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 countries.

(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 property, 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 adopted revised SSAP 12 "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

Any significant impact of adopting this SSAP has been shown on the respective notes to the financial statements.

(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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) IMPAIRMENT OF ASSETS (Continued)

(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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 or vice versa. 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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was provided at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in income statement to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) DEFERRED TAXATION (Continued)

As disclosed in the consolidated statement of changes in equity, as at 1 January 2002, the property revaluation reserve has been decreased by HK$2,403,000 and as at 1 January 2003, the retained profits increased by HK$778,000. These changes have resulted in an increase in deferred tax liabilities as at 31 December 2001 of HK$2,403,000 and a reduction in deferred tax liabilities as at 31 December 2002 of HK$778,000. The impact of the revised SSAP 12 on the consolidated income statement for the year ended 31 December 2002 has been an increase in the reported net profit of HK$778,000.

(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 cumulative translation adjustments.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

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

	2003 HK$'000	2002 HK$'000
Turnover		
Sales of merchandise	144,654	115,381
Other revenue		
Bad debt recovered	276	–
Commission income	460	–
Interest income	465	954
Net foreign exchange gain	1,656	162
Sundries	338	63
	3,195	1,179
Total revenue	147,849	116,560

Approximately 55% of the Group's turnover for the year ended 31 December 2003 (2002: 42%) 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 (the "US"), Europe, Hong Kong and other countries. Accordingly, the directors consider there is only one business segment and five geographical segments.

4. SEGMENT INFORMATION (Continued)

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 US		Europe		Others		Eliminations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	5,459	7,333	–	–	99,591	67,502	37,223	34,742	2,381	5,804	–	–	144,654	115,381
Intersegment sales	128,126	96,076	–	–	64,136	41,388	6,396	7,890	–	–	(198,658)	(145,354)	–	–
Total	133,585	103,409	–	–	163,727	108,890	43,619	42,632	2,381	5,804	(198,658)	(145,354)	144,654	115,381
Operating results														
Profit/(loss) from operations	23,494	(2,864)	(1,748)	(11,668)	(1,941)	(2,549)	(69)	(296)	–	–	4,067	12,389	23,803	(4,988)
Interest income													465	954
Finance costs													–	(10)
Profit/(loss) before taxation													24,268	(4,044)
Taxation													(4,617)	262
Profit/(loss) before minority interests													19,651	(3,782)
Minority interests													–	43
Net profit/(loss) for the year													19,651	(3,739)
Other information														
Segment assets	447,269	486,123	46,633	48,036	50,525	33,827	6,841	6,652	–	–	(344,437)	(370,770)	206,831	203,868
Segment liabilities	139,003	147,126	1,681	1,591	54,830	35,838	6,842	6,643	–	–	(172,436)	(163,733)	29,920	27,465
Capital expenditures	1,806	702	877	4,533	9	27	10	66	–	–	(815)	(2,403)	1,887	2,925
Depreciation and amortisation	2,177	2,166	3,643	4,286	1,245	1,374	65	49	–	–	(2,736)	(2,631)	4,394	5,244

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is stated after charging the following:

	2003 HK$'000	2002 HK$'000
Amortisation and write-off of goodwill	1,013	1,208
Auditors' remuneration	415	409
Cost of inventories sold (excluding provision for obsolete and slow-moving inventories)	84,344	77,308
Depreciation	3,381	4,036
Interest expenses on bank borrowings wholly repayable within one year	–	10
Operating lease charges on rented premises and equipment	1,569	1,782
Provision for obsolete and slow-moving inventories	1,143	4,042
Research and development expenditures	5,708	6,461
Staff costs	35,552	38,918
Less: Amounts included in research and development expenditures	(4,513)	(5,420)
	31,039	33,498
Staff retirement costs	2,446	2,466

6. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 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/(credited) to the consolidated income statement represents:

	2003 HK$'000	2002 HK$'000
Hong Kong profits tax	4,335	395
Overseas taxation	377	121
Deferred taxation	(95)	(778)
	4,617	(262)

The charge/(credit) for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003 HK$'000	2002 HK$'000
Profit/(loss) before taxation	24,268	(4,044)
Effect of tax at Hong Kong profits tax rate of 17.5% (2002: 16%)	4,247	(647)
Income that are not taxable	(777)	(1,416)
Unrecognised tax losses	474	149
Expenses that are not deductible	53	2,195
Decrease in deferred taxation	(95)	(778)
Others	715	235
	4,617	(262)

Taxation payable in the balance sheet of previous year represents the provision for taxation for the prior years less the amount of tax paid.

6. TAXATION (Continued)

Taxation payable in the consolidated balance sheet represents:

	2003 HK$'000	2002 HK$'000
Hong Kong profits tax	14,460	10,401
Overseas taxation	(79)	(73)
	14,381	10,328

Datatronic (Shunde) Corporation, a wholly foreign owned enterprise established in Shunde, Guangdong Province, PRC is subject to the PRC enterprise income tax at a rate of 24% (2002: 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 2003 (2002: Euro 3,750).

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% (2002: 15% to 39%), and California State corporate tax at the rate of 8.84% (2002: 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 2003.

7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders includes a loss of approximately of HK$958,000 (2002: HK$902,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2003 HK$'000	2002 HK$'000
Interim, paid, of HK$0.02 (2002: HK$0.03) per ordinary share	6,400	9,600
Final, proposed, of HK$0.012 (2002: HK$0.04) per ordinary share	3,840	12,800
	10,240	22,400

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

9. EARNINGS/(LOSS) PER SHARE

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

	2003 HK$'000	2002 HK$'000
Profit/(loss) attributable to shareholders	19,651	(3,739)

	Number of shares 2003	Number of shares 2002
Weighted average number of shares for the purpose of calculating earnings/(loss) per share – Basic	320,000,000	320,000,000

Diluted earnings/(loss) 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

	2003 HK$'000	2002 HK$'000
Fees for executive directors	–	–
Fees for non-executive directors	200	197
Other emoluments for executive directors		
– Basic salaries and allowances	1,789	2,453
– Pension scheme contributions	24	36
	2,013	2,686

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 2003 (2002: HK$Nil).

The number of directors whose remuneration fall within the following bands were as follows:

	Number of directors	
	2003	2002
Executive directors		
– HK$Nil to HK$1,000,000	3	3
Non-executive directors		
– HK$Nil to HK$1,000,000	3	4
	6	7

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:

	2003 HK$'000	2002 HK$'000
Basic salaries and allowances	3,254	3,558
Pension scheme contributions	60	60
	3,314	3,618

	2003	2002
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 number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2003	2002
HK$Nil to HK$1,000,000	5	5

11. GOODWILL

	2003 HK$'000	2002 HK$'000
Cost		
At 1 January	5,051	5,051
Exchange Adjustment	14	–
At 31 December	5,065	5,051
Accumulated amortisation		
At 1 January	3,020	2,004
Amortisation for the year	1,013	1,016
Exchange adjustment	18	–
At 31 December	4,051	3,020
Net book value		
At 31 December	1,014	2,031

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 1/1/2003	38,415	17,442	13,778	4,823	74,458
Additions	–	1,147	740	–	1,887
Disposals	–	–	(259)	–	(259)
Deficit on revaluation	(1,826)	–	–	–	(1,826)
Exchange adjustments	26	–	65	–	91
At 31/12/2003	36,615	18,589	14,324	4,823	74,351
Accumulated depreciation					
At 1/1/2003	–	14,375	6,799	4,381	25,555
Charge for the year	720	1,201	1,350	110	3,381
Disposals	–	–	(224)	–	(224)
Written back on revaluation	(720)	–	–	–	(720)
Exchange adjustments	–	2	30	–	32
At 31/12/2003	–	15,578	7,955	4,491	28,024
Net book value					
At 31/12/2003	36,615	3,011	6,369	332	46,327
At 31/12/2002	38,415	3,067	6,979	442	48,903
Representing:					
2003					
At cost	–	18,589	14,324	4,823	37,736
At valuation	36,615	–	–	–	36,615
	36,615	18,589	14,324	4,823	74,351
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

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2003 HK$'000	2002 HK$'000
Hong Kong	17,320	19,965
The PRC	19,295	18,450
	36,615	38,415

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 2003 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 2003 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 2003 would have been approximately HK$23,918,000 (2002: HK$24,638,000).

13. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	113,606	113,606
Amount due from a subsidiary	25,249	45,438
	138,855	159,044

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 2003 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	British Virgin Islands	Hong Kong	Investment holding	US$1,000	100%	–
Great Vigour Holdings Limited	British Virgin Islands	Hong Kong	Inactive	US$1	100%	–
Musthave Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%
Think Machine Technology Limited	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 (i)	–	100%
Datatronic (Shunde) Corporation (ii)	The PRC	The PRC	Manufacturing of electronic components	US$8,368,727	–	100%
Datamax S.A.R.L.	France	France	Trading of electronic components	French Francs 50,000	–	100%
Datatronic Distribution, Inc.	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%

13. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(i) 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.

(ii) 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

	2003 HK$'000	2002 HK$'000
Raw materials	52,496	51,604
Work-in-progress	3,389	3,296
Finished goods	15,491	16,718
	71,376	71,618
Less: Provision for obsolete and slow-moving inventories	(17,906)	(16,763)
	53,470	54,855

As at 31 December 2003, inventories carried at net realisable value amounted to approximately HK$16,733,000 (2002: HK$21,888,000)

15. AMOUNT DUE FROM A RELATED COMPANY

Name	Connected party	Balance at end of year	Balance at beginning of year	Maximum outstanding balance during the year	
				2003	2002
		HK$'000	HK$'000	HK$'000	HK$'000
Data Express Limited	Mr. Siu Paul Y.	–	7	7	7

The amount is unsecured, interest free and repayable on demand. At 31 December 2003 and 31 December 2002, there was no outstanding overdue interests and provision has not been made for the amount due.

16. AMOUNT DUE FROM A DIRECTOR

	Mr. Siu Paul Y.
	HK$'000
Balance at end of year	–
Balance at beginning of year	65
Maximum outstanding balance during the year	
– 2003	65
– 2002	65

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 2003 is as follows:

	2003 HK$'000	2002 HK$'000
0 to 30 days	12,524	9,326
31 to 60 days	7,973	4,296
61 to 90 days	3,928	2,287
Over 90 days	5,783	2,146
	30,208	18,055

19. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2003 HK$'000	2002 HK$'000
0 to 30 days	4,029	3,763
31 to 60 days	2,063	2,748
61 to 90 days	1,423	936
Over 90 days	753	318
	8,268	7,765

20. DEFERRED TAXATION

The followings are the major deferred tax liabilities recognised by the Group during the current and prior year:

	2003 HK$'000	2002 HK$'000
The movements for the year in the deferred tax liabilities are as follows:		
At beginning of the year	2,781	3,559
Credit to the income statement for the year	(95)	(778)
At end of the year	2,686	2,781

There was no other significant unprovided deferred taxation as at 31 December 2003.

21. ISSUED CAPITAL AND SHARE OPTION SCHEME

	2003 HK$'000	2002 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
320,000,000 ordinary shares of HK$0.1 each	32,000	32,000

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 HK$1 to the Company as consideration for the grant.

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

22. 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.

23. RELATED PARTY TRANSACTIONS

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

	2003 HK$'000	2002 HK$'000
Datatronics Romoland, Inc. ("DRI") *		
– Sales to DRI	21,679	14,447
– Reimbursement of expenses to DRI	4,347	3,083

* 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 2003, approximately HK$10,056,000 (2002: HK$3,996,000) 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 made to DRI for purchase of machinery and equipment whereas no such deposit was paid at 31 December 2003.

24. COMMITMENTS

(a) Capital commitments

At 31 December 2003, the Group had the following capital commitments:

	2003 HK$'000	2002 HK$'000
Contracted but not provided for in respect of purchase of property, plant and equipment	–	65

24. COMMITMENTS (Continued)

(b) Operating leases commitments

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

	Land and buildings		Property, plant and equipment	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Within one year	808	1,099	90	60
In the second to the fifth year	320	164	308	10
	1,128	1,263	398	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 2003 (2002: HK$112,800).

25. POST BALANCE SHEET EVENT

On 21 April 2004, the Company's directors proposed a final dividend of HK1.2 cents (2002: HK4 cents) per share, totalling HK$3,840,000 (2002: HK$12,800,000), in respect of the year ended 31 December 2003. The proposed dividend is subject to approval by the Company's shareholders in the annual general meeting.

26. ULTIMATE PARENT ENTERPRISE

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

27. 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.