

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 1. BASIS OF PREPARATION

### (a) GENERAL INFORMATION

Datronix Holdings Limited 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.

The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is 19th Floor, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong.

### (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

For the year ended 31 December 2006

## 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”), accounting principles generally accepted in Hong Kong. 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 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 and under the historical cost convention, as modified by the valuation of the buildings.

The group has adopted the following new/revised standards that have been issued and effective for the periods beginning on or after 1 January 2006. The adoption of such standards did not have material effect on these financial statements.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	The fair value option
HKFRS – Int 4	Determining whether an arrangement contains a lease

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company’s results of operations and financial position.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) STATEMENT OF COMPLIANCE (Continued)

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for annual periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

### (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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) GOODWILL (Continued)

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

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

For the year ended 31 December 2006

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 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%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (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

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) LEASED ASSETS

#### (i) *Classification of assets leased to the group*

Assets that are held by 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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) IMPAIRMENT OF ASSETS

#### (i) *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) IMPAIRMENT OF ASSETS (Continued)

#### (i) *Impairment of investments in debt and equity securities and other receivables (Continued)*

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss were recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

#### (ii) *Impairment of other 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) IMPAIRMENT OF ASSETS (Continued)

#### (ii) *Impairment of other assets (Continued)*

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.

#### – 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).

#### – 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.

#### – 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) CASH AND CASH EQUIVALENTS

Cash and 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 and 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 and cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

### (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) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) INCOME TAX (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) INCOME TAX (Continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (r) TRANSLATION OF FOREIGN CURRENCIES (Continued)

#### *Transactions and balances (Continued)*

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.

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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (t) SEGMENT REPORTING (Continued)

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.

### (u) SHARE BASED PAYMENTS

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an assets, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 3. FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks. 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.

(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 to meet its liquidity requirements in the short and longer term.

(d) **Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 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.

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

The group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade receivables and other receivables. Provision for impairment 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 5. TURNOVER AND OTHER REVENUE

	2006 HK\$'000	2005 HK\$'000
Turnover		
Sales of merchandise	272,131	208,644
Other revenue		
Gain on disposal of property, plant and equipment	–	62
Interest income	4,140	1,778
Net foreign exchange gain	510	–
Sundries	269	80
	4,919	1,920
Total revenue	277,050	210,564

Approximately 72% of the group's turnover for the year ended 31 December 2006 (2005: 68%) arose from the group's top five customers.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 6. SEGMENT INFORMATION (Continued)

### Geographical segment (Continued)

An analysis of geographical segments is as follows:

	Hong Kong		The PRC		The United States of America		Europe		Others		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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
<b>Turnover</b>														
External sales	6,311	7,214	-	-	228,347	161,038	29,856	37,397	7,617	2,995	-	-	272,131	208,644
Intersegment sales	286,424	209,659	-	-	114,056	64,275	2,501	2,882	-	-	(402,981)	(276,816)	-	-
<b>Total</b>	<b>292,735</b>	<b>216,873</b>	<b>-</b>	<b>-</b>	<b>342,403</b>	<b>225,313</b>	<b>32,357</b>	<b>40,279</b>	<b>7,617</b>	<b>2,995</b>	<b>(402,981)</b>	<b>(276,816)</b>	<b>272,131</b>	<b>208,644</b>
<b>Operating results</b>														
Profit from operations													83,942	64,944
Interest income													4,140	1,778
Profit before taxation													88,082	66,722
Taxation													(9,681)	(5,922)
Profit attributable to equity holders of the company													78,401	60,800
<b>Other information</b>														
Segment assets	840,860	537,807	52,129	50,588	97,983	39,779	2,419	3,218	-	-	(636,038)	(342,922)	357,353	288,470
Segment liabilities	417,037	163,696	2,073	1,687	91,631	40,228	4,515	5,020	-	-	(468,351)	(172,771)	46,905	37,860
Capital expenditures	3,671	4,128	969	1,187	34	827	2	-	-	-	-	-	4,676	6,142
Depreciation and amortisation	4,051	3,736	1,929	2,171	333	411	52	85	-	-	(1,164)	(1,376)	5,201	5,027

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 7. PROFIT BEFORE TAXATION

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

	2006 HK\$'000	2005 HK\$'000
<b>Charging</b>		
Amortisation of lease premium for land and land use rights	491	491
Auditors' remuneration		
– current year	403	419
– over-provision in previous year	–	(10)
	403	409
Cost of inventories	140,372	102,614
Depreciation	4,710	4,536
Loss on disposal of property, plant and equipment	82	–
Net foreign exchange (gain)/loss	(510)	346
Operating lease charges on rented premises and equipment	304	650
Write-down/(reversal) of inventories, net	386	(899)
Research and development expenditures	5,004	4,525
Staff costs (including directors' emoluments)	48,078	39,246
Less: Amounts included in research and development expenditures	(4,338)	(3,904)
	43,740	35,342
Staff retirement costs	3,074	2,626

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 8. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 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:

	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax	5,864	5,376
Overseas taxation	4,863	616
Deferred taxation	(117)	236
Over-provision in prior years	(929)	(306)
	<u>9,681</u>	<u>5,922</u>

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	<u>88,082</u>	<u>66,722</u>
Effect of tax at Hong Kong profits tax rate of 17.5%	15,414	11,676
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,806	–
Income that are not taxable	(7,772)	(6,135)
Tax losses not recognised	274	376
(Decrease)/increase in deferred taxation	(117)	236
Over-provision in prior years	(929)	(306)
Others	5	75
Tax charge	<u>9,681</u>	<u>5,922</u>

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

For the year ended 31 December 2006

## 8. TAXATION (Continued)

Taxation payable in the consolidated balance sheet represents:

	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax	15,908	17,045
Overseas taxation	3,906	1,052
	19,814	18,097

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% (2005: 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 2,175 for the year ended 31 December 2006 (2005: Euro 1,575).

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 38% (2005: 15% to 38%), and California State corporate tax at the rate of 8.84% (2005: 8.84%), on the estimated assessable profits arising in or derived by Datatronic Distribution, Inc. on a worldwide basis.

## 9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the company includes a loss of approximately of HK\$1,110,000 (2005: profit of HK\$78,822,000) which has been dealt with in the financial statements of the company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 10. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim, paid, of HK\$0.037 (2005: HK\$0.03) per ordinary share	11,840	9,600
Final, proposed, of HK\$0.043 (2005: HK\$0.03) per ordinary share	13,760	9,600
	<u>25,600</u>	<u>19,200</u>

### 11. EARNINGS PER SHARE

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

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the company	<u>78,401</u>	<u>60,800</u>

	Number of shares	
	2006	2005
Weighted average number of shares for the purpose of calculating earnings per share – Basic	<u>320,000,000</u>	<u>320,000,000</u>

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

For the year ended 31 December 2006

## 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 2006				
	Fees HK\$'000	Basic salaries, allowance and other benefits		Pension scheme contribution HK\$'000	Total HK\$'000
		HK\$'000	HK\$'000		
Siu Paul Y.	–	1,000	12	1,012	
Shui Wai Mei	–	–	–	–	
Sheung Shing Fai	–	975	12	987	
Siu Nina Margaret	–	374	12	386	
Chung Pui Lam	100	–	–	100	
Lam Tak Shing	100	–	–	100	
Chan Fai Yue, Leo	60	–	–	60	
	260	2,349	36	2,645	

Name of director	Year ended 31 December 2005				
	Fees HK\$'000	Basic salaries, allowance and other benefits		Pension scheme contribution HK\$'000	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	

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 2006 (2005: HK\$Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 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:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, allowances and other benefits	3,337	3,114
Pension scheme contributions	60	63
	3,397	3,177
	2006	2005
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:

	2006	2005
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

For the year ended 31 December 2006

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

	Buildings HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost or valuation</b>					
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
<hr/>					
At 31/12/2005 and 1/1/2006	21,070	20,393	20,181	3,217	64,861
Additions	–	1,814	2,561	301	4,676
Disposals	–	(921)	(492)	–	(1,413)
Surplus on revaluation	1,336	–	–	–	1,336
Exchange adjustments	244	3	(12)	–	235
<hr/>					
At 31/12/2006	22,650	21,289	22,238	3,518	69,695
<b>Accumulated depreciation</b>					
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
<hr/>					
At 31/12/2005 and 1/1/2006	–	17,614	10,385	3,057	31,056
Charge for the year	955	1,592	2,123	40	4,710
Disposals	–	(890)	(435)	–	(1,325)
Written back on revaluation	(955)	–	–	–	(955)
Exchange adjustments	–	40	(37)	–	3
<hr/>					
At 31/12/2006	–	18,356	12,036	3,097	33,489
<b>Net book value</b>					
At 31/12/2006	22,650	2,933	10,202	421	36,206
<hr/>					
At 31/12/2005	21,070	2,779	9,796	160	33,805

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 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:					
2006:					
At cost	–	21,289	22,238	3,518	47,045
At valuation	22,650	–	–	–	22,650
	22,650	21,289	22,238	3,518	69,695
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

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	9,670	8,400
The PRC	12,980	12,670
	22,650	21,070

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 2006 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 2006 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 2006 would have been approximately HK\$14,480,000 (2005: HK\$15,381,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 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:

	Group	
	2006 HK\$'000	2005 HK\$'000
<b>Cost</b>		
At 1 January	23,043	23,043
Exchange adjustments	104	–
At 31 December	23,147	23,043
<b>Accumulated amortisation</b>		
At 1 January	2,334	1,843
Amortisation for the year	491	491
Exchange adjustments	30	–
At 31 December	2,855	2,334
<b>Net carrying amount</b>		
At 31 December	20,292	20,709
Leases of between 10 to 50 years, held in:		
Hong Kong	16,409	16,810
PRC	3,883	3,899
	20,292	20,709

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 15. GOODWILL

	Group	
	2006 HK\$'000	2005 HK\$'000
<b>Cost</b>		
At 1 January	–	5,052
Elimination of accumulated amortisation	–	(5,052)
At 31 December	–	–
<b>Accumulated amortisation</b>		
At 1 January	–	5,052
Elimination of accumulated amortisation	–	(5,052)
At 31 December	–	–
<b>Net book value</b>		
At 31 December	–	–

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	113,606	113,606
Amount due from a subsidiary	52,504	74,997
	166,110	188,603

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the company's subsidiaries as at 31 December 2006 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%
Datatronix 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	US\$8,665,000	–	100%
Datamax S.A.R.L.	France	France	Trading of electronic components	Euro7,622.45	–	100%

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the company's subsidiaries as at 31 December 2006 are as follows: (Continued)

Name	Country/ place of incorporation/ establishment	Country/ place of operation	Principal activities	Issued and fully paid share capital	Interests held	
					Directly	Indirectly
Datatronix Distribution, Inc.	California, the U.S.	California, the U.S.	Trading of electronic components	US\$1,000	–	100%
Maxgain Venture Limited	Hong Kong	Hong Kong	Property holding	HK\$2	–	100%
Pulse Tek Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK\$2	–	100%

*Notes:*

- (i) 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 17. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Raw materials	60,930	41,806
Work-in-progress	3,431	2,417
Finished goods	19,127	17,292
	83,488	61,515

For the year ended 31 December 2006, a provision of inventories of HK\$386,000 has been recognised and included in cost of inventories sold.

For the year ended 31 December 2005, there was significant increase in net realisable 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 has been recognised and included in cost of inventories sold.

## 18. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

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

## 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 2006 is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
0 to 30 days	19,452	22,813
31 to 60 days	13,680	13,728
61 to 90 days	6,418	9,801
Over 90 days	7,350	680
	46,900	47,022

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

### 20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Short term time deposits	104,718	54,414	–	–
Cash at bank and in hand	50,394	56,320	345	351
	155,112	110,734	345	351

Cash and cash equivalents include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying value of the amount at the balance sheet date approximates to the fair value.

Included in the bank balances and cash are the following amounts denominated in currencies other than functional currency of the entity to which they relate:

	Group		Company	
	2006 '000	2005 '000	2006 '000	2005 '000
Euro ("EUR")	EUR285	EUR158	–	–
United States Dollars ("USD")	USD15,631	USD9,544	–	–
Great British Pounds ("GBP")	GBP8	GBP56	–	–
Renminbi ("RMB")	RMB26,484	RMB26,038	–	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 21. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
0 to 30 days	7,549	6,108
31 to 60 days	6,634	3,546
61 to 90 days	1,940	1,912
Over 90 days	646	349
	16,769	11,915

## 22. DEFERRED TAXATION

Group

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Revaluation of properties HK\$'000	Depreciation allowances in excess of the related depreciation HK\$'000	Total HK\$'000
Deferred tax arising from:			
At 1 January 2005	3,097	113	3,210
Charged to the income statement	–	236	236
Credited to property revaluation reserves	(652)	–	(652)
At 31 December 2005 and 1 January 2006	2,445	349	2,794
Credited to the income statement	–	(117)	(117)
Charged to property revaluation reserves	472	–	472
At 31 December 2006	2,917	232	3,149

The group has not recognised deferred tax assets in respect of tax losses of HK\$1,570,000 during the year (2005: HK\$2,003,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 23. ISSUED CAPITAL AND SHARE OPTION SCHEME

	Group and company	
	2006 HK\$'000	2005 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.1 each	100,000	100,000
Issued and fully paid:		
320,000,000 ordinary shares of HK\$0.1 each	32,000	32,000

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

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

## 24. 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

For the year ended 31 December 2006

## 25. 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:

	2006 HK\$'000	2005 HK\$'000
Datatronics Romoland, Inc. ("DRI") *		
– Sales to DRI	81,724	74,422
– Reimbursement of expenses to DRI	5,537	3,182
	<hr/>	<hr/>

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

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

	2006 HK\$'000	2005 HK\$'000
Trade receivables from DRI	20,980	24,843
	<hr/>	<hr/>

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

	2006 HK\$'000	2005 HK\$'000
Short-term employee benefits	1,975	1,874
Post-employment benefits	24	27
	<hr/>	<hr/>
	1,999	1,901
	<hr/>	<hr/>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 26. 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:

	Plant and equipment	
	2006 HK\$'000	2005 HK\$'000
Within one year	90	90
In the second to the fifth year	38	128
	128	218

### (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 2006 (2005: HK\$112,800).

## 27. POST BALANCE SHEET EVENT

On 23 April 2007, the company's directors proposed a final dividend of HK\$0.043 (2005: HK\$0.03) per share, totalling HK\$13,760,000 (2005: HK\$9,600,000), in respect of the year ended 31 December 2006. The proposed dividend is subject to approval by the company's shareholders in the annual general meeting.

## 28. ULTIMATE PARENT ENTERPRISE

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

## 29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.