DATRONIX HOLDINGS LIMITED
連達科技控股有限公司*
(Stock Code: 889)

INNOVATION BY DESIGN

Annual Report 2008

* For identification purposes only

AWARDS

ASTRONICS
"Best Value Added"

LUTRON
"Customer Service"

MEDTRONIC
"Outstanding Performance"

DATAFORTH
"Vendor of the year"

LUTRON
"Outstanding New Supplier"

XICOM
"Outstanding Performance"

MICRO SYSTEMS ENGINEERING
"Special Recognition Award"

LUTRON
"Supplier of the Year"

MEDTRONIC
"Supplier of the Year"

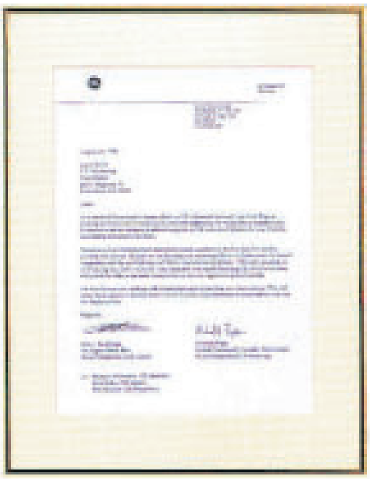
XICOM
"President's Award"

Customer Recognition For Quality, Service, Value

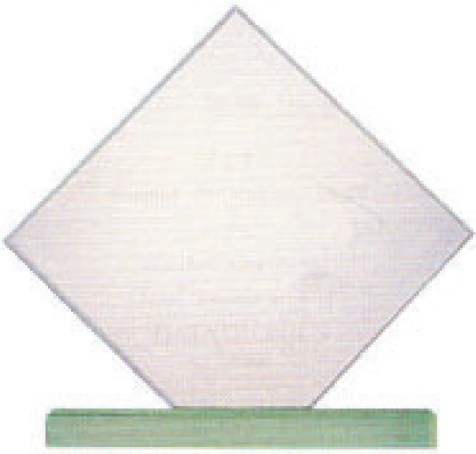
Polycom

Ericsson

Milwaukee



Preferred supplier
General Electric



Physio Control
(Div. of Medtronic)

Preferred supplier
Primex Aerospace

Digital Equipment corp

Xerox

United Technologies

AWARDS

Xerox

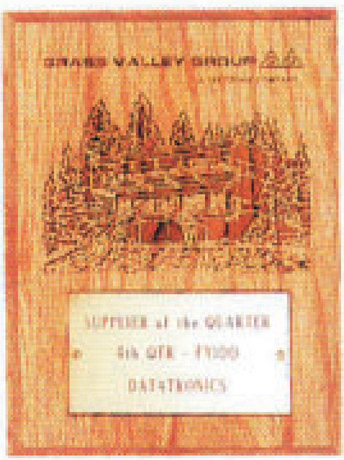
Xerox

ICL/Fujitsu

Xerox

Xerox

Xerox



Tektronix

Sola Electric

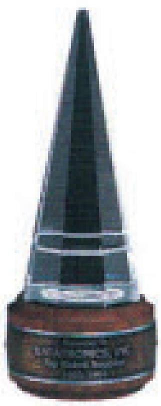
Tektronix

Customer Recognition For Quality, Service, Value

Honeywell

Honeywell

Harris



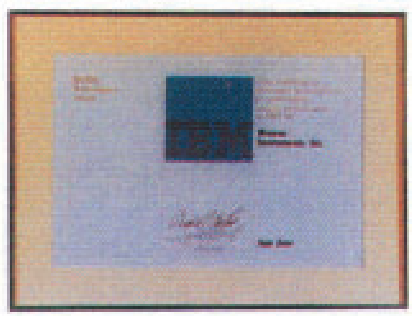
Honeywell

Honeywell

Delco

Honeywell

Hughes Aircraft
General Motors



IBM

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

SIU Paul Y.
alias Siu Paul Yin Tong *(Chairman)*
SHUI Wai Mei *(Vice Chairman)*
SHEUNG Shing Fai
SIU Nina Margaret

Independent Non-executive Directors

CHUNG Pui Lam
LAM Tak Shing, Harry
CHAN Fai Yue, Leo

AUDIT COMMITTEE

LAM Tak Shing, Harry
CHUNG Pui Lam
CHAN Fai Yue, Leo

REMUNERATION COMMITTEE

CHUNG Pui Lam
CHAN Fai Yue, Leo
LAM Tak Shing, Harry
SIU Paul Y.

QUALIFIED ACCOUNTANT

LAU Juen Ying

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITORS

CCIF CPA Limited
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19th Floor
North Point Industrial Building
499 King's Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

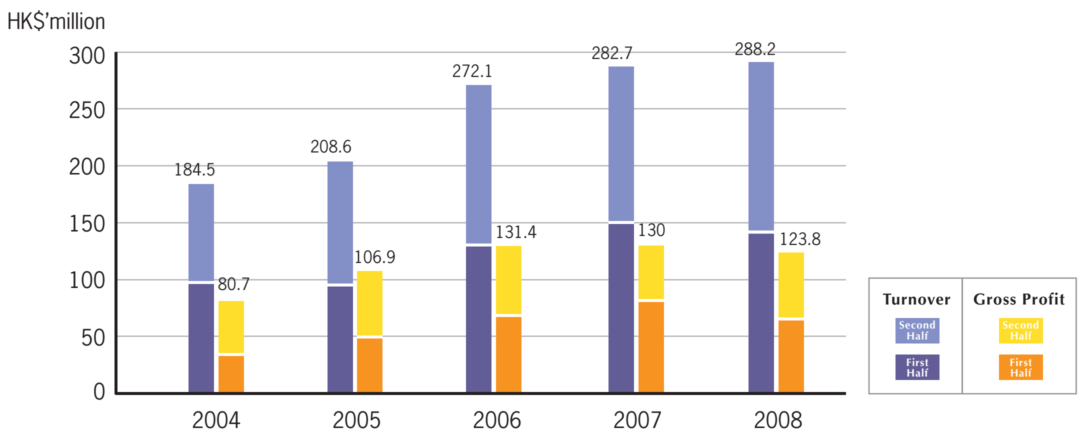
PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of Communications

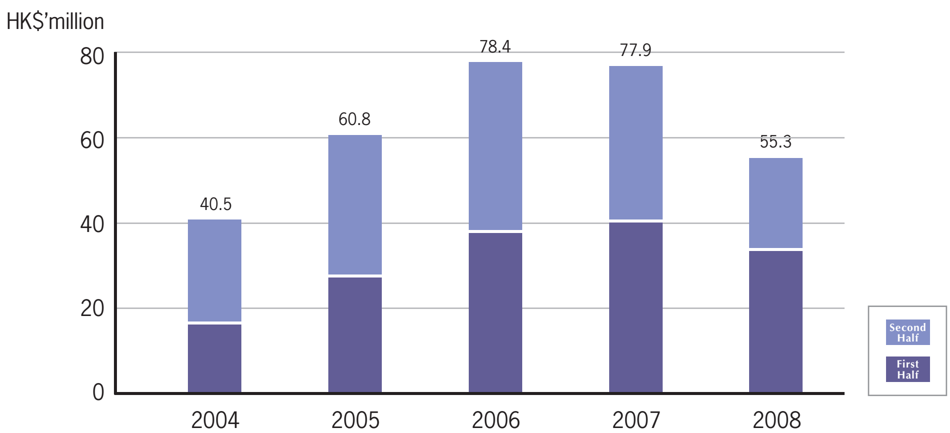
WEBSITE

www.datronixhldgs.com.hk

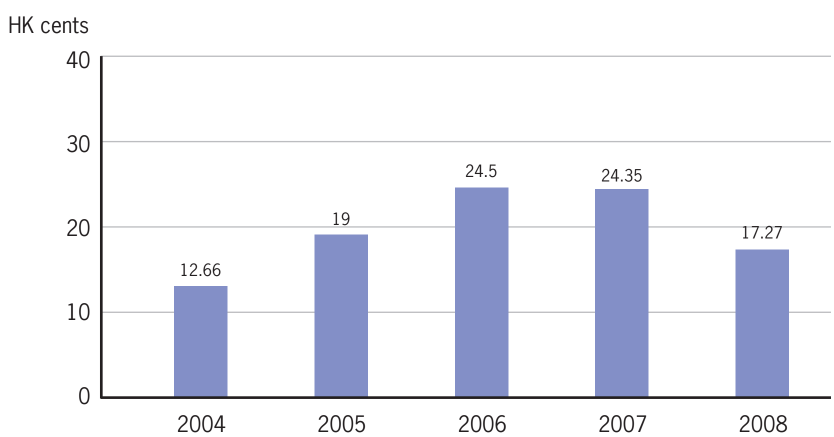
Turnover / Gross Profit



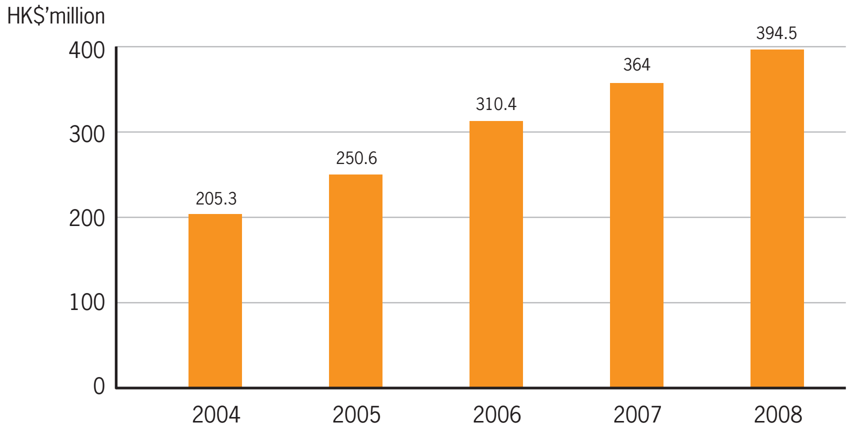
Profit attributable to shareholders



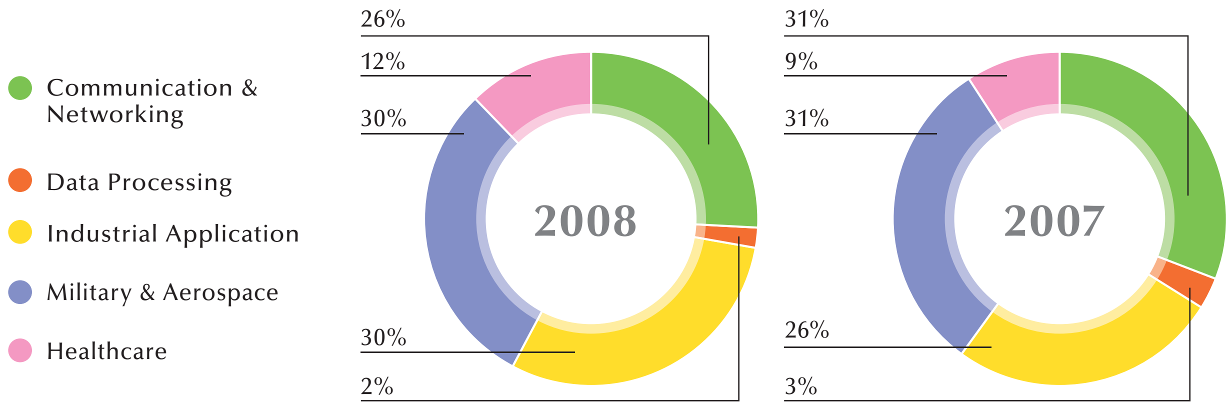
Earnings Per Share



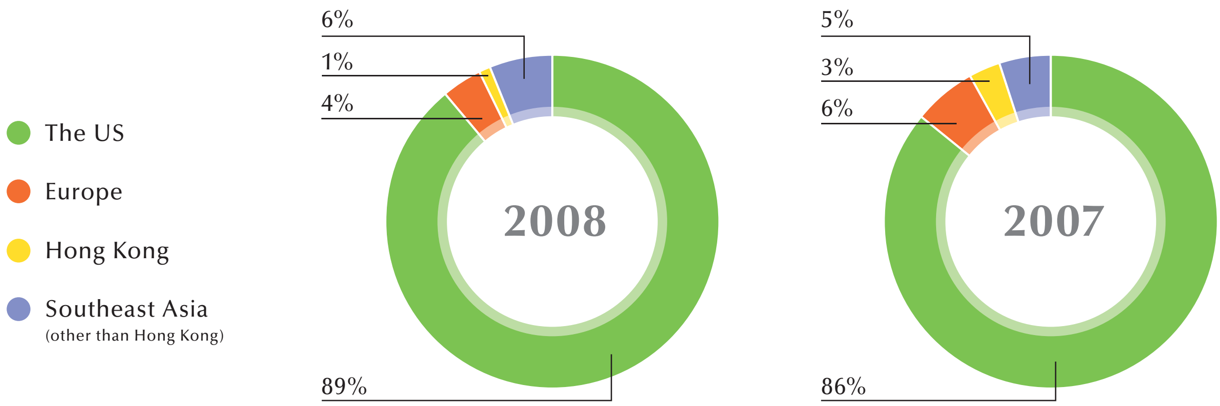
Net asset



Market



Geographical destination of products



The Group is principally engaged in the design, manufacture and sale of magnetics used in consumer electronics, data processing appliances and other electronics systems for coupling, isolation, filtering, interfacing and timing control applications. All of the Group's magnetics are sold under its own brandname "Datatronics". A majority of the Group's products are customized magnetics tailored-made according to the requirements and specifications of its customers. The Group also offered standard catalogue magnetics to its customers.

The Group focuses on the high-end segment of the magnetics industry. It has a customer base over 300 customers comprising manufacturers of telecommunication and data processing equipment, technology equipment, motor vehicles, military, aerospace and medical equipment.

The Group's world-class design and manufacturing capabilities, together with the breadth of its product offerings, provide her with a competitive advantage that enable her to anticipate and deliver highly customized solutions for their customers' product needs. In addition, their global presence enable them to participate in many relevant product and geographic markets and provide her with proximity to their global customer base.

THE GROUP'S PRODUCT LINE

The Company designs and manufactures both standard and customized magnetic components in a large variety of products:

- Transformers
- Lan Filter Modules
- Digital Delay Modules
- Inductors / Chokes
- ASDL Transformer
- Planar Magnetics
- Magnetics for Aviation Applications
- Magnetic Components for DC / DC Converters
- Magnetics for Hybrid Network Assemblies
- Magnetics for Power Conversion
- Magnetics for Energy Savings
- Magnetics for Medical Devices / Equipment
- Magnetics for Internet Equipment
- Magnetics for Data Acquisition / Transmitter and Signal Conditioning

MARKETS SERVED

The Company's products to-day find application in a wide range of state-of-the-art electronic equipment that include the following:

- Telecommunications
- Communications
- Aerospace
- Instrumentation
- Industrial Equipment
- Computers & Networking
- Internet Equipment
- Medical Devices / Equipment
- Automotive
- U.S. Military Applications

The Group's products meet or exceed numerous performance, safety, quality specification and standard that include the following:

- QS-9000
- CSA
- IEC950
- UL
- ISO 9001 and ISO 9002
- BABT
- VDE

The Group also specializes in meeting the rigorous requirements of the U.S. Military and Space Programs:

- MIL-T-27
- MIL-STD-981
- MIL-T-21038
- NASA Space Station Approved

The directors consider the followings to be the key factors contributing to the Group's success:

- the extensive experience and expertise of the Group's management team in the magnetics industry;
- its well-established business relationship with customers;
- its forefront technology and technical know-how to assist and bridge its customers to new technologies;
- its ability to satisfy customers' needs by offering customized products that meet their reliability, quality and delivery requirements;
- its logistic center located in Southern California, U.S. and Paris, France to support delivery and service to customers;
- the wide range of product it offers;
- "Just-in-time" delivery and "Ship-to-stock" Program certified with numerous key customers;
- its reputation for high quality and high reliability products;
- "One stop solution";
- capacity to grow due to more demands for high reliability products in U.S. and Europe;
- cost competitive;
- the barrier of entrance for competitors is very high; and
- its established relationship with major suppliers which enables the Group to obtain a stable supply of materials for the Group's products.

BUSINESS REVIEW

The Group reported an improvement of sales of HK$288.3 million for year ended 2008, an increase of 2% compared to $282.7 million in 2007, a seventh year consecutive growth. Profit attribute to equity shareholders of the Company decreased by 29% to HK$55.3 million. The Group overall financial position remains prudent and consistently generates positive cash flow. Cash balance reported at HK$246.6 million while no bank facility has been issued.

The global economy turbulence in the second half of 2008 has greatly impacted the cyclical nature of the electronic industry. The slowdown has impacted the Group sales for last two quarters as weaker demand in the US customers. We observed slower sales growth, stronger pricing pressures, lower gross margin, shorter payment terms with vendors, and extended payment from customers. These had impacted our business and financial statements.

Numerous factors were pressuring our production costs. Soaring commodity prices experienced for the first three quarters in 2008; whereas a recent sharp adjustment in the commodity has led us to additionally write down our inventory by HK$716,000 and aggregated to HK$17.9 million. However, if the current price trends persist, we would anticipate a positive impact for the coming years. Moreover, higher labor rates, new labor regulations and appreciation on Renminbi had exaggerated the cost of manufacturing.

Though the weakness in the worldwide economy, we continue to make effort in expanding our geographic presence of electronic activities. We had visited various distributors and companies in Japan and UK where they are specialized in standard products, military and medical segment. These potential opportunities may mitigate against factor affecting sales in the long run.

MARKET REVIEW

Communication and Networking

For the year ended 2008, Communication and Networking segment contributed HK$76.1 million of sales, compared to HK$86.7 million in previous year. Customers in this segment mostly experienced reduction in volume sales for the year. This segment contributed 26% of the Group's total turnover. This segment included customers such as Ericsson, Alcatel, and Vicor Corporation.

Data Processing

The Data Processing segment continues to shrink and reported sales of HK$5.6 million as of year 2008, compared to HK$9.8 million in 2007. This segment is vulnerable to any economic sentiment. This segment contributed 2% of the Group's total turnover.

Industrial Application

Industrial Application segment continues to enjoy strong earnings, with a 17% increase of sales to HK$85.8 million in 2008, compared to HK$73.5 million in 2007. New industrial projects and steady organic growth were observed in this segment. This segment contributed 30% of the Group's total turnover. Major customers contributed to the strong sales included Xerox Corporation, Lutron Electronics, Inc., Plexus Corporation, and Schweitzer Engineering Laboratory.

High Reliability Segment

This segment demands precise technology and advance workmanship by the Group end customers, and applied to military, aerospace and healthcare industry applications. For year ended 2008, consolidated sales for the three industries was HK$120.7 million and HK$112.7 million for the year ended 2007. The high reliability segment contributed 42% of the Group turnover.

Military and Aerospace

Sales generated by Military and Aerospace were HK$87.3 million for 2008, compared to HK$86.5 million in 2007. This segment sales performance was flat due to steady demand on commercial aircraft cabin entertainment systems and military programs.

Healthcare

This segment involves applications in medical and healthcare devices. Total sales as year ended 2008 reported HK$33.4 million, an increase of 28%. The result is achieved by our continuous focus on customer precise requirements and strong benchmark results.

ACHIEVEMENT AND AWARDS

In recognition of the quality, value of its products and of the Group's service and performance, the Group has to date received 37 awards from customers including the newly received "Best Value Added Award" by Astronics Corporation.

LOOKING AHEAD

In the second half of 2008, we entered the beginning of what may be the most severe global economic downturn. We expected these global economic challenges to be continued in 2009. The fundamental outlook for the industry, especially in the sub-industry of communications and data processing, is uncertain. The industry is currently experiencing a contraction in demand, as customers scale back product purchases amid a weakening economic climate. The softness brings about push out and deferrals across the regions and market verticals.

The market is unprecedented. We are continuing to develop and expand our presence in high margin markets and medical equipment segments. We are focusing to deliver the immediate needs of our customers, while achieving best in class customer satisfaction and customer loyalty. Lastly, we are continuing to maintain and improve our gross margins as well as bring effort in maintaining flexible operating model to remain competitive.

Despite the current economic condition, we are confident that the Group is well placed to strengthen our market position in the long run.

SIU Paul Y.
Chairman

Hong Kong, 7 April 2009

FINANCIAL REVIEW

The Group delivered a stable earnings result for year ended 2008. Turnover reached HK$288.3 million as at 31 December 2008 (2007: HK$282.7 million).

Gross profit in 31 December 2008 was HK$123.8 million with gross margin representing 43%, compared to HK$130.0 million with gross margin representing 46% for the same period last year. The rising cost of material and labor, along with pricing pressure from our customers contribute to the decrease in gross margin. Profit recorded HK$55.3 million and HK$77.9 million for the year ended 2008 and 2007 respectively. Net profit margin was 19.2% in 31 December 2008, compared to 27.6% in 31 December 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, the Group had a total equity of approximately HK$394.5 million (2007: HK$364.0 million), and cash and cash equivalents of approximately HK$246.6 million (2007: HK$214.5 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2008, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no debt and no bank loan for the year ended 31 December 2008.

The Group had limited exposure to foreign exchange fluctuations as most of its accounts receipts and payments are in US dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the Group employed approximately 1,279 personnel around the world, with approximately 96 in Hong Kong, 1,161 in the PRC and 22 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operation system, product and technology development, and product safety.

The remuneration policy for the Group's employees is reviewed by management on a regular basis. Competitive remuneration packages will be offered to employees based on business performance, market practices and the performance of individual employees. The Group has adopted a provident fund scheme for its employees.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2008 (2007: HK$ Nil).

CAPITAL COMMITMENTS

The Group's capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment in the financial statements is approximately HK$Nil (2007: HK$425,000).

EXECUTIVE DIRECTORS

Mr. Siu Paul Y. alias, Siu Paul Yin Tong, aged 68, the Chairman and Chief Executive Officer of the Group, is the founder of the Group. He is responsible for the Group's overall business strategy and formulation of corporate plan. Mr. Siu holds a master's degree of science in engineering and a bachelor degree of science from the University of California, Los Angeles in the US. He has more than 30 years of experience in sales and manufacturing of magnetic components as well as the sales of other electronic components for telecommunication and data processing systems and other electronic systems.

Ms. Shui Wai Mei, aged 63, is the Vice Chairman of the Group responsible for the Group's general administration. She has more than 20 years of experience in business development. Ms. Shui joined the Group in 1975 and is the spouse of Mr. Siu Paul Y..

Mr. Sheung Shing Fai, aged 60, is the General Manager of the Group. He is responsible for the Group's business and technology development. Mr. Sheung holds a bachelor degree of science in electronic engineering from the National Taiwan University in Taiwan. He has more than 20 years of experience in sales and manufacturing of magnetic components and other electronic components for telecommunication and data processing systems and other electronic systems. Mr. Sheung joined the Group in 1988.

Ms. Siu Nina Margaret, aged 32, is an executive director of the Company. Ms. Siu holds a MBA degree with emphasis on Finance and Certificate in International Business in Loyola Marymount University and a bachelor degree of arts with major in business economics from the University of California, Los Angeles in the US. She has more than 3 years experience in the US syndication loan market on major listed companies in the US. Ms. Siu is responsible for the finance and marketing of the Group. Ms. Siu joined the Group in May 2000 and was re-designated from non-executive director to executive director of the Company on 7 July 2005. Ms. Siu is the daughter of Mr. Siu Paul Y..

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Pui Lam, SBS, OBE, JP, aged 68, was appointed as an independent non-executive director of the Company in March 2001. He is a practicing solicitor in Hong Kong. Mr. Chung is serving on several advisory committees of the government of the HKSAR. Mr. Chung is also an independent non-executive director of S E A Holdings Limited and a non-executive director of Chow Sang Sang Holdings International Limited.

Mr. Lam Tak Shing, Harry, aged 48, was appointed as an independent non-executive director of the Company in September 2002. Mr. Lam holds a bachelor's degree and a master's degree in business administration. Mr. Lam has over 22 years' experience in accounting and finance field with wide exposure in different nature of business. Mr. Lam is an independent non-executive director of Poly (Hong Kong) Investments Limited and SMI Corporation Limited (provisional liquidator appointed).

Mr. Chan Fai Yue, Leo, aged 68, was appointed as an independent non-executive director of the Company in September 2004. Mr. Chan is a member of The Hong Kong Institute of Directors. Mr. Chan has over 20 years of experience in Hong Kong stock market and manufacturing industry. He was exposed to the trading and finance field during his early years in Japan. He is a director of a paint manufacturing company in Bangkok, Thailand. Mr. Chan is currently an independent non-executive director of Golden Resources Development International Limited and Prosperity Investment Holdings Limited, both are companies listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. Randall Eller, aged 51, is the Sales Vice President of Datatronic Distribution, Inc. responsible for the sales and marketing of the Group's products in North America. Mr. Eller has more than 15 years of experience in sales and marketing of magnetic and electronic components. He joined the Group in 1989.

Mr. Patrick Julienne, aged 54, is the Sales Manager of Datamax S.A.R.L, responsible for sales and marketing of the Group's products in Europe. Mr. Julienne obtained a degree in Electronic from the Technology Universitary Institute in Paris. Mr. Julienne has over 20 years of experience in electronics industry. He joined the Group in 2007.

Mr. Wong Ning, aged 59, is the Deputy General Manager of the Group responsible for the management of the Group's operations in Shunde, the PRC. Mr. Wong has over 20 years of experience in the management and administration in manufacturing industry. He joined the Group in 1990.

Mr. Tam Chun Cheung, aged 60, is the manager of the production department of the Group responsible for the management of the Group's manufacturing operations in Hong Kong and the PRC. Mr. Tam holds a bachelor degree of science in engineering from the National Taiwan University in Taiwan. He has over 15 years of experience in the semi-conductor industry. Mr. Tam joined the Group in 1994.

Ms. Lau Juen Ying, aged 32 is the Accountant of the Group. She is responsible for all finance and accounting functions of the Group. Ms. Lau obtained a bachelor degree in Accountancy from the City University of Hong Kong. She is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Lau has over 9 years of experience in auditing, accounting and taxation matters. She joined the Group in 2008.

Mr. Fu Wing Wai, Rex, aged 49, is the Quality Assurance Manager of the Group. He is responsible for quality control and assurance, quality and environment system of the Group in Hong Kong and PRC. Mr Fu holds a postgraduate diploma in Total Quality Management from the University of Hull (UK) and is the member of Chartered Quality Institute. Mr Fu who joined the Group in 2007 has over 20 years of working experience in quality control of manufacturing industry.

The directors present herewith their annual report and the audited financial statements of Datronix Holdings Limited ("the Company") and its subsidiaries (together with the Company, "the Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	28%	
Five largest customers in aggregate	75%	
The largest supplier		7%
Five largest suppliers in aggregate		29%

Except that the largest customer, Datatronics Romoland, Inc., is a related company in which the Company's director, Mr. Siu Paul Y., holds approximately 96.5% of its issued share capital directly, none of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers noted above.

SEGMENT INFORMATION

Details of segment information are set out in note 6 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 27.

The state of affairs of the Group and the Company as at 31 December 2008 are set out in the consolidated balance sheet on page 28 and the balance sheet on page 29 respectively.

The directors recommend the payment of a final dividend of HK$0.022 (2007: HK$0.048) per share, totalling HK$7,040,000 (2007: HK$15,360,000) for the year ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2008 and of the assets and liabilities as at 31 December 2004, 2005, 2006, 2007 and 2008 is set out on page 81.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2008 are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Movements in share capital of the Company during the year are set out in note 22 to the financial statements. There was no change in share capital during the year. During the year, the Company did not grant any share options. Details of the share option scheme of the Company are set out in 2001 annual report.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 30 and 76, respectively.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Siu Paul Y. alias Siu Paul Yin Tong, *Chairman*
Ms. Shui Wai Mei, *Vice Chairman*
Mr. Sheung Shing Fai
Ms. Siu Nina Margaret

Non-executive director

Mr. Siu Ronald (Resigned on 19 September 2008)

Independent non-executive directors

Mr. Chung Pui Lam
Mr. Lam Tak Shing, Harry
Mr. Chan Fai Yue, Leo

In accordance with Bye-laws 87(1) of the Company's Articles of Association, Mr. Sheung Shing Fai and Ms. Siu Nina Margaret will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Amongst the executive directors, Mr. Siu Paul Y., Ms. Shui Wai Mei and Mr. Sheung Shing Fai have each entered into a service contract with the Company for an initial fixed term of three years commencing from 22 June 2001 while Ms. Siu Nina Margaret has entered into a service contract with the Company for an initial fixed term of three years commencing from 7 July 2005. Such contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these directors is entitled to a basic salary, which is determined on the basis of his/her qualification, experience, involvement in and contribution to the Company and by reference to the market rate. In addition, the executive directors are also entitled to a management bonus of a sum at the discretion of the directors. An executive director may not vote on any resolution of the directors regarding the amount of the management bonus payable to him.

DIRECTORS (Continued)

Save as aforesaid, none of the directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 25 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent enterprise was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2008, the directors had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO:

a) The Company

	Ordinary shares of HK$0.1 each			
	Personal interests	**Family interests**	**Corporate interests**	**Total**
Mr. Siu Paul Y.	5,660,000	–	233,000,000 *(Note 1)*	238,660,000

b) Associated corporation

		Non-voting deferred shares of HK$1 each			
	Name of corporation	**Personal interests**	**Family interests**	**Corporate interests**	**Total**
Mr. Siu Paul Y.	Datatronic Limited	1	–	199,999 *(Note 2)*	200,000

DIRECTORS' INTERESTS IN SHARES (Continued)

Notes:

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. and Ms. Shui Wai Mei beneficially own 90% and 10% of its issued share capital respectively, representing 72.8% of the issued share capital of the Company.

2. These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is beneficially owned by Mr. Siu Paul Y..

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executives of the Company or their respective associates in the shares and underlying shares of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code of Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executives (including their spouses and children under the age of 18), had, as at 31 December 2008, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 25 to the financial statements constituted connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Datatronic Limited ("DL"), a wholly owned subsidiary of the Company, and Datatronics Romoland, Inc. ("DRI") entered into a 4th Master Supply Agreement on 24 September 2007 ("the 4th Master Supply Agreement") which superseded the 3rd Master Supply Agreement dated 1 August 2005 in respect of the supply of magnetics to DRI by DL.

The 4th Master Supply Agreement for a fixed term of three years from 1 January 2008 and on effectively the same terms and conditions of the Master Supply Agreement, 2nd Master Supply Agreement and the 3rd Master Supply Agreement, was entered into on 24 September 2007 superseding the 3rd Master Supply Agreement until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the 4th Master Supply Agreement, the selling prices of the magnetics are to be agreed between DL and DRI. DL will determine the price of the magnetics required by DRI according to its pricing policy of obtaining a reasonable profit margin for its sales in accordance with the prevailing market conditions, on normal commercial terms and on an arm's length basis. DL has been granted a first refusal right by DRI to the effect that, unless DL declines the order, DRI undertakes not to source magnetics from any third-party supplier provided that the terms of purchase offered to the third-party supplier are not more favourable than those to DL. The total purchases made by DRI during the year ended 31 December 2008 was approximately HK$80,166,000 (2007: HK$79,069,000).

The directors, including the independent non-executive directors, of the Company have reviewed the connected transactions and have confirmed that the connected transactions were entered into:

(i) in the ordinary and usual course of business;
(ii) on terms no less favourable than those available to independent third parties; and
(iii) on terms that are fair and reasonable and in the interests of the shareholders as a whole.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices ("the Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except for the following deviations:

Code Provision A.2.1

Under the provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Company have been performed by Mr. Siu Paul Y.. The Board considered that the non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Code Provision A.4.1

The non-executive directors were not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company.

Code Provision A.4.2

Under the provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Bye-laws of the Company, the chairman of the Company will not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

The financial statements have been audited by CCIF CPA Limited. A resolution for their reappointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Siu Paul Y.
Chairman

Hong Kong, 7 April 2009

The board has adopted the code provisions set out in the Code of Corporate Governance Practices ("the Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), which become effective on 1 January 2005. The Company has applied the principles and complied with the requirements of the Code, except for certain deviations in respect of the service term and rotation of directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") as set out in Appendix 10 to the Listing Rules. All directors have confirmed, following specific enquiry of all directors, that they have fully complied with the required standard set out in the Model Code throughout the year.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances.

During the year, eight board meetings were held and the attendance of each director is set out as follows:

Directors	**Number of attendance**
Mr. Siu Paul Y.	8/8
Ms. Shui Wai Mei	4/8
Mr. Sheung Shing Fai	6/8
Ms. Siu Nina Margaret	8/8
Mr. Chung Pui Lam	7/8
Mr. Lam Tak Shing, Harry	5/8
Mr. Chan Fai Yue, Leo	7/8
Mr. Siu Ronald (Resigned on 19 September 2008)	4/8

Board Minutes are kept by the Company Secretary and are sent to the Directors for records.

Each board member is entitled to have access to board papers and enable, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer of the Company have been performed by Mr. Siu Paul Y.. The Board considered that the non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

BOARD COMPOSITION

The Board comprises four Executive Directors, being Mr. Siu Paul Y. (Chairman), Ms. Shui Wai Mei (Vice Chairman), Mr. Sheung Shing Fai and Ms. Siu Nina Margaret, and three Independent Non-executive Directors, being Mr. Chung Pui Lam, Mr. Lam Tak Shing, Harry and Mr. Chan Fai Yue, Leo.

The Independent Non-executive Directors of the Company are persons with academic and professional qualifications in the fields of accounting, law and business management. They provide strong support towards the effective discharge of the duties and responsibilities of the board. Each Independent Non-executive Director gives an annual confirmation of his independence to the Company and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The non-executive directors were not appointed for specific terms but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company.

According to the provisions of the Bye-laws of the Company, any director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises an Executive Director, Mr. Siu Paul Y. and three Independent Non-executive Directors, Mr. Chung Pui Lam, Mr. Chan Fai Yue, Leo and Mr. Lam Tak Shing, Harry. Mr. Chung Pui Lam is the Chairman of the Remuneration Committee.

During the year, four Remuneration Committee meetings were held. The attendance of each member is set out as follows:

Directors	**Number of attendance**
Mr. Siu Paul Y.	4/4
Mr. Chung Pui Lam	4/4
Mr. Chan Fai Yue, Leo	4/4
Mr. Lam Tak Shing, Harry (Appointed on 28 November 2008)	1/4

REMUNERATION COMMITTEE (Continued)

The major roles and functions of the Remuneration Committee are summarized as follows:

1. To make recommendations with respect to the remuneration of the Executive Directors and the senior management of the Company; and

2. To review the remuneration package and recommend salaries, bonuses, including the incentive awards for Directors and senior management.

During the year, the Remuneration Committee has reviewed and recommended to the board the overall remuneration policy for the directors and key senior management.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31 December 2008, the directors have adopted suitable accounting polices which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-executive Directors. Mr. Lam Tak Shing, Harry is the Chairman of the Audit Committee.

The Audit Committee shall meet at least twice a year. The minutes of the Audit Committee meetings were kept by the Company Secretary. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The attendance of each member of Audit Committee is set out as follows:

Director	**Number of attendance**
Mr. Chung Pui Lam	2/2
Mr. Lam Tak Shing, Harry	2/2
Mr. Chan Fai Yue, Leo	2/2

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2008.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's auditors, Messrs. CCIF CPA Limited, is set out as follows:

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	460
Non-audit services:	
Review on preliminary result announcement	8

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfilment of the business objectives.

The internal control system is reviewed by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2008 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

COMMUNICATION WITH SHAREHOLDERS

The Chairman of the Board has attended at the annual general meeting to be available to answer questions at the meeting.

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Ground Floor, Function Room 1, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Thursday, 4 June 2009 at 2:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December, 2008 and the Reports of the Directors and Auditors thereon.

2. To declare a final dividend.

3. To re-elect retiring directors and to fix directors' remuneration.

4. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

5. As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

   A. "**THAT**

   (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to issue, allot and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of shares issued, allotted, or dealt with by the Directors pursuant to the approval granted in paragraph (a) of this resolution, otherwise than the issue of shares by way of rights, scrip dividend schemes or similar arrangements in accordance with the Bye-laws of the Company or any options granted under the share option scheme of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company on the date of passing this Resolution, and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda laws or the Bye-laws of the Company to be held; and

(iii) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting."

B. "**THAT**

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to repurchase issued shares in the capital of the Company in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of securities to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution shall not exceed 10% of the aggregate nominal amount of share capital of the Company in issue on the date of this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda laws or the Bye-laws of the Company to be held; and

(iii) the date on which the authority sets out in the Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting."

C. "**THAT** the general unconditional mandate granted to the directors of the Company to issue, allot and deal with shares pursuant to Ordinary Resolution No. 5A set out in the notice convening this meeting be and is hereby extended by addition thereto of an amount representing the aggregate nominal amount of the shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 5B set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company on the date of passing this resolution."

By order of the Board
LEUNG Sau Fong
Company Secretary

Hong Kong, 30 April 2009

Notes:

i. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

ii. To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the branch share registrars of the Company in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

iii. The register of members of the Company will be closed from Monday, 1 June 2009 to Thursday, 4 June 2009, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the final dividend and to attend the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 May 2009. The cheques for dividend payment will be sent on about Monday, 15 June 2009.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DATRONIX HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Datronix Holdings Limited (the "company") and its subsidiaries (collectively referred to as the "group") set out on pages 27 to 80, which comprise the consolidated and company balance sheets as at 31 December 2008 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2008 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 7 April 2009

Kwok Cheuk Yuen
Practising Certificate Number P02412

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	5	288,298	282,655
Cost of sales		(164,479)	(152,612)
Gross profit		123,819	130,043
Other revenue	5	5,882	8,179
Distribution and selling expenses		(20,632)	(19,951)
Administrative expenses		(42,885)	(28,799)
Profit before taxation	7	66,184	89,472
Income tax	8	(10,921)	(11,550)
Profit for the year attributable to equity shareholders of the company	9	55,263	77,922
Dividends payable to equity shareholders of the company attributable to the year:	10		
Interim dividend declared during the year		13,440	13,440
Final dividend proposed after the balance sheet date		7,040	15,360
		20,480	28,800
Earnings per share	11		
– Basic and diluted		HK$0.173	HK$0.244

The notes on pages 33 to 80 form an integral part of these financial statements.

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	13	38,972	36,788
Prepaid lease payments	14	19,087	19,398
		58,059	56,186
Current assets			
Inventories	16	77,765	77,425
Prepaid lease payments	14	586	558
Amount due from ultimate parent enterprise	17	23	18
Tax reserve certificates	27	13,624	13,624
Prepayments, deposits and other receivables		1,508	2,683
Trade receivables	18	36,535	36,913
Cash and cash equivalents	19	246,648	214,532
		376,689	345,753
Current liabilities			
Trade and other payables	20(a)	11,808	20,374
Current taxation	21(a)	13,978	14,301
Provision	20(b)	11,158	–
		36,944	34,675
Net current assets		339,745	311,078
Total assets less current liabilities		397,804	367,264
Non-current liabilities			
Deferred taxation	21(b)	3,337	3,310
NET ASSETS		394,467	363,954
CAPITAL AND RESERVES			
Issued capital	22	32,000	32,000
Reserves	23	362,467	331,954
TOTAL EQUITY		394,467	363,954

Approved and authorised for issue by the board of directors on 7 April 2009.

On behalf of the board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

The notes on pages 33 to 80 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	15	108,735	138,307
Current assets			
Prepayments, deposits and other receivables		94	88
Cash and cash equivalents	19	168	158
		262	246
Current liabilities			
Other payables and accruals	20	93	64
Net current assets		169	182
NET ASSETS		108,904	138,489
CAPITAL AND RESERVES			
Issued capital	22	32,000	32,000
Reserves	23	76,904	106,489
TOTAL EQUITY		108,904	138,489

Approved and authorised for issue by the board of directors on 7 April 2009.

On behalf of the board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

The notes on pages 33 to 80 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Issued capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1/1/2007	32,000	57,099	(23,724)	12,322	27	232,724	310,448
– Increase in revaluation reserve, net of deferred tax	–	–	–	975	–	–	975
– Dividend paid (note 10)	–	–	–	–	–	(27,200)	(27,200)
– Translation adjustments	–	–	–	–	1,809	–	1,809
– Profit for the year	–	–	–	–	–	77,922	77,922
At 31/12/2007	32,000	57,099	(23,724)	13,297	1,836	283,446	363,954
At 1/1/2008	32,000	57,099	(23,724)	13,297	1,836	283,446	363,954
– Increase in revaluation reserve, net of deferred tax	–	–	–	1,286	–	–	1,286
– Dividend paid (note 10)	–	–	–	–	–	(28,800)	(28,800)
– Translation adjustments	–	–	–	–	2,764	–	2,764
– Profit for the year	–	–	–	–	–	55,263	55,263
At 31/12/2008	32,000	57,099	(23,724)	14,583	4,600	309,909	394,467

The notes on pages 33 to 80 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		66,184	89,472
Adjustments for:			
Interest income		(5,169)	(6,973)
Depreciation of property, plant and equipment		5,941	5,265
Loss on disposals of property, plant and equipment		39	74
Amortisation of prepaid lease payments		491	491
Write down/(reversal) of inventories	16	716	(1,483)
Allowance for doubtful debts		499	12
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL		68,701	86,858
(Increase)/decrease in inventories		(1,056)	7,546
Increase in amount due from ultimate parent enterprise		(5)	(5)
Decrease/(increase) in prepayments, deposits and other receivables		1,175	(965)
(Increase)/decrease in trade receivables		(121)	9,975
Decrease in trade payables		(7,321)	(2,466)
Decrease in other payables and accruals		(1,245)	(1,102)
Increase in provision		11,158	–
CASH GENERATED FROM OPERATIONS		71,286	99,841
Income tax paid			
– Hong Kong		(5,806)	(7,650)
– Overseas		(5,716)	(9,539)
NET CASH GENERATED FROM OPERATING ACTIVITIES		59,764	82,652
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(5,799)	(4,129)
Interest received		5,169	6,973
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(630)	2,844
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		59,134	85,496

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		59,134	85,496
FINANCING ACTIVITIES			
Dividends paid		(28,800)	(27,200)
NET CASH USED IN FINANCING ACTIVITIES		(28,800)	(27,200)
NET INCREASE IN CASH AND CASH EQUIVALENTS		30,334	58,296
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		214,532	155,112
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,782	1,124
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	246,648	214,532

The notes on pages 33 to 80 form an integral part of these financial statements.

1. CORPORATE INFORMATION

(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.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 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.

(b) Basis of preparation

The consolidated financial statements of the company have been prepared in accordance with HKFRSs and under the historical cost convention except for certain financial assets and liabilities which are measured at fair value, if applicable. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except where otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the group and the company.

In the current year, the group has where applicable applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior adjustment is required.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The group has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2008.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of Financial Statements [2]
HKAS 23 (Revised)	Borrowing Costs [2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standard [3]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations [2]
HKFRS 3 (Revised)	Business Combinations [3]
HKFRS 7 (Amendments)	Improving Disclosure about Financial Instruments [2]
HKFRS 8	Operating Segments [2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives [7]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate [2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation [5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners [3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers [6]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

[6] Effective for transfers on or after 1 July 2009

[7] Effective for annual periods beginning on or after 30 June 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The company's directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the group.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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 is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(d) Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

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.

In the company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2 (h)), unless the investment is classified as held for sale.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) 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.

(f) Property, plant and equipment

Property, plant and equipment other than other properties are stated at cost less accumulated depreciation and accumulated impairment losses (see note 2(h)).

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 valuer 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

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.

Gains or losses arising from the disposal or retirement of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of disposal or retirement.

Depreciation is calculated to write off the cost/valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives 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.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

(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.

(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.

Prepaid lease payments represent leasehold interests in land under operating lease arrangements and are amortised to profit or loss on a straight-line basis over the lease terms.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets

(i) Impairment of other receivables

Other current and non-current receivables that are stated at cost or amortised cost are reviewed at the balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(i) Impairment of other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

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

– property, plant and equipment (other than properties carried at revalued amounts); and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– 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).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in the profit or loss 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 favourable 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 profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(h)).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Related parties

For the purpose of these financial statements, parties are considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) Trade and other receivables, deposits and prepayments

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts (see note 2(h)), 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 allowance for impairment losses for bad and doubtful debts (see note 2(h)).

(l) 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.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liabilities

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

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

(o) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

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 the 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Employee benefits

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

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

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

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

(r) Segment reporting

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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 asset, 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).

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk factors

The group's major financial instruments include, cash and cash equivalents, trade receivables and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk and currency risk. The group does not hold or issue derivative financial instruments either for hedging or trading purposes. The policies on how to mitigate these risks are set out as below.

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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

– Trade receivables

As at 31 December 2008, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

In respect of trade receivables, in order to minimise risk, the management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on all customers periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The group does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.

In respect of trade receivables, the group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the balance sheet date, the group has a certain concentration of credit risk as approximately 36% (2007: 35%) and 74% (2007: 69%) of the total trade receivables was due from the group's largest customer and the five largest customers respectively.

– Deposits with banks

The group mitigates its exposure to credit risk by placing deposits with the financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(ii) 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 board approval. 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 amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The total contractual undiscounted cash flows of the group's non-derivative financial liabilities are the same as their carrying amounts as their remaining contractual maturities are within one year.

(iii) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As the group has no interest-bearing liabilities, the group's expenses and financing cash flows are independent of changes in market interest rates.

The group is exposed to cash flow interest rate risks as the group has significant cash and cash equivalents which are interest-bearing. The management monitors interest rate exposures and considered that there is no significant impact on cash flow interest rate risk. The group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the group's interest-earning financial assets at the balance sheet date:

The Group

	2008		2007	
	Effective interest rate %	One year or less HK$'000	Effective interest rate %	One year or less HK$'000
Cash and cash equivalents	0.36% – 1.68%	246,648	0.72% – 4.94%	214,532

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(iii) Fair value and cash flow interest rate risks (Continued)

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the group's profit after tax and retained profits by approximately HK$2,466,000 (2007: HK$2,145,000). Other components of consolidated equity would not be affected (2007: HK$Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for cash and cash equivalents in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(iv) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. 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 operation to which they relate.

(i) Exposure to currency risk

The following table details the group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The group is mainly exposed to the fluctuation of United States dollars, Euros and Renminbi.

The Group

	2008			
	USD '000	EUR '000	GBP '000	RMB '000
Cash and cash equivalents	6,090	190	12	38,080
Trade and other receivables	4,576	137	2	708
Trade and other payables	(611)	(39)	–	(580)
Provision	–	–	–	(8,446)
Overall exposure arising from recognised assets and liabilities	10,055	288	14	29,762

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(iv) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

The Group

	2007				
	USD '000	EUR '000	GBP '000	RMB '000	JPY '000
Cash and cash equivalents	23,270	326	12	27,314	–
Trade and other receivables	4,607	177	1	738	–
Trade and other payables	(1,288)	(58)	–	(1,960)	(575)
Overall exposure arising from recognised assets and liabilities	26,589	445	13	26,092	(575)

The group ensure that the net exposure is keep to an acceptable level.

(ii) Sensitivity analysis

The following table indicates the approximate change in the group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the group has significant exposure at the balance sheet date.

The Group

	2008		2007	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits HK$'000
Euros	5%	53	5%	121
	(5%)	(53)	(5%)	(121)

Other components of consolidated equity would not be affected (2007: HK$Nil) by the changes in foreign exchange rates.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(iv) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for non- derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

(v) Fair values

The fair values of cash and cash equivalents, bank deposits, debtors, other receivables, trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Capital risk management

The group regards the equity attributable to the company's equity shareholders, comprising issued share capital, share premium, accumulated profits and other reserves as its capital. The group's objective when managing capital structure is to ensure that entities in the group will be able to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The equity attributable to the company's equity shareholders at 31 December 2008 and 2007 were as follows:

	2008 HK$'000	2007 HK$'000
Equity attributable to the company's equity shareholders	394,467	363,954

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) *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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Key sources of estimation uncertainty (Continued)

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

The group maintains impairment allowances for doubtful accounts based on an assessment of the recoverability of 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 the carrying amount of receivables and doubtful debt expenses in the period in which such estimate has been changed.

(iii) Estimated net realisable value of inventories

The group's management writes down for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate 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 revision on the amount of inventories written down in the period in which such estimate has been changed.

(iv) Income taxes

Recognition of deferred tax assets, which principally relate to tax losses, depends on the expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Critical accounting judgements in applying the group's accounting policies

In determining the carrying amounts of some assets and liabilities, the group makes assumptions for the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as cash flows and discount rates used. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the group's accounting policies.

5. TURNOVER AND OTHER REVENUE

The principal activities of the group are manufacturing and trading electronic components.

Turnover represents the sales value of goods supplied to customers. The amount of revenue recognised in turnover during the year is as follows:

	2008 HK$'000	2007 HK$'000
Turnover		
Sales of merchandise	288,298	282,655
Other revenue		
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	5,169	6,973
Sundries income	713	1,206
	5,882	8,179
Total revenue	294,180	290,834

Approximately 75% of the group's turnover for the year ended 31 December 2008 (2007: 76%) arose from the group's top five customers.

6. SEGMENT INFORMATION

Segment information is presented in respect of the group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

Business segment

The group is principally engaged in the manufacturing of electronic components. Accordingly, the directors consider there is only one business segment.

Geographical segments

The group participates in five geographical segments. It manufactured its products in the PRC and sells them to customers in the United States of America, Europe, Hong Kong and other countries.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment results are based on where the operating profit or loss arise. Segment assets and capital expenditure are based on the geographical location of the assets.

6. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

An analysis of geographical segments is as follows:

	Hong Kong		The PRC		The United States of America		Europe		Others		Eliminations		Total	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Turnover														
External sales	3,257	8,104	–	–	255,528	242,850	11,505	17,480	18,008	14,221	–	–	288,298	282,655
Inter segment sales	329,694	370,771	–	–	129,777	129,314	3,503	2,976	–	–	(462,974)	(503,061)	–	–
Total	332,951	378,875	–	–	385,305	372,164	15,008	20,456	18,008	14,221	(462,974)	(503,061)	288,298	282,655
Operating results														
Profit/(loss) from operations	56,408	69,692	(10,211)	1,279	14,196	11,624	(254)	(860)	–	–	876	764	61,015	82,499
Interest income	4,044	5,961	972	560	135	307	18	145	–	–	–	–	5,169	6,973
Profit before taxation													66,184	89,472
Income tax													(10,921)	(11,550)
Profit attributable to equity shareholders of the company													55,263	77,922
Other information														
Segment assets	955,603	756,545	58,799	55,857	65,298	48,912	3,432	2,514	–	–	(648,384)	(461,889)	434,748	401,939
Segment liabilities	437,390	283,013	11,304	1,960	43,915	35,970	6,767	5,477	–	–	(459,095)	(288,435)	40,281	37,985
Capital expenditure	5,629	4,451	150	505	136	136	17	17	–	–	(133)	(980)	5,799	4,129
Depreciation and amortisation	5,173	4,461	1,874	1,946	138	278	21	20	–	–	(774)	(949)	6,432	5,756

7. PROFIT BEFORE TAXATION

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

	2008 HK$'000	2007 HK$'000
Amortisation of prepaid lease payments	491	491
Impairment of trade receivables	620	217
Auditors' remuneration	503	443
Cost of inventories (note 16)	164,479	154,095
Write-down/(reversal) of inventories, gross (note 16)	716	(1,483)
Depreciation of property, plant and equipment	5,941	5,265
Loss on disposal of property, plant and equipment	39	74
Net foreign exchange loss	1,766	163
Operating lease charges on rented premises and equipment	57	90
Research and development expenditures	5,323	4,409
Staff costs:		
– Salaries, wages and other benefits (including directors' emoluments – note 12)	67,507	48,668
Less: Amounts included in research and development expenditures	(4,559)	(3,748)
	62,948	44,920
– Contributions to defined contribution retirement plans	3,245	3,445

8. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Current tax		
Hong Kong	5,296	6,323
Overseas	5,903	5,353
Deferred taxation	(278)	(126)
	10,921	11,550

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/09. Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2007: 24%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. INCOME TAX (Continued)

(b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2008 HK$'000	2007 HK$'000
Profit before taxation	66,184	89,472
Effect of tax at Hong Kong profits tax rate of 16.5% (2007: 17.5%)	10,920	15,658
Effect of different tax rates of subsidiaries operating in other jurisdictions	3,525	3,253
Tax effect on non-taxable income	(3,908)	(7,523)
Tax effect of unused tax losses	171	254
Tax effect of non-deductible expenses	478	–
Tax effect of deductible temporary differences not recognised in prior years	(115)	(126)
Tax effect on deferred tax arising from change in tax rate	(163)	–
Others	13	34
Actual tax expense	10,921	11,550

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 25% (2007: 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.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the tax rate for a subsidiary from 33% to 25% will be revised from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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 Euro1,300 for the year ended 31 December 2008 (2007: Euro1,300).

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% (2007: 15% to 38%), and California State corporate tax at the rate of 8.84% (2007: 8.84%), on the estimated assessable profits arising from or derived by Datatronic Distribution, Inc. on a worldwide basis.

9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the company includes a loss of approximately of HK$785,000 (2007: loss of HK$726,000) which has been dealt with in the financial statements of the company.

10. DIVIDENDS

(a) Dividends payable to equity shareholders of the company attributable to the year

	2008 HK$'000	2007 HK$'000
Interim, declared and paid, of HK$0.042 (2007: HK$0.042) per ordinary share	13,440	13,440
Final, proposed, of HK$0.022 (2007: HK$0.048) per ordinary share	7,040	15,360
	20,480	28,800

The final dividend for 2008 proposed after the balance sheet date is subject to shareholders' approval in the forthcoming general meeting. It has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2008 HK$'000	2007 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.048 (2007: HK$0.043) per ordinary share	15,360	13,760

11. EARNINGS PER SHARE

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

	2008 HK$'000	2007 HK$'000
Profit attributable to equity shareholders of the company	55,263	77,922

	Number of shares 2008	2007
Weighted average number of shares for the purpose of calculating earnings per share	320,000,000	320,000,000

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding for both years presented.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows:

	Year ended 31 December 2008			
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	4,156	–	4,156
Shui Wai Mei	–	490	12	502
Sheung Shing Fai	–	1,373	12	1,385
Siu Nina Margaret	–	617	12	629
Non-executive director				
Siu Ronald (Resigned on 19 September 2008)	–	–	–	–
Independent non-executive directors				
Chung Pui Lam	107	–	–	107
Lam Tak Shing, Harry	108	–	–	108
Chan Fai Yue, Leo	98	–	–	98
	313	6,636	36	6,985

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(i) Directors' emoluments disclosed pursuant to section 161 of Hong Kong Companies Ordinance is shown as follows: (Continued)

	Year ended 31 December 2007			
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Pension scheme contribution HK$'000	Total HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	1,000	12	1,012
Shui Wai Mei	–	–	–	–
Sheung Shing Fai	–	1,074	12	1,086
Siu Nina Margaret	–	401	12	413
Non-executive director				
Siu Ronald	–	–	–	–
Independent non-executive directors				
Chung Pui Lam	100	–	–	100
Lam Tak Shing, Harry	100	–	–	100
Chan Fai Yue, Leo	60	–	–	60
	260	2,475	36	2,771

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 2008 (2007: HK$Nil).

As at 31 December 2008, no share options have been granted and held by the directors under the company's share option scheme. The details of the share options are disclosed in note 22.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the group, four (2007: two) were directors of the company whose emoluments are included in the disclosures in note 12(i) above. The emoluments of the remaining one (2007: three) individuals were as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other benefits	524	1,346
Contributions to retirement benefits schemes	12	36
	536	1,382

Their emoluments were all within HK$1,000,000.

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.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings held for own use carried at fair value HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2007	22,650	21,289	22,238	3,518	69,695
Additions	–	2,356	1,773	–	4,129
Disposals	–	(331)	(879)	–	(1,210)
Surplus on revaluation	231	–	–	–	231
Exchange adjustments	519	8	103	12	642
At 31/12/2007 and 1/1/2008	23,400	23,322	23,235	3,530	73,487
Additions	–	2,334	809	2,656	5,799
Disposals	–	(376)	(494)	–	(870)
Surplus on revaluation	559	–	–	–	559
Exchange adjustments	751	20	122	16	909
At 31/12/2008	24,710	25,300	23,672	6,202	79,884
Accumulated depreciation					
At 1/1/2007	–	18,356	12,036	3,097	33,489
Charge for the year	1,031	1,833	2,315	86	5,265
Disposals	–	(331)	(805)	–	(1,136)
Written back on revaluation	(1,031)	–	–	–	(1,031)
Exchange adjustments	–	79	33	–	112
At 31/12/2007 and 1/1/2008	–	19,937	13,579	3,183	36,699
Charge for the year	1,032	2,042	2,121	746	5,941
Disposals	–	(376)	(455)	–	(831)
Written back on revaluation	(1,032)	–	–	–	(1,032)
Exchange adjustments	–	112	20	3	135
At 31/12/2008	–	21,715	15,265	3,932	40,912
Net book value					
At 31/12/2008	24,710	3,585	8,407	2,270	38,972
At 31/12/2007	23,400	3,385	9,656	347	36,788

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings held for own use carried at fair value HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Representing:					
2008:					
At cost	–	25,300	23,672	6,202	55,174
At valuation	24,710	–	–	–	24,710
	24,710	25,300	23,672	6,202	79,884
2007:					
At cost	–	23,322	23,235	3,530	50,087
At valuation	23,400	–	–	–	23,400
	23,400	23,322	23,235	3,530	73,487

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

	Group	
	2008 HK$'000	2007 HK$'000
Hong Kong	9,880	9,120
The PRC	14,830	14,280
	24,710	23,400

Buildings located in Hong Kong are held under medium-term leases. Buildings located in the PRC are held under medium-term lease expiring in year 2047 and year 2051.

The buildings held by the group for own use located in Hong Kong are stated at open market value as at 31 December 2008 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuer. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The buildings held by the group for own use located in the PRC are stated on a depreciated replacement cost basis as at 31 December 2008 as determined by the same valuer. Had the group's buildings been carried at cost less accumulated depreciation, the net book value of the group's buildings as at 31 December 2008 would have been approximately HK$12,678,000 (2007: HK$13,579,000).

14. PREPAID LEASE PAYMENTS

The group's interests in prepaid lease payments represents prepaid operating lease payments charged to profit or loss are analysed as follows:

	Group	
	2008 HK$'000	2007 HK$'000
At 1 January	19,956	20,292
Amortisation for the year	(491)	(491)
Exchange adjustments	208	155
At the balance sheet date	19,673	19,956
Leases of between 10 to 50 years, held in:		
Hong Kong	15,609	16,009
PRC	4,064	3,947
	19,673	19,956
Analysed for reporting purposes as:		
Current asset	586	558
Non-current asset	19,087	19,398
	19,673	19,956

15. INTERESTS IN SUBSIDIARIES

	Company	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	113,606	113,606
Amount due (to)/from a subsidiary	(4,871)	24,701
	108,735	138,307

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

15. INTERESTS IN SUBSIDIARIES (Continued)

Details of the company's subsidiaries as at 31 December 2008 are as follows:

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

15. 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.

16. INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	Group	
	2008 HK$'000	2007 HK$'000
Raw materials	55,952	53,764
Work-in-progress	2,185	2,925
Finished goods	19,628	20,736
	77,765	77,425

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Carrying amount of inventories sold	163,763	155,578
Write down of inventories	716	–
Reversal of write-down of inventories	–	(1,483)
	164,479	154,095

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 has been recognised and included in cost of inventories sold.

17. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

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

18. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 30 days to 90 days. The group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Further details on the group's credit policy are set out in note 3(a)(i).

(a) An aging analysis of trade receivables as at balance sheet date is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Within 30 days	20,629	18,767
31 to 60 days	13,563	13,233
61 to 90 days	1,954	3,824
Over 90 days	975	1,176
	37,121	37,000
Less: Allowance for doubtful debts	(586)	(87)
	36,535	36,913

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly, and any movements held in the allowance account relating to those doubtful debts are reversed.

The movement in the allowance for doubtful debts is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
At 1 January	87	75
Uncollectible amounts written off	(121)	(205)
Impairment loss recognised *	620	217
At 31 December	586	87

* The group's trade receivables as at 31 December 2007 and 2008 of approximately HK$217,000 and HK$620,000 were individually impaired respectively. The individually impaired receivables related to invoices that were default in payments and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of approximately HK$87,000 and HK$586,000 were recognised respectively. The group does not hold any collateral over these balances.

18. TRADE RECEIVABLES (Continued)

(c) Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	35,590	35,824
Less than 1 month past due	210	751
1 to 3 months past due	155	79
Over 3 months, but less than 1 year past due	580	259
	945	1,089
	36,535	36,913

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The group does not hold any collateral over these balances.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Short term time deposits	135,914	171,909	–	–
Cash at bank and in hand	110,734	42,623	168	158
	246,648	214,532	168	158

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.

20. TRADE AND OTHER PAYABLES AND PROVISION

(a) Trade and other payables

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Trade payables	6,982	14,303	–	–
Other payables	639	661	2	2
Temporary receipts	323	339	–	–
Accrued salaries	143	3,641	83	47
Accrued expenses	3,721	1,430	8	15
	11,808	20,374	93	64

An aging analysis of trade payables as at the balance sheet date is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Within 30 days	5,900	8,163
31 to 60 days	963	3,811
61 to 90 days	114	2,164
Over 90 days	5	165
	6,982	14,303

Trade payables are interest free and are normally settled on 90-day terms. The carrying amounts of trade payables approximate to their fair values due to their short maturity term.

(b) Provision

The provision represents the long service leave entitlements to employees accrued.

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
At 1 January	–	–	–	–
Additional provision recognised	11,158	–	–	–
At 31 December	11,158	–	–	–

21. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	2008 HK$'000	2007 HK$'000
Provision for the year		
– Hong Kong profits tax	5,296	6,323
– Overseas profits tax	5,903	5,353
Provisional tax paid		
– Hong Kong	(5,806)	(7,650)
– Overseas	(5,716)	(9,539)
Balance of profits tax provision relating to prior years	14,301	19,814
	13,978	14,301

(b) Deferred tax assets and liabilities recognised:

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 2007	2,917	232	3,149
Credited to the profit or loss	–	(126)	(126)
Charged to property revaluation reserves	287	–	287
At 31 December 2007 and 1 January 2008	3,204	106	3,310
Effect of change in tax rate	3	(163)	(160)
Credited to the profit or loss	–	(115)	(115)
Charged to property revaluation reserves	302	–	302
At 31 December 2008	3,509	(172)	3,337

The group has not recognised deferred tax assets in respect of tax losses of HK$1,043,000 during the year (2007: HK$1,450,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdication and entity. The tax losses do not expire under current tax legislation.

22. ISSUED CAPITAL AND SHARE OPTION SCHEME

	Group and company	
	2008 HK$'000	2007 HK$'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 holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

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. RESERVES

(a) Group

	Share premium HK$'000 (Note (c)(i))	Capital reserve HK$'000 (Note (c)(ii))	Property revaluation reserve HK$'000 (Note (c)(iii))	Exchange reserve HK$'000 (Note (c)(iv))	Retained profits HK$'000	Total HK$'000
At 1/1/2007	57,099	(23,724)	12,322	27	232,724	278,448
Increase in revaluation reserve, net of deferred tax	–	–	975	–	–	975
Dividend paid (note 10)	–	–	–	–	(27,200)	(27,200)
Translation adjustments	–	–	–	1,809	–	1,809
Profit for the year	–	–	–	–	77,922	77,922
At 31/12/2007	57,099	(23,724)	13,297	1,836	283,446	331,954
At 1/1/2008	57,099	(23,724)	13,297	1,836	283,446	331,954
Increase in revaluation reserve, net of deferred tax	–	–	1,286	–	–	1,286
Dividend paid (note 10)	–	–	–	–	(28,800)	(28,800)
Translation adjustments	–	–	–	2,764	–	2,764
Profit for the year	–	–	–	–	55,263	55,263
At 31/12/2008	57,099	(23,724)	14,583	4,600	309,909	362,467

23. RESERVES (Continued)

(b) Company

	Share premium HK$'000 (Note (c)(i))	Contributed surplus HK$'000 (Note (c)(v))	Accumulated losses HK$'000	Total HK$'000
At 1/1/2007	57,099	89,606	(12,290)	134,415
Dividends paid (note 10)	–	–	(27,200)	(27,200)
Loss for the year	–	–	(726)	(726)
At 31/12/2007 and 1/1/2008	57,099	89,606	(40,216)	106,489
Dividends paid (note 10)	–	–	(28,800)	(28,800)
Loss for the year	–	–	(785)	(785)
At 31/12/2008	57,099	89,606	(69,801)	76,904

Under the Companies Act 1981 of Bermuda (as amended), retained profits and contributed surplus are distributable to shareholders, subject to the condition that the company cannot declare or pay a dividend, or make a distribution out of retained profits and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

The company's reserves as at 31 December 2008 available for distribution to shareholders are approximately HK$19,805,000 (2007: HK$49,390,000).

(c) Nature and purpose of reserves

(i) Share premium

The share premium account represents the excess of the nominal value of the ordinary shares issued by the company and the net proceeds from the issuance of ordinary shares for initial public offering after deduction of the share issuing expenses.

(ii) Capital reserve

Capital reserve of the group represents the difference between the nominal value of the ordinary shares issued by the company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the reorganisation.

23. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(iii) Property revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and building in note 2(f) and note 2(g). The property revaluation reserve is distributable to the extent of HK$1,089,000 (2007: HK$1,065,000).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange difference arising from the translation of the financial statements of foreign operations. The reserve is dealt with accordance with the accounting policy set out in note 2(p).

(v) Contributed surplus

Contributed surplus of the company represents the difference between the nominal value of the ordinary shares issued by the company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the reorganisation.

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.

As stipulated by rules and regulations in France, the group contributed to the retirement benefit scheme for its employees in France at a rate of 9.9% 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.

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:

	2008 HK$'000	2007 HK$'000
Datatronics Romoland, Inc. ("DRI")*		
– Sales to DRI	80,166	79,069
– Reimbursement of expenses to DRI	7,194	5,044

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

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

	2008 HK$'000	2007 HK$'000
Trade receivables from DRI	13,292	13,047

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) Key management personnel remuneration of the group

	2008 HK$'000	2007 HK$'000
Short-term employee benefits	6,019	2,074
Post-employment benefits	24	24
	6,043	2,098

Note: Further details of post-employment benefits and directors' and employees' emoluments are included in note 12 to the financial statements. Total remuneration is included in "staff costs" (see note 7).

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	
	2008 HK$'000	2007 HK$'000
Within one year	92	38
In the second to the fifth year	323	–
	415	38

(b) Capital commitments

The group's capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment in the financial statements is approximately HK$Nil (2007: HK$425,000).

(c) Other commitments

Effective from 1 January 2007, 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 RMB9,968 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 RMB120,000 as at 31 December 2008 (2007: RMB120,000).

27. LITIGATION

The company's subsidiary, Datatronic Limited ("Datatronic"), had applied for off-shore claims in respect of its operations in the PRC for the years ended 31 December 1999 to 31 December 2001. Pending for the result of such off-shore claims, full provision for profits tax had been made in the profit and loss of the relevant years aggregating to HK$13,624,000. During the years ended 31 December 2002 and 2003, the Inland Revenue Department raised additional profits tax assessments for the years of assessment 1999/00 and 2000/01 and profits tax assessment for the year of assessment 2001/02 (the "Assessments") in respect of such off-shore claims. Datatronic objected and appealed on such Assessments on 2 July 2004. In respect of such tax dispute, Datatronic had purchased tax reserve certificates aggregating to HK$13,624,000. By the decision of the Court of First Instance on 13 June 2008, Datatronic succeeded in its appeal against the Commissioner of Inland Revenue ("CIR") on the Assessments. Nevertheless, the management of the group considered that it was not appropriate to write back the related tax provisions in Datatronic at this stage since the CIR had applied to the Court of Appeal for an appeal on 11 September 2008. The case is scheduled to be heard on 25 and 26 June 2009. The final outcome of such tax dispute is pending. The legal cost in relation to such tax disputes not yet accounted for in the financial statements is estimated to be in the region of HK$0.6 million to HK$3 million.

28. POST BALANCE SHEET EVENT

On 7 April 2009, the company's directors proposed a final dividend of HK$0.022 (2007: HK$0.048) per share, totalling HK$7,040,000 (2007: HK$15,360,000), in respect of the year ended 31 December 2008. The proposed dividend is subject to approval by the company's shareholders in the annual general meeting.

29. ULTIMATE PARENT ENTERPRISE

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

For the year ended 31 December 2008

The consolidated income statements of the group for the financial years 2004 to 2008 and the consolidated balance sheets of the group as at 31 December 2004, 2005, 2006, 2007 and 2008 are as follows:

	Year ended 31 December				
Results	2004 HK$'000 (restated)	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000
Turnover	184,490	208,644	272,131	282,655	288,298
Profit before taxation	44,794	66,722	88,082	89,472	66,184
Income tax	(4,341)	(5,922)	(9,681)	(11,550)	(10,921)
Profit for the year	40,453	60,800	78,401	77,922	55,263
Attributable to: Equity shareholders of the company	40,453	60,800	78,401	77,922	55,263

	At 31 December				
Assets and liabilities	2004 HK$'000 (restated)	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000
Total assets	238,542	288,470	357,353	401,939	434,748
Total liabilities	(33,271)	(37,860)	(46,905)	(37,985)	(40,281)
Total equity	205,271	250,610	310,448	363,954	394,467

Major land held by the company

Location	**Existing use**	**Term of lease**	**Percentage of interest**
78 Marble Road 499 King's Road North Point Hong Kong	Office	Medium term	100%

Overseas building

A parcel of industrial land at the Old Guang-Zhu Highway, Lun Jian Town Shunde District Fushan City Guangzhou, Guangdong Province The People's Republic of China	Industrial	Medium term	100%