests held Indirectly
Guardsafe Technology Limited (i)	British Virgin Islands	Hong Kong	Investment holding	US$1,000	100%	–
Great Vigour Holdings Limited (i)	British Virgin Islands	Hong Kong	Inactive	US$1	100%	–
Musthave Technology Limited (i)	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%
Think Machine Technology Limited (i)	British Virgin Islands	Hong Kong	Investment holding	US$2	–	100%
Century Electronics Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	100%
Datatronic Limited	Hong Kong	Hong Kong	Investment holding and manufacturing and trading of electronic components	HK$10,000 ordinary HK$200,000 non-voting deferred (ii)	–	100%
Datatronic (Shunde) Corporation (i) & (iii)	The PRC	The PRC	Manufacturing of electronic components	US$8,366,608	–	100%

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/ place of incorporation/ establishment	Country/ place of operation	Principal activities	Issued and fully paid share capital	Interests held	
					Directly	Indirectly
Datamax S.A.R.L. (i)	France	France	Trading of electronic components	French Francs 50,000	–	100%
Datatronic Distribution, Inc. (i)	California, U.S.A.	California, U.S.A.	Trading of electronic components	US$1,000	–	100%
Maxgain Venture Limited	Hong Kong	Hong Kong	Property holding	HK$2	–	100%
Pulse Tek Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	100%

Notes:

(i) Reviewed by Charles Chan, Ip & Fung CPA Ltd.

(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 HK$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 the PRC for a term of 30 years up to September 2023.

14. INVENTORIES

	2002 HK$'000	2001 HK$'000
Raw materials	51,604	60,758
Work-in-progress	3,296	2,690
Finished goods	16,718	17,235
	71,618	80,683
Less: Provision for obsolete and slow-moving inventories	(16,763)	(12,721)
	54,855	67,962

As at 31 December 2002, inventories carried at net realisable value amounted to approximately HK$21,888,000 (2001: HK$15,394,000).

15. AMOUNT DUE FROM A RELATED COMPANY

Name	Connected party	Balance at end of year HK$'000	Balance at beginning of year HK$'000	Maximum outstanding balance during the year 2002 HK$'000	Maximum outstanding balance during the year 2001 HK$'000
Data Express Limited	Mr. Siu Paul Y.	7	7	7	7

The amount is unsecured, interest free and repayable on demand. At 31 December 2002 and 31 December 2001, there was no outstanding overdue interests and provision has not been made for the amount due.

16. AMOUNT DUE FROM/(TO) A DIRECTOR

	Mr. Siu Paul Y. HK$'000
Balance at end of year	65
Balance at beginning of year	(63)
Maximum outstanding balance during the year	
– 2002	65
– 2001	600

The amount is unsecured, interest free and repayable on demand.

17. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

The amount is unsecured, interest free and repayable on demand.

18. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 30 days to 120 days. An ageing analysis of trade receivables after provision as at 31 December 2002 is as follows:

	2002 HK$'000	2001 HK$'000
0 to 30 days	9,326	9,588
31 to 60 days	4,296	5,678
61 to 90 days	2,287	2,273
Over 90 days	2,146	1,736
	18,055	19,275

19. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2002 HK$'000	2001 HK$'000
0 to 30 days	3,763	1,940
31 to 60 days	2,748	721
61 to 90 days	936	43
Over 90 days	318	–
	7,765	2,704

20. DEFERRED TAXATION

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

As at 31 December 2002, the Group had an unprovided deferred tax liability of approximately HK$1,279,000 (2001: HK$1,462,000), representing the tax effect on the surpluses arising from revaluation of the Group's land and buildings in the PRC, 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 of 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 31 Decemebr 2002.

21. ISSUED CAPITAL

	2002		2001	
	Number of shares	Amount HK$'000	Number of shares	Amount HK$'000
Authorised ordinary shares of HK$0.1 each				
At 1 January	1,000,000,000	100,000	–	–
Upon incorporation of the Company and subdivision of shares	–	–	1,000,000	100
Increase of authorised share capital	–	–	999,000,000	99,900
At 31 December	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid ordinary shares of HK$0.1 each				
At 1 January	320,000,000	32,000	–	–
Issued upon Reorganisation	–	–	239,000,000	23,900
Capitalisation issue	–	–	1,000,000	100
Issue of shares upon listing	–	–	80,000,000	8,000
At 31 December	320,000,000	32,000	320,000,000	32,000

22. ANALYSIS OF FINANCING

	Issued capital and share premium HK$'000	Minority interests HK$'000	Total HK$'000
Balance at 1 January 2001	–	38	38
Issue of shares through a placing and public offering	80,000	–	80,000
Share issue expenses	(14,901)	–	(14,901)
Capitalisation of contributed surplus	100	–	100
Effect of the Reorganisation	23,900	–	23,900
Share of loss of a subsidiary	–	(38)	(38)
Balance at 31 December 2001 and 31 December 2002	89,099	–	89,099

23. RETIREMENT BENEFIT COSTS

The Group has implemented a provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from 1 December 2000. The Group contributed according to the minimum requirements of the MPF Ordinance (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000) and the contribution is charged to the income statement.

As stipulated by rules and regulations in the PRC, the Group contributed to a state-sponsored retirement plan for its employees in the PRC 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.

The Group contributed 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.

24. RELATED PARTY TRANSACTIONS

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

	2002 HK$'000	2001 HK$'000
Datatronics Romoland Inc. ("DRI")*		
– Sales to DRI	14,447	17,098
– Rental charged by DRI	–	460
– Reimbursement of expenses to DRI	3,083	4,622

* Mr. Siu Paul Y., a director, has beneficial interest in DRI.

Notes:

(i) 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.

(ii) At 31 December 2002, approximately HK$3,996,000 (2001: HK$3,621,000) of the Group's trade receivables represented trade receivables from DRI.

(iii) At 31 December 2002, the Group had a deposit of approximately HK$437,000 (2001: HK$366,000) made to DRI for purchase of machinery and equipment.

25. BANK BORROWINGS AND BANKING FACILITIES

As at 31 December 2002, the Group had withdrawn all its banking facilities (2001: HK$11,000,000 for overdraft and trade financing).

26. COMMITMENTS

(a) Capital commitments

At 31 December 2002, the Group had the following capital commitments:

	2002 HK$'000	2001 HK$'000
Contracted but not provided for in respect of purchase of property, plant and equipment from		
– DRI	–	492
– other	65	–
	65	492

(b) Operating lease commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Land and buildings		Property, plant and equipment	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Within one year	1,099	4,606	60	–
In the second to the fifth year	164	3,687	10	–
	1,263	8,293	70	–

(c) Other commitments

Effective from 1 January 2003, the Group entered into an agreement with an independent third party in the PRC ("the PRC party"), whereby the Group agreed to pay a fixed fee of approximately HK$9,400 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 HK$112,800 as at 31 December 2002 (2001: HK$1,075,000).

27. CONTINGENT LIABILITIES

As at 31 December 2002, the Group had the following contingent liabilities:

	2002 HK$'000	2001 HK$'000
Guarantee in lieu of utility deposits	–	128

28. ULTIMATE PARENT ENTERPRISE

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

29. POST BALANCE SHEET EVENT

On 25 April 2003, the Company's directors proposed a final dividend of 4 cents (2001: 3 cents) per share, totalling HK$12,800,000 (2001: HK$9,600,000), in respect of the year ended 31 December 2002. The proposed dividend is subject to approval by the Company's shareholders in the annual general meeting.

30. COMPARATIVE FIGURES

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.