DATRONIX HOLDINGS LIMITED
連達科技控股有限公司 *

ANNUAL REPORT 2005

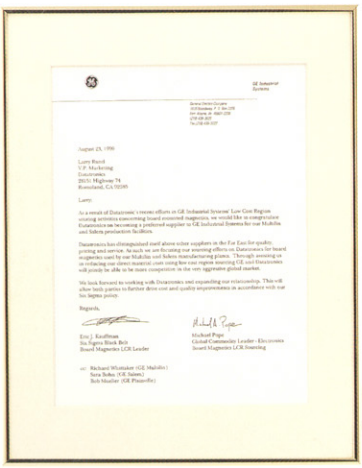
* For identification purposes only

AWARDS

Polycom

Ericsson

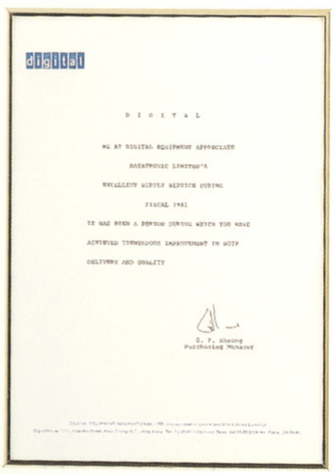
Milwaukee



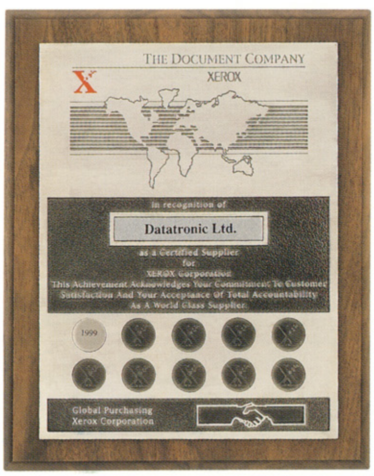
Preferred supplier
General Electric

Physio Control
(Div. of Medtronic)

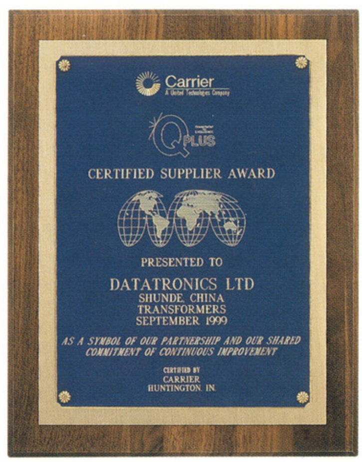
Preferred supplier
Primex Aerospace



Digital Equipment corp



Xerox



United Technologies

Customer Recognition For Quality, Service, Value

Honeywell

Honeywell

Harris

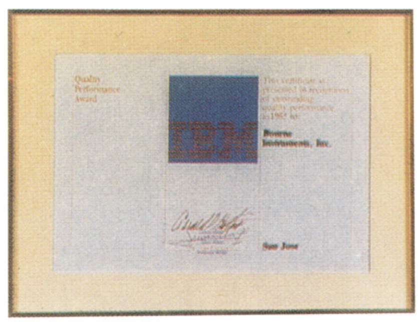
Honeywell

Honeywell

Delco

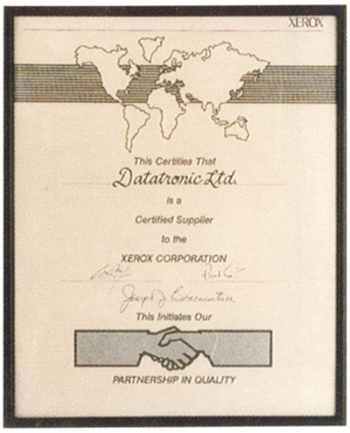
Honeywell

Hughes Aircraft
General Motors

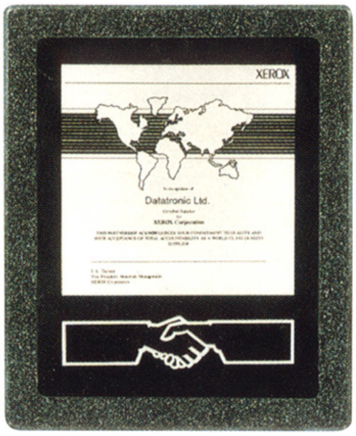


IBM

AWARDS



Xerox



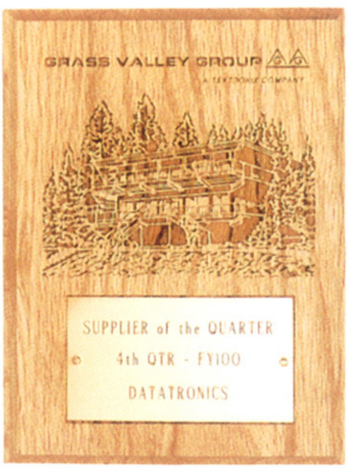
Xerox

ICL/Fujitsu

Xerox

Xerox

Xerox



Tektronix

Sola Electric

Tektronix

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
CHAN Fai Yue, Leo

AUDIT COMMITTEE

LAM Tak Shing
CHUNG Pui Lam
CHAN Fai Yue, Leo

REMUNERATION COMMITTEE

CHUNG Pui Lam
CHAN Fai Yue, Leo
SIU Paul Y.

QUALIFIED ACCOUNTANT

LUK Yuen King

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITORS

CCIF CPA Limited
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

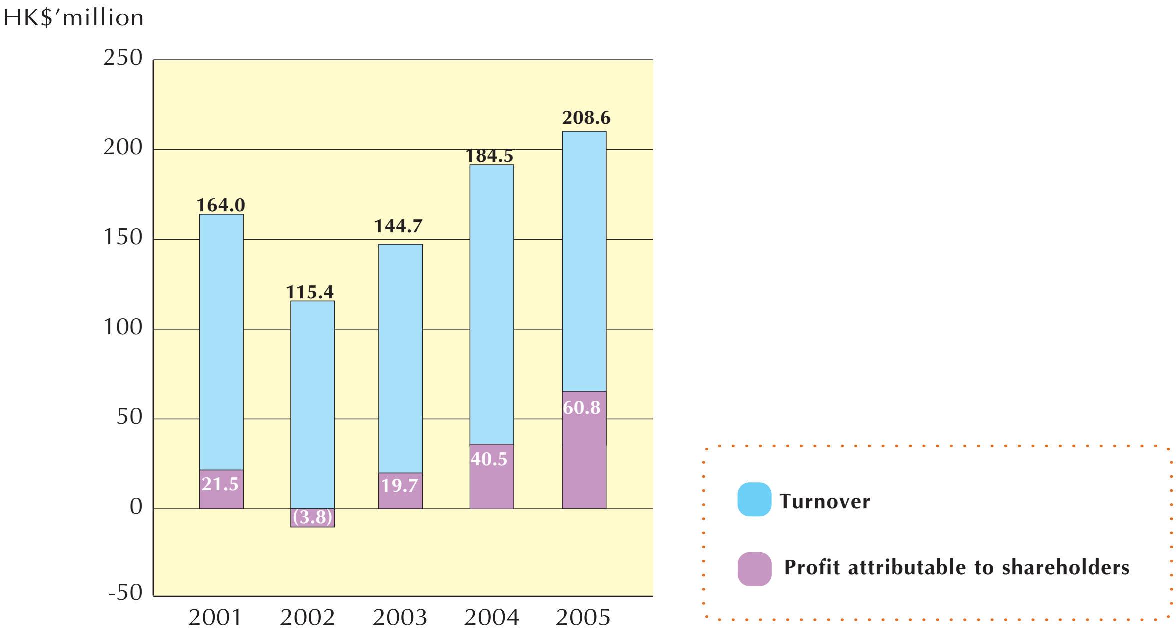
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

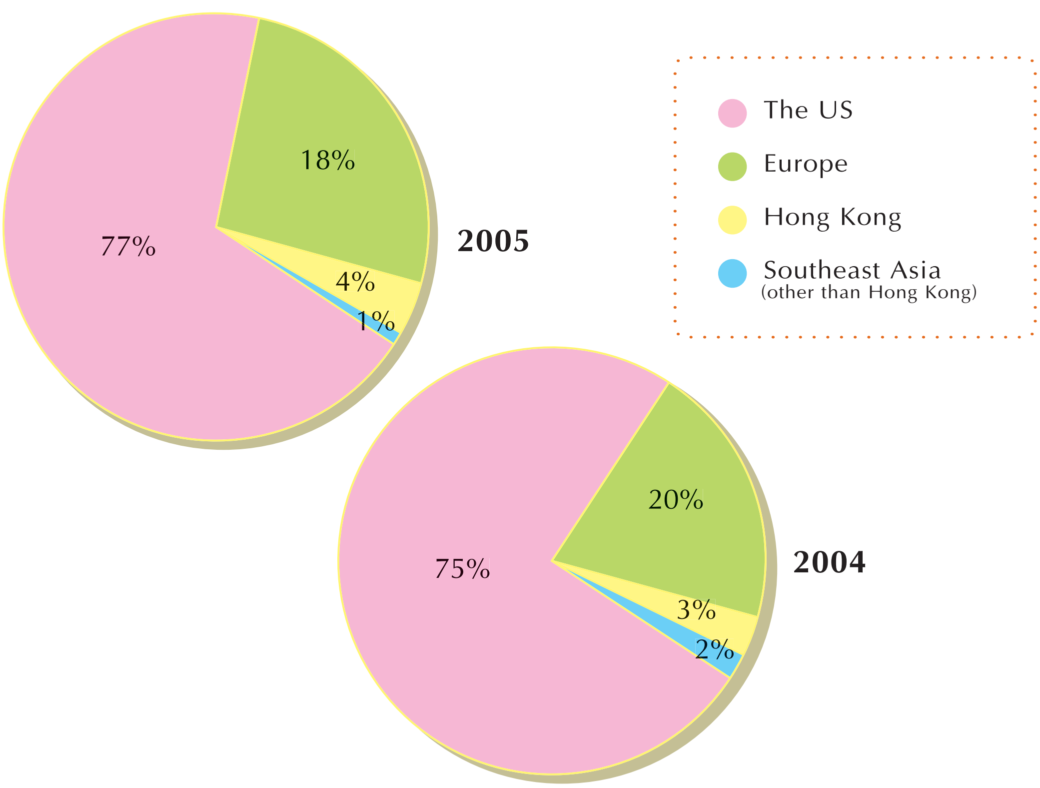
PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of Communications

Turnover / Profit attributable to shareholders



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

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

ACHIEVEMENTS AND AWARDS

LUTRON
Supplier of the Year

MEDTRONIC
Outstanding
Performance

DATAFORTH
Vendor of the Year

XICOM
President s Award

XICOM
Outstanding
Performance

LUTRON
Outstanding New
Supplier

The Company is a worldwide, award winning supplier to several well-known companies such as Xerox, Physio-Control, Ericsson, ICL/Fujitsu and many others for recognition of its quality, service and performance. Its recent awards:

- Year 2004-2005 Awards
  "Medtronic: Outstanding Performance", "Dataforth: Supplier of the Year",
  "Lutron: Supplier of the Year", and "Xicom Technology: President's Award"

- Year 2002-2003 Awards
  "Lutron: Outstanding New Supplier", and
  "Xicom Technology: Outstanding Performance"

As of to-day, the Company has received 35 Quality Awards from numerous customers.

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

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

BUSINESS REVIEW

The Group showed significant improvement in operating profit and had a recorded growth in profit for year 2005. The Group's revenue increase was driven mainly by stronger demand in its military, aerospace, high reliability, medical, telecommunications and power conversion markets. Growing unit volume and stable revenues at the Group indicate a continuation of the recovery in overall electronics markets. The directors believe that it is reflecting the continued success of the Group's efforts to design for a new variety of customized components and its manufacturing efficiency.

For the year ended 31 December 2005, the Group's turnover was approximately HK$208.6 million which represented an increase of approximately 13% over year 2004. The Group has also reported a net profit attributable to shareholders of approximately HK$60.8 million or HK$0.19 per share, as compared to approximately HK$0.126 per share with turnover of approximately HK$184.5 million for year 2004.

The Group continues to expand its technology and technical know-how to develop and re-design existing products to create higher quality, more competitive components to assist and bridge its customers to new technology.

It is the Group's strategy and efforts to increase its market share and strengthen its market position through direct sales and sales representative forces. The directors believe that our aggressive cost-down activities, high productivity, efficiency and technological know-how have positioned us very well in the future. The directors also believe that its cost structure and low overheads will allow the Group to produce strong operating margin and create a more valuable enterprise for our shareholders. The Group continues to invest in equipment and machinery for high automation in production to reduce manufacturing costs and to improve efficiency and productivity.

The Group has maintained its good position and strong balance sheet. The Group will continue paying unwavering attention to the balance sheet, minimizing inventories and compressing cash cycles. Our cash flow objective is to fund the dividend plus internal capital spending.

ACKNOWLEDGMENT

I hereby express my gratitude to all directors, executive teams, staff members and employees around the world for all their contributions and hard work.

SIU Paul Y.

Chairman

Hong Kong, 16 March 2006

FINANCIAL REVIEW

The Group's turnover and operating profit reported growth for three consecutive years. For the year ended 31 December 2005, the Group's turnover was approximately HK$208.6 million, which represented an increase of approximately 13% as compared to HK$184.5 million of last year. The Group reported a profit attributable to shareholders and profit per share of approximately HK$60.8 million and HK19 cents respectively as compared to a corresponding profit of HK$40.5 million and HK12.64 cents respectively of last year. Gross profit margin rose to approximately 51% in 2005 as compared to 44% in 2004. The significant improvement in operating performance was largely due to the growth in turnover, increase in operational efficiency and higher productivity, and the results of cost reduction efforts.

The increase in turnover was mainly due to higher demand in its military, aerospace and high reliability markets, especially in the military and aerospace market which generated a higher profit margin. Sales to the military and aerospace market alone increased by over HK$35.4 million (from HK$39 million in 2004 to HK$74.4 million in 2005), thus bringing a significant contribution to the improvement in the Group's gross profit margins and operating profits.

In 2005, the overall business environment of electronics industry has continued to improve with the strong growth of the world economy, spurred by the growth in the US economy. The US and Europe markets remained the Group's major markets which accounted for over 90% of the Group's turnover.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the Group had a total shareholders' equity of approximately HK$250.6 million (2004 (restated): HK$205.3 million), and cash and cash equivalents of approximately HK$111 million (2004: HK$84 million), which were predominately denominated in US and Hong Kong dollars.

For the year ended 31 December 2005, 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 2005.

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 2005, the Group employed approximately 1,530 personnel around the world, with approximately 100 in Hong Kong, 1,410 in the PRC and 20 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operational 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 2005 (2004: HK$Nil).

CAPITAL COMMITMENTS

The Group did not have any material capital commitment as at 31 December 2005 (2004: HK$Nil).

PROSPECTS

Looking ahead, the prospects for global electronics business are cautiously optimistic and the Group will continue to build on its competitive advantage to sustain growth in the coming years.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Siu Paul Y. alias, Siu Paul Yin Tong, aged 65, 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 60, 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 57, 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 29, is an executive director of the Company. Ms. Siu holds a MBA degree with emphasis on Finance and Certificate in International Business in Loyola Marymount University and a bachelor degree of arts with major in business economics from the University of California, Los Angeles in the US. She has more than 3 years experience in the US syndication loan market on major listed companies in the US. Ms. Siu is responsible for the finance and marketing of the Group. Ms. Siu joined the Group in May 2000 and was re-designated from non-executive director to executive director of the Company on 7 July 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Pui Lam, SBS, OBE, JP, aged 65, was appointed as an independent non-executive director of the Company in March 2001. He is a practising solicitor in Hong Kong. Mr. Chung is serving on several advisory committees of the government of the HKSAR.

Mr. Lam Tak Shing, aged 45, was appointed as an independent non-executive director of the Company in September 2002. Mr. Lam holds a bachelor's degree and a master's degree in business administration. Mr. Lam has over 22 years' experience in accounting and finance field with wide exposure in different nature of business. Mr. Lam is an independent non-executive director of Poly (Hong Kong) Investments Limited and SMI Corporation Limited.

Mr. Chan Fai Yue, Leo, aged 65, was appointed as an independent non-executive director of the Company in September 2004. Mr. Chan is a member of The Hong Kong Institute of Directors. Mr. Chan has over 20 years of experience in Hong Kong stock market and manufacturing industry. He was exposed to the trading and finance field during his early years in Japan. He is a director of a paint manufacturing company in Bangkok, Thailand. Mr. Chan is currently an independent non-executive director of Golden Resources Development International Limited and GR Investment International Limited, both are companies listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. Ho Hing Cheong, aged 36, is the head of quality control and assurance department of the Group. He is responsible for the quality control and assurance functions of the Group's production facilities in Hong Kong and the PRC. Mr. Ho holds a master's degree of arts and a bachelor degree of arts from Peterhouse College, the University of Cambridge in the United Kingdom. Mr. Ho joined the Group in 1996.

Mr. Wong Ning, aged 56, 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. Randall Eller, aged 48, 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. Alain Lotode, aged 57, is the Sales Manager of Datamax S.A.R.L. responsible for the sales and marketing of the Group's products in Europe. Mr. Lotode has over 20 years of experience in the electronics industry. He joined the Group in 1996.

Ms. Luk Yuen King, aged 38, is the Financial Manager of the Group. She is responsible for all finance and accounting functions of the Group. Ms. Luk holds an MBA from the Hong Kong University of Science and Technology and a bachelor degree in accountancy with First Class Honours. In addition, she is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. She has over 10 years experience in financial management, corporate projects, auditing and accounting. Ms. Luk joined the Group in 2002. Prior to joining the Group, Ms. Luk was the Group Finance Manager of a Hong Kong listed company.

Mr. Tam Chun Cheung, aged 57, 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.

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 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's subsidiaries are set out in note 16 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	36%	
Five largest customers in aggregate	68%	
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 income statement on page 24.

The state of affairs of the Group and the Company as at 31 December 2005 are set out in the consolidated balance sheet on page 25 and the balance sheet on page 26 respectively.

The directors recommend the payment of a final dividend of HK$0.03 (2004: HK$0.022) per share, totalling HK$9,600,000 (2004: HK$7,040,000) for the year ended 31 December 2005.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2005 and of the assets and liabilities as at 31 December 2001, 2002, 2003, 2004 and 2005 is set out on page 68.

PROPERTY, PLANT AND EQUIPMENT

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2005 are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

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

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 27 to 28.

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 *(Note)*

Independent non-executive directors

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

DIRECTORS (Continued)

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

Note: Ms. Siu Nina Margaret has been re-designated from non-executive director to executive director of the Company with effect from 7 July 2005.

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 month's 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 (subject to annual increment of not more than 15% of the annual salary of the relevant directors immediately prior to such increase).

In addition, the executive directors are also entitled to a management bonus of a sum at the discretion of the directors, provided that the aggregate amount of management bonuses payable to all the executive directors shall not be more than 5% of the audited consolidated or combined net profit of the Group (after taxation and minority interest and the payment of such bonus but excluding extraordinary and exceptional items) in respect of each financial year of the Company. An executive director may not vote on any resolution of the directors regarding the amount of the management bonus payable to him.

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 24 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 2005, 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.	–	–	240,000,000 *(Note 1)*	240,000,000

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

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 75% 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 2005, 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 far as is known to any director or chief executives of the Company, as at 31 December 2005, shareholders (other than the directors or chief executives of the Company) interested in 5% or more in the shares or underlying shares of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Shareholders	Capacity	No. of shares held	% of issued share capital of the Company
Fortune Treasure Worldwide Limited	Beneficial owner	21,784,000	6.80
Lee Pei Jin	Beneficial owner	18,974,000	5.92

Save as disclosed above, as at 31 December 2005, 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 24 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 3rd Master Supply Agreement on 1 August 2005 ("the 3rd Master Supply Agreement") which superseded the 2nd Master Supply Agreement dated 7 April 2004 in respect of the supply of magnetics to DRI by DL.

The 3rd Master Supply Agreement for a fixed term of three years from 1 January 2005 and on effectively the same terms and conditions of the Master Supply Agreement and the 2nd Master Supply Agreement was entered into on 1 August 2005 superseding the 2nd Master Supply Agreement until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the 3rd 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 2005 was approximately HK$74,422,000 (2004: HK$38,985,000).

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

(i) in the ordinary and usual course of business;

(ii) on terms no less favourable than those available to independent third parties; and

(iii) on terms that are fair and reasonable and in the interests of the shareholders as a whole.

CORPORATE GOVERNANCE

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

Code Provision A.2.1

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

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

Code Provision A.4.1

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

Code Provision A.4.2

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

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 general 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.

Amendments of the Bye-laws of the Company will be proposed at the forthcoming annual general meeting in order to comply with the Code.

UPDATED INFORMATION ON PUBLIC SHAREHOLDING AND PROPOSAL FOR RESUMPTION OF TRADING OF SHARES

Trading in the shares of the Company has been suspended since 15 August 2002 due to the public float issue of the Company. Subsequent to the Company's announcement dated 5 January 2006 on the proposal to place an aggregate of 74,406,000 shares of the Company by private placement, negotiations have been undertaken on behalf of the Vendors with a number of interested purchasers/ placees. The Company hopes that the proposed placement and the intended application for resumption of trading of shares of the Company shall be concluded as soon as possible.

AUDITORS

The financial statements have been audited by CCIF CPA Limited. A resolution for their re-appointment 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, 16 March 2006

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong
General: +852 2894 6888
Facsimile: +852 2895 3752
E-mail: info@ccifcpa.com.hk
www.ccifcpa.com.hk

TO THE SHAREHOLDERS OF
DATRONIX HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong
16 March 2006

Kwok Cheuk Yuen
Practising Certificate Number P02412

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (restated)
TURNOVER	5	208,644	184,490
COST OF SALES		(101,715)	(103,838)
GROSS PROFIT		106,929	80,652
OTHER REVENUE	5	1,920	4,923
DISTRIBUTION AND SELLING EXPENSES		(15,738)	(14,409)
ADMINISTRATIVE EXPENSES		(26,389)	(26,372)
PROFIT BEFORE TAXATION	7	66,722	44,794
TAXATION	8	(5,922)	(4,341)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	9	60,800	40,453
DIVIDENDS	10	19,200	14,080
EARNINGS PER SHARE	11		
– Basic		19 cents	12.64 cents
– Diluted		N/A	N/A

The notes on pages 31 to 67 form an integral part of these financial statements.

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
			(restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	33,805	31,753
Lease premium for land and land use rights	14	20,709	21,200
Goodwill	15	–	–
		54,514	52,953
Current assets			
Inventories	17	61,515	54,947
Amount due from ultimate parent enterprise	18	13	9
Tax reserve certificates		13,624	13,624
Prepayments, deposits and other receivables		1,048	5,845
Trade receivables	19	47,022	26,865
Cash and bank balances		110,734	84,299
		233,956	185,589
LIABILITIES			
Current liabilities			
Trade payables	20	11,915	7,787
Other payables and accruals		5,054	3,673
Taxation payable	8	18,097	18,601
		35,066	30,061
Net current assets		198,890	155,528
Total assets less current liabilities		253,404	208,481
Non-current liabilities			
Deferred taxation	21	2,794	3,210
NET ASSETS		250,610	205,271
CAPITAL AND RESERVES			
Issued capital	22	32,000	32,000
Reserves		218,610	173,271
		250,610	205,271

Approved and authorised for issue by the board of directors on 16 March 2006

On behalf of the board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

The notes on pages 31 to 67 form an integral part of these financial statements.

BALANCE SHEET

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	16	188,603	126,430
Current assets			
Prepayments, deposits and other receivables		78	79
Bank balances		351	336
		429	415
LIABILITIES			
Current liabilities			
Other payables and accruals		67	62
Net current assets		362	353
NET ASSETS		188,965	126,783
CAPITAL AND RESERVES			
Issued capital	22	32,000	32,000
Reserves		156,965	94,783
		188,965	126,783

Approved and authorised for issue by the board of directors on 16 March 2006

On behalf of the board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

The notes on pages 31 to 67 form an integral part of these financial statements.

For the year ended 31 December 2005

Group

	Issued capital HK$'000	Share premium HK$'000	Capital reserve (a) HK$'000	Property revaluation reserve HK$'000	Cumulative translation adjustments HK$'000	Retained profits HK$'000	Total HK$'000
At 1/1/2004							
– as previously reported	32,000	57,099	(23,724)	10,774	(1,068)	101,830	176,911
– prior year adjustments in respect of:							
– Decrease in revaluation reserve, net of deferred tax (restated)	–	–	–	(2,625)	–	–	(2,625)
– Decrease in deferred taxation	–	–	–	–	–	200	200
– as restated	32,000	57,099	(23,724)	8,149	(1,068)	102,030	174,486
– Increase in revaluation reserve, net of deferred tax (restated)	–	–	–	1,177	–	–	1,177
– Dividends paid	–	–	–	–	–	(10,880)	(10,880)
– Translation adjustments	–	–	–	–	35	–	35
– Net profit for the year (as restated)	–	–	–	–	–	40,453	40,453
At 31/12/2004 (as restated)	32,000	57,099	(23,724)	9,326	(1,033)	131,603	205,271
At 1/1/2005							
– as previously reported	32,000	57,099	(23,724)	12,624	(1,033)	131,772	208,738
– prior year adjustments in respect of:							
– Decrease in revaluation reserve, net of deferred tax (restated)	–	–	–	(3,298)	–	–	(3,298)
– Decrease in depreciation	–	–	–	–	–	152	152
– Increase in amortisation	–	–	–	–	–	(491)	(491)
– Increase in deferred taxation	–	–	–	–	–	170	170
– as restated	32,000	57,099	(23,724)	9,326	(1,033)	131,603	205,271
– Increase in revaluation reserve, net of deferred tax	–	–	–	1,177	–	–	1,177
– Dividends paid	–	–	–	–	–	(16,640)	(16,640)
– Translation adjustments	–	–	–	–	2	–	2
– Net profit for the year	–	–	–	–	–	60,800	60,800
At 31/12/2005	32,000	57,099	(23,724)	10,503	(1,031)	175,763	250,610

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2005

Company

	Issued capital	Share premium	Contributed surplus (b)	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1/1/ 2004	32,000	57,099	89,606	(39,729)	138,976
Dividends paid	–	–	–	(10,880)	(10,880)
Net loss for the year	–	–	–	(1,313)	(1,313)
At 31/12/ 2004	32,000	57,099	89,606	(51,922)	126,783
At 1/1/2005	32,000	57,099	89,606	(51,922)	126,783
Dividends paid	–	–	–	(16,640)	(16,640)
Net profit for the year	–	–	–	78,822	78,822
At 31/12/ 2005	32,000	57,099	89,606	10,260	188,965

Notes:

a) Capital reserve 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.

b) Contributed surplus 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.

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

The Company's reserves as at 31 December 2005 available for distribution to shareholders are approximately HK$99,866,000 (2004: HK$37,684,000).

The notes on pages 31 to 67 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (restated)
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	66,722	44,794
ADJUSTMENTS FOR:		
Interest income	(1,778)	(743)
Bad debt recovered	–	(15)
Depreciation	4,536	3,611
(Gain)/loss on disposals of property, plant and equipment	(62)	371
Amortisation of goodwill	–	1,011
Amortisation of lease premium for land and land use rights	491	491
(Reversal of)/write-down of inventories	(899)	1,254
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	69,010	50,774
Increase in inventories	(5,669)	(2,731)
Increase in amount due from ultimate parent enterprise	(4)	(5)
Decrease/(increase) in prepayments, deposits and other receivables	4,797	(2,345)
(Increase)/decrease in trade receivables	(20,157)	3,358
Increase/(decrease) in trade payables	4,128	(481)
Increase/(decrease) in other payables and accruals	1,381	(912)
CASH GENERATED FROM OPERATIONS	53,486	47,658
Hong Kong profits tax paid	(5,716)	(160)
Overseas tax (paid)/refunded	(466)	69
NET CASH INFLOW FROM OPERATIONS	47,304	47,567
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of property, plant and equipment	140	3
Acquisition of property, plant and equipment	(6,142)	(6,274)
Acquisition of lease premium for land and land use rights	–	(5,510)
Interest received	1,778	743
NET CASH USED IN INVESTING ACTIVITIES	(4,224)	(11,038)
NET CASH INFLOW BEFORE FINANCING	43,080	36,529

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (restated)
NET CASH INFLOW BEFORE FINANCING	43,080	36,529
CASH FLOWS FROM FINANCING		
Dividends paid	(16,640)	(10,880)
NET CASH USED IN FINANCING	(16,640)	(10,880)
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,440	25,649
EFFECT ON CUMULATIVE TRANSLATION ADJUSTMENT	(5)	(34)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	84,299	58,684
CASH AND CASH EQUIVALENTS AT END OF YEAR	110,734	84,299
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	110,734	84,299

The notes on pages 31 to 67 form an integral part of these financial statements.

1. BASIS OF PREPARATION

(a) GENERAL

Datronix Holdings Limited (the "Company") was incorporated in Bermuda on 15 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 June 2001.

(b) PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing of electronic components in the People's Republic of China (the "PRC") and trading of electronic components to customers in the United States of America (the "US"), Europe, Hong Kong and other countries.

(c) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

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

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

The adoption of new/revised HKFRS:

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

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

– HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 33, 36, 37, 38 and HK-Int 4 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

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

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions.

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

The adoption of revised HKAS 17 resulted in:

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

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

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

(b) REVENUE RECOGNITION

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

(i) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Interest income

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) GOODWILL

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

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

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

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

(d) SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) SUBSIDIARIES (Continued)

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the Group intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Group, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Such development costs are recognised as an asset to the extent of the amount that, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, is probable of being recovered from related future economic benefits. The excess amount is written off as incurred.

(g) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than other properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Other properties are interests in buildings. The buildings component of owner-occupied properties are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of owner-occupied properties are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

Property, plant and equipment are depreciated at rates sufficient to write off their cost/valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	4% to 4.5% or over the lease terms, whichever is shorter
Machinery and equipment	15% to 30%
Furniture and fixtures	15%
Motor vehicles	18% to 25%

(h) LEASE PREMIUM FOR LAND AND LAND USE RIGHTS

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) LEASED ASSETS

(i) Classification of assets leased to the Group

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

– property held under operating leases that would otherwise meet the definition of an investment property and stated at fair value is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Operating lease charges

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) IMPAIRMENT OF ASSETS

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

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

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries; and

– positive goodwill.

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

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) IMPAIRMENT OF ASSETS (Continued)

(ii) Recognition of impairment losses

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

(iii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(k) RELATED PARTIES

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) TRADE AND OTHER RECEIVABLES

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

(n) TRADE AND OTHER PAYABLES

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

(o) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) PROVISIONS AND CONTINGENT LIABILITIES

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

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

(q) DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) TRANSLATION OF FOREIGN CURRENCIES

Functional and presentation currency

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

Transactions and balances

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

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

Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) TRANSLATION OF FOREIGN CURRENCIES (Continued)

Group companies (Continued)

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

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

(s) RETIREMENT COSTS

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

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

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

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

(t) SEGMENT REPORTING

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) SEGMENT REPORTING (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

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

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

(c) Liquidity risk

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful lives of property, plant and equipment

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

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

(c) Estimated net realisable value of inventories

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

5. TURNOVER AND OTHER REVENUE

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

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

6. SEGMENT INFORMATION

Business segment

The Group is principally engaged in the manufacturing of electronic components in the PRC and trading of electronic components to customers in the United States of America, Europe, Hong Kong and other countries. Accordingly, the directors consider there is only one business segment and five geographical segments.

Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

An analysis of geographical segments is as follows:

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

7. PROFIT BEFORE TAXATION

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

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

8. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of taxation prevailing in the country in which the company operates.

The amount of taxation charged to the consolidated income statement represents:

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

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

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

8. TAXATION (Continued)

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

Taxation payable in the consolidated balance sheet represents:

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

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

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

Datatronic Distribution, Inc., a company incorporated in the State of California, the United States of America, is subject to the federal income tax on progressive rates between 15% to 39% (2004: 15% to 39%), and California State corporate tax at the rate of 8.84% (2004: 8.84%), on the estimated assessable profits arising in or derived by Datatronic Distribution, Inc. on a worldwide basis.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

	Number of shares 2005	 2004
Weighted average number of shares for the purpose of calculating earnings per share – Basic	320,000,000	320,000,000

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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

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

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

Note: Appointed on 17 September 2004

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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

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

	2005	2004
Number of directors	2	2
Number of employees	3	3
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2005	2004
HK$Nil to HK$1,000,000	4	4
HK$1,000,001 to HK$1,500,000	1	1
	5	5

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2004 (restated)	18,040	18,589	14,324	4,823	55,776
Additions	1,449	1,027	3,798	–	6,274
Disposals	–	(999)	(1,088)	–	(2,087)
Surplus on revaluation	1,071	–	–	–	1,071
Exchange adjustments	–	55	37	–	92
At 31/12/2004 (restated)	20,560	18,672	17,071	4,823	61,126
Accumulated depreciation					
At 1/1/2004 (restated)	–	15,578	7,955	4,491	28,024
Charge for the year	568	1,317	1,643	83	3,611
Disposals	–	(682)	(1,031)	–	(1,713)
Written back on revaluation	(568)	–	–	–	(568)
Exchange adjustments	–	–	19	–	19
At 31/12/2004 (restated)	–	16,213	8,586	4,574	29,373
Net book value					
At 31/12/2004 (restated)	20,560	2,459	8,485	249	31,753
Cost or valuation					
At 1/1/2005 (restated)	20,560	18,672	17,071	4,823	61,126
Additions	886	1,787	3,469	–	6,142
Disposals	–	(66)	(365)	(1,606)	(2,037)
Deficit on revaluation	(376)	–	–	–	(376)
Exchange adjustments	–	–	6	–	6
At 31/12/2005	21,070	20,393	20,181	3,217	64,861
Accumulated depreciation					
At 1/1/2005 (restated)	–	16,213	8,586	4,574	29,373
Charge for the year	901	1,467	2,115	53	4,536
Disposals	–	(66)	(323)	(1,570)	(1,959)
Written back on revaluation	(901)	–	–	–	(901)
Exchange adjustments	–	–	7	–	7
At 31/12/2005	–	17,614	10,385	3,057	31,056
Net book value					
At 31/12/2005	21,070	2,779	9,796	160	33,805

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

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

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

14. LEASE PREMIUM FOR LAND AND LAND USE RIGHTS

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

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

15. GOODWILL

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

16. INTERESTS IN SUBSIDIARIES

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

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

16. INTERESTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2005 are as follows:

Name	Country/ place of incorporation/ establishment	Country/ place of operation	Principal activities	Issued and fully paid share capital	Interests held	
					Directly	Indirectly
Guardsafe Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1,000	100%	–
Great Vigour Holdings Limited	British Virgin Islands	Hong Kong	Inactive	US$1	100%	–
Musthave Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	100%
Think Machine Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$2	–	100%
Century Electronics Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	100%
Datatronic Limited	Hong Kong	Hong Kong	Investment holding and manufacturing and trading of electronic components	HK$10,000 ordinary HK$200,000 non-voting deferred (i)	–	100%
連達（廣東）電子有限公司(ii)	The PRC	The PRC	Manufacturing of electronic components	2005: US$8,665,000 (2004: US$8,526,308)	–	100%
Datamax S.A.R.L.	France	France	Trading of electronic components	Euro7,622.45	–	100%
Datatronic Distribution, Inc.	California, the US	California, the US	Trading of electronic components	US$1,000	–	100%
Maxgain Venture Limited	Hong Kong	Hong Kong	Property holding	HK$2	–	100%
Pulse Tek Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	100%

16. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(i) The non-voting deferred shares have no voting rights and are not entitled to any dividend on distribution upon winding up unless a sum of HK$1,000,000,000 has been distributed to each holder of the ordinary shares.

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

17. INVENTORIES

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

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

18. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

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

19. TRADE RECEIVABLES

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

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

20. TRADE PAYABLES

The aging analysis of trade payables is as follows:

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

21. DEFERRED TAXATION

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

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

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

22. ISSUED CAPITAL AND SHARE OPTION SCHEME

	2005 HK$'000	2004 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
320,000,000 ordinary shares of HK$0.1 each	32,000	32,000

22. ISSUED CAPITAL AND SHARE OPTION SCHEME (Continued)

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

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

23. RETIREMENT BENEFIT COSTS

The Group has implemented a provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from 1 December 2000. The Group contributed according to the minimum requirements of the MPF Ordinance (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000) and the contribution is charged to the income statement.

As stipulated by rules and regulations in the PRC, the Group contributed to a state-sponsored retirement plan for its employees in the PRC at a rate of 10% of the basic salaries of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The relevant government agency is responsible for the entire pension obligation payable to all retired employees.

The Group contributed 6.2% of the basic salaries of its employees to the federal government of the United States of America for social security purposes, and has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions.

24. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

In the opinion of the directors, the above related party transactions are carried out in the usual course of business of the Group and on normal commercial terms.

(c) Compensation of key management personnel of the Group

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

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

25. COMMITMENTS

(a) Operating leases commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

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

(b) Other commitments

Effective from 1 January 2006, the Group entered into an agreement with an independent third party in the PRC ("the PRC party"), whereby the Group agreed to pay a fixed fee of approximately HK$9,400 per month for management services provided by the PRC party to 連達 (廣東) 電子有限公司, a subsidiary of the Company. Commitment payable amounted to approximately HK$112,800 as at 31 December 2005 (2004: HK$112,800).

26. POST BALANCE SHEET EVENT

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

27. ULTIMATE PARENT ENTERPRISE AND CONTROLLING PARTY

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

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

28. COMPARATIVE FIGURES

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

FINANCIAL SUMMARY

31 December 2005

The consolidated income statements of the Group for the financial years 2001 to 2005 and the consolidated balance sheets of the Group as at 31 December 2001, 2002, 2003, 2004 and 2005 are as follows:

RESULTS

	Year ended 31 December				
	2001 HK$'000 (restated)	2002 HK$'000 (restated)	2003 HK$'000 (restated)	2004 HK$'000 (restated)	2005 HK$'000
Turnover	163,986	115,381	144,654	184,490	208,644
Profit/(loss) from operations	25,903	(4,034)	24,268	44,794	66,722
Finance costs	(105)	(10)	–	–	–
Profit/(loss) before taxation	25,798	(4,044)	24,268	44,794	66,722
Taxation	(4,333)	262	(4,617)	(4,341)	(5,922)
Profit/(loss) for the year	21,465	(3,782)	19,651	40,453	60,800
Attributable to:					
Equity shareholders of the Company	21,503	(3,739)	19,651	40,453	60,800
Minority interests	(38)	(43)	–	–	–
	21,465	(3,782)	19,651	40,453	60,800

ASSETS AND LIABILITIES

	At 31 December				
	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000
Total assets	228,093	203,868	204,436	238,542	288,470
Total liabilities	(24,135)	(27,493)	(29,950)	(33,271)	(37,860)
Shareholders' funds	203,958	176,375	174,486	205,271	250,610

Note:

Pursuant to a group reorganisation scheme in preparing for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("The Reorganisation"), the Company became the holding company of the Group on 6 June 2001. The summary of consolidated balance sheet and the consolidated income statement as at and for the year ended 31 December 2001 was prepared as if the current group structure had been in existence throughout that year.

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, six board meetings were held and the attendance of each director is set out as follows:-

Directors	**Number of attendance**
Mr. Siu Paul Y.	6/6
Ms. Shui Wai Mei	5/6
Mr. Sheung Shing Fai	6/6
Ms. Siu Nina Margaret	3/6
Mr. Chung Pui Lam	5/6
Mr. Lam Tak Shing	5/6
Mr. Chan Fai Yue, Leo	5/6

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD COMPOSITION

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

Amendments of the Bye-laws of the Company will be proposed at the forthcoming annual general meeting in order to comply with the Code.

REMUNERATION COMMITTEE

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

The Remuneration Committee was formed on 30 June 2005 and one meeting was held in 2005. The attendance of each member is set out as follows:

Directors	Number of attendance
Mr. Siu Paul Y.	1/1
Mr. Chung Pui Lam	1/1
Mr. Chan Fai Yue, Leo	1/1

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 2005, 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 is the Chairman of the Audit Committee.

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

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

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

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2005.

AUDITORS' REMUNERATION

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

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	410
Non-audit services:	
Review on 2005 interim results	80

COMMUNICATION WITH SHAREHOLDERS

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

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Ground Floor, Function Room 1, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Tuesday, 25 April 2006 at 3:00 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December, 2005 and the Reports of the Directors and Auditors thereon.

2. To declare a final dividend.

3. To re-elect retiring directors, to grant power to the board of directors to appoint additional director(s) and to fix directors' remuneration.

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

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

   A. "**THAT**

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

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

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

(d) for the purpose of this resolution:

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

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

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

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

B. "**THAT**

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

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

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

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

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

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

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

6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as special resolutions of the Company:

(a) by deleting the existing Bye-law 86(2) in its entirety and substituting therefor the following:

"86. (2) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Members in General Meeting. Any Director so appointed by the Board shall hold office only (in the case of filling a casual vacancy) until the next following annual general meeting or the first general meeting after the appointment of the Director by the Board of the Company or (in the case of an addition to the Board) until the next following annual general meeting of the Company, and shall be eligible for re-election at that meeting. The Directors to retire at the annual general meeting pursuant to this Bye-law 86(2) shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the annual general meeting."

(b) by replacing the word "special" with the word "ordinary" in line two of Bye-law 86(4).

(c) by deleting the existing Bye-law 87(1) in its entirety and substituting therefor the following:

"87. (1) Notwithstanding any other provisions in the Bye-laws, at each annual general 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 every Director (including those appointed for a specific term) shall retire from office by rotation no later than the third annual general meeting after he was last elected or re-elected and 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."

By order of the Board
LEUNG Sau Fong
Company Secretary

Hong Kong, 29 March 2006

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, 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 Friday, 21 April 2006 to Tuesday, 25 April 2006 both dates inclusive, during which period no share transfers will be effected. 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 the Company's branch share registrar in Hong Kong for registration not later than 4:00 p.m. on Thursday, 20 April 2006. The cheques for dividend payment will be sent on about Monday, 8 May 2006.