

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 (the “Stock Exchange”) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The consolidated financial statements of the Company have been prepared in accordance with HKFRS.

The adoption of new/revised HKFRS:

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HK-Int 4	Leases – Determination of the length of lease term in respect of Hong Kong land leases

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 36, 37, 38 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

- HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 33, 36, 37, 38 and HK-Int 4 had no material effect on the Group's policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the leasehold land. Leasehold land and buildings were previously classified as "property, plant and equipment" and were carried at valuation less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation less accumulated depreciation and impairment loss. The land element of the leasehold properties previously included in "property, plant and equipment" is now disclosed as "Lease premium for land and land use rights".

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions.
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

The adoption of revised HKAS 17 resulted in:

	Property revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
Effects on periods prior to 2004			
Decrease in revaluation reserve, net of deferred tax	(2,625)	–	(2,625)
Decrease in deferred taxation	–	200	200
(Decrease)/increase in reserves	(2,625)	200	(2,425)
Effects on 2004			
Decrease in depreciation	–	152	152
Increase in amortisation	–	(491)	(491)
Increase in deferred taxation	–	(30)	(30)
Decrease in revaluation reserve, net of deferred tax	(673)	–	(673)
Decrease in reserves for the year ended			
31 December 2004	(673)	(369)	(1,042)
Decrease in reserves as at			
31 December 2004	(3,298)	(169)	(3,467)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

The following new Standards or Interpretations have been issued but not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new HKFRS but is still not in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

	Effective for accounting period beginning on or after
HKAS 1 (Amendment), Capital disclosures	1 January 2007
HKAS 19 (Amendment), Actuarial gains or losses, group plans and disclosures	1 January 2006
HKAS 21 (Amendment), Net investment in a foreign operation	1 January 2006
HKAS 39 (Amendment), The fair value option	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
HK (IFRIC)-INT 4, Determining whether an arrangement contains a lease	1 January 2006

(b) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

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*

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) GOODWILL

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(j)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(d) 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. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) SUBSIDIARIES (Continued)

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.

(e) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet date at amortised cost less impairment losses (see note 2(j)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(j)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(j)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses of which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) 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.

(g) 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 buildings. The buildings component of owner-occupied properties 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 owner-occupied properties 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 immediately prior to the revaluation; 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) PROPERTY, PLANT AND EQUIPMENT (Continued)

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.

Upon the disposal of buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the buildings revaluation reserve to retained earnings.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

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:

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%

(h) LEASE PREMIUM FOR LAND AND LAND USE RIGHTS

Lease premium for land and land use rights are stated at cost less amortisation and any identified impairment loss. The cost of lease premium for land and land use rights is amortised over the period of the rights using the straight line method.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) LEASED ASSETS

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property and stated at fair value is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) 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, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries; and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(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).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) IMPAIRMENT OF ASSETS (Continued)

(ii) *Recognition of impairment losses*

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(iii) *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 not reversed.

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.

(k) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) 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.

(m) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(j)).

(n) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) 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.

(q) DEFERRED INCOME TAX

Deferred income tax 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. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) TRANSLATION OF FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) TRANSLATION OF FOREIGN CURRENCIES (Continued)

Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(s) 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.

(t) 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)

(t) 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. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United States dollars and Renminbi.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions, if any, to meet its liquidity requirements in the short and longer term.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Estimated provision for impairment of trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provision are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) Estimated net realisable value of inventories

The Group makes provision for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Provision are applied to the inventories where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and provision for inventory expenses in the period in which such estimate has been changed.

5. TURNOVER AND OTHER REVENUE

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of merchandise	208,644	184,490
Other revenue		
Bad debt recovered	–	15
Commission income	–	3,904
Gain on disposal of property, plant and equipment	62	–
Interest income	1,778	743
Net foreign exchange gain	–	191
Sundries	80	70
	1,920	4,923
Total revenue	210,564	189,413

Approximately 68% of the Group's turnover for the year ended 31 December 2005 (2004: 61%) arose from the Group's top five customers.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

6. 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.

An analysis of geographical segments is as follows:

	Hong Kong		The PRC		The United States of America		Europe		Others		Eliminations		Total	
	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover														
External sales	7,214	6,015	-	-	161,038	139,186	37,397	36,635	2,995	2,654	-	-	208,644	184,490
Intersegment sales	209,659	181,125	-	-	64,275	87,011	2,882	8,137	-	-	(276,816)	(276,273)	-	-
Total	216,873	187,140	-	-	225,313	226,197	40,279	44,772	2,995	2,654	(276,816)	(276,273)	208,644	184,490
Operating results														
Profit from operations													64,944	44,051
Interest income													1,778	743
Profit before taxation													66,722	44,794
Taxation													(5,922)	(4,341)
Profit attributable to shareholders													60,800	40,453
Other information														
Segment assets	537,807	495,102	50,588	45,353	39,779	63,929	3,218	4,837	-	-	(342,922)	(370,679)	288,470	238,542
Segment liabilities	163,696	159,006	1,687	1,343	40,228	66,951	5,020	5,729	-	-	(172,771)	(199,758)	37,860	33,271
Capital expenditures	4,128	10,556	1,187	214	827	931	-	83	-	-	-	-	6,142	11,784
Depreciation and amortisation	3,736	3,006	2,171	2,700	411	1,253	85	82	-	-	(1,376)	(1,928)	5,027	5,113

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

7. PROFIT BEFORE TAXATION

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

	2005 HK\$'000	2004 HK\$'000
		(restated)
Amortisation of goodwill	–	1,011
Amortisation of lease premium for land and land use rights	491	491
Auditors' remuneration		
– current year	419	373
– over-provision in previous year	(10)	(50)
	409	323
Cost of inventories sold (excluding reversal of/write-down of inventories)	102,614	102,584
Depreciation	4,536	3,611
Loss on disposal of property, plant and equipment	–	371
Net foreign exchange loss/(gain)	346	(191)
Operating lease charges on rented premises and equipment	650	794
(Reversal of)/write-down of inventories, net	(899)	1,254
Research and development expenditures	4,525	5,346
Staff costs	39,246	37,793
Less: Amounts included in research and development expenditures	(3,904)	(4,338)
	35,342	33,455
Staff retirement costs	2,626	2,303

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

8. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 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:

	2005 HK\$'000	2004 HK\$'000 (restated)
Hong Kong profits tax	5,376	3,393
Overseas taxation	616	918
Deferred taxation	236	30
Over-provision in previous years	(306)	–
	<hr/> 5,922	<hr/> 4,341

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

	2005 HK\$'000	2004 HK\$'000 (restated)
Profit before taxation	<hr/> 66,722	<hr/> 44,794
Effect of tax at Hong Kong profits tax rate of 17.5%	11,676	7,839
Income that are not taxable	(6,135)	(4,512)
Tax losses not recognised	376	232
Increase in deferred taxation	236	30
Over-provision in prior years	(306)	–
Others	75	752
Tax charge	<hr/> 5,922	<hr/> 4,341

8. TAXATION (Continued)

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

Taxation payable in the consolidated balance sheet represents:

	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax	17,045	17,692
Overseas taxation	1,052	909
	18,097	18,601

連達（廣東）電子有限公司, a wholly foreign owned enterprise established in Shunde, Guangdong Province, PRC is subject to the PRC enterprise income tax at a rate of 24% (2004: 24%). No provision for taxation has been made as the company has sufficient tax losses brought forward to set off against the taxable profits for the year.

Datamax S.A.R.L., a company incorporated in France and with annual turnover of less than Euro 750,000 is subject to a fixed income tax in France of Euro 1,575 for the year ended 31 December 2005 (2004: Euro 2,175).

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

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately of HK\$78,822,000 (2004: loss of HK\$1,313,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

10. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim, paid, of HK\$0.03 (2004: HK\$0.022) per ordinary share	9,600	7,040
Final, proposed, of HK\$0.03 (2004: HK\$0.022) per ordinary share	9,600	7,040
	19,200	14,080

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

11. EARNINGS PER SHARE

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

	2005 HK\$'000	2004 HK\$'000
		(restated)
Profit attributable to shareholders	60,800	40,453

	Number of shares	
	2005	2004
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

31 December 2005

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

- (i) Details of emoluments (excluding share option benefit) of every director are shown below:

Name of director	Year ended 31 December 2005			
	Fees HK\$'000	Basic salaries, allowance and other benefits	Pension scheme contribution	Total HK\$'000
		HK\$'000	HK\$'000	
Siu Paul Y.	–	1,000	15	1,015
Shui Wai Mei	–	–	–	–
Sheung Shing Fai	–	874	12	886
Siu Nina Margaret	–	227	7	234
Chung Pui Lam	100	–	–	100
Lam Tak Shing	100	–	–	100
Chan Fai Yue, Leo	60	–	–	60
	260	2,101	34	2,395

Name of director	Year ended 31 December 2004			
	Fees HK\$'000	Basic salaries, allowance and other benefits	Pension scheme contribution	Total HK\$'000
		HK\$'000	HK\$'000	
Siu Paul Y.	–	1,000	24	1,024
Shui Wai Mei	–	–	–	–
Sheung Shing Fai	–	820	12	832
Siu Nina Margaret	–	–	–	–
Chung Pui Lam	100	–	–	100
Lam Tak Shing	100	–	–	100
Chan Fai Yue, Leo (Note)	17	–	–	17
	217	1,820	36	2,073

Note: Appointed on 17 September 2004

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2005 (2004: HK\$Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and other benefits	3,114	3,178
Pension scheme contributions	63	72
	3,177	3,250

	2005	2004
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:

	2005	2004
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

31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT

	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 (restated)	18,040	18,589	14,324	4,823	55,776
Additions	1,449	1,027	3,798	–	6,274
Disposals	–	(999)	(1,088)	–	(2,087)
Surplus on revaluation	1,071	–	–	–	1,071
Exchange adjustments	–	55	37	–	92
At 31/12/2004 (restated)	20,560	18,672	17,071	4,823	61,126
Accumulated depreciation					
At 1/1/2004 (restated)	–	15,578	7,955	4,491	28,024
Charge for the year	568	1,317	1,643	83	3,611
Disposals	–	(682)	(1,031)	–	(1,713)
Written back on revaluation	(568)	–	–	–	(568)
Exchange adjustments	–	–	19	–	19
At 31/12/2004 (restated)	–	16,213	8,586	4,574	29,373
Net book value					
At 31/12/2004 (restated)	20,560	2,459	8,485	249	31,753
Cost or valuation					
At 1/1/2005 (restated)	20,560	18,672	17,071	4,823	61,126
Additions	886	1,787	3,469	–	6,142
Disposals	–	(66)	(365)	(1,606)	(2,037)
Deficit on revaluation	(376)	–	–	–	(376)
Exchange adjustments	–	–	6	–	6
At 31/12/2005	21,070	20,393	20,181	3,217	64,861
Accumulated depreciation					
At 1/1/2005 (restated)	–	16,213	8,586	4,574	29,373
Charge for the year	901	1,467	2,115	53	4,536
Disposals	–	(66)	(323)	(1,570)	(1,959)
Written back on revaluation	(901)	–	–	–	(901)
Exchange adjustments	–	–	7	–	7
At 31/12/2005	–	17,614	10,385	3,057	31,056
Net book value					
At 31/12/2005	21,070	2,779	9,796	160	33,805

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Representing:					
2005:					
At cost	–	20,393	20,181	3,217	43,791
At valuation	21,070	–	–	–	21,070
	21,070	20,393	20,181	3,217	64,861
2004:					
At cost	–	18,672	17,071	4,823	40,566
At valuation (restated)	20,560	–	–	–	20,560
	20,560	18,672	17,071	4,823	61,126

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

	2005 HK\$'000	2004 HK\$'000 (restated)
Hong Kong	8,400	8,130
The PRC	12,670	12,430
	21,070	20,560

Buildings located in Hong Kong are held under long-term leases. Buildings located in the PRC are held under land use rights expiring in 2047 and 2051.

Buildings located in Hong Kong are stated at open market value as at 31 December 2005 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers. Buildings located in the PRC are stated on a depreciated replacement cost basis as at 31 December 2005 as determined by the same valuers. Had the Group's buildings been carried at cost less depreciation, the net book value of the Group's buildings as at 31 December 2005 would have been approximately HK\$15,381,000 (2004 (restated): HK\$16,282,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

14. LEASE PREMIUM FOR LAND AND LAND USE RIGHTS

The Group's interests in lease premium for land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2005 HK\$'000	2004 HK\$'000
		(restated)
Cost		
At 1 January	23,043	17,533
Additions	–	5,510
At 31 December	23,043	23,043
Accumulated amortisation		
At 1 January	1,843	1,352
Amortisation for the year	491	491
At 31 December	2,334	1,843
Net carrying amount		
At 31 December	20,709	21,200
Leases of between 10 to 50 years, held in:		
Hong Kong	16,810	17,210
PRC	3,899	3,990
	20,709	21,200

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

15. GOODWILL

	2005 HK\$'000	2004 HK\$'000
Cost		
At 1 January	5,052	5,065
Exchange adjustments	–	(13)
At 31 December	5,052	5,052
Accumulated amortisation		
At 1 January	5,052	4,051
Amortisation for the year	–	1,011
Exchange adjustments	–	(10)
At 31 December	5,052	5,052
Net book value		
At 31 December	–	–

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	113,606	113,606
Amount due from a subsidiary	74,997	12,824
	188,603	126,430

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2005 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%
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%
連達（廣東）電子有限公司(ii)	The PRC	The PRC	Manufacturing of electronic components	2005: US\$8,665,000 (2004: US\$8,526,308)	–	100%
Datamax S.A.R.L.	France	France	Trading of electronic components	Euro7,622.45	–	100%
Datatronic 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%

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

16. 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) 連達（廣東）電子有限公司 is a wholly foreign owned enterprise established in the PRC for a term of 30 years up to September 2023.

17. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
Raw materials	41,806	35,649
Work-in-progress	2,417	1,328
Finished goods	17,292	17,970
	61,515	54,947

During the year, there was significant increase in net realizable value of inventories since certain inventories previously written off can be used in the production of other products with current demand. As a result, a reversal of write-down of inventories of HK\$899,000 (2004: Nil) has been recognized and included in cost of inventories sold in the current year.

18. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

19. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 30 days to 90 days. An aging analysis of trade receivables after provision as at 31 December 2005 is as follows:

	2005 HK\$'000	2004 HK\$'000
0 to 30 days	22,813	11,569
31 to 60 days	13,728	7,247
61 to 90 days	9,801	4,299
Over 90 days	680	3,750
	47,022	26,865

20. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2005 HK\$'000	2004 HK\$'000
0 to 30 days	6,108	4,734
31 to 60 days	3,546	1,846
61 to 90 days	1,912	1,108
Over 90 days	349	99
	11,915	7,787

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

21. DEFERRED TAXATION

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

	2005 HK\$'000	2004 HK\$'000
		(restated)
The movements for the year in the deferred tax liabilities are as follows:		
At beginning of the year	3,210	2,716
Charge to the income statement for the year	236	30
(Credit)/charge to the property revaluation reserve for the year	(652)	464
At end of the year	2,794	3,210

There was no other significant unprovided deferred taxation as at 31 December 2005.

22. ISSUED CAPITAL AND SHARE OPTION SCHEME

	2005 HK\$'000	2004 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

22. ISSUED CAPITAL AND SHARE OPTION SCHEME (Continued)

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

24. RELATED PARTY TRANSACTIONS

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

(a) Related party transactions included in the income statement:

	2005 HK\$'000	2004 HK\$'000
Datatronix Romoland, Inc. ("DRI") *		
– Sales to DRI	74,422	38,985
– Reimbursement of expenses to DRI	3,182	3,110

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

(b) Related party transactions included in the balance sheet:

	2005 HK\$'000	2004 HK\$'000
Trade receivables from DRI	24,843	5,770

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.

(c) Compensation of key management personnel of the Group

	2005 HK\$'000	2004 HK\$'000
Short-term employee benefits	1,874	1,820
Post-employment benefits	27	36
	1,901	1,856

Note: Further details of post-employment benefits and directors' and employees' emoluments are included in note 12 to the financial statements.

25. 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:

	Property, plant and equipment	
	2005 HK\$'000	2004 HK\$'000
Within one year	90	90
In the second to the fifth year	128	218
	218	308

(b) Other commitments

Effective from 1 January 2006, 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 連達 (廣東) 電子有限公司, a subsidiary of the Company. Commitment payable amounted to approximately HK\$112,800 as at 31 December 2005 (2004: HK\$112,800).

26. POST BALANCE SHEET EVENT

On 16 March 2006, the Company's directors proposed a final dividend of HK3 cents (2004: HK2.2 cents) per share, totalling HK\$9,600,000 (2004: HK\$7,040,000), in respect of the year ended 31 December 2005. The proposed dividend is subject to approval by the Company's shareholders in the annual general meeting.

27. ULTIMATE PARENT ENTERPRISE AND CONTROLLING PARTY

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

The directors regard Mr. Siu Paul Y. through its direct shareholding in Onboard Technology Limited as being the ultimate controlling party.

28. COMPARATIVE FIGURES

Certain items in the financial statements were reclassified as a result of the changes in accounting policies. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.