DATRONIX HOLDINGS LIMITED
連達科技控股有限公司*

(Stock Code: 889)

Annual Report 2010

* For identification purposes only

A W A

ASTRONICS
"Best Value Added"

LUTRON
"Customer Service"

MEDTRONIC
"Outstanding Performance"

DATAFORTH
"Vendor of the Year"

LUTRON
"Outstanding New Supplier"

R D S

XICOM
"Outstanding Performance"

MICRO SYSTEMS ENGINEERING
"Special Recognition Award"

MEDTRONIC
"Supplier of the Year"

LUTRON
"Supplier of the Year"

VICOR
"Outstanding Supplier Achievement Award"

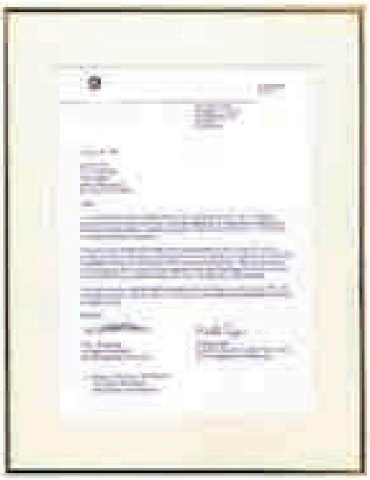
XICOM
"President's Award"

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

MOK Sim Wa

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITORS

BDO Limited
25/F Wing On Centre
111 Connaught Road Central
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

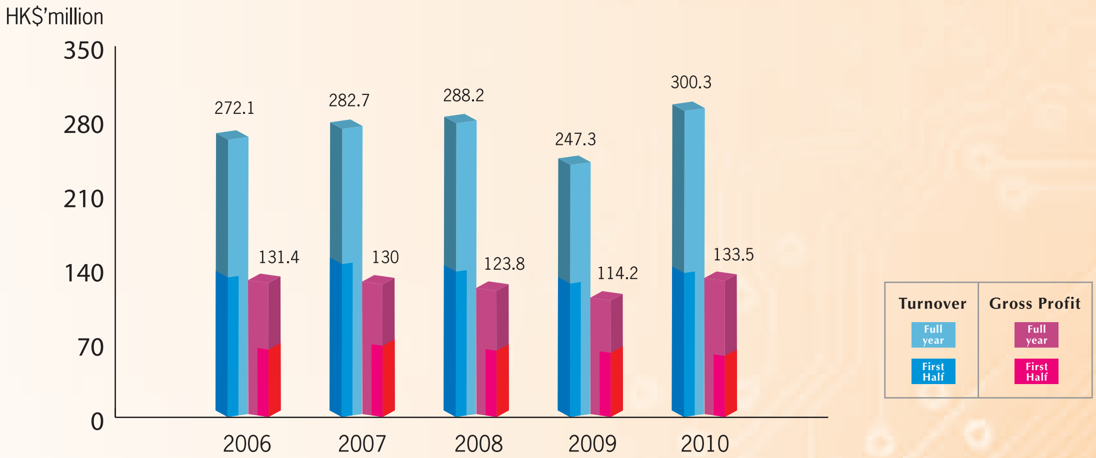
The Hongkong and Shanghai Banking
Corporation Limited
Bank of Communications

WEBSITE

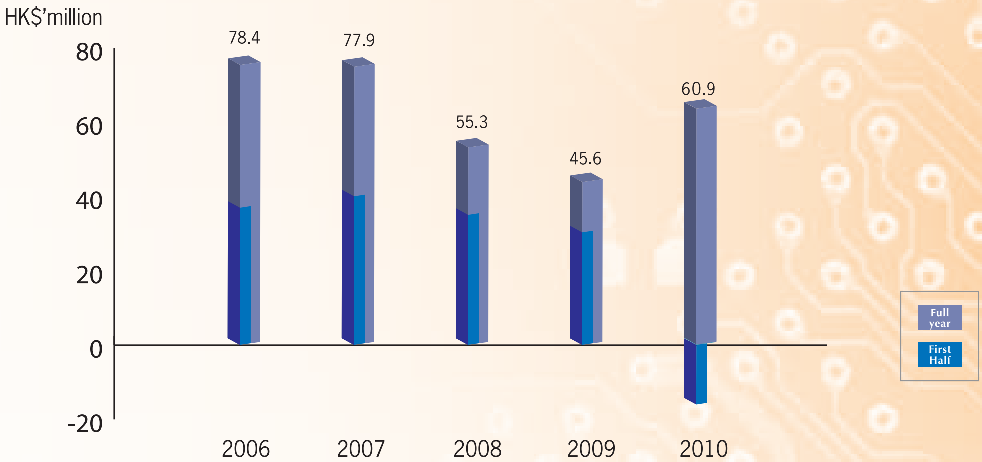
www.datronixhldgs.com.hk

FINANCIAL HIGHLIGHTS

Turnover and Gross Profit



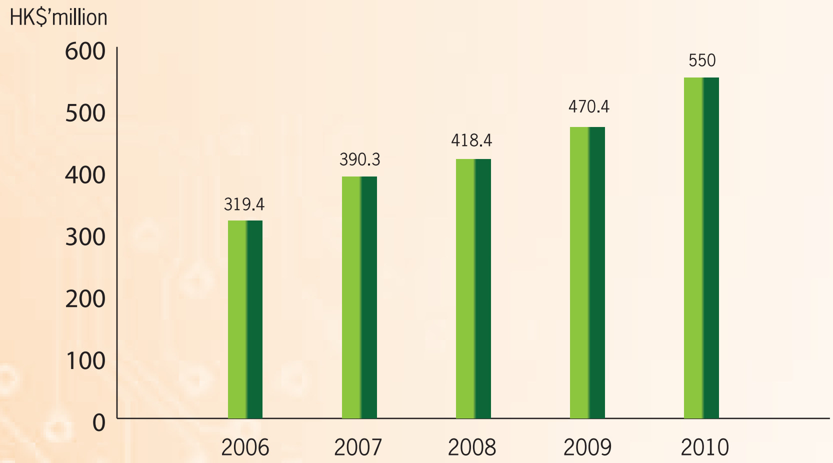
Profit attributable to owners of the Company



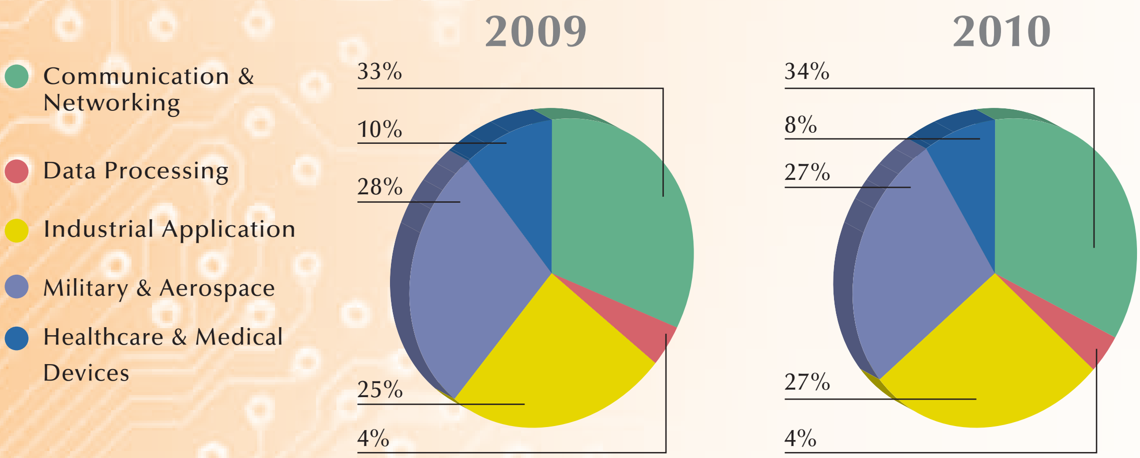
Basic Earnings Per Share (cents)

FINANCIAL HIGHLIGHTS

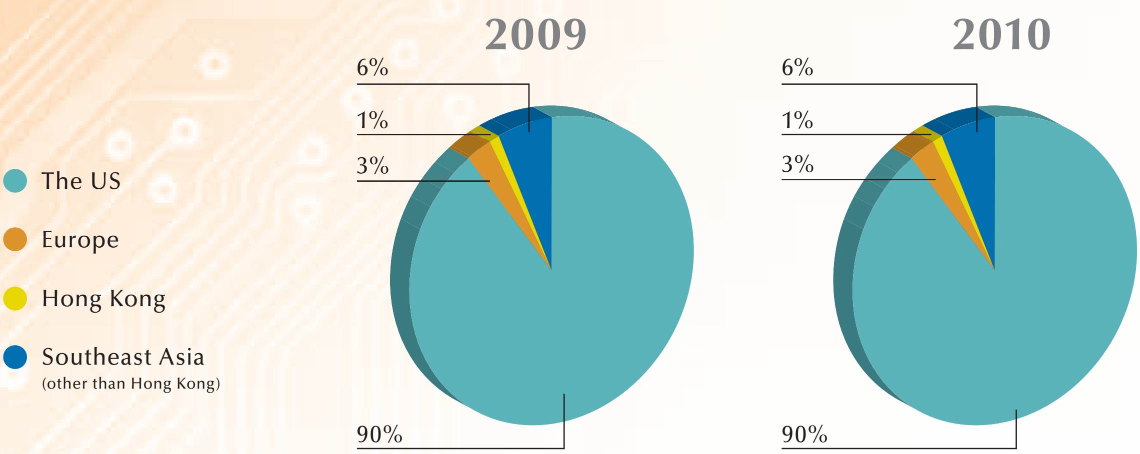
Net Assets



Market



Geographical destination of products



GENERAL

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

GENERAL

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

GENERAL

The directors consider the following 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.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Business momentum and economic sentiment had picked up in the electronic industry for 2010. We are pleased with Datronix's strong top line performance in this year, which is a result of resurgent demand on our core markets. Despite the recovery, various costs on raw material increased throughout the year. Meanwhile, the Group upholds a prudent and stringent cost structure with continuing cost reduction initiatives. The increased productivity and maintained stable workforce had lead to improve in efficiency.

Datronix reported a record high in sales of HK$300.3 million for the year ended 2010, an increase of 21% compared to $247.3 million in 2009. Gross profit reported HK$133.5 million, which is an increase of 17%. Gross margin dropped slightly by 2% due to significant rose in labor costs in China and raw material expenses which were set off by increase in sales. Profit before tax reported HK$72.1 million, an increase of 29%, compared to HK$55.9 million in 2009. The Group reported net profit of HK$60.9 million, an increase of 34%, compared to HK$45.6 million in 2009. Profit margin was 20% and 18% for 2010 and 2009 respectively.

Throughout the year of 2010, the Group refined flexible manufacturing infrastructure, investing in plant equipment and information technology necessary to support lower manufacturing costs. We are able to deliver configured solutions in meeting specific customer requirements with a cycle time that in recent years has been reduced tremendously.

MARKET REVIEW

Communication and Networking

Communication segment contributed HK$103.5 million of sales for year 2010, an increase of 26% compared to HK$82.0 million in previous year. The satisfied rebounded in this sector was greatly due to the overall consumer sentiment and spending behavior recovered in 2010. This segment contributed 34% of the Group's total turnover.

Data Processing

Data processing segment is the most volatile of our end markets and sales vary significantly. This segment continued to benefit from the improved economic environment in 2010 with an increase of 22% of sales to HK$11.7 million, compared to HK$9.6 million in 2009. This segment contributed 4% of the Group's total turnover.

Industrial Application

Industrial application segment sales increased to HK$80.3 million in 2010, compared to HK$63.1 million in 2009. Contributing to the demand for industrial application has been recovered from the economic downturn in 2009, this segment sales had a significant increase of 27%. This segment contributed 27% of the Group's total turnover.

CHAIRMAN'S STATEMENT

High Reliability Segment

This segment demands precise technology, advance technical know-how and good workmanship by the Group to meet customers' requirements, which applied to military, aerospace, medical and healthcare industry applications. For the year ended 2010, consolidated sales for these industries was HK$104.8 million, compared to HK$92.6 million for the year ended 2009. The high reliability segment contributed 35% of the Group's turnover.

Military and Aerospace

Sales generated by military and aerospace were HK$81.0 million for 2010, compared to HK$68.8 million in 2009. Following a downturn in 2009, we see the growth in commercial air traffic aiding results in an increase in the demand of the commercial aerospace. Yet, high levels of deficit spending in the U.S. may mean continued pressure on the U.S. defense budget.

Healthcare and medical devices

This segment involves applications in medical and healthcare devices. Total sales as year ended 2010 reported HK$23.8 million, compared to HK$23.8 million in 2009. The sales of healthcare sector remained stable in the recent past as the tightened budget and weakened demand stressed on hospital spending. On a positive note, the health care reform bill may help the industry to rebound in few years later, and the increasing demand for quality health care, aging population, leading to a steady flow give the strength to the long term fundamentals for this sector.

Looking Ahead

We remain cautious and prudent on the coming year prospects as the global macro economic picture is mixed and difficult to predict. Given our concrete business fundamentals, however, we remain confident that Datronix is well placed to strengthen its competitive position over time. We look forward to sharing our continued success with you. Thank you for your ongoing support of Datronix.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group delivered a stable earnings result for year ended 2010. Turnover was HK$300.3 million as at 31 December 2010 (2009: HK$247.3 million).

Gross profit in 31 December 2010 was HK$133.5 million with gross margin representing 44%, compared to HK$114.2 million with gross margin representing 46% for the same period last year. Profit recorded HK$60.9 million and HK$45.6 million for the year ended 2010 and 2009 respectively. Net profit margin was 20% in 31 December 2010, compared to 18% in 31 December 2009.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2010, the Group had a total equity of approximately HK$550.0 million (2009: HK$470.4 million (restated)), and cash and cash equivalents of approximately HK$329.5 million (2009: HK$310.2 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2010, 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 2010.

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 2010, the Group employed approximately 1,283 personnel around the world, with approximately 120 in Hong Kong, 1,142 in the PRC and 21 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 2010 (2009: HK$37.5 million).

CAPITAL COMMITMENTS

The Group's capital commitment outstanding at the year end, contracted but not provided for in the financial statements in respect of property, plant and equipment is approximately HK$0.4 million (2009: HK$0.9 million).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Siu Paul Y. alias, Siu Paul Yin Tong, aged 70, 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 65, 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 62, 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 34, is an executive director of the Group. 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 Group 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 70, 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 50, 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 the Chairman and CEO of Far City Mining Limited, the shares of which are listed in Canadian National Stock Exchange in Toronto, Canada.

Mr. Chan Fai Yue, Leo, aged 70, 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, which is listed on The Stock Exchange of Hong Kong Limited.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Randall Eller, aged 53, 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 56, 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 61, 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 62, 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. Mok Sim Wa, aged 32 is the Assistant Accounting Manager of the Group. She is responsible for all finance and accounting functions of the Group. Ms. Mok obtained a Master Degree in Business Administration from the University of South Australia and a Higher Diploma 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 Institutes of Certified Public Accountants. Ms. Mok has over 9 years of experience in auditing, accounting, taxation matters. She joined the Group in 2010.

REPORT OF THE DIRECTORS

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 2010.

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 17 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	79%	
The largest supplier		8%
Five largest suppliers in aggregate		32%

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 statement of comprehensive income on page 27.

The state of affairs of the Group and the Company as at 31 December 2010 are set out in the consolidated statement of financial position on page 28 and the statement of financial position on page 29 respectively.

The directors recommend the payment of a final dividend of HK$0.019 (2009: HK$0.012) per share, totalling HK$6,080,000 (2009: HK$3,840,000) for the year ended 31 December 2010.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2010 and of the assets and liabilities as at 31 December 2006, 2007, 2008, 2009 and 2010 is set out on page 83.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2010 are set out in note 17 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 24 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 69, 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

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, Ms. Shui Wai Mei and Mr. Chan Fai Yue, Leo 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 26 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 2010, 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.	–	–	219,870,000 *(Note 1)*	219,870,000

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

REPORT OF THE DIRECTORS

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 2010, 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 2010, 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 26 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 2010 was approximately HK$70,768,000 (2009: HK$76,591,000).

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.

REPORT OF THE DIRECTORS

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 BDO 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, 1 April 2011

CORPORATE GOVERNANCE REPORT

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:

Director	Number of attendance
Mr. Siu Paul Y.	8/8
Ms. Shui Wai Mei	7/8
Mr. Sheung Shing Fai	8/8
Ms. Siu Nina Margaret	8/8
Mr. Chung Pui Lam	8/8
Mr. Lam Tak Shing, Harry	8/8
Mr. Chan Fai Yue, Leo	8/8

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.

CORPORATE GOVERNANCE REPORT

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, two Remuneration Committee meetings were held. The attendance of each member is set out as follows:

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

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 2010, 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.

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

Director	Number of attendance
Mr. Chung Pui Lam	4/4
Mr. Lam Tak Shing, Harry	4/4
Mr. Chan Fai Yue, Leo	4/4

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2010.

AUDITORS' REMUNERATION

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

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	800

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 2010 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 OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at First Floor, Yue-V5AB, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Friday, 3 June 2011 at 2:00 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December 2010 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

NOTICE OF ANNUAL GENERAL MEETING

(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."

NOTICE OF ANNUAL 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, 29 April 2011

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, Wanchai, 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, 30 May 2011 to Friday, 3 June 2011, 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, 27 May 2011. The cheques for dividend payment will be sent on about Thursday, 16 June 2011.

INDEPENDENT AUDITOR'S REPORT

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香港干諾道中111號
永安中心25樓

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 82, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 this 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 about whether the consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 2010 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.

BDO Limited
Certified Public Accountants
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 1 April 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000 (as restated)
Turnover	7	300,255	247,281
Cost of sales		(166,805)	(133,106)
Gross profit		133,450	114,175
Other revenue	7	3,629	4,557
Distribution and selling expenses		(22,047)	(17,648)
Administrative expenses		(42,913)	(45,204)
Profit before income tax expense	8	72,119	55,880
Income tax expense	10		
Current tax – tax for the year		(10,912)	(7,215)
– under provision in respect of prior years		(38)	(3,190)
Deferred taxation		(248)	120
		(11,198)	(10,285)
Profit for the year attributable to owners of the Company		60,921	45,595
Other comprehensive income for the year	12		
Exchange differences arising on translating foreign operations		3,007	3,872
Surplus on revaluation of leasehold land and buildings held for own use		23,356	16,615
Total other comprehensive income for the year		26,363	20,487
Total comprehensive income attributable to owners of the Company		87,284	66,082
Earnings per share			
– Basic	13	HK$0.190	HK$0.142

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	At 31 December 2010 HK$'000	At 31 December 2009 HK$'000 (as restated)	At 1 January 2009 HK$'000 (as restated)
Non-current assets				
Property, plant and equipment	15	126,443	97,336	80,982
Payment for leasehold land held for own use under operating leases	16	4,399	4,297	4,064
		130,842	101,633	85,046
Current assets				
Inventories	18	85,649	76,536	77,765
Amount due from ultimate holding company	19	34	29	23
Amount due from a related company	19	15	15	–
Tax reserve certificates	31(a)	32,222	13,624	13,624
Tax prepayment		411	–	–
Prepayments, deposits and other receivables		2,277	1,245	1,508
Trade receivables	20	33,042	26,812	36,535
Cash and cash equivalents		329,519	310,226	246,648
		483,169	428,487	376,103
Current liabilities				
Trade and other payables	21	22,401	17,782	11,808
Provision	22	19,108	15,215	11,158
Current tax liabilities		9,122	18,110	13,978
		50,631	51,107	36,944
Net current assets		432,538	377,380	339,159
Total assets less current liabilities		563,380	479,013	424,205
Non-current liabilities				
Deferred tax liabilities	23	13,363	8,600	5,794
NET ASSETS		550,017	470,413	418,411
Capital and reserves				
Issued capital	24	32,000	32,000	32,000
Reserves		518,017	438,413	386,411
TOTAL EQUITY		550,017	470,413	418,411

On behalf of the Board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Non-current assets			
Interests in subsidiaries	17	113,606	113,606
		113,606	113,606
Current assets			
Prepayments, deposits and other receivables		95	95
Cash and cash equivalents		138	170
		233	265
Current liabilities			
Amounts due to subsidiaries	17	18,494	19,816
Other payables and accruals	21	100	91
		18,594	19,907
Net current liabilities		(18,361)	(19,642)
NET ASSETS		95,245	93,964
Capital and reserves			
Issued capital	24	32,000	32,000
Reserves	25	63,245	61,964
TOTAL EQUITY		95,245	93,964

On behalf of the Board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Equity attributable to owners of the Company						
	Issued capital	Share premium (note 25(c)(i))	Capital reserve (note 25(c)(ii))	Property revaluation reserve (note 25(c)(iii))	Exchange reserve (note 25(c)(iv))	Retained earnings (note 25(c)(vi))	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009 (as previously reported)	32,000	57,099	(23,724)	14,583	4,600	309,909	394,467
Adjustment on adoption of amendment to HKAS 17	–	–	–	23,944	–	–	23,944
At 1 January 2009 (as restated)	32,000	57,099	(23,724)	38,527	4,600	309,909	418,411
Dividend paid (note 25(b))	–	–	–	–	–	(14,080)	(14,080)
Total comprehensive income for the year	–	–	–	16,615	3,872	45,595	66,082
At 31 December 2009 and at 1 January 2010	32,000	57,099	(23,724)	55,142	8,472	341,424	470,413
Dividend paid (note 25(b))	–	–	–	–	–	(7,680)	(7,680)
Total comprehensive income for the year	–	–	–	23,356	3,007	60,921	87,284
At 31 December 2010	32,000	57,099	(23,724)	78,498	11,479	394,665	550,017

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000 (as restated)
Cash flows from operating activities		
Profit before income tax expense	72,119	55,880
Adjustments for:		
Interest income	(1,541)	(1,896)
Depreciation of property, plant and equipment	3,021	6,034
Loss on disposal of property, plant and equipment	43	11
Amortisation of payment for leasehold land held for own use under operating leases	148	90
(Reverse of)/provision for impairment loss of inventories	(4,656)	1,765
Impairment loss on trade receivables	–	109
Operating profit before working capital changes	69,134	61,993
Increase in inventories	(4,457)	(536)
Increase in amount due from ultimate holding company	(5)	(6)
Increase in amount due from a related company	–	(15)
(Increase)/decrease in prepayments, deposits and other receivables	(19,630)	263
(Increase)/decrease in trade receivables	(6,230)	9,614
Increase in trade and other payables	4,619	5,974
Increase in provision	2,970	4,057
CASH GENERATED FROM OPERATIONS	46,401	81,344
Income tax paid	(20,348)	(6,273)
Net cash from operating activities	26,053	75,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,443)	(1,657)
Proceeds from disposal of property, plant and equipment	15	–
Interest received	1,541	1,896
Net cash (used in)/from investing activities	(1,887)	239

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000 (as restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(7,680)	(14,080)
Net cash used in financing activities	(7,680)	(14,080)
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,486	61,230
Cash and cash equivalents at beginning of year	310,226	246,648
Effect of foreign exchange rate changes on cash and cash equivalents	2,807	2,348
CASH AND CASH EQUIVALENTS AT END OF YEAR represented by bank balances and cash (note)	329,519	310,226

Note:

There included an amount of HK$164,899,000 (2009: HK$35,553,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currency and remittance of Renminbi out of the People's Republic of China are subject to the rules and regulations of exchange controls promulgated by the People's Republic of China authorities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

1. GENERAL

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 are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 June 2001.

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.

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.

The Company's immediate and ultimate holding company is Onboard Technology Limited, a company incorporated in British Virgin Islands.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2010 (Continued)

HKFRS 3 (Revised) – Business Combinations and HKAS 27(Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in note 4 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

HKAS 17 (Amendments) – Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not risks and rewards incidental to ownership of a leased asset have been transferred substantially to the lessee.

On adoption of the amendment, the Group has reassessed the classification of unexpired leasehold land in Hong Kong and the PRC as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease. Accordingly, the Group has reclassified these interests from "Payment for leasehold land held for own use under operating leases" to "Property, plant and equipment" and measured the leasehold land using the revaluation model on a retrospective basis.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2010 (Continued)

HKAS 17 (Amendments) – Leases (Amendments) (Continued)

Summary of the effects of the adoption of HKAS 17 (Amendments)

(i) The effects of changes in accounting policies described above on the consolidated statement of comprehensive income for the year ended 31 December 2009 are summarised as follows:

	2009 HK$'000
Consolidated statement of comprehensive income	
Decrease in amortisation of payment for leasehold land held for own use under operating lease	(401)
Increase in depreciation of property, plant and equipment	401
Increase in surplus on revaluation of leasehold land and buildings held for own use	21,021
Increase in tax expense of surplus on revaluation of leasehold land and buildings held for own use	(3,240)
Increase in total comprehensive income	17,781

The adoption of HKAS 17 (Amendments) has no impact to the reported profit for the year and accordingly no impact on the reported earnings per share.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2010 (Continued)

HKAS 17 (Amendments) – Leases (Amendments) (Continued)

Summary of the effects of the adoption of HKAS 17 (Amendments) (Continued)

(ii) The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2009 and 31 December 2009 are as follows:

	At 31 December 2009			At 1 January 2009		
	As previously reported HK$'000	Adjustment upon adoption of HKAS 17 (Amendments) HK$'000	As restated HK$'000	As previously reported HK$'000	Adjustment upon adoption of HKAS 17 (Amendments) HK$'000	As restated HK$'000
Property, plant and equipment	34,706	62,630	97,336	38,972	42,010	80,982
Payment for leasehold land held for own use under operating leases	19,505	(15,208)	4,297	19,673	(15,609)	4,064
Deferred taxation	(2,903)	(5,697)	(8,600)	(3,337)	(2,457)	(5,794)
Total effects on net assets	51,308	41,725	93,033	55,308	23,944	79,252
Property revaluation reserve	13,417	41,725	55,142	14,583	23,944	38,527
Total effects on equity	13,417	41,725	55,142	14,583	23,944	38,527

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[2&3]
Amendments to HKAS 32	Classification of Rights Issues[1]
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[4]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[5]
HKFRS 9	Financial Instruments[6]

1 Effective for annual periods beginning on or after 1 February 2010

2 Effective for annual periods beginning on or after 1 July 2010

3 Effective for annual periods beginning on or after 1 January 2011

4 Effective for annual periods beginning on or after 1 July 2011

5 Effective for annual periods beginning on or after 1 January 2012

6 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold land and buildings, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Each entity in the Group maintains its books and records in its own functional currency. The functional currency of the Company is HK$. The board of directors considered that it is more appropriate to present the financial statements in HK$ as the shares of the Company are listed on the Stock Exchange.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between Group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combination and basis of consolidation (Continued)

Business combination from 1 January 2010 (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, 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 are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Research and development costs

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

Leasehold land and buildings held for own use are stated in the statement of financial position at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of property revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the property revaluation reserve.

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

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The annual depreciation rate are as follows:

Leasehold land and 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 revised annually.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Revenue recognition

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the effective interest rate.

(f) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

NOTES TO THE FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(h) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

For Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Instruments (Continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(j) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered and impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries; and
- payment for leasehold land held for own use under operating leases.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of other assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(k) Employee benefits

(i) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents 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.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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, the existence of which 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(o) Foreign currency

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Foreign currency (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

(a) Critical judgments in applying accounting policies

(i) Current taxation and deferred taxation

Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. As further disclosed in note 31, the Group is currently under disputes with relevant tax authorities in the US. These disputes are not yet finalised. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the periods in which such determination are made.

Deferred taxation relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation in the periods in which such estimate is changed.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(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 deprecation 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.

(ii) *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 judgment 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.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group is principally engaged in manufacturing and trading electronic components in both Hong Kong and oversea markets. The Group's chief operating decision-maker regularly review the consolidated financial information to assess the performance. Accordingly, there is only one operating segment for the Group.

(a) Geographical information

The following table sets out the information about the geographical location of the Group's revenue from external customers and non-current assets other than financial instruments ("Specified non-current assets").

The Group comprises the following main geographical segments:

	Revenue from external customers		Specified non-current assets	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Hong Kong (place of domicile)	1,099	1,234	109,898	82,466
The PRC	–	–	20,722	18,959
The US	271,158	223,270	209	191
Europe	8,075	8,561	13	17
Other countries	19,923	14,216	–	–
	299,156	246,047	20,944	19,167
	300,255	247,281	130,842	101,633

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31 December 2010

6. SEGMENT INFORMATION (Continued)

(b) Information about major customers

Revenue from external customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2010 HK$'000	2009 HK$'000
Customer A	85,533	76,591
Customer B	70,768	67,863
Customer C	50,326	43,631
	206,627	188,085

7. TURNOVER AND OTHER REVENUE

(a) Turnover

Turnover represents the net invoiced value of goods sold.

(b) Other revenue

	2010 HK$'000	2009 HK$'000
Bank interest income	1,541	1,896
Income from disposal of scrap materials	1,781	–
Government grants	–	1,780
Exchange gain	–	369
Sundry income	307	512
	3,629	4,557

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2010 HK$'000	2009 HK$'000
Amortisation of payment for leasehold land held for own use under operating leases	148	90
Impairment loss on trade receivables	–	109
Auditor's remuneration	920	531
Cost of inventories	166,805	133,106
(Reversal of)/provision for impairment loss of inventories	(4,656)	1,765
Depreciation of property, plant and equipment	3,021	6,034
Loss on disposal of property, plant and equipment	43	11
Research and development expenditure	5,848	5,412

9. STAFF COSTS

	2010 HK$'000	2009 HK$'000
Staff costs (including directors) comprise:		
Wages and salaries	72,374	61,401
Contributions to defined contribution retirement plan	3,526	3,594
	75,900	64,995

Included the amount of HK$5,028,000 (2009: HK$4,620,000) classified as research and development expenditure.

10. INCOME TAX EXPENSE

	2010 HK$'000	2009 HK$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	4,353	4,961
– under provision in respect of prior years (note 31(a))	129	–
	4,482	4,961
Current tax – overseas		
– tax for the year	6,559	2,254
– (over)/under provision in respect of prior years	(91)	3,190
	6,468	5,444
Deferred taxation (note 23)	248	(120)
	11,198	10,285

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2009: 25%).

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

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10. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statement of comprehensive income as follows:

	2010 HK$'000	2009 HK$'000
Profit before income tax expense	72,119	55,880
Effect of tax at Hong Kong profits tax rate of 16.5% (2009: 16.5%)	11,900	9,220
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,142	1,315
Tax effect of revenue not taxable for tax purposes	(5,269)	(4,399)
Tax effect of unused tax losses	–	885
Utilisation of tax losses previously not recognised	(428)	–
Tax effect of expenses not deductible for tax purposes	815	194
Tax effect of deductible temporary differences	–	(120)
Under-provision in prior years	38	3,190
Income tax expense	11,198	10,285

In addition to the amount charged to the statement of comprehensive income, deferred tax relating to the revaluation of the Group's certain leasehold land and buildings for own use during the year has been charged to other comprehensive income.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to shareholders includes a loss of HK$1,039,000 (2009: loss of HK$860,000) which has been dealt with in the financial statements of the Company.

12. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2010			2009		
	Before-tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000	Before-tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000
Exchange differences on translating foreign operations	3,007	–	3,007	3,872	–	3,872
Surplus on revaluation of leasehold land and buildings held for own use	27,871	(4,515)	23,356	19,541	(2,926)	16,615
	30,878	(4,515)	26,363	23,413	(2,926)	20,487

13. EARNINGS PER SHARE

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

	2010 HK$'000	2009 HK$'000
Profit attributable to owners of the Company	60,921	45,595

	Number of shares	
	2010	2009
Number of ordinary shares in issue	320,000,000	320,000,000

Diluted earnings per share is not presented as there were no potential dilutive ordinary shares outstanding for both years.

14. DIRECTORS' REMUNERATION AND INDIVIDUAL WITH HIGHEST EMOLUMENTS

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

	Year ended 31 December 2010			
	Fees	Basic salaries, allowance and other benefits	Contributions to defined contribution retirement plan	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	7,040	–	7,040
Shui Wai Mei	–	550	2	552
Sheung Shing Fai	–	1,500	12	1,512
Siu Nina Margaret	–	850	12	862
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Lam Tak Shing, Harry	125	–	–	125
Chan Fai Yue, Leo	125	–	–	125
	375	9,940	26	10,341

	Year ended 31 December 2009			
	Fees	Basic salaries, allowance and other benefits	Contributions to defined contribution retirement plan	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	7,040	–	7,040
Shui Wai Mei	–	550	12	562
Sheung Shing Fai	–	1,500	12	1,512
Siu Nina Margaret	–	850	12	862
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Lam Tak Shing, Harry	122	–	–	122
Chan Fai Yue, Leo	122	–	–	122
	369	9,940	36	10,345

14. DIRECTORS' REMUNERATION AND INDIVIDUAL WITH HIGHEST EMOLUMENTS (Continued)

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

No directors waived any remuneration 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 2010 (2009: Nil).

As at 31 December 2010, 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 24.

(b) **Individuals with highest emoluments**

Of the five individuals with the highest emoluments in the Group, four (2009: four) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emolument of the remaining one (2009: one) individual was as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	544	517
Contributions to defined contribution retirement plan	12	12
	556	529

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.

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15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings held for own use HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1 January 2009 (as previously reported)	24,710	25,300	23,672	6,202	79,884
Adjustment on adoption of amendment to HKAS 17	42,010	–	–	–	42,010
At 1 January 2009 (as restated)	66,720	25,300	23,672	6,202	121,894
Additions	–	850	686	121	1,657
Disposals	–	(334)	(131)	–	(465)
Surplus on revaluation	18,030	–	–	–	18,030
Exchange adjustment	1,180	39	197	26	1,442
At 31 December 2009 and 1 January 2010	85,930	25,855	24,424	6,349	142,558
Additions	312	969	1,194	968	3,443
Disposals	–	(526)	(431)	(1,508)	(2,465)
Surplus on revaluation	26,408	–	–	–	26,408
Exchange adjustment	870	59	136	28	1,093
At 31 December 2010	113,520	26,357	25,323	5,837	171,037
Accumulated depreciation					
At 1 January 2009	–	21,715	15,265	3,932	40,912
Charge for the year	1,511	1,927	2,012	584	6,034
Disposals	–	(334)	(120)	–	(454)
Written back on revaluation	(1,511)	–	–	–	(1,511)
Exchange adjustment	–	183	49	9	241
At 31 December 2009 and 1 January 2010	–	23,491	17,206	4,525	45,222
Charge for the year	1,463	331	519	708	3,021
Disposals	–	(524)	(398)	(1,485)	(2,407)
Written back on revaluation	(1,463)	–	–	–	(1,463)
Exchange adjustment	–	162	41	18	221
At 31 December 2010	–	23,460	17,368	3,766	44,594
Carrying amount					
At 31 December 2010	113,520	2,897	7,955	2,071	126,443
At 31 December 2009 (as restated)	85,930	2,364	7,218	1,824	97,336

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land and buildings held for own use HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Representing:					
2010					
At cost	–	26,357	25,323	5,837	57,517
At valuation	113,520	–	–	–	113,520
	113,520	26,357	25,323	5,837	171,037
2009					
At cost	–	25,855	24,424	6,349	56,628
At valuation					
As previously reported	23,300	–	–	–	23,300
Adjustment on adoption of amendment to HKAS 17	62,630	–	–	–	62,630
	85,930	25,855	24,424	6,349	142,558

Analysis of leasehold land and buildings by geographical location is as follows:

	2010 HK$'000	2009 HK$'000 (as restated)
Hong Kong	98,740	71,460
The PRC	14,780	14,470
	113,520	85,930

All the leasehold land and buildings of the Group are held under medium-term leases.

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15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leasehold land and buildings held by the Group for own use located in Hong Kong are stated at open market value as at 31 December 2010 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 leasehold land and buildings held by the Group for own use located in the PRC are stated at revalued amount as determined by depreciated replacement cost basis as at 31 December 2010. The revaluation surplus net of applicable deferred tax was credited to property revaluation reserve. Had the Group's leasehold land and buildings been carried at cost less accumulated depreciation, the carrying amount of the Group's leasehold land and buildings as at 31 December 2010 would have been approximately HK$25,684,000 (2009: HK$26,985,000 (as restated)).

16. PAYMENT FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	2010 HK$'000	2009 HK$'000 (as restated)
At 1 January (as previously reported)	19,505	19,673
Adjustment on adoption of amendment to HKAS 17	(15,208)	(15,609)
At 1 January	4,297	4,064
Amortisation for the year	(148)	(90)
Exchange adjustment	250	323
At 31 December	4,399	4,297

	2010 HK$'000	2009 HK$'000 (as restated)
Leases of between 10 to 50 years, held in:		
The PRC	4,399	4,297

17. INTERESTS IN SUBSIDIARIES

	Company	
	2010 HK$'000	2009 HK$'000
Unlisted shares, at cost	113,606	113,606
Amounts due to subsidiaries	18,494	19,816

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

The following list contains the particular of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name	Place of incorporation	Place of operation	Principal activities	Issued and fully paid share capital/ registered capital	Percentage of ownership interests Directly	Indirectly
Guardsafe Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1,000	100%	–
Great Vigour Holdings Limited	British Virgin Islands	Hong Kong	Inactive	US$1	100%	–
Musthave Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%
Think Machine Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$2	–	100%
Century Electronics Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	100%
Datatronic Limited	Hong Kong	Hong Kong	Investment holding and manufacturing and trading of electronic components	HK$10,000 ordinary HK$200,000 non-voting deferred (i)	–	100%
連達（廣東）電子有限公司(ii)	The PRC	The PRC	Manufacturing of electronic components	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 United States	California, the United States	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%

17. INTERESTS IN SUBSIDIARIES (Continued)

(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.

18. INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials	56,836	55,587
Work-in-progress	3,562	2,687
Finished goods	25,251	18,262
	85,649	76,536

A provision of HK$4,656,000 (2009: HK$Nil) made in prior years against the carrying value of finished goods was reversed. This reversal arose due to an increase in the estimated net realisable value as a result of a change in consumer preferences.

19. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND A RELATED COMPANY

The amounts are unsecured, interest free and repayable on demand.

20. 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.

(a) An ageing analysis of trade receivables as at the end of the reporting period is as follows:

	2010 HK$'000	2009 HK$'000
Within 30 days	22,422	19,066
31 to 60 days	8,500	6,018
61 to 90 days	1,742	1,273
Over 90 days	378	722
	33,042	27,079
Less: Allowance for doubtful debts	–	(267)
	33,042	26,812

20. TRADE RECEIVABLES (Continued)

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

	2010 HK$'000	2009 HK$'000
At 1 January	267	586
Uncollectible amounts written off	(267)	(428)
Impairment loss recognised	–	109
At 31 December	–	267

(c) Included in trade receivables are trade debtors (net of impairment losses) which are past due but not impaired as follows:

	2010 HK$'000	2009 HK$'000
Less than 1 month past due	3,865	36
1 to 3 months past due	554	95
Over 3 months, but less than 1 year past due	–	591
Total amounts past due but not impaired	4,419	722
Current	28,623	26,090
	33,042	26,812

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.

21. TRADE AND OTHER PAYABLES

	Group		**Company**	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
Trade payables	14,959	7,667	–	–
Other payables and accruals	7,442	10,115	100	91
	22,401	17,782	100	91

21. TRADE AND OTHER PAYABLES (Continued)

An ageing analysis of trade payables as at the end of the reporting period is as follows:

	Group	
	2010 HK$'000	2009 HK$'000
Within 30 days	7,447	7,056
31 to 60 days	5,000	374
61 to 90 days	2,088	83
Over 90 days	424	154
	14,959	7,667

22. PROVISION

The provision represents the long service entitlements of employees accrued in Hong Kong and the PRC.

	Group	
	2010 HK$'000	2009 HK$'000
At 1 January	15,215	11,158
Additional provision recognised	2,970	3,369
Over-provision in respect of prior years	–	(19)
Exchange adjustment	923	707
At 31 December	19,108	15,215

The provision for long service payment of Hong Kong and the PRC employees is provided based on the actual number of years of services rendered by the employee and the relevant laws and regulations. The provision will be settled at the time when the respective employee resigns.

23. DEFERRED TAX

Details of the deferred tax liabilities and assets recognised and movements thereof:

	Revaluation of leasehold land and buildings held for own use	Depreciation allowances in excess of the related depreciation	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2009 (as previously reported)	3,509	(172)	3,337
Adjustment on adoption of amendment to HKAS 17	2,457	–	2,457
At 1 January 2009 (as restated)	5,966	(172)	5,794
Credit to statement of comprehensive income for the year (note 10)	–	(120)	(120)
Debit to property revaluation reserve	2,926	–	2,926
At 31 December 2009 and at 1 January 2010	8,892	(292)	8,600
Debit to statement of comprehensive income for the year (note 10)	–	248	248
Debit to property revaluation reserve	4,515	–	4,515
At 31 December 2010	13,407	(44)	13,363

The Group has not recognised deferred tax assets in respect of tax losses of HK$11,232,000 during the year (2009: HK$12,779,000 (as restated)) due to the unpredictability of taxable profits in the foreseeable future. The tax losses do not expire under current tax legislations.

24. ISSUED CAPITAL AND SHARE OPTION SCHEME

	Group and Company	
	2010	2009
	HK$'000	HK$'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

24. ISSUED CAPITAL AND SHARE OPTION SCHEME (Continued)

The Company has a share option scheme, under which the Company may grant options to executive directors and full-time employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company, from time to time, excluding for this purpose shares issued on exercise of share options. The subscription price is to be determined by directors, and is not to be less than the higher of (i) the normal 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.

25. RESERVES

(a) Company

	Share premium (note (c)(i)) HK$'000	Contributed surplus (note (c)(v)) HK$'000	Accumulated losses (note (c)(vi)) HK$'000	Total HK$'000
At 1 January 2009	57,099	89,606	(69,801)	76,904
Changes in equity for 2009:				
Dividend paid (note b)	–	–	(14,080)	(14,080)
Total comprehensive income for the year	–	–	(860)	(860)
At 31 December 2009 and 1 January 2010	57,099	89,606	(84,741)	61,964
Changes in equity for 2010:				
Dividend paid (note b)	–	–	(7,680)	(7,680)
Total comprehensive income for the year	–	–	8,961	8,961
At 31 December 2010	57,099	89,606	(83,460)	63,245

25. RESERVES (Continued)

(b) Dividends

(i) Dividends payable to owners of the Company attributable to the year:

	2010 HK$'000	2009 HK$'000
Interim, declared and paid, of HK$0.012 (2009: HK$0.022) per ordinary share	3,840	7,040
Final, proposed, of HK$0.019 (2009: HK$0.012) per ordinary share	6,080	3,840
	9,920	10,880

The final dividend for 2010 proposed after the end of the reporting period is subject to shareholders' approval in the forthcoming general meeting. It has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year:

	2010 HK$'000	2009 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.012 (2009: HK$0.022) per ordinary share	3,840	7,040

(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 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.

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25. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(iii) Property revaluation reserve

Gains/losses arising on the revaluation of properties held for own use.

(iv) Exchange reserve

The reserve represents the exchange difference arising from the translation of foreign operation. The reserve is dealt with accordance with the accounting policy set out in note 4(o).

(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.

(vi) Retained earnings/accumulated losses

Cumulative net gains and losses recognised in profit or loss.

Under the Companies Act 1981 of Bermuda (as amended), retained earnings and contributed surplus are distributable to owners of the Company, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of retained earnings 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.

26. RELATED PARTY TRANSACTIONS

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

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

	2010 HK$'000	2009 HK$'000
Datatronics Romoland, Inc. ("DRI")#		
Sales to DRI	70,768	76,591
Reimbursement of expenses to DRI	2,342	6,357

\# Mr. Siu Paul Y., a director of the Company, has beneficial interest in DRI.

26. RELATED PARTY TRANSACTIONS (Continued)

(b) Related party balances included in the consolidated statement of financial position:

	2010 HK$'000	2009 HK$'000
Year-end balance included in trade receivables arising from sales of good to DRI	3,281	5,737
Year-end balance arising from advanced payment due from a related company, Data Express Limited *	15	15

* Mr. Siu Paul Y., a director of the Company, has beneficial interest in Data Express Limited.

In the opinion of the directors, the above related party transactions are carried out in the usual course of business of the Group.

(c) Key management personnel remuneration of the Group

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	9,090	9,090
Post-employment benefits	14	24
	9,104	9,114

27. LEASES

Operating lease – lessee

The Group leases certain of its plant and equipment with lease term of 1 to 5 years.

The lease payment recognised as an expenses are as follows:

	2010 HK$'000	2009 HK$'000
Minimum leases payments	606	89

The total future minimum lease payments are due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	514	109
In the second to the fifth year	56	231
	570	340

28. CAPITAL COMMITMENTS

The Group's capital commitment outstanding at the year end, contracted but not provided for in the financial statements in respect of property, plant and equipment is approximately HK$408,000 (2009: HK$919,000).

29. FINANCIAL RISK MANAGEMENT

(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.

29. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk

As at 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Trade receivables

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 liability 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 rather than the industry and country in which customers operate and therefore significant concentration of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group has a certain concentration of credit risk as approximately 20% (2009: 21%) and 60% (2009: 66%) 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.

29. FINANCIAL RISK MANAGEMENT (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 demand, 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 as set out as below:

	2010 HK$'000	2009 HK$'000
Trade and other payables	22,401	17,782
Provision	19,108	15,215
	41,509	32,997

(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.

29. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

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

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-earning financial assets at the end of the reporting period:

	2010		2009	
	Effective interest rate %	One year or less HK$'000	Effective interest rate %	One year or less HK$'000
Cash and cash equivalents	0.47%	329,519	0.61%	310,226

(ii) Sensitivity analysis

At 31 December 2010, 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 earnings by approximately HK$3,295,000 (2009: HK$3,102,000). Other components of consolidated equity would not be affected (2009: HK$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 end of the reporting period 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 end of the next annual reporting period. The analysis is performed on the same basis for 2009.

29. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(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 end of the reporting period 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, Renminbi, Euros and Pound Sterling. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

	2010			
	United States dollars HK$'000	Renminbi HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	134,141	128,583	417	1,712
Trade and other receivables	11,541	–	184	–
Trade and other payables	(6,221)	–	–	–
Overall exposure arising from recognised assets and liabilities	139,461	128,583	601	1,712

29. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

	2009		
	United States dollars HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	168,165	151	1,481
Trade and other receivables	11,499	151	–
Trade and other payables	(2,147)	–	(11)
Overall exposure arising from recognised assets and liabilities	177,517	302	1,470

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) 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 end of the reporting period.

	2010		2009	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings HK$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings HK$'000
Euros	9%	111	5%	61
	(9%)	(111)	(5%)	(61)
Renminbi	4%	5,143	–	–
	(4%)	(5,143)	–	–

29. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

Other components of consolidated equity would not be affected (2009: HK$Nil) by the changes in foreign exchange rates.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period 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 end of the next annual reporting period. 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 end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2009.

The foreign exchange rates movement between Pound Sterling and Hong Kong dollars has insignificant impact to the results and financial positions of the Group.

(v) Fair values

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

30. CAPITAL RISK MANAGEMENT

The Group regards the equity attributable to the Company's owners, comprising issued share capital, share premium, retained earnings and other reserves as its capital structure. The Group's objective when managing capital structure is to ensure that entitles 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.

31. OUTSTANDING TAX DISPUTES

(a) Hong Kong profits tax

Datatronic Limited ("Datatronic"), a subsidiary of the Company 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 the result of such off-shore claims, full provision for profits tax had been made in the profit or loss of the relevant years aggregating HK$13,624,000. During the years ended 31 December 2002 and 2003, the Inland Revenue Department ("IRD") raised additional profits tax assessments for the years of assessment 1999/2000 and 2000/2001 and profits tax assessment for the year of assessment 2001/2002 (the "Assessments") in respect of such off-shore claims. Datatronic objected and appealed such Assessments on 2 July 2004. In respect of such tax dispute, Datatronic had purchased tax reserve certificates aggregating HK$13,624,000. The Court of Appeal handed down its judgment on 15 July 2009 in favour of the Commissioner of Inland Revenue. Datatronic lodged an appeal to the Court of Final Appeal on 11 August 2009 in respect of such judgement. Subsequently, on 13 October 2009, in view of the excessive legal costs involved, Datatronic decided to withdraw the appeal to the Court of Final Appeal. No final tax assessment in respect of the years of assessment under the tax dispute had been received from the IRD as at 31 December 2009.

On 26 February 2010, Datatronic received the final profits tax assessment from the IRD of an aggregated amount of HK$13,373,000 in respect of the years of assessment from 1999/2000 to 2001/2002. The amount was offset by the tax reserve certificates amounting to HK$13,624,000 bought in prior years.

On 17 March 2010, the IRD issued additional tax assessments for the years of assessment from 2003/2004 to 2008/2009 and an additional provisional tax assessment for 2009/2010 of an aggregated amount of HK$32,221,777 and HK$5,437,284 respectively to Datatronic. On 22 March 2010, Datatronic submitted an objection to the IRD in respect of the additional tax assessments for the years of assessment from 2003/2004 to 2009/2010 on the ground that based on the contract processing certificate issued by The State Administration for Industry & Commerce of Shunde on 8 July 2002, Datatronic should be entitled to the 50:50 basis off-shore claims and no additional profits tax should be charged by the IRD. Tax reserve certificates aggregating HK$32,221,777 had been purchased. No provision regarding these additional tax assessments was made at 31 December 2009 as the directors assessed that the reasons for objection will be accepted by the IRD once they have been provided the contract processing certificate and the change in operations have properly explained.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

31. OUTSTANDING TAX DISPUTES (Continued)

(a) Hong Kong profits tax (Continued)

On 11 May 2010, the IRD made further enquiries regarding the contract processing arrangement, arrangement of machineries and certain other operating issues relating to the 50:50 offshore claim. On 25 June 2010, Datatronic provided additional information upon receiving the request. On 29 March 2011, Datatronic received the revised assessments for the years of assessment from 2003/2004 to 2008/2009 to demand an aggregate of HK$129,737 additional tax to be deducted from the tax reserve certificates and the remaining amounts will be refunded. The directors concluded that the IRD has accepted the 50:50 off-shore claim and the tax disputes were settled.

(b) California income tax

Datatronic Distribution, Inc. ("DDI"), a US subsidiary of the Company, came under examination by the State of California's Franchise Tax Board ("FTB") for the years ended 31 December 2006 and 2007 in respect of the unitary income tax. The FTB is claiming DDI on failing to meet the requirements under the Water's Edge tax rules of California for reporting and apportioning income on a world-wide basis with respect to a unitary business group, which generally applies to a foreign entity among companies under common control. The examination is still in progress. In response to such examination, DDI had made an additional provision for California income tax of HK$3,190,000 for the years ended 31 December 2006, 2007 and 2008 in the statement of comprehensive income for the year ended 31 December 2009. The examination by FTB is still in progress and not yet finalised. For the year ended 31 December 2009 and onwards, DDI has filed the tax returns which complied with the relevant tax rules and regulations and such that there will be no additional tax liabilities in this regard.

32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount and fair value of financial assets and liabilities as defined in Note 4(i):

	Carrying amount and fair value	
	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables		
– Cash and cash equivalents	329,519	310,226
– Trade receivables	33,042	26,812
– Deposits and other receivables	2,048	1,081
– Amount due from ultimate holding company	34	29
– Amount due from a related company	15	15
	364,658	338,163
Financial liabilities		
Financial liabilities measured at amortised cost		
– Trade and other payables	22,401	17,782

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 1 April 2011.

FINANCIAL SUMMARY

For the year ended 31 December 2010

The consolidated statement of comprehensive income of the Group for the financial years 2006 to 2010 and the consolidated statements of financial position of the Group as at 31 December 2006, 2007, 2008, 2009 and 2010 are as follows:

	Year ended 31 December				
Results	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000
Turnover	272,131	282,655	288,298	247,281	300,255
Profit before taxation	88,082	89,472	66,184	55,880	72,119
Income tax	(9,681)	(11,550)	(10,921)	(10,285)	(11,198)
Profit for the year	78,401	77,922	55,263	45,595	60,921
Attributable to:					
Owners of the Company	78,401	77,922	55,263	45,595	60,921

	At 31 December				
Assets and liabilities	2006 HK$'000 (as restated)	2007 HK$'000 (as restated)	2008 HK$'000 (as restated)	2009 HK$'000 (as restated)	2010 HK$'000
Total assets	365,894	431,290	461,149	530,120	614,011
Total liabilities	(46,464)	(41,032)	(42,738)	(59,707)	(63,994)
Total equity	319,430	390,258	418,411	470,413	550,017

Major land held by the Group

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%