

INTERIM REPORT

2010



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

(Stock Code: 889)

\* For identification purposes only

# AWARDS



**MICRO SYSTEMS  
ENGINEERING**  
Special Recognition Award



**VICOR**  
Outstanding Supplier  
Achievement Award



**ASTRONICS**  
Best Value Added



**DATAFORTH**  
Vendor of the year



**LUTRON**  
Supplier of the Year



**MEDTRONIC**  
Supplier of the Year



**LUTRON**  
Outstanding New Supplier



**MEDTRONIC**  
Outstanding Performance



**XICOM**  
President's Award

# Customer Recognition For Quality, Service, Value



**Polycom**



**Ericsson**



**Milwaukee**



**Preferred supplier  
General Electric**



**Physio Control  
(Div. of Medtronic)**



**Preferred supplier  
Primex Aerospace**



**Digital Equipment corp**



**Xerox**



**United Technologies**

# AWARDS



**Xerox**



**Xerox**



**ICL/Fujitsu**



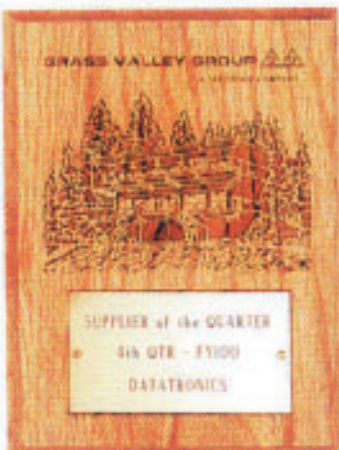
**Xerox**



**Xerox**



**Xerox**



**Tektronix**



**Sola Electric**



**Tektronix**

# Customer Recognition For Quality, Service, Value



Honeywell



Honeywell



Harris



Honeywell



Honeywell



Delco



Honeywell



Hughes Aircraft  
General Motors



IBM

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

SIU Paul Y.

alias Siu Paul Yin Tong (*Chairman*)

SHUI Wai Mei (*Vice Chairman*)

SHEUNG Shing Fai

SIU Nina Margaret

#### Independent Non-executive Directors

CHUNG Pui Lam

LAM Tak Shing, Harry

CHAN Fai Yue, Leo

### AUDIT COMMITTEE

LAM Tak Shing, Harry

CHUNG Pui Lam

CHAN Fai Yue, Leo

### REMUNERATION COMMITTEE

CHUNG Pui Lam

CHAN Fai Yue, Leo

LAM Tak Shing, Harry

SIU Paul Y.

### QUALIFIED ACCOUNTANT

LAU Juen Ying

### COMPANY SECRETARY

LEUNG Sau Fong

### AUTHORISED REPRESENTATIVES

SIU Paul Y.

SHEUNG Shing Fai

### AUDITORS

CCIF CPA Limited

34/F The Lee Gardens

33 Hysan Avenue

Causeway Bay

Hong Kong

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

19th Floor

North Point Industrial Building

499 King's Road

North Point

Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Bank of Communications

### WEBSITE

[www.datronixhdgs.com.hk](http://www.datronixhdgs.com.hk)

## GENERAL

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

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

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

### The Group's Product Line

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

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

### **Markets Served**

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

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

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

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

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

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



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

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

## **BUSINESS REVIEW**

For the first half of 2010, the electronics component industry saw a turnaround, yet a slow and gradual one. For the first six months of 2010, turnover for Datronix was \$141.3 million, compared to \$130.9 million for the first six months ended in 2009. The gross profit margin held at 42.4%, a decrease of 5.7% compared to 48.1% for the first six months of 2009. The loss attributable to equity shareholders for the six months ended 30 June 2010 was \$16.7 million, compared to profit of \$31.5 million for the same period in 2009. Due to the additional assessments from the Inland Revenue Department in March 2010, Datronix has made a tax provision of \$37 million for prior years and purchased relevant tax certificate for \$32 million during the first six months of 2010.

The electronic component industry experience one of the longest lead time in supplying. In early 2010, the labor shortage resulted in wages and supply chain issues. Rising labor wages has been and will continue to be an issue. Raw material was implicitly affected by labor shortage as suppliers did not have sufficient number of labor to produce our materials. Foreseeing this situation, our management decided to procure more buffer stock on the first half of 2010 to keep our production running. Alongside with material prices rebound in late 2009, our cost of production increase significantly.

## **MARKET REVIEW**

### **Communication and Networking**

For the first half of 2010, sales for the communication market was \$43.8 million, an increase of 7% from same period of 2009. This market contributes 31% of Group sales.

### **Data Processing**

For the first half of 2010, the data-processing market reported sales of \$6.0 million, an increase of 35%. This market contributed 4% of Group sales.

### **Industrial Application**

The industrial application market reported \$37.2 million in sales. This market contributed 26% of Group sales.

### **High Reliability Segment**

#### *Military and Aerospace*

The military and aerospace market reported \$44.7 million in sales for the first half of 2010, an increase of 12%. This market contributes 32% of Group sales.

#### *Healthcare*

The healthcare market reported \$9.6 million in sales for the first six months of 2010. This market contributed 7% of total sales.

The board of directors (the “Board”) of Datronix Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2010 together with comparative figures in 2009 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Note	Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Turnover</b>	3	<b>141,290</b>	130,925
Cost of sales		<b>(81,451)</b>	(68,002)
Gross profit		<b>59,839</b>	62,923
Other revenue		<b>978</b>	1,860
Distribution and selling expenses		<b>(9,922)</b>	(8,510)
Administrative expenses		<b>(24,384)</b>	(20,800)
<b>Profit before taxation</b>	4	<b>26,511</b>	35,473
Income tax	5	<b>(43,169)</b>	(3,950)
<b>(Loss)/profit for the period attributable to owners of the Company</b>		<b>(16,658)</b>	31,523
<b>(Loss)/earnings per share</b>	7		
– Basic and diluted		<b>(HK\$0.052)</b>	HK\$0.099

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30 June 2010*

	<b>Six months ended 30 June</b>	
	<b>2010</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2009 (Unaudited) HK\$'000
<b>(Loss)/profit for the period</b>	<b>(16,658)</b>	31,523
<b>Other comprehensive income for the period</b>		
Exchange difference arising on translation of foreign operations	72	3,882
<b>Total other comprehensive income for the period</b>	<b>72</b>	3,882
<b>Total comprehensive (loss)/income attributable to owners of the Company</b>	<b>(16,586)</b>	35,405

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 June 2010

	Note	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	33,947	34,706
Prepaid lease payments		19,037	18,878
		<b>52,984</b>	53,584
<b>CURRENT ASSETS</b>			
Inventories		83,375	76,536
Prepaid lease payments		272	627
Amount due from ultimate parent enterprise		29	29
Amount due from a related company		15	15
Tax reserve certificates		32,366	13,624
Prepayments, deposits and other receivables		1,627	1,245
Trade receivables	9	31,537	26,812
Cash and cash equivalents		300,659	310,226
		<b>449,880</b>	429,114
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	30,216	17,782
Provision		15,360	15,215
Current taxation		46,123	18,110
		<b>91,699</b>	51,107
<b>NET CURRENT ASSETS</b>		<b>358,181</b>	378,007
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>411,165</b>	431,591
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation		2,903	2,903
<b>NET ASSETS</b>		<b>408,262</b>	428,688
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	32,000	32,000
Reserves		376,262	396,688
<b>TOTAL EQUITY</b>		<b>408,262</b>	428,688

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2010

	Attributable to owners of the Company						
	Issued capital	Share premium	Capital reserve	Property		Retained profits	Total
				revaluation reserve	Exchange reserve		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2009	32,000	57,099	(23,724)	14,583	4,600	309,909	394,467
Dividend paid	-	-	-	-	-	(7,040)	(7,040)
Total comprehensive income for the period	-	-	-	-	3,882	31,523	35,405
At 30 June 2009	32,000	57,099	(23,724)	14,583	8,482	334,392	422,832
At 1 January 2010	32,000	57,099	(23,724)	13,417	8,472	341,424	428,688
Dividend paid	-	-	-	-	-	(3,840)	(3,840)
Total comprehensive income/(loss) for the period	-	-	-	-	72	(16,658)	(16,586)
At 30 June 2010	32,000	57,099	(23,724)	13,417	8,544	320,926	408,262

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30 June 2010*

	<b>Six months ended 30 June</b>	
	<b>2010</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2009 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	<b>(4,610)</b>	50,840
Net cash (used in)/generated from investing activities	<b>(960)</b>	112
Net cash used in financing activities	<b>(3,840)</b>	(7,040)
Net (decrease)/increase in cash and cash equivalents	<b>(9,410)</b>	43,912
Effect of foreign exchange rate changes	<b>(157)</b>	2,347
Cash and cash equivalents at beginning of the period	<b>310,226</b>	246,648
Cash and cash equivalents at end of the period	<b>300,659</b>	292,907

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” and other relevant HKASs, Interpretations and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### 2. Accounting policies

The accounting policies and basis of preparation adopted in these condensed consolidated interim financial statements are consistent with those adopted in the Company’s 2009 Annual Report except as described below.

In the current period, the Group has adopted, for the first time, the new/revised Hong Kong Financial Reporting Standards (“new HKFRSs”), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by HKICPA, that are effective for accounting periods beginning on 1 January 2010 and which are relevant to its operations. The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010. As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods. The adoption of other new HKFRSs had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The following new/revised standards, amendments and interpretations have been issued but not yet effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>



**2. Accounting policies (Continued)**

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
- <sup>2</sup> Effective for annual periods beginning on or after 1 February 2010
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2010
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

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

**3. Turnover and segment information**

The Group is principally engaged in the design, development, manufacture and sale of magnetic commonly used in consumer electronics, telecommunication equipment, data processing appliances and other electronics systems for coupling, isolation, filtering, interfacing and timing control appliances. No operating segment analysis is presented as there is only one operating segment.

The following is an analysis of the Group's turnover by geographical locations where merchandise is delivered:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
United States of America (the "US")	<b>128,318</b>	117,959
Europe	<b>4,110</b>	5,240
Hong Kong	<b>584</b>	801
Southeast Asia (excluding Hong Kong)	<b>8,278</b>	6,925
	<b>141,290</b>	130,925

No analysis of profit attributable to owners of the Company by geographical locations is presented as they were generally in line with the distribution of turnover as set out above.

**4. Profit before taxation**

Profit before taxation is stated after charging the following:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>82,282</b>	65,111
(Reversal)/write-down of inventories, net	<b>(831)</b>	2,891
Depreciation and amortization	<b>2,780</b>	2,966

## 5. Income tax

The amount of income tax charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	3,706	2,811
Under-provision in respect of prior periods	37,520	–
Current tax – Overseas		
Provision for the period	1,943	1,139
	<b>43,169</b>	3,950

Hong Kong profits tax was calculated at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong during the period. Overseas taxation was calculated at the rates applicable in the respective jurisdictions.

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

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Profit before taxation	26,511	35,473
Effect of tax at Hong Kong profits tax rate of 16.5%	4,374	5,853
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,255	616
Tax effect on non-taxable income	(182)	(2,765)
Tax effect of unused tax losses	202	246
Under-provision in prior periods	37,520	–
	<b>43,169</b>	3,950

**6. Interim dividend**

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Interim dividend declared, HK\$0.012 (2009: HK\$0.022) per ordinary share	<b>3,840</b>	7,040

On 18 August 2010, the Board have resolved to declare an interim dividend of HK\$0.012 (2009: HK\$0.022) per share in respect of the six months ended 30 June 2010, to shareholders whose names appear on the register of members of the Company on Thursday, 30 September 2010.

**7. (Loss)/earnings per share**

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2010 was based on the loss attributable to the equity shareholders of the Company of approximately HK\$16,658,000 (six months ended 30 June 2009: profit of approximately HK\$31,523,000) and on the weighted average number of 320,000,000 (2009: 320,000,000) shares in issue during the period.

Diluted (loss)/earnings per share is equal to basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding for both periods presented.

**8. Property, plant and equipment**

The total cost of additions to property, plant and equipment of the Group during the six months ended 30 June 2010 was HK\$1,626,000 (six months ended 30 June 2009: HK\$968,000). There were no material disposals and write-offs of fixed assets during the six months ended 30 June 2010 and 30 June 2009.

**9. Trade receivables**

Customers are usually offered a credit period ranging from 30 days to 90 days. The aging analysis of trade receivables is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 to 30 days	22,331	19,066
31 to 60 days	6,860	6,018
61 to 90 days	1,703	1,273
Over 90 days	910	722
	<b>31,804</b>	27,079
Less: Allowance for doubtful debts	(267)	(267)
	<b>31,537</b>	26,812

**10. Trade and other payables**

	<b>30 June 2010</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2009 <b>(Audited)</b> <b>HK\$'000</b>
Trade payables	<b>19,821</b>	7,667
Temporary receipts	<b>330</b>	319
Other payables and accruals	<b>10,065</b>	9,796
	<b>30,216</b>	17,782

The aging analysis of trade payables is as follows:

	<b>30 June 2010</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2009 <b>(Audited)</b> <b>HK\$'000</b>
0 to 30 days	<b>11,622</b>	7,056
31 to 60 days	<b>5,272</b>	374
61 to 90 days	<b>2,316</b>	83
Over 90 days	<b>611</b>	154
	<b>19,821</b>	7,667

**11. Share capital**

	<b>Number</b> <b>of shares</b>	<b>Amount</b> <b>HK\$'000</b>
Authorised ordinary shares of HK\$0.1 each		
At 1 January 2010 and 30 June 2010	1,000,000,000	100,000
Issued and fully paid ordinary shares of HK\$0.1 each		
At 1 January 2010 and 30 June 2010	320,000,000	32,000

**12. Related party transactions**

During the six months ended 30 June 2010, the Group's sales to Datatronics Romoland, Inc., a company in which Mr. Siu Paul Y., a director, has beneficial interest, amounted to HK\$36,454,000 (six months ended 30 June 2009: HK\$44,200,000). The transactions constituted a continuing connected transaction under Chapter 14A of the Listing Rules and were carried out in the ordinary course of business and on normal commercial terms.

**13. Contingent liabilities****a) Hong Kong profits tax**

On 26 February 2010, Datatronic Limited ("Datatronic"), the Company's subsidiary, received the final profits tax assessment from the Inland Revenue Department ("IRD") for the years of assessment from 1999/2000 to 2001/2002 of an aggregated amount of approximately HK\$13,373,000 in respect of previous tax dispute which the Court of Appeal had handed down its final judgment on 15 July 2009 in favour of the Commissioner of Inland Revenue. The amount was set off on 2 March 2010 by the tax reserve certificates amounting to HK\$13,624,000 bought in prior years.

On 17 March 2010, the IRD issued final and provisional tax assessments for the years of assessment from 2003/2004 to 2008/2009 and 2009/2010 of an aggregated amount of approximately HK\$32,221,777 and HK\$5,437,284 respectively to Datatronic. On 22 March 2010, Datatronic submitted an objection to the IRD in respect of the additional tax assessments for the years of assessment from 2003/2004 to 2009/2010 on the ground that based on the contract processing certificate issued by The State Administration for Industry & Commerce of Shunde on 8 July 2002, Datatronic should be entitled to the 50:50 basis off-shore claims and no additional profits tax should be charged by the IRD. Tax reserve certificates aggregating to HK\$32,221,777 had been purchased. With regards to the duration of objection and the uncertainty for the pending result from IRD, Datronix has made a prudent and tightened internal policy on the issue and resulted in making a full provision of \$37 million profits tax for the relevant prior years in the profit and loss account for the period ended 30 June 2010. Any adjustment is to be accounted for upon finalization of the objection.

**b) California income tax**

A US subsidiary of the Company, Datatronic Distribution Inc. ("DDI"), came under examination by the State of California's Franchise Tax Board ("FTB") for the years ended in 31 December 2006 and 2007 in respect of the unitary income tax. The FTB is claiming DDI on failing to meet the requirements under the Water's Edge tax rules of California for reporting and apportioning income on a world-wide basis with respect to a unitary business group, which generally applies to a foreign entity among companies under common control. The examination is still in progress. In response to such examination, DDI has made an additional provision for California income tax of approximately HK\$3,190,000 for the years ended 31 December 2006, 2007 and 2008 in the profit and loss account for the year ended 31 December 2009 on the basis that DDI is making the Water's Edge election on the original income tax return for the tax year ended 31 December 2009 and thereafter and there will be no such additional tax liability from 2009 onwards. However, this matter has not finalized. Any adjustment on the provision for the additional US tax liabilities and any related penalties and interest are to be accounted for upon finalization of the examination.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The turnover for the six months ended 30 June 2010 was HK\$141.3 million, compared to HK\$130.9 million for the same period in 2009. The loss attributable to equity shareholders for the six months ended 30 June 2010 was HK\$16.7 million, compared to a profit of HK\$31.5 million for the same period in 2009. The gross profit for the first six months in 2010 was HK\$59.8 million, compared to HK\$62.9 million for same period in 2009. The gross profit margin held at 42.4%, a decrease of 5.7% compared to 48.1% for the first six months of 2009.

### Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, the Group had a total equity of approximately HK\$408.3 million (31 December 2009: HK\$428.7million), and cash and cash equivalents of approximately HK\$300.7 million (31 December 2009: HK\$310.2 million), which were predominately denominated in US dollars and Renminbi.

For the six months ended 30 June 2010, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no debt and no bank loan for the six months ended 30 June 2010.

Capital expenditure for the period under review amounted to approximately HK\$1.6 million (six months ended 30 June 2009: HK\$1 million).

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

### Employees and Remuneration Policies

As at 30 June 2010, the Group employed approximately 1,376 personnel around the world, with approximately 111 in Hong Kong, 1,243 in the People's Republic of China and 22 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operational system, product and technology development, and product safety.

### Capital Commitments

The Group's capital commitment outstanding at the period end, contracted but not provided for in the financial statements in respect of property, plant and equipment is approximately HK\$51,000 (31 December 2009: HK\$919,000).

**Contingent Liabilities**

On 26 February 2010, Datatronic Limited (“Datatronic”), the Company’s subsidiary, received the final profits tax assessment from the Inland Revenue Department (“IRD”) for the years of assessment from 1999/2000 to 2001/2002 of an aggregated amount of approximately HK\$13,373,000 in respect of previous tax dispute which the Court of Appeal had handed down its final judgement on 15 July 2009 in favour of the Commissioner of Inland Revenue. The amount was set off on 2 March 2010 by the tax reserve certificates amounting to HK\$13,624,000 bought in prior years.

On 17 March 2010, the IRD issued final and provisional tax assessments for the years of assessment from 2003/2004 to 2008/2009 and 2009/2010 of an aggregated amount of approximately HK\$32,221,777 and HK\$5,437,284 respectively to Datatronic. On 22 March 2010, Datatronic submitted an objection to the IRD in respect of the additional tax assessments for the years of assessment from 2003/2004 to 2009/2010 on the ground that based on the contract processing certificate issued by The State Administration for Industry & Commerce of Shunde on 8 July 2002, Datatronic should be entitled to the 50:50 basis off-shore claims and no additional profits tax should be charged by the IRD. Tax reserve certificates aggregating to HK\$32,221,777 had been purchased. With regards to the duration of objection and the uncertainty for the pending result from IRD, Datronix has made a prudent and tightened internal policy on the issue and resulted in making a full provision of \$37 million profits tax for the relevant prior years in the profit and loss account for period ended 30 June 2010. Any adjustment is to be accounted for upon finalization of the objection.

Datatronic Distribution, Inc. (“DDI”), a subsidiary of the Company incorporated in United States of America located in Romoland, California, came under examination by the state of California’s Franchise Tax Board (“FTB”) for the tax years ended 31 December 2006 and 2007 in respect of the unitary business income tax. The examination is still in progress. In response to such examination, DDI has made an additional provision for California income tax of approximately HK\$3,190,000 for the years ended 31 December 2006, 2007 and 2008 in the profit and loss account for the year ended 31 December 2009 on the basis that DDI is making the Water’s Edge election on the original income tax return for the tax year ended 31 December 2009 and thereafter and there will be no such additional tax liability from 2009 onwards. However, this matter has not finalized. Any adjustment on the provision for the additional US tax liabilities and any related penalties and interest are to be accounted for upon finalization of the examination.

**Looking Ahead**

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

**OTHER INFORMATION****Directors' Interests in Shares**

As at 30 June 2010, the directors had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO:

**Long positions***(a) The Company*

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

*(b) Associated corporation*

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

*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 executive of the Company or their respective associates in the shares, underlying shares and debentures 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 30 June 2010, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.



**Substantial Shareholders**

As at 30 June 2010, the Company has not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

**Interim Dividend**

At the board meeting held on 18 August 2010, the Board has resolved to declare an interim dividend of HK\$0.012 (2009: HK\$0.022) per share, totaling HK\$3,840,000 (2009: HK\$7,040,000) in respect of the six months ended 30 June 2010 to shareholders whose names appear on the register of members of the Company on Thursday, 30 September 2010.

**Close of Register of Members**

The register of members of the Company will be closed from Monday, 27 September 2010 to Thursday, 30 September 2010, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 24 September 2010. The cheques for dividend payment will be sent on about Monday, 11 October 2010.

**Purchase, Sale or Redemption of The Company's Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2010.

**Audit Committee**

The audit committee has reviewed the unaudited interim financial statements and discussed with the Board the financial reporting process and internal control system of the Group.

**Corporate Governance**

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim 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.

**Corporate Governance (Continued)**

*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.

**Model Code for Securities Transactions by Directors**

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 period under review.

By order of the Board

**SIU Paul Y.**

*Chairman*

Hong Kong, 18 August 2010