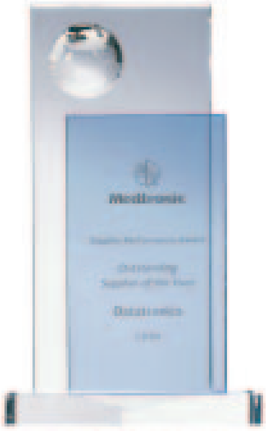
DATRONIX HOLDINGS LIMITED
連達科技控股有限公司*

(Stock Code: 889)

ANNUAL REPORT 2006

* For identification purposes only

AWARDS



MEDTRONIC
"Supplier of the Year"

LUTRON
"Supplier of the Year"

LUTRON
"Customer Service"

MEDTRONIC
"Outstanding
Performance"

DATAFORTH
"Vendor of the Year"

XICOM
"President's Award"

XICOM
"Outstanding
Performance"

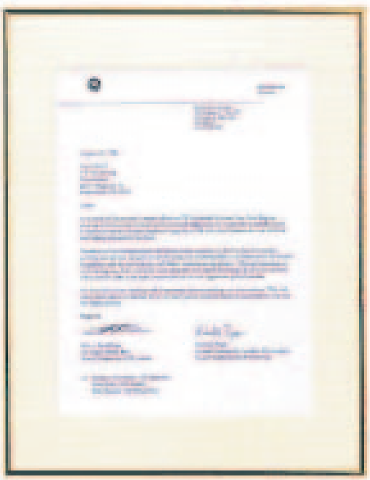
LUTRON
"Outstanding New
Supplier"

Customer Recognition For Quality, Service, Value

Polycom

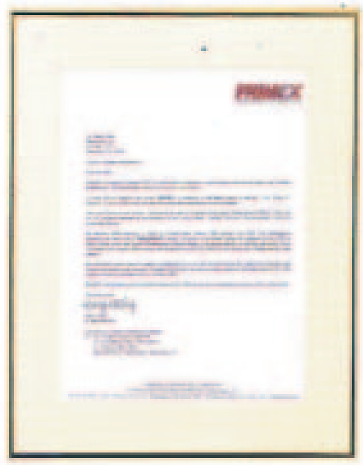
Ericsson

Milwaukee

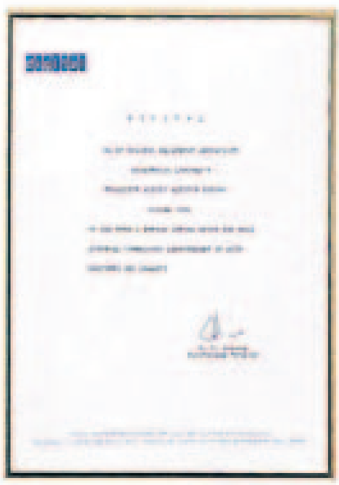


Preferred supplier
General Electric

Physio Control
(Div. of Medtronic)

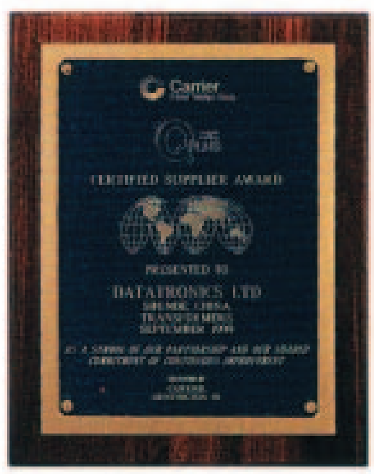


Preferred supplier
Primex Aerospace



Digital Equipment corp

Xerox



United Technologies

AWARDS

Xerox

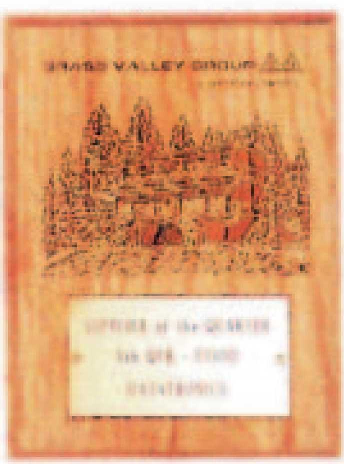
Xerox

ICL/Fujitsu

Xerox

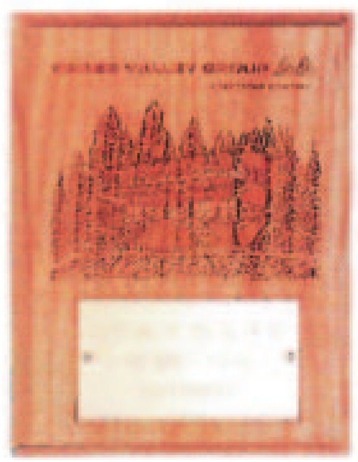
Xerox

Xerox



Tektronix

Sola Electric



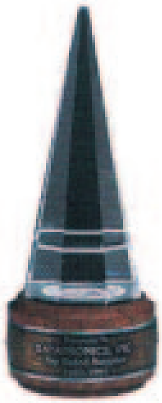
Tektronix

Customer Recognition For Quality, Service, Value

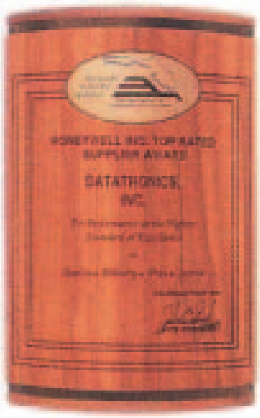
Honeywell

Honeywell

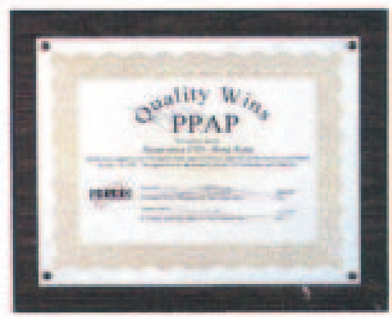
Harris



Honeywell



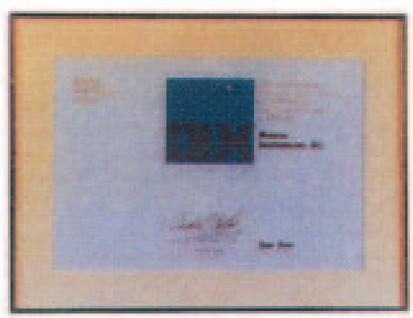
Honeywell



Delco

Honeywell

Hughes Aircraft
General Motors



IBM

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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

Non-executive Director

SIU Ronald

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

CHEUNG Wa Ying

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITORS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

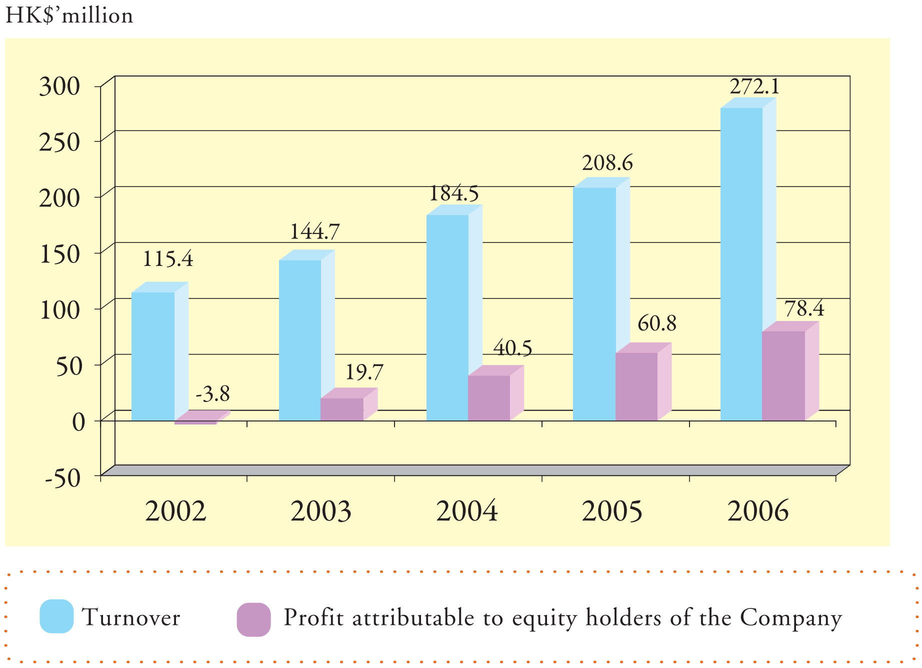
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

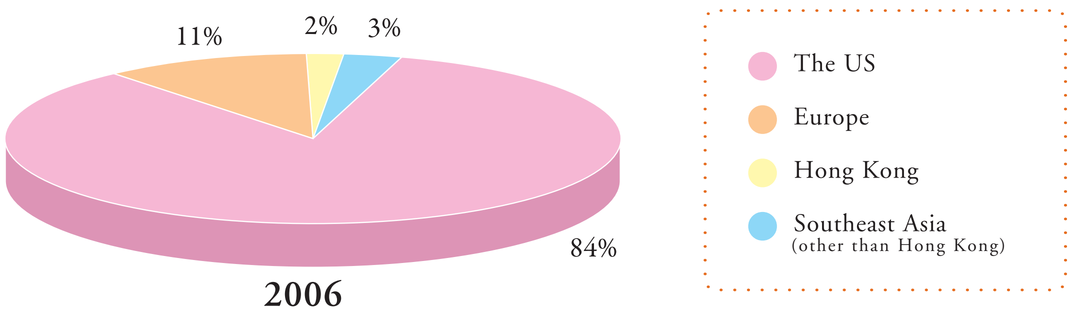
PRINCIPAL BANKERS

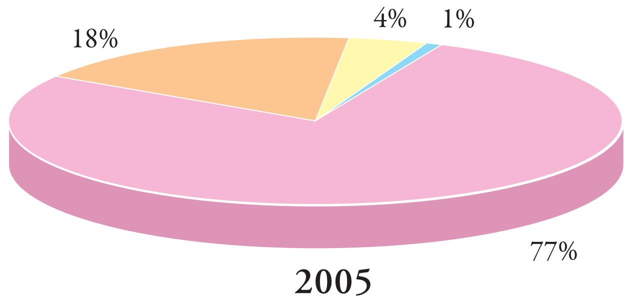
The Hongkong and Shanghai Banking
Corporation Limited
Bank of Communications

Turnover / Profit attributable to equity holders of the Company



Geographical destination of products





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

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

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

THE GROUP'S PRODUCT LINE

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

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

GENERAL

MARKETS SERVED

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

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

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

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

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

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

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

For Datronix, 2006 has been a year filled with excitement and improvement. The Group reported strong growth for both turnover and profit with 30% and 29% respectively for full year ended 2006. Turnover for the year ended 31 December 2006 were HK$272.1 million, compared to HK$208.6 million in 2005. Profit for year ended 31 December 2006 were HK$78.4 million, compared to HK$60.8 million in 2005. The continued growth was supported with our strong sales of magnetics to energy saving devices, communication equipment and military products. The Company remains well position to make future investment and acquisition, thanks to our continued positive cash flow and strong balance sheet.

The Group's most challenging issues in 2006 were the appreciation of Renminbi, rising cost of raw materials and labour. The Group responded to these challenges with high automation in production to improve efficiency, productivity and yields. In addition, the Group stepped up development of new products for medical devices and aerospace applications; while the continuation of lean process implementation in many phases of the Group's activities aided to meet the challenging environment. Proactive measures were also taken to control costs and reduce expenses.

The Group continues to believe that a strong growth in its legacy customized, military, medical device, aerospace applications and high reliability magnetic components business will increase in the next few quarters and in the future.

MARKET REVIEW

Communication

For the year ended 2006, communication market sales increased 47% to HK$86 million from HK$58.6 million for year ended 2005. The driver for this market sale increase was mainly due to the strong DC-DC converter business with our end customers, who have successful launch of their products to the market.

Data Processing

The data processing market reported sales of HK$13.2 million as of year 2006, rose 6% from HK$12.4 million as of year 2005. This market is stable and enjoying organic growth from our end customers.

Industrial Application

Industrial application market enjoys a 31% increase of sales to HK$63.4 million for the year ended 2006. The significant improvement in sales was driven by few factors: organic growth, new projects, and new products launched.

MARKET REVIEW (Continued)

Military, Aerospace and Healthcare

The high end market includes our military, aerospace and healthcare market. Sales growth was satisfied with an increase of 23% to HK$109.5 million for year 2006. Military projects sales growth is healthy. Existing health care products remain stable; while we are in the development stage of supplying few critical medical devices' components starting 2007. We expected the overall market growth remains healthy and is sustainable.

LOOKING AHEAD

The growth took place in 2006 will continue during 2007 as we foresee the demand in military, health care and energy saving device markets. With our strong vendor capabilities and investment in automation, we will keep the rising cost impact at minimal. In 2007, we will continue to focus on product innovation along with our customers. Our plant expansion in Shunde will be underway in order to ensure adequate manufacturing capacity to meet strong demand from existing customers.

We will continue to follow the strategy that has served us so well in the past. With our broad product portfolio, our ongoing program to continue our core business, cost reductions, introduction of new products and new technologies, and our solid financial position, we look ahead with confidence to new challenges and opportunities.

ACHIEVEMENT AND AWARDS

In recognition of the quality, value of its products and of the Group's service and performance, the Group has to date received 35 awards from customers including three awards presented by Medtronic "Supplier of the Year", Lutron "Customer Service Award" and Dataforth "Vendor of the Year" in 2006.

ACKNOWLEDGEMENT

We are sincerely grateful to our employees for their commitment to Datronix. We thank our key partners – customers, vendors, and stockholders – for their loyalty.

SIU Paul Y.
Chairman

Hong Kong, 23 April 2007

FINANCIAL REVIEW

The Group delivered a strong earnings result for year ended 2006. Turnover reported HK$272.1 million as of 31 December 2006, increased 30% or HK$63.5 million, from HK$208.6 million as of 31 December 2005.

Gross profit in 31 December 2006 increased 22.9%, or HK$24.5 million to HK$131.4 million from HK$106.9 million in 31 December 2005. Gross margin was 48.3% as of 31 December 2006, compared to 51.2% for the same period last year. Profit reported HK$78.4 million in 31 December 2006, increased HK$17.6 million, or 28.9% from HK$60.8 million in 31 December 2005. Net profit margin was 28.8% in 31 December 2006, compared to 29.1% in 31 December 2005. The slight decrease in profit margin was due to rising costs of material and labour.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2006, the Group had a total equity of approximately HK$310.4 million (2005: HK$250.6 million), and cash and cash equivalents of approximately HK$155 million (2005: HK$111 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2006, 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 2006.

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 2006, the Group employed approximately 1,630 personnel around the world, with approximately 110 in Hong Kong, 1,500 in the PRC and 20 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operation system, product and technology development, and product safety.

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

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2006 (2005: HK$ Nil).

CAPITAL COMMITMENTS

The Group did not have any material capital commitment as at 31 December 2006 (2005: 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 66, 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 61, 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 58, 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 30, is an executive director of the Company. Ms. Siu holds a MBA degree with emphasis on Finance and Certificate in International Business in Loyola Marymount University and a bachelor degree of arts with major in business economics from the University of California, Los Angeles in the US. She has more than 3 years experience in the US syndication loan market on major listed companies in the US. Ms. Siu is responsible for the finance and marketing of the Group. Ms. Siu joined the Group in May 2000 and was re-designated from non-executive director to executive director of the Company on 7 July 2005. Ms. Siu is the daughter of Mr. Siu Paul Y..

NON-EXECUTIVE DIRECTOR

Mr. Siu Ronald, aged 23, is a non-executive director of the Company. He holds a bachelor degree of science in business administration with Cum Laude (Honors) from the University of Southern California in the U.S.. He has working experience in the field of financial markets. Mr. Siu Ronald is the son of Mr. Siu Paul Y. and was appointed as a non-executive director in April 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Pui Lam, SBS, OBE, JP, aged 66, was appointed as an independent non-executive director of the Company in March 2001. He is a practicing solicitor in Hong Kong. Mr. Chung is serving on several advisory committees of the government of the HKSAR. Mr. Chung is also an independent non-executive director of S E A Holdings Limited and a non-executive director of Chow Sang Sang Holdings International Limited.

Mr. Lam Tak Shing, aged 46, 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 66, was appointed as an independent non-executive director of the Company in September 2004. Mr. Chan is a member of The Hong Kong Institute of Directors. Mr. Chan has over 20 years of experience in Hong Kong stock market and manufacturing industry. He was exposed to the trading and finance field during his early years in Japan. He is a director of a paint manufacturing company in Bangkok, Thailand. Mr. Chan is currently an independent non-executive director of Golden Resources Development International Limited and Prosperity Investment Holdings Limited, both are companies listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. Ho Hing Cheong, aged 37, 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 57, 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 49, 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 58, 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. Cheung Wa Ying, aged 32, is the Financial Manager of the Group. She is responsible for all finance and accounting functions of the Group. Ms. Cheung obtained a bachelor degree in accountancy from the City University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institutes of Chartered Secretaries. Ms. Cheung joined the Group in 2006. Prior to joining the Group, Ms. Cheung has over 8 years of experience in auditing, accounting, financial analysis and taxation matters.

Mr. Tam Chun Cheung, aged 58, 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 2006.

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	30%	
Five largest customers in aggregate	72%	
The largest supplier		7%
Five largest suppliers in aggregate		24%

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 30.

The state of affairs of the Group and the Company as at 31 December 2006 are set out in the consolidated balance sheet on page 31 and the balance sheet on page 32 respectively.

The directors recommend the payment of a final dividend of HK$0.043 (2005: HK$0.03) per share, totalling HK$13,760,000 (2005: HK$9,600,000) for the year ended 31 December 2006.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2006 and of the assets and liabilities as at 31 December 2002, 2003, 2004, 2005 and 2006 is set out on page 77.

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 2006 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 23 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 33 to 34.

DIRECTORS

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

Executive directors

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

Non-executive director

Mr. Siu Ronald (Appointed on 23 April, 2007)

Independent non-executive directors

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

DIRECTORS (Continued)

In accordance with Bye-laws 86(2) and 87(1) of the Company's Articles of Association, Mr. Chung Pui Lam, Mr. Lam Tak Shing and Mr. Siu Ronald will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Amongst the executive directors, Mr. Siu Paul Y., Ms. Shui Wai Mei and Mr. Sheung Shing Fai have each entered into a service contract with the Company for an initial fixed term of three years commencing from 22 June 2001 while Ms. Siu Nina Margaret has entered into a service contract with the Company for an initial fixed term of three years commencing from 7 July 2005. Such contracts will continue thereafter until terminated by not less than three 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 25 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its parent enterprise was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2006, 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.	–	–	233,000,000 *(Note 1)*	233,000,000

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 72.8% of the issued share capital of the Company.

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

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executives of the Company or their respective associates in the shares and underlying shares of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code of Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executives (including their spouses and children under the age of 18), had, as at 31 December 2006, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CONNECTED TRANSACTIONS

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

Datatronic Limited ("DL"), a wholly owned subsidiary of the Company, and Datatronics Romoland, Inc. ("DRI") entered into a 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 2006 was approximately HK$81,724,000 (2005: HK$74,422,000).

CONNECTED TRANSACTIONS (Continued)

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

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

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

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

CORPORATE GOVERNANCE

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

Code Provision A.2.1

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

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

Code Provision A.4.1

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

Code Provision A.4.2

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

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

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the board

Siu Paul Y.
Chairman

Hong Kong, 23 April 2007

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

Directors	**Number of attendance**
Mr. Siu Paul Y.	4/4
Ms. Shui Wai Mei	4/4
Mr. Sheung Shing Fai	4/4
Ms. Siu Nina Margaret	4/4
Mr. Chung Pui Lam	4/4
Mr. Lam Tak Shing	3/4
Mr. Chan Fai Yue, Leo	4/4

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, one Non-executive Director, being Mr. Siu Ronald, 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.

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.

During the year, one Remuneration Committee meeting was held. 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 2006, 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	1/2
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 2006.

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	390
Non-audit services:	
Review on preliminary result announcement	8

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2006 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

COMMUNICATION WITH SHAREHOLDERS

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

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Ground Floor, Function Room 1, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Thursday, 7 June 2007 at 3:00 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December, 2006 and the Reports of the Directors and Auditors thereon.

2. To declare a final dividend.

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

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

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

   A. "**THAT**

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

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

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

(d) for the purpose of this resolution:

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

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

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

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

B. "**THAT**

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

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

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

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

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

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

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

By order of the Board
LEUNG Sau Fong
Company Secretary

Hong Kong, 30 April 2007

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 Monday, 4 June 2007 to Thursday, 7 June 2007 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 Friday, 1 June 2007. The cheques for dividend payment will be sent on about Wednesday, 20 June 2007.

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

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

We have audited the consolidated financial statements of Datronix Holdings Limited (the "company") set out on pages 30 to 76, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Auditor's Responsibility (Continued)

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2006 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong,
23 April 2007

Kwok Cheuk Yuen
Practising Certificate Number P02412

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	5	272,131	208,644
Cost of sales		(140,758)	(101,715)
Gross profit		131,373	106,929
Other revenue	5	4,919	1,920
Distribution and selling expenses		(19,874)	(15,738)
Administrative expenses		(28,336)	(26,389)
Profit before taxation	7	88,082	66,722
Taxation	8	(9,681)	(5,922)
Profit for the year attributable to equity holders of the company	9	78.401	60,800
Dividends	10	25,600	19,200
Earnings per share	11		
– Basic		HK$0.245	HK$0.190
– Diluted		N/A	N/A

The notes on pages 37 to 76 form an integral part of these financial statements.

At 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	36,206	33,805
Lease premium for land and land use rights	14	20,292	20,709
		56,498	54,514
CURRENT ASSETS			
Inventories	17	83,488	61,515
Amount due from ultimate parent enterprise	18	13	13
Tax reserve certificates		13,624	13,624
Prepayments, deposits and other receivables		1,718	1,048
Trade receivables	19	46,900	47,022
Cash and cash equivalents	20	155,112	110,734
		300,855	233,956
CURRENT LIABILITIES			
Trade payables	21	16,769	11,915
Other payables and accruals		7,173	5,054
Taxation payable	8	19,814	18,097
		43,756	35,066
NET CURRENT ASSETS		257,099	198,890
TOTAL ASSETS LESS CURRENT LIABILITIES		313,597	253,404
NON-CURRENT LIABILITIES			
Deferred taxation	22	3,149	2,794
NET ASSETS		310,448	250,610
CAPITAL AND RESERVES			
Issued capital	23	32,000	32,000
Reserves		278,448	218,610
TOTAL EQUITY		310,448	250,610

Approved and authorised for issue by the board of directors on 23 April 2007.

On behalf of the board

Siu Paul Y.	**Shui Wai Mei**
Chairman	*Vice Chairman*

The notes on pages 37 to 76 form an integral part of these financial statements.

BALANCE SHEET

At 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	166,110	188,603
CURRENT ASSETS			
Prepayments, deposits and other receivables		82	78
Cash and cash equivalents	20	345	351
		427	429
CURRENT LIABILITIES			
Other payables and accruals		122	67
NET CURRENT ASSETS		305	362
NET ASSETS		166,415	188,965
CAPITAL AND RESERVES			
Issued capital	23	32,000	32,000
Reserves		134,415	156,965
TOTAL EQUITY		166,415	188,965

Approved and authorised for issue by the board of directors on 23 April 2007

On behalf of the board

Siu Paul Y.
Chairman

Shui Wai Mei
Vice Chairman

The notes on pages 37 to 76 form an integral part of these financial statements.

For the year ended 31 December 2006

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 1/1/2005							
– 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
At 1/1/2006	32,000	57,099	(23,724)	10,503	(1,031)	175,763	250,610
– Increase in revaluation reserve, net of deferred tax	–	–	–	1,819	–	–	1,819
– Dividend paid	–	–	–	–	–	(21,440)	(21,440)
– Translation adjustments	–	–	–	–	1,058	–	1,058
– Net profit for the year	–	–	–	–	–	78,401	78,401
At 31/12/2006	32,000	57,099	(23,724)	12,322	27	232,724	310,448

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2006

Company

	Issued capital HK$'000	Share premium HK$'000	Contributed surplus (b) HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
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
At 1/1/2006	32,000	57,099	89,606	10,260	188,965
Dividends paid	–	–	–	(21,440)	(21,440)
Net loss for the year	–	–	–	(1,110)	(1,110)
At 31/12/2006	32,000	57,099	89,606	(12,290)	166,415

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 2006 available for distribution to shareholders are approximately HK$77,316,000 (2005: HK$99,866,000).

The notes on pages 37 to 76 form an integral part of these financial statements.

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		88,082	66,722
ADJUSTMENTS FOR:			
Interest income		(4,140)	(1,778)
Depreciation of property, plant and equipment		4,710	4,536
Loss/(gain) on disposals of property, plant and equipment		82	(62)
Amortisation of lease premium for land and land use rights		491	491
Provision/(write-back of provision) for obsolete and slow-moving inventories		386	(899)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		89,611	69,010
Increase in inventories		(22,359)	(5,669)
Increase in amount due from ultimate parent enterprise		–	(4)
(Increase)/decrease in prepayments, deposits and other receivables		(670)	4,797
Decrease/(increase) in trade receivables		122	(20,157)
Increase in trade payables		4,854	4,128
Increase in other payables and accruals		2,119	1,381
CASH GENERATED FROM OPERATIONS		73,677	53,486
Hong Kong profits tax paid		(6,071)	(5,716)
Overseas tax paid		(2,017)	(466)
NET CASH INFLOW FROM OPERATIONS		65,589	47,304
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		6	140
Acquisition of property, plant and equipment		(4,676)	(6,142)
Interest received		4,140	1,778
NET CASH USED IN INVESTING ACTIVITIES		(530)	(4,224)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		65,059	43,080

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		65,059	43,080
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(21,440)	(16,640)
NET CASH USED IN FINANCING ACTIVITIES		(21,440)	(16,640)
NET INCREASE IN CASH AND CASH EQUIVALENTS		43,619	26,440
EFFECT ON CUMULATIVE TRANSLATION ADJUSTMENT		759	(5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		110,734	84,299
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	155,112	110,734

The notes on pages 37 to 76 form an integral part of these financial statements.

1. BASIS OF PREPARATION

(a) GENERAL INFORMATION

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

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

(b) PRINCIPAL ACTIVITIES

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

(c) BASIS OF CONSOLIDATION

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

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

The consolidated financial statements of the company have been prepared in accordance with HKFRS and under the historical cost convention, as modified by the valuation of the buildings.

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) STATEMENT OF COMPLIANCE (Continued)

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

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

(b) REVENUE RECOGNITION

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

(i) Sale of goods

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

(ii) Interest income

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

(c) GOODWILL

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) GOODWILL (Continued)

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

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

(d) SUBSIDIARIES

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

The group's and the company's policies for investments in debt and equity securities, other than investments in subsidiaries, are as follows:

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

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

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

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

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

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

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%

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

(h) LEASE PREMIUM FOR LAND AND LAND USE RIGHTS

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) LEASED ASSETS

(i) Classification of assets leased to the group

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

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

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

(ii) Operating lease charges

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) IMPAIRMENT OF ASSETS

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

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

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) IMPAIRMENT OF ASSETS (Continued)

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

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

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

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

(ii) Impairment of other assets

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) IMPAIRMENT OF ASSETS (Continued)

(ii) Impairment of other assets (Continued)

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) RELATED PARTIES

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

(l) INVENTORIES

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

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

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

(m) TRADE AND OTHER RECEIVABLES

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

(n) TRADE AND OTHER PAYABLES

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) CASH AND CASH EQUIVALENTS

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

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

(p) PROVISIONS AND CONTINGENT LIABILITIES

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

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

(q) INCOME TAX

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) INCOME TAX (Continued)

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) INCOME TAX (Continued)

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

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

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) TRANSLATION OF FOREIGN CURRENCIES

Functional and presentation currency

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

Transactions and balances

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) TRANSLATION OF FOREIGN CURRENCIES (Continued)

Transactions and balances (Continued)

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

Group companies

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) RETIREMENT COSTS

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

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

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

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

(t) SEGMENT REPORTING

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) SEGMENT REPORTING (Continued)

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

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

(u) SHARE BASED PAYMENTS

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

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

3. FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

(a) Foreign currency risk

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

(b) Credit risk

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

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

(c) Liquidity risk

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

(d) Fair values

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) **Useful lives of property, plant and equipment**

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

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

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

(c) **Estimated net realisable value of inventories**

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

5. TURNOVER AND OTHER REVENUE

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

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

6. SEGMENT INFORMATION

Business segment

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

Geographical segment

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

6. SEGMENT INFORMATION (Continued)

Geographical segment (Continued)

An analysis of geographical segments is as follows:

	Hong Kong		The PRC		The United States of America		Europe		Others		Eliminations		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover														
External sales	6,311	7,214	–	–	228,347	161,038	29,856	37,397	7,617	2,995	–	–	272,131	208,644
Intersegment sales	286,424	209,659	–	–	114,056	64,275	2,501	2,882	–	–	(402,981)	(276,816)	–	–
Total	292,735	216,873	–	–	342,403	225,313	32,357	40,279	7,617	2,995	(402,981)	(276,816)	272,131	208,644
Operating results														
Profit from operations													83,942	64,944
Interest income													4,140	1,778
Profit before taxation													88,082	66,722
Taxation													(9,681)	(5,922)
Profit attributable to equity holders of the company													78,401	60,800
Other information														
Segment assets	840,860	537,807	52,129	50,588	97,983	39,779	2,419	3,218	–	–	(636,038)	(342,922)	357,353	288,470
Segment liabilities	417,037	163,696	2,073	1,687	91,631	40,228	4,515	5,020	–	–	(468,351)	(172,771)	46,905	37,860
Capital expenditures	3,671	4,128	969	1,187	34	827	2	–	–	–	–	–	4,676	6,142
Depreciation and amortisation	4,051	3,736	1,929	2,171	333	411	52	85	–	–	(1,164)	(1,376)	5,201	5,027

7. PROFIT BEFORE TAXATION

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

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

8. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of taxation prevailing in the country in which the company operates.

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

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

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

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

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

8. TAXATION (Continued)

Taxation payable in the consolidated balance sheet represents:

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

連達（廣東）電子有限公司, a wholly foreign owned enterprise established in Shunde, Guangdong Province, PRC is subject to the PRC enterprise income tax at a rate of 24% (2005: 24%). No provision for taxation has been made as the company has sufficient tax losses brought forward to set off against the taxable profits for the year.

Datamax S.A.R.L., a company incorporated in France and with annual turnover of less than Euro 750,000 is subject to a fixed income tax in France of Euro 2,175 for the year ended 31 December 2006 (2005: Euro 1,575).

Datatronic Distribution, Inc., a company incorporated in the State of California, the United States of America, is subject to the federal income tax on progressive rates between 15% to 38% (2005: 15% to 38%), and California State corporate tax at the rate of 8.84% (2005: 8.84%), on the estimated assessable profits arising in or derived by Datatronic Distribution, Inc. on a worldwide basis.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

10. DIVIDENDS

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

11. EARNINGS PER SHARE

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

	2006 HK$'000	2005 HK$'000
Profit attributable to equity holders of the company	78,401	60,800

	Number of shares 2006	Number of shares 2005
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 2006			
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	12	1,012
Shui Wai Mei	–	–	–	–
Sheung Shing Fai	–	975	12	987
Siu Nina Margaret	–	374	12	386
Chung Pui Lam	100	–	–	100
Lam Tak Shing	100	–	–	100
Chan Fai Yue, Leo	60	–	–	60
	260	2,349	36	2,645

	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

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2006 (2005: HK$Nil).

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

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

	2006	2005
Number of directors	2	2
Number of employees	3	3
	5	5

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

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

	2006	2005
HK$Nil to HK$1,000,000	4	4
HK$1,000,001 to HK$1,500,000	1	1
	5	5

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
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 and 1/1/2006	21,070	20,393	20,181	3,217	64,861
Additions	–	1,814	2,561	301	4,676
Disposals	–	(921)	(492)	–	(1,413)
Surplus on revaluation	1,336	–	–	–	1,336
Exchange adjustments	244	3	(12)	–	235
At 31/12/2006	22,650	21,289	22,238	3,518	69,695
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 and 1/1/2006	–	17,614	10,385	3,057	31,056
Charge for the year	955	1,592	2,123	40	4,710
Disposals	–	(890)	(435)	–	(1,325)
Written back on revaluation	(955)	–	–	–	(955)
Exchange adjustments	–	40	(37)	–	3
At 31/12/2006	–	18,356	12,036	3,097	33,489
Net book value					
At 31/12/2006	22,650	2,933	10,202	421	36,206
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:					
2006:					
At cost	–	21,289	22,238	3,518	47,045
At valuation	22,650	–	–	–	22,650
	22,650	21,289	22,238	3,518	69,695
2005:					
At cost	–	20,393	20,181	3,217	43,791
At valuation	21,070	–	–	–	21,070
	21,070	20,393	20,181	3,217	64,861

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

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

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

Buildings located in Hong Kong are stated at open market value as at 31 December 2006 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers. Buildings located in the PRC are stated on a depreciated replacement cost basis as at 31 December 2006 as determined by the same valuers. Had the group's buildings been carried at cost less depreciation, the net book value of the group's buildings as at 31 December 2006 would have been approximately HK$14,480,000 (2005: HK$15,381,000).

14. LEASE PREMIUM FOR LAND AND LAND USE RIGHTS

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

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

15. GOODWILL

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

16. INTERESTS IN SUBSIDIARIES

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

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

16. INTERESTS IN SUBSIDIARIES (Continued)

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

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

16. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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

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

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

For the year ended 31 December 2005, there was significant increase in net realisable value of inventories since certain inventories previously written off can be used in the production of other products with current demand. As a result, a reversal of write-down of inventories of HK$899,000 has been recognised and included in cost of inventories sold.

18. AMOUNT DUE FROM ULTIMATE PARENT ENTERPRISE

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

19. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 30 days to 90 days. An aging analysis of trade receivables after provision as at 31 December 2006 is as follows:

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

20. CASH AND CASH EQUIVALENTS

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

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

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

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

21. TRADE PAYABLES

The aging analysis of trade payables is as follows:

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

22. DEFERRED TAXATION

Group

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

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

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

23. ISSUED CAPITAL AND SHARE OPTION SCHEME

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

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

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

24. RETIREMENT BENEFIT COSTS

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

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

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

25. RELATED PARTY TRANSACTIONS

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

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

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

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

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

	2006 HK$'000	2005 HK$'000
Trade receivables from DRI	20,980	24,843

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

(c) Compensation of key management personnel of the group

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

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

26. COMMITMENTS

(a) **Operating leases commitments**

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

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

(b) **Other commitments**

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

27. POST BALANCE SHEET EVENT

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

28. ULTIMATE PARENT ENTERPRISE

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

29. COMPARATIVE FIGURES

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

For the year ended 31 December 2006

The consolidated income statements of the group for the financial years 2002 to 2006 and the consolidated balance sheets of the group as at 31 December 2002, 2003, 2004, 2005 and 2006 are as follows:

RESULTS

	Year ended 31 December				
	2002 HK$'000	2003 HK$'000 (restated)	2004 HK$'000 (restated)	2005 HK$'000	2006 HK$'000
Turnover	115,381	144,654	184,490	208,644	272,131
Profit/(loss) from operations	(4,034)	24,268	44,794	66,722	88,082
Finance costs	(10)	–	–	–	–
Profit/(loss) before taxation	(4,044)	24,268	44,794	66,722	88,082
Taxation	262	(4,617)	(4,341)	(5,922)	(9,681)
Profit/(loss) for the year	(3,782)	19,651	40,453	60,800	78,401
Attributable to:					
Equity holders of the company	(3,739)	19,651	40,453	60,800	78,401
Minority interests	(43)	–	–	–	–
	(3,782)	19,651	40,453	60,800	78,401

ASSETS AND LIABILITIES

	At 31 December				
	2002 HK$'000	2003 HK$'000 (restated)	2004 HK$'000 (restated)	2005 HK$'000	2006 HK$'000
Total assets	203,868	204,436	238,542	288,470	357,353
Total liabilities	(27,493)	(29,950)	(33,271)	(37,860)	(46,905)
Total equity	176,375	174,486	205,271	250,610	310,448