

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 (the “US”), 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

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

(b) 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) IMPAIRMENT OF ASSETS (Continued)

(ii) *Reversals of impairment losses (Continued)*

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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) INVENTORIES (Continued)

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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) RETIREMENT COSTS (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

3. TURNOVER AND OTHER REVENUE

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------|------------------|------------------|
| Turnover | | |
| Sales of merchandise | 184,490 | 144,654 |
| Other revenue | | |
| Bad debt recovered | 15 | 276 |
| Commission income | 3,904 | 460 |
| Interest income | 743 | 465 |
| Net foreign exchange gain | 191 | 1,656 |
| Sundries | 70 | 338 |
| | 4,923 | 3,195 |
| Total revenue | 189,413 | 147,849 |

Approximately 61% of the Group's turnover for the year ended 31 December 2004 (2003: 55%) 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 countries. 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.

NOTES TO THE FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

An analysis of geographical segments is as follows:

| | Hong Kong | | The PRC | | The United States of America | | Europe | | Others | | Eliminations | | Total | |
|-------------------------------------|----------------|----------------|----------|----------|---------------------------------|----------------|---------------|---------------|--------------|--------------|------------------|------------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | 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 | 6,015 | 5,459 | - | - | 139,186 | 99,591 | 36,635 | 37,223 | 2,654 | 2,381 | - | - | 184,490 | 144,654 |
| Intersegment sales | 181,125 | 128,126 | - | - | 87,011 | 64,136 | 8,137 | 6,396 | - | - | (276,273) | (198,658) | - | - |
| Total | 187,140 | 133,585 | - | - | 226,197 | 163,727 | 44,772 | 43,619 | 2,654 | 2,381 | (276,273) | (198,658) | 184,490 | 144,654 |
| Operating results | | | | | | | | | | | | | | |
| Profit from operations | | | | | | | | | | | | | 44,390 | 23,803 |
| Interest income | | | | | | | | | | | | | 743 | 465 |
| Profit before taxation | | | | | | | | | | | | | 45,133 | 24,268 |
| Taxation | | | | | | | | | | | | | (4,311) | (4,617) |
| Profit attributable to shareholders | | | | | | | | | | | | | 40,822 | 19,651 |
| Other information | | | | | | | | | | | | | | |
| Segment assets | 495,502 | 447,269 | 48,373 | 46,633 | 63,929 | 50,525 | 4,837 | 6,841 | - | - | (370,679) | (344,437) | 241,962 | 206,831 |
| Segment liabilities | 159,006 | 139,003 | 1,343 | 1,681 | 66,951 | 54,830 | 5,729 | 6,842 | - | - | (199,805) | (172,436) | 33,224 | 29,920 |
| Capital expenditures | 10,556 | 1,806 | 214 | 877 | 931 | 9 | 83 | 10 | - | - | - | (815) | 11,784 | 1,887 |
| Depreciation and amortisation | 2,606 | 2,177 | 2,761 | 3,643 | 1,253 | 1,245 | 82 | 65 | - | - | (1,928) | (2,736) | 4,774 | 4,394 |

NOTES TO THE FINANCIAL STATEMENTS

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5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Amortisation of goodwill | 1,011 | 1,013 |
| Auditors' remuneration | | |
| – current year | 373 | 415 |
| – over-provision in previous year | (50) | – |
| | 323 | 415 |
| Cost of inventories sold (excluding provision for obsolete and slow-moving inventories) | 102,370 | 84,344 |
| Depreciation | 3,763 | 3,381 |
| Operating lease charges on rented premises and equipment | 794 | 1,640 |
| Provision for obsolete and slow-moving inventories | 1,254 | 1,143 |
| Research and development expenditures | 5,346 | 5,708 |
| Staff costs | 37,793 | 35,552 |
| Less: Amounts included in research and development expenditures | (4,338) | (4,513) |
| | 33,455 | 31,039 |
| Staff retirement costs | 2,303 | 2,446 |

6. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% 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:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------|------------------|------------------|
| Hong Kong profits tax | 3,393 | 4,335 |
| Overseas taxation | 918 | 377 |
| Deferred taxation | – | (95) |
| | 4,311 | 4,617 |

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Profit before taxation | 45,133 | 24,268 |
| Effect of tax at Hong Kong profits tax rate of 17.5% | 7,898 | 4,247 |
| Income that are not taxable | (4,512) | (777) |
| Tax losses not recognised | 232 | 474 |
| Expenses that are not deductible | – | 53 |
| Decrease in deferred taxation | – | (95) |
| Others | 693 | 715 |
| | 4,311 | 4,617 |

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

NOTES TO THE FINANCIAL STATEMENTS

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6. TAXATION (Continued)

Taxation payable in the consolidated balance sheet represents:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------------------|------------------|------------------|
| Hong Kong profits tax | 17,692 | 14,460 |
| Overseas taxation | 909 | (79) |
| | 18,601 | 14,381 |

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% (2003: 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 2004 (2003: 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% (2003: 15% to 39%), and California State corporate tax at the rate of 8.84% (2003: 8.84%), on the estimated assessable profits arising in or derived by Datatronic Distribution, Inc. on a worldwide basis.

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7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately of HK\$1,313,000 (2003: HK\$958,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Interim, paid, of HK\$0.022 (2003: HK\$0.02) per ordinary share | 7,040 | 6,400 |
| Final, proposed, of HK\$0.022 (2003: HK\$0.012) per ordinary share | 7,040 | 3,840 |
| | 14,080 | 10,240 |

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

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Profit attributable to shareholders | 40,822 | 19,651 |

| | Number of shares | |
|---|------------------|-------------|
| | 2004 | 2003 |
| Weighted average number of shares for the purpose of calculating earnings per share – Basic | 320,000,000 | 320,000,000 |

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

NOTES TO THE FINANCIAL STATEMENTS

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10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Fees for executive directors | – | – |
| Fees for non-executive directors | 217 | 200 |
| Other emoluments for executive directors | | |
| – Basic salaries and allowances | 1,820 | 1,789 |
| – Pension scheme contributions | 36 | 36 |
| | 2,073 | 2,025 |

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 2004 (2003: HK\$Nil).

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

| | Number of directors | |
|----------------------------------|---------------------|------|
| | 2004 | 2003 |
| Executive directors | | |
| – HK\$Nil to HK\$1,000,000 | 2 | 2 |
| – HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| 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:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------|------------------|------------------|
| Basic salaries and allowances | 3,178 | 3,254 |
| Pension scheme contributions | 60 | 60 |
| | 3,238 | 3,314 |

| | 2004 | 2003 |
|---------------------|----------|----------|
| 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:

| | 2004 | 2003 |
|--------------------------------|----------|----------|
| HK\$Nil to HK\$1,000,000 | 4 | 4 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| | 5 | 5 |

NOTES TO THE FINANCIAL STATEMENTS

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11. GOODWILL

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------|------------------|------------------|
| Cost | | |
| At 1 January | 5,065 | 5,051 |
| Exchange adjustments | (13) | 14 |
| At 31 December | 5,052 | 5,065 |
| Accumulated amortisation | | |
| At 1 January | 4,051 | 3,020 |
| Amortisation for the year | 1,011 | 1,013 |
| Exchange adjustments | (10) | 18 |
| At 31 December | 5,052 | 4,051 |
| Net book value | | |
| At 31 December | – | 1,014 |

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Machinery and equipment | Furniture and fixtures | Motor vehicles | Total |
|---------------------------------|-----------------------|-------------------------------|---------------------------|-------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation | | | | | |
| At 1/1/2004 | 36,615 | 18,589 | 14,324 | 4,823 | 74,351 |
| Additions | 6,959 | 1,027 | 3,798 | – | 11,784 |
| Disposals | – | (999) | (1,088) | – | (2,087) |
| Surplus on revaluation | 1,606 | – | – | – | 1,606 |
| Exchange adjustments | – | 55 | 37 | – | 92 |
| At 31/12/2004 | 45,180 | 18,672 | 17,071 | 4,823 | 85,746 |
| Accumulated depreciation | | | | | |
| At 1/1/2004 | – | 15,578 | 7,955 | 4,491 | 28,024 |
| Charge for the year | 720 | 1,317 | 1,643 | 83 | 3,763 |
| Disposals | – | (682) | (1,031) | – | (1,713) |
| Written back on revaluation | (720) | – | – | – | (720) |
| Exchange adjustments | – | – | 19 | – | 19 |
| At 31/12/2004 | – | 16,213 | 8,586 | 4,574 | 29,373 |
| Net book value | | | | | |
| At 31/12/2004 | 45,180 | 2,459 | 8,485 | 249 | 56,373 |
| At 31/12/2003 | 36,615 | 3,011 | 6,369 | 332 | 46,327 |
| Representing: | | | | | |
| 2004 | | | | | |
| At cost | – | 18,672 | 17,071 | 4,823 | 40,566 |
| At valuation | 45,180 | – | – | – | 45,180 |
| | 45,180 | 18,672 | 17,071 | 4,823 | 85,746 |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

An analysis of land and buildings (consolidated) by geographical locations is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-----------|------------------|------------------|
| Hong Kong | 25,740 | 17,320 |
| The PRC | 19,440 | 19,295 |
| | 45,180 | 36,615 |

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 2004 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers. Land and buildings located in the PRC are stated on a depreciated replacement cost basis as at 31 December 2004 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 2004 would have been approximately HK\$30,157,000 (2003: HK\$23,918,000).

13. INTERESTS IN SUBSIDIARIES

| | Company | |
|------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted shares, at cost | 113,606 | 113,606 |
| Amount due from a subsidiary | 12,824 | 25,249 |
| | 126,430 | 138,855 |

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 2004 are as follows:

| Name | Country/ place of incorporation/ establishment | Country/ place of operation | Principal activities | Issued and fully paid share capital | Interests held | |
|--------------------------------------|---|-----------------------------------|---|--|----------------|------------|
| | | | | | Directly | 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% |
| Datatronc 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% |
| Datatronc (Shunde) Corporation* (ii) | The PRC | The PRC | Manufacturing of electronic components | 2004: US\$8,526,308 (2003: US\$8,368,727) | – | 100% |
| Datamax S.A.R.L | France | France | Trading of electronic components | Euro7,622.45 | – | 100% |
| Datatronc Distribution, Inc. | California, the US | California, the US | 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% |

* For identification purposes only

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Raw materials | 53,316 | 52,496 |
| Work-in-progress | 1,465 | 3,389 |
| Finished goods | 19,326 | 15,491 |
| | 74,107 | 71,376 |
| Less: Provision for obsolete and slow-moving inventories | (19,160) | (17,906) |
| | 54,947 | 53,470 |

As at 31 December 2004, inventories carried at net realisable value amounted to approximately HK\$11,733,000 (2003: HK\$16,733,000).

15. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

16. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 30 days to 120 days. An aging analysis of trade receivables after provision as at 31 December 2004 is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------|------------------|------------------|
| 0 to 30 days | 11,569 | 12,524 |
| 31 to 60 days | 7,247 | 7,973 |
| 61 to 90 days | 4,299 | 3,928 |
| Over 90 days | 3,750 | 5,783 |
| | <hr/> | <hr/> |
| | 26,865 | 30,208 |

17. TRADE PAYABLES

The aging analysis of trade payables is as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------|------------------|------------------|
| 0 to 30 days | 4,734 | 4,029 |
| 31 to 60 days | 1,846 | 2,063 |
| 61 to 90 days | 1,108 | 1,423 |
| Over 90 days | 99 | 753 |
| | <hr/> | <hr/> |
| | 7,787 | 8,268 |

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

18. DEFERRED TAXATION

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| The movements for the year in the deferred tax liabilities are as follows: | | |
| At beginning of the year | 2,686 | 2,781 |
| Credit to the income statement for the year | – | (95) |
| Charge to the property revaluation reserve for the year | 477 | – |
| At end of the year | 3,163 | 2,686 |

There was no other significant unprovided deferred taxation as at 31 December 2004.

19. ISSUED CAPITAL AND SHARE OPTION SCHEME

| | 2004 HK\$'000 | 2003 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 share 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. 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 minimum 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.

21. RELATED PARTY TRANSACTIONS

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|-------------------------------------|------------------|------------------|
| Datatronics Romoland Inc. (“DRI”) * | | |
| – Sales to DRI | 38,985 | 21,679 |
| – Reimbursement of expenses to DRI | 3,110 | 4,347 |

* 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 2004, approximately HK\$5,770,000 (2003: HK\$10,056,000) of the Group’s trade receivables represented trade receivables from DRI.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

22. COMMITMENTS

(a) 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 | |
|---------------------------------|--------------------|------------------|-------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | – | 808 | 90 | 90 |
| In the second to the fifth year | – | 320 | 218 | 308 |
| | – | 1,128 | 308 | 398 |

(b) 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 for management services provided by the PRC party to Datatronic (Shunde) Corporation (“DSC”), a subsidiary. Commitment payable amounted to approximately HK\$112,800 as at 31 December 2004 (2003: HK\$112,800).

23. POST BALANCE SHEET EVENT

On 22 April 2005, the Company’s directors proposed a final dividend of HK2.2 cents (2003: HK1.2 cents) per share, totalling HK\$7,040,000 (2003: HK\$3,840,000), in respect of the year ended 31 December 2004. The proposed dividend is subject to approval by the Company’s shareholders in the annual general meeting.

24. ULTIMATE PARENT ENTERPRISE

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

25. 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.