* For identification purposes only

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

(Stock Code: 889)

## Annual Report 2012

**ASTRONICS**
"Best Value Added"


**LUTRON**
"Customer Service"


**MEDTRONIC**
"Outstanding Performance"



**DATAFORTH**
"Vendor of the Year"


**LUTRON**
"Outstanding New Supplier"

**XICOM**
"Outstanding Performance"


**MICRO SYSTEMS ENGINEERING**
"Special Recognition Awards"


**MEDTRONIC**
"Supplier of the Year"



**LUTRON**
"Supplier of the Year"


**VICOR**
"Outstanding Supplier Achievement Award"


**XICOM**
"President's Award"

# Customer Recognition For Quality, Service, Value


Polycom


Ericsson


Milwaukee

Preferred supplier
General Electric

Physio Control
(Div. of Medtronic)


Preferred supplier
Primex Aerospace

Digital Equipment corp


Xerox


United Technologies

# AWARDS


Xerox

Xerox

ICL/Fujitsu

Xerox


Xerox


Xerox

Tektronix

Sola Electric

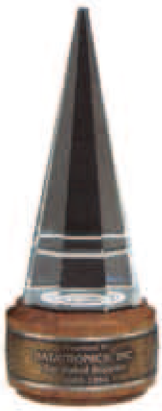
Tektronix

# Customer Recognition For Quality, Service, Value

Honeywell


Honeywell


Harris



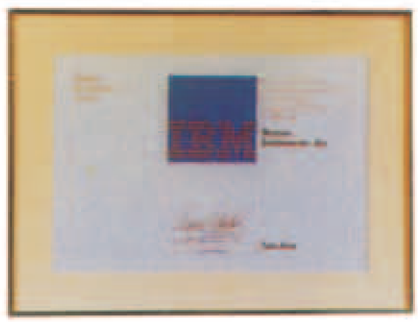
Honeywell


Honeywell


Delco

Honeywell

Hughes Aircraft
General Motors




IBM

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**

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

**Independent Non-executive Directors**

CHUNG Pui Lam
CHAN Fai Yue, Leo
LEE Kit Wah

## AUDIT COMMITTEE

LEE Kit Wah
CHUNG Pui Lam
CHAN Fai Yue, Leo

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

CHAN Fai Yue, Leo
CHUNG Pui Lam
LEE Kit Wah
SHEUNG Shing Fai

## QUALIFIED ACCOUNTANT

MOK Sim Wa

## COMPANY SECRETARY

LEUNG Sau Fong

## AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

## AUDITORS

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

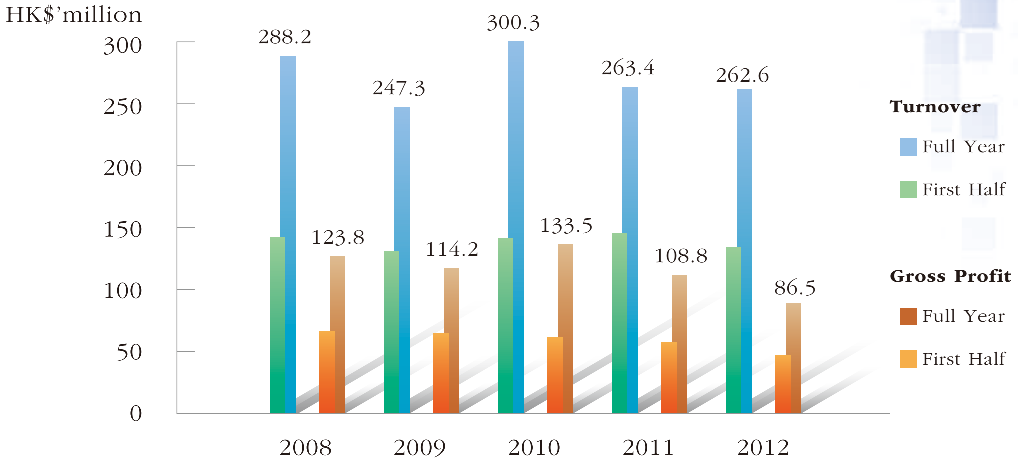
## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications

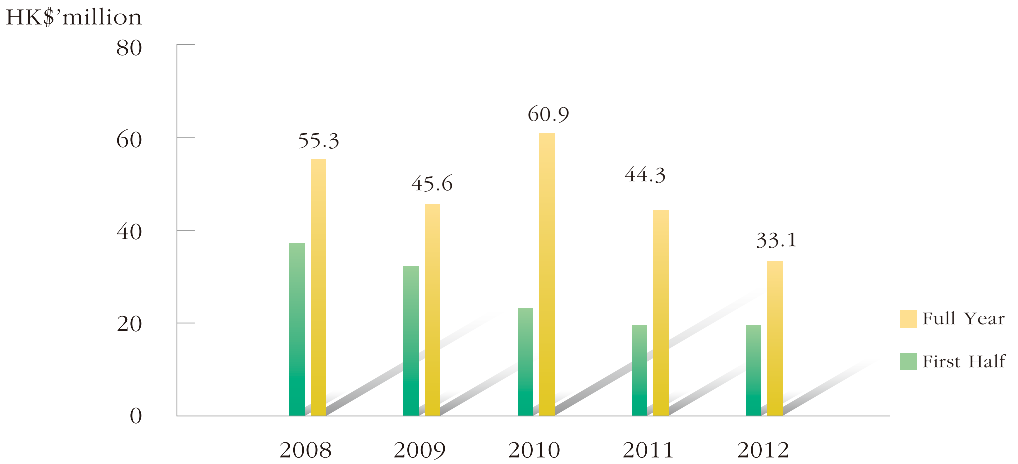
## WEBSITE

www.datronixhldgs.com.hk

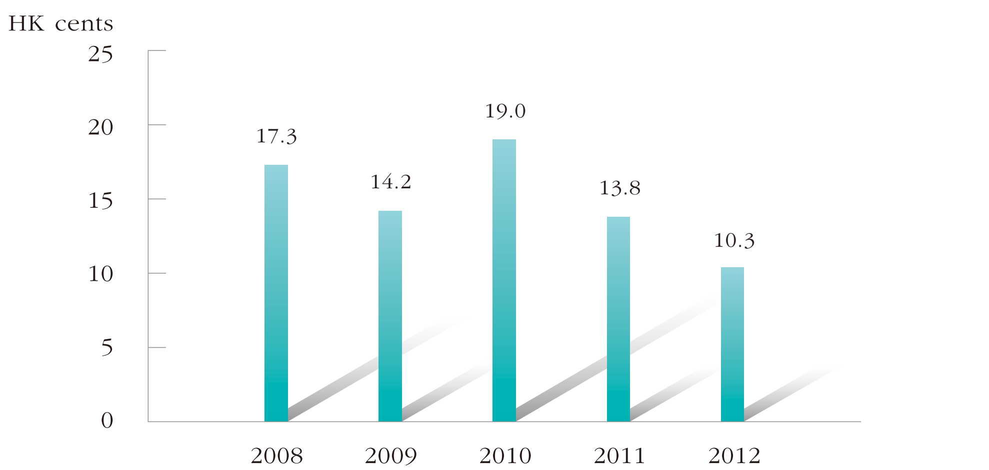
## TURNOVER / GROSS PROFIT




## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

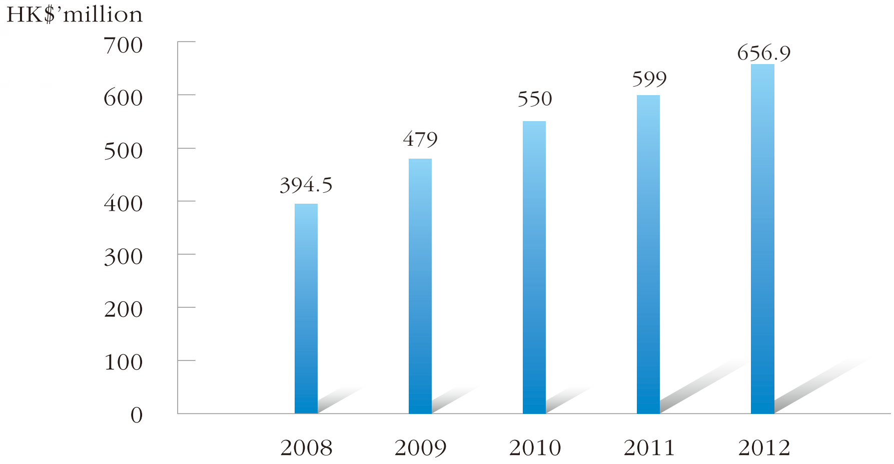



## EARNINGS PER SHARE (CENTS)

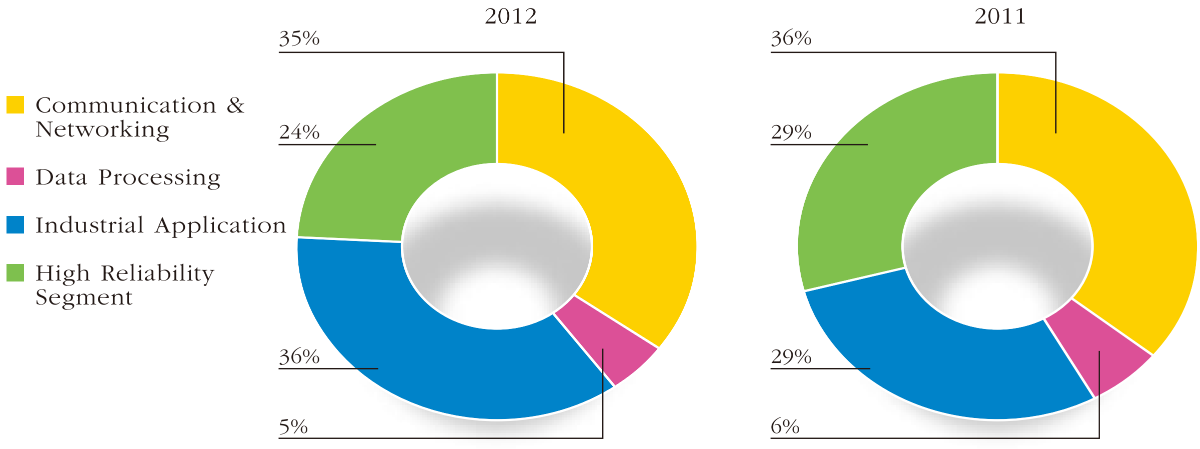


# Financial Highlights

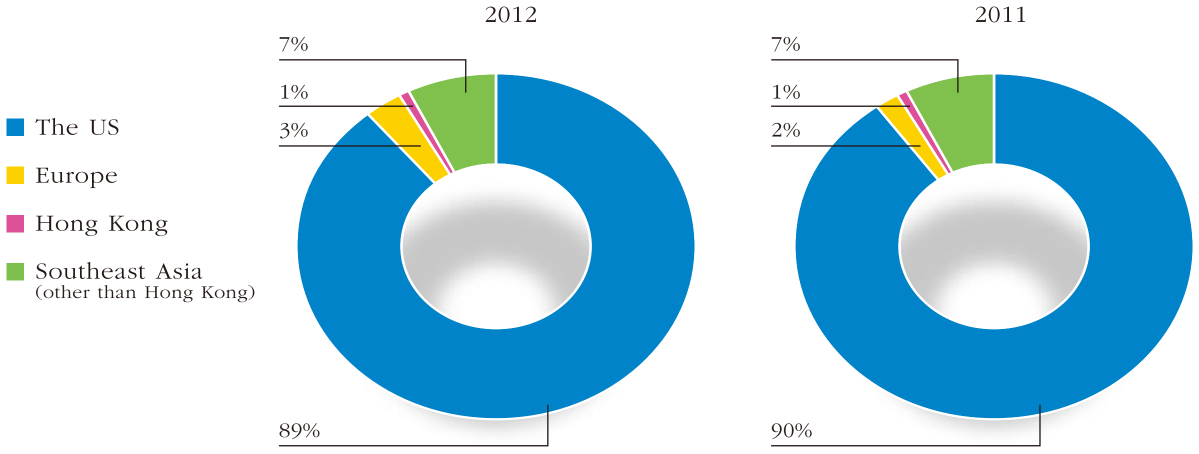
## NET ASSETS




## MARKET




## GEOGRAPHICAL DESTINATION OF PRODUCTS



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

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

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

## THE GROUP'S PRODUCT LINE

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

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

# 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 following to be the key factors contributing to the Group's success:

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

# Chairman's Statement

## BUSINESS REVIEW

Year 2012 was a rough year for Datronix and the electronics industry, as we were exposed to the economic fluctuations of the world economy. Yet Datronix generated cash flows from operations of HK$36 million last year, while continuing to successfully pursue our goals – expanding manufacturing capacities in critical product lines; strengthening our research and development and design-in efforts; and expanding our sales presence in Asia.

On April 9, 2012, Datronix completed the acquisition of business of a California based magnetic manufacturer, Cal Coil Magnetics, Inc. and its Hong Kong subsidiary, Cal-Coil Magnetics (China) Ltd.. The consideration for the acquisition totaled at US$1.6 million and was funded by the Group's existing capital resources. This acquisition has brought a new manufacturing facilities, design capability and engineering laboratory located in the United States. This acquisition also attempted to increase our customer base, broaden our product offerings and enrich our production and technical development.

Revenues for the year ended December 31, 2012 were HK$262.6 million, compared to HK$263.4 million for the year ended December 31, 2011. Gross profit for 2012 was HK$87 million, while gross profit for 2011 reported HK$109 million. Facing the challenging environment, management had implemented an aggressive pricing strategy in 2012 to capture customers against our competitors, which in turns lowered our margin. Further intensified our drop in gross margin was the one-third increase of labor wages in Hong Kong and China along with our newly acquired production facility in the US. The net earnings attributable to shareholders for the year ended December 31, 2012 were HK$33 million, compared to HK$44 million in 2011. Datronix remains healthy financial position with cash balance of HK$405 million and there is no issuance on debt for year 2012.

## MARKET REVIEW

### Communication and Networking

Communication segment contributed HK$92 million of sales for year 2012, compared to HK$94 million in previous year. This segment contributed 35% of the Group's total turnover, and communication and networking customers remained steady on their demand throughout 2012.

### Data Processing

Data processing segment contributed 5% of the Group's turnover. Sales were $14 million in 2012, compared to $16 million in 2011. This segment demand is greatly affected by the economy.

### Industrial Application

Industrial application segment sales increased to HK$95 million in 2012, an increase of 23% compared to HK$77 million in 2011. The increase was driven by the majority of end users from our newly acquired company fell into the industrial segment; while offset by the weak demand in the housing market for year 2012. This segment contributed 36% of the Group's total turnover.

**High Reliability Segment**

This segment demands precise technology, advance technical know-how and good workmanship by the Group. The healthcare segment shows slower demand rate and still-soft economy affected our sales in this segment. In addition, the healthcare reform law took effect this year has impacted many healthcare equipment makers to implement cost reduction initiatives to help offset the levy and this in turn reduce our margin on such scenario. The segment reported HK$62 million for year 2012, and HK$76 million in year 2011. This segment contributed 24% of our total sales.

## 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 38 awards from customers including the "Outstanding Supplier Achievement Award in 2008" received in March 2009 Supplier Conference.

## LOOKING FORWARD

Based on the current order trends, we see a gradual recovery on our demand in the United States. Our newly acquired company is expected to be accretive to Datronix's earnings in 2013 and onwards. The restructuring of the acquired company is almost completed. It will provide us with valuable design and manufacturing capabilities which supplement our skill sets exist in our Group. Moving forward, management will endeavor to broaden our product offerings and strengthen our efforts to penetrate into medical segment to generate a higher margin mix profile.

I would like to take this opportunity to thank our shareholders, business partners, customers and bankers for their continuous support to the Group, and to all the staff for their contributions for the past year.

**Siu Paul Y.**
*Chairman*

Hong Kong, 26 March 2013

# Management Discussion & Analysis

## FINANCIAL REVIEW

The Group delivered a stable earnings result for year ended 2012. Turnover was HK$262.6 million as at 31 December 2012 (2011: HK$263.4 million).

Gross profit in 31 December 2012 was HK$86.5 million with gross margin representing 33%, compared to HK$108.8 million with gross margin representing 41% for the same period last year. Profit recorded HK$33.1 million and HK$44.3 million for the year ended 2012 and 2011 respectively. Net profit margin was 13% in 31 December 2012, compared to 17% in 31 December 2011.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the Group had a total equity of approximately HK$656.9 million (2011: HK$599.7 million), and cash and cash equivalents of approximately HK$404.5 million (2011: HK$388.1 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2012, 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 2012.

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 2012, the Group employed approximately 1,146 personnel around the world, with approximately 132 in Hong Kong, 939 in the PRC and 75 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 mandatory provident fund scheme for its Hong Kong employees.

## CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2012 (2011: Nil).

## CAPITAL COMMITMENTS

The Group's capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment in the financial statement was approximately HK$0.03 million (2011: HK$0.3 million).

## EXECUTIVE DIRECTORS

*Mr. Siu Paul Y.*, aged 72, the Chairman and Chief Executive Officer of the Group, is the founder of the Group. Mr. Siu is also a member of Remuneration Committee of the Company. 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 67, 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 64, is the General Manager of the Group. Mr. Sheung is also a member of the Nomination Committee of the Company. 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 36, is an Executive Director of the Group. Ms. Siu holds a MBA degree with emphasis on Finance and Certificate in International Business in Loyola Marymount University and a bachelor degree of arts with major in business economics from the University of California, Los Angeles in the US. She has more than 3 years experience in the US syndication loan market on major listed companies in the US. Ms. Siu is responsible for the finance and marketing of the Group. Ms. Siu joined the Group as a Non-executive Director on 31 May 2000, and re-designated to Executive Director of the Group on 7 July 2005. Ms Siu resigned on 31 December 2011 and was reappointed as Executive Director on 1 January 2013. Ms Siu is daughter of Mr. Siu Paul Y..

## INDEPENDENT NON-EXECUTIVE DIRECTORS

*Mr. Chung Pui Lam*, SBS, OBE, JP, aged 72, was appointed as an Independent Non-executive Director of the Company in March 2001. Mr. Chung is also a chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. 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. Chan Fai Yue, Leo*, aged 72, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Chan is also a chairman of the Nomination Committee and a member of each of the Remuneration Committee and Audit Committee of the Company. 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.

# Directors and Senior Management

*Mr. Lee Kit Wah*, aged 58, was appointed as an Independent Non-executive Director of the Company in August 2011. Mr. Lee is also a chairman of the Audit Committee and a member of each of the Remuneration Committee and Nomination Committee of the Company. Mr. Lee graduated from University of Toronto in 1979 with a bachelor's degree in Commerce. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and a member of the Institute of Chartered Accountants in England and Wales. Mr. Lee was trained at Price Waterhouse (presently PricewaterhouseCoopers) in Hong Kong from 1979 to 1984, and worked at F. S. Li & Co., Certified Public Accountants between 1985 to 1988 first as an audit supervisor and then as an audit manager. He has been practising as a certified public accountant in Hong Kong since 1988 and is the managing director of an accounting firm, Katon CPA Limited. Mr. Lee is currently an independent non-executive director of ITC Corporation Limited and SinoCom Software Group Limited, all are listed on The Stock Exchange of Hong Kong Limited.

## SENIOR MANAGEMENT

*Mr. Randall Eller*, aged 55, is the Sales Vice President of Datatronic Distribution, Inc. responsible for the sales and marketing of the Group's products in North America. Mr. Eller has more than 15 years of experience in sales and marketing of magnetic and electronic components. He joined the Group in 1989.

*Mr. Patrick Julienne*, aged 58, is the Sales Manager of Datamax S.A.R.L, responsible for sales and marketing of the Group's products in Europe. Mr. Julienne obtained a degree in Electronic from the Technology University Institute in Paris. Mr. Julienne has over 20 years of experience in electronics industry. He joined the Group in 2007.

*Mr. Wong Ning*, aged 63, is the Deputy General Manager of the Group responsible for the management of the Group's operations in Shunde, the PRC. Mr. Wong has over 20 years of experience in the management and administration in manufacturing industry. He joined the Group in 1990.

*Mr. Tam Chun Cheung*, aged 64, is the manager of the production department of the Group responsible for the management of the Group's manufacturing operations in Hong Kong and the PRC. Mr. Tam holds a bachelor degree of science in engineering from the National Taiwan University in Taiwan. He has over 15 years of experience in the semi-conductor industry. Mr. Tam joined the Group in 1994.

*Ms. Mok Sim Wa*, aged 34 is the Finance Manager of the Group. She is responsible for all finance and accounting functions of the Group. Ms. Mok obtained a Master Degree in Business Administration from the University of South Australia and a Higher Diploma in Accountancy from the City University of Hong Kong. She is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institutes of Certified Public Accountants. Ms. Mok has over 9 years of experience in auditing, accounting, taxation matters. She joined the Group in 2010.

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 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 19 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 | 26% | |
| Five largest customers in aggregate | 74% | |
| The largest supplier | | 23% |
| Five largest suppliers in aggregate | | 70% |

Except that the largest customer, Datatronics Romoland, Inc., is a related company in which the Company's director, Mr. Siu Paul Y., holds 100% of its issued share capital directly, none of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers noted above.

## SEGMENT INFORMATION

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

## FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 31.

The state of affairs of the Group and the Company as at 31 December 2012 are set out in the consolidated statement of financial position on page 32 and the statement of financial position on page 33 respectively.

The directors recommend the payment of a final dividend of HK$0.014 (2011: HK$0.02) per share, totalling HK$4,480,000 (2011: HK$6,400,000) for the year ended 31 December 2012.

## FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2012 and of the assets and liabilities as at 31 December 2008, 2009, 2010, 2011 and 2012 is set out on page 83.

## PROPERTY, PLANT AND EQUIPMENT

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

## SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2012 are set out in note 19 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 26 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 34 and 71, respectively.

## DIRECTORS

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

**Executive directors**

Mr. Siu Paul Y., *Chairman*
Ms. Shui Wai Mei, *Vice Chairman*
Mr. Sheung Shing Fai
Ms. Siu Nina Margaret (Appointed on 1 January 2013)

**Independent non-executive directors**

Mr. Chung Pui Lam
Mr. Chan Fai Yue, Leo
Mr. Lee Kit Wah

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

Amongst the Executive Directors, Mr. Siu Paul Y., Ms. Shui Wai Mei and Mr. Sheung Shing Fai have each entered into a service contract with the Company for an initial fixed term of three years commencing from 22 June 2001. While Ms. Siu Nina Margaret has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 January 2013. Such contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these directors is entitled to a basic salary, which is determined on the basis of his/her qualification, experience, involvement in and contribution to the Company and by reference to the market rate. In addition, the Executive Directors are also entitled to a management bonus of a sum at the discretion of the Directors. An Executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him.

## DIRECTORS (Continued)

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

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 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 2012, 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. | – | – | 224,132,000<br>*(Note 1)* | 224,132,000 |

**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<br>*(Note 2)* | 200,000 |

## DIRECTORS' INTERESTS IN SHARES (Continued)

*Notes:*

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. and Ms. Shui Wai Mei beneficially own 90% and 10% of its issued share capital respectively, representing 70.04% 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 2012, 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 2012, 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 28 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 5th Master Supply Agreement on 28 September 2010 ("the 5th Master Supply Agreement") which superseded the 4th Master Supply Agreement dated 24 September 2007 in respect of the supply of magnetics to DRI by DL.

The 5th Master Supply Agreement for a fixed term of three years from 1 January 2011 and on effectively the same terms and conditions of the Master Supply Agreement, 2nd Master Supply Agreement, 3rd Master Supply Agreement and 4th Master Supply Agreement, was entered into on 28 September 2010 superseding the 4th Master Supply Agreement until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the 4th Master Supply Agreement, the selling prices of the magnetics are to be agreed between DL and DRI. DL will determine the price of the magnetics required by DRI according to its pricing policy of obtaining a reasonable profit margin for its sales in accordance with the prevailing market conditions, on normal commercial terms and on an arm's length basis. DL has been granted a first refusal right by DRI to the effect that, unless DL declines the order, DRI undertakes not to source magnetics from any third-party supplier provided that the terms of purchase offered to the third-party supplier are not more favourable than those to DL. The total purchases made by DRI during the year ended 31 December 2012 was approximately HK$49,214,000 (2011: HK$59,950,000).

The Directors, including the Independent Non-executive Directors, of the Company have reviewed the connected transactions and have confirmed that the connected transactions were entered into:

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

# Report of the Directors

## CORPORATE GOVERNANCE

The Corporate Governance Report is set out on page 18 to 25 of this Report.

## PUBLIC FLOAT

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

## AUDITORS

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

On behalf of the Board

**Siu Paul Y.**
*Chairman*

Hong Kong, 26 March 2013

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of the Company and its shareholders and devote considerable efforts to identifying and formalizing best practice.

During the year, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices effective until 31 March 2012 and Corporate Governance Code effective from 1 April 2012 (the "New CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviation:

**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.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## THE BOARD

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

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

| Director | Number of attendance |
|---|---|
| Mr. Siu Paul Y. | 6/6 |
| Ms. Shui Wai Mei | 6/6 |
| Mr. Sheung Shing Fai | 6/6 |
| Ms. Siu Nina Margaret (Appointed on 1 January 2013) | N/A |
| Mr. Chung Pui Lam | 6/6 |
| Mr. Chan Fai Yue, Leo | 6/6 |
| Mr. Lee Kit Wah | 6/6 |

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

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

## BOARD COMPOSITION

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

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.

## DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

To ensure that the Directors' contribution to the Board remains informed and relevant and in compliance with provision code A.6.5 of the New CG Code, the Company would arrange and fund suitable continuous professional development for the Directors to participate in order to develop and refresh their knowledge and skills.

The training each director received during the year is summarised as below:

| Name of Director | Attending seminars/ workshop regarding financial, management, Legal, Regulatory or Corporate Governance | Reading newspapers, journals and other relevant materials relating to the economy and director's profession |
|---|---|---|
| **Executive Directors** | | |
| Mr. Siu Paul Y. | ✓ | ✓ |
| Ms. Shui Wai Mei | ✓ | ✓ |
| Mr. Sheung Shing Fai | ✓ | ✓ |
| **Independent Non-executive Directors** | | |
| Mr. Chung Pui Lam | ✓ | ✓ |
| Mr. Chan Fai Yue, Leo | | ✓ |
| Mr. Lee Kit Wah | ✓ | ✓ |

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises an Executive Director, Mr. Siu Paul Y. and three Independent Non-executive Directors, Mr. Chung Pui Lam, Mr. Chan Fai Yue, Leo and Mr. Lee Kit Wah. 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:

| Director | Number of attendance |
|---|---|
| Mr. Siu Paul Y. | 1/1 |
| Mr. Chung Pui Lam | 1/1 |
| Mr. Chan Fai Yue, Leo | 1/1 |
| Mr. Lee Kit Wah | 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 and the remuneration package for the executive 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 2012, 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. Chung Pui Lam, Mr. Chan Fai Yue, Leo and Mr. Lee Kit Wah. Mr. Lee Kit Wah 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.

## AUDIT COMMITTEE (Continued)

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

| Director | Number of attendance |
|---|---|
| Mr. Chung Pui Lam | 4/4 |
| Mr. Chan Fai Yue, Leo | 4/4 |
| Mr. Lee Kit Wah | 4/4 |

During the meetings held in 2012, the Audit Committee had performed the following major works:

1. reviewed and approved the financial statements of the Group for the year ended 31 December 2011 (the "2011 Financial Statements") and discussed with the external auditors on any findings in relation to the 2011 Financial Statements and audit issues;

2. reviewed the interim results for the six months ended 30 June 2012;

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

## NOMINATION COMMITTEE

The Nomination Committee of the Company comprises an Executive Director, Mr. Sheung Shing Fai, and three Independent Non-executive Directors, Mr. Chung Pui Lam, Mr. Chan Fai Yue, Leo and Mr. Lee Kit Wah. Mr. Chan Fai Yue, Leo is the Chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

During the year, one Nomination Committee meeting was held. The attendance of each member is set out as follows:

| Director | Number of attendance |
|---|---|
| Mr. Sheung Shing Fai | 1/1 |
| Mr. Chung Pui Lam | 1/1 |
| Mr. Chan Fai Yue, Leo | 1/1 |
| Mr. Lee Kit Wah | 1/1 |

The Nomination Committee had reviewed the structure, size and the composition of the Board to complement the Group corporate strategy.

## CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out in the New CG Code which includes to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the Directors and senior management; to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors and to review the Group's compliance with the New CG Code and disclosure in this Corporate Report.

## AUDITORS' REMUNERATION

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

| **Services rendered** | **Fees paid/payable** |
|---|---|
| | HK$'000 |
| Audit services | 650 |

## INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2012 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

## COMPANY SECRETARY

Ms. Leung Sau Fong is the Company Secretary of the Company. Ms. Leung is a director of a corporate secretarial services provider in Hong Kong. The primary contact person of the Company with Ms. Leung is Mr. Siu Paul Y., the Chairman and Chief Executive Officer of the Company.

In compliance with Rule 3.29 of the Listing Rules, Ms. Leung has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2012.

## SHAREHOLDERS RIGHTS

### Procedures for shareholders to convene an extraordinary general meeting

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("the EGM") of the Company are prepared in accordance with Bye-law 58 of the Bye-laws of the Company:

1. Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may, by written requisition to the Board or the Company Secretary of the Company require an EGM to be called by the Board for the transaction of any business specified in such requisition.

2. The EGM shall be held within 2 months after the deposit of such requisition.

3. If the Directors fail to proceed to convene such meeting within 21 days of such deposit of requisition, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures for raising enquires

1. Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are set out in the section of headed "Corporate Information" of this annual report.

2. Shareholders may at any time raise any enquiry in respect of the Company via email at the email address at datronix@datronixhldgs.com.hk.

3. Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

## SHAREHOLDERS RIGHTS (Continued)

**Procedures and contact details for putting forward proposals at shareholders' meetings**

1. To put forward proposals at the general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("Proposal") with his/her/its detailed contact information at the Company's principal place of business at 19/F., North Point Industrial Building, 499 King's Road, North Point, Hong Kong for the attention of the Board or the Company Secretary of the Company.

2. The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will include the Proposal in the agenda for the general meeting.

3. The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholders concerned at the annual general meeting or an EGM varies according to the nature of the Proposal as follows:

   (i) At least 21 clear days' notice (the notice period must include 20 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes a special resolution of the Company in an EGM or if the Proposal is put forward at an annual general meeting of the Company; or

   (ii) At least 14 clear days' notice (the notice period must include 10 business days and excludes the date of the notice and the date of the meeting) in writing if the Proposal constitutes an ordinary resolution of the Company at an EGM.

## 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 First Floor, Yue-Function Room II, City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on Tuesday, 4 June 2013 at 2:00 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December 2012 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, 26 April 2013

*Notes:*

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

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

iii. The register of members of the Company will be closed from Thursday, 30 May 2013 to Tuesday, 4 June 2013, both dates inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms 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, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 29 May 2013.

The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The register of members of the Company will be closed from Monday, 10 June 2013 to Tuesday, 11 June 2013, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the final 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, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 7 June 2013. The cheques for dividend payment will be sent on about Thursday, 20 June 2013.

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

We have audited the consolidated financial statements of Datronix Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 82, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

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

## AUDITOR'S RESPONSIBILITY (Continued)

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 26 March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 7 | 262,606 | 263,353 |
| Cost of sales | | (176,090) | (154,550) |
| **Gross profit** | | 86,516 | 108,803 |
| Other revenue and gain | 7 | 15,788 | 6,805 |
| Distribution and selling expenses | | (18,881) | (19,667) |
| Administrative expenses | | (50,104) | (47,120) |
| **Profit before income tax expense** | 8 | 33,319 | 48,821 |
| Income tax expense | 10 | | |
| Current tax – tax for the year | | (3,260) | (6,839) |
| – over provision in respect of prior years | | 3,048 | 2,348 |
| Deferred taxation | | (2) | (21) |
| | | (214) | (4,512) |
| **Profit for the year and attributable to owners of the Company** | 11 | 33,105 | 44,309 |
| **Other comprehensive income** | 12 | | |
| Exchange differences on translating foreign operations | | 1,635 | 1,342 |
| Surplus on revaluation of leasehold land and buildings held for own use | | 33,343 | 16,558 |
| **Other comprehensive income for the year and attributable to owners of the Company** | | 34,978 | 17,900 |
| **Total comprehensive income for the year and attributable to owners of the Company** | | 68,083 | 62,209 |
| **Earnings per share** | | | |
| – Basic and diluted | 13 | HK$0.103 | HK$0.138 |

# Consolidated Statement of Financial Position

At 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 178,134 | 142,080 |
| Payment for leasehold land held for own use under operating leases | 16 | 4,378 | 4,389 |
| Goodwill | 17 | 9,486 | – |
| | | 191,998 | 146,469 |
| **Current assets** | | | |
| Inventories | 20 | 84,288 | 91,044 |
| Amount due from ultimate holding company | 21 | 45 | 40 |
| Amount due from a related company | 21 | 25 | 15 |
| Tax prepayment | | 5,192 | 717 |
| Prepayments, deposits and other receivables | | 1,882 | 2,287 |
| Trade receivables | 22 | 29,240 | 23,801 |
| Cash and cash equivalents | | 404,539 | 388,082 |
| | | 525,211 | 505,986 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 17,900 | 14,609 |
| Current tax liabilities | | 1,123 | 993 |
| | | 19,023 | 15,602 |
| **Net current assets** | | 506,188 | 490,384 |
| **Total assets less current liabilities** | | 698,186 | 636,853 |
| **Non-current liabilities** | | | |
| Employee benefits | 24 | 18,397 | 20,717 |
| Deferred tax liabilities | 25 | 22,840 | 16,390 |
| | | 41,237 | 37,107 |
| **NET ASSETS** | | 656,949 | 599,746 |
| **Capital and reserves** | | | |
| Issued capital | 26 | 32,000 | 32,000 |
| Reserves | | 624,949 | 567,746 |
| **TOTAL EQUITY** | | 656,949 | 599,746 |

On behalf of the Board

**Siu Paul Y.**
*Director*

**Shiu Wai Mei**
*Director*

# Statement of Financial Position

At 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 19 | 113,606 | 113,606 |
| | | 113,606 | 113,606 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | 104 | 90 |
| Cash and cash equivalents | | 122 | 180 |
| | | 226 | 270 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 19 | 16,823 | 17,928 |
| Trade and other payables | 23 | 100 | 107 |
| | | 16,923 | 18,035 |
| **Net current liabilities** | | (16,697) | (17,765) |
| **NET ASSETS** | | 96,909 | 95,841 |
| **Capital and reserves** | | | |
| Issued capital | 26 | 32,000 | 32,000 |
| Reserves | 27 | 64,909 | 63,841 |
| **TOTAL EQUITY** | | 96,909 | 95,841 |

On behalf of the Board

| | |
|---|---|
| **Siu Paul Y.** | **Shiu Wai Mei** |
| *Director* | *Director* |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

| | Equity attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued capital (note 26) HK$'000 | Share premium (note 27(c)(i)) HK$'000 | Capital reserve (note 27(c)(ii)) HK$'000 | Property revaluation reserve (note 27(c)(iii)) HK$'000 | Exchange reserve (note 27(c)(iv)) HK$'000 | Retained earnings (note 27(c)(vi)) HK$'000 | Total HK$'000 |
| At 1 January 2011 | 32,000 | 57,099 | (23,724) | 78,498 | 11,479 | 394,665 | 550,017 |
| Profit for the year | – | – | – | – | – | 44,309 | 44,309 |
| Other comprehensive income for the year (note 12) | | | | | | | |
| Exchange differences on translating foreign operations | – | – | – | – | 1,342 | – | 1,342 |
| Surplus on revaluation of leasehold land and buildings held for own use | – | – | – | 16,558 | – | – | 16,558 |
| Total comprehensive income for the year | – | – | – | 16,558 | 1,342 | 44,309 | 62,209 |
| Dividends paid (note 27(b)) | – | – | – | – | – | (12,480) | (12,480) |
| At 31 December 2011 and 1 January 2012 | 32,000 | 57,099 | (23,724) | 95,056 | 12,821 | 426,494 | 599,746 |
| Profit for the year | – | – | – | – | – | 33,105 | 33,105 |
| Other comprehensive income for the year (note 12) | | | | | | | |
| Exchange differences on translating foreign operations | – | – | – | – | 1,635 | – | 1,635 |
| Surplus on revaluation of leasehold land and buildings held for own use | – | – | – | 33,343 | – | – | 33,343 |
| Total comprehensive income for the year | – | – | – | 33,343 | 1,635 | 33,105 | 68,083 |
| Dividends paid (note 27(b)) | – | – | – | – | – | (10,880) | (10,880) |
| At 31 December 2012 | 32,000 | 57,099 | (23,724) | 128,399 | 14,456 | 448,719 | 656,949 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax expense | 33,319 | 48,821 |
| Adjustments for: | | |
| Interest income | (5,822) | (4,228) |
| Depreciation of property, plant and equipment | 7,545 | 7,783 |
| Loss on disposal of property, plant and equipment | 42 | 30 |
| Amortisation of payment for leasehold land held for own use under operating leases | 117 | 117 |
| Impairment loss on trade receivables | – | 297 |
| Reversal of impairment loss of inventories (note 20) | (1,368) | (88) |
| **Operating profit before working capital changes** | 33,833 | 52,732 |
| Decrease/(increase) in inventories | 10,357 | (5,307) |
| Increase in amount due from ultimate holding company | (5) | (6) |
| Increase in amount due from a related company | (10) | – |
| Decrease in prepayments, deposits and other receivables | 405 | 32,212 |
| (Increase)/decrease in trade receivables | (5,439) | 8,944 |
| Increase/(decrease) in trade and other payables | 3,291 | (7,792) |
| (Decrease)/increase in employee benefits | (2,722) | 1,199 |
| **CASH GENERATED FROM OPERATIONS** | 39,710 | 81,982 |
| Income tax paid | (3,321) | (12,926) |
| **Net cash from operating activities** | 36,389 | 69,056 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property, plant and equipment | (2,826) | (3,506) |
| Acquisition of business (note 35) | (12,327) | – |
| Interest received | 5,822 | 4,228 |
| **Net cash (used in)/generated from investing activities** | (9,331) | 722 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid | (10,880) | (12,480) |
| **Net cash used in financing activities** | (10,880) | (12,480) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 16,178 | 57,298 |
| **Cash and cash equivalents at beginning of year** | 388,082 | 329,519 |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | 279 | 1,265 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | |
| represented by bank balances and cash (note) | 404,539 | 388,082 |

*Note:*

Bank balances and cash included an amount of HK$34,488,000 (2011: HK$206,546,000) which is denominated in Renminbi. Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currency and remittance of Renminbi out of the People's Republic of China are subject to the rules and regulations of exchange controls promulgated by the People's Republic of China authorities.

## 1. GENERAL

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

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

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

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

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2012

The following revised HKFRSs, potentially relevant to the Group's operations, have been issued and adopted by the Group:

| | |
|---|---|
| Amendments to HKFRS 1 | Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets |
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets |

The adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

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

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

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group:

| | |
|---|---|
| Amendments to HKAS 1 (Revised) | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to HKFRSs | Annual Improvement to HKFRSs 2009-2011 Cycle[2] |
| Amendments to HKFRS 7 | Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment entities[3] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| HKAS 19 (2011) | Employee Benefits[2] |
| HKAS 27 (2011) | Separate Financial Statements[2] |

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

*Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

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

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

*Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities*

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

*HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle*

The improvements made amendments to three standards.

*(i) HKFRS 1 First-time Adoption of HKFRS*

Issue – repeated application of HKFRS 1

The amendment applies to entities that have applied HKFRS in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with HKFRS. The financial statement preparer in this situation may either prepare financial statements in accordance with HKFRS 1 or apply HKFRS retrospectively in accordance with HKAS 8.

*(ii) HKAS 1 Presentation of Financial Statements*

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

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

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

*(iii) HKAS 32 Financial Instruments: Presentation*

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

HKFRS 9 – Financial Instruments

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

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

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

*(iii) HKAS 32 Financial Instruments: Presentation (Continued)*

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

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

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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

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

### (b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Research and development costs

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

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

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

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

### (d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Property, plant and equipment

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

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

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Property, plant and equipment (Continued)

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

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

### (f) Revenue recognition

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

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

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

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

### (h) Leasing

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

*The Group as lessee*

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial Instruments

*(i) Financial assets*

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

Loans and receivables

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

*(ii) Impairment loss on financial assets*

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial Instruments (Continued)

*(ii) Impairment loss on financial assets (Continued)*

For loans and receivables

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

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

*(iii) Financial liabilities*

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

Financial liabilities at amortised cost

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

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

*(iv) Effective interest method*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial Instruments (Continued)

*(v) Equity instruments*

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

*(vi) Derecognition*

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

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

### (j) Impairment of non financial assets

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Employee benefits

*(i) Defined contribution retirement plan*

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

*(ii) Long service payments*

The Group's net obligations in respect of long service payments are the amounts of future benefits that employees have earned in return for their services in the current and prior periods.

*(iii) Termination benefits*

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

### (l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) Provisions and contingent liabilities

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Income taxes

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

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

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

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

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

### (o) Foreign currency

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Foreign currency (Continued)

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

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

### (p) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;
(ii) children of that person's spouse or domestic partner; and
(iii) dependents of that person or that person's spouse or domestic partner.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### (a) Critical judgments in applying accounting policies

*(i) Current taxation and deferred taxation*

Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

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

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

### (b) Key sources of estimation uncertainty

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

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

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

*(ii) Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

*(iii) Estimated net realisable value of inventories*

The Group's management writes down for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed.

## 6. SEGMENT INFORMATION

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

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

### (a) Geographical information

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

The Group comprises the following main geographical segments:

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Hong Kong (place of domicile) | 1,085 | 1,661 | 157,199 | 118,105 |
| The PRC | – | – | 23,890 | 27,956 |
| The US | 233,536 | 236,280 | 1,414 | 398 |
| Europe | 9,442 | 6,586 | 9 | 10 |
| Other countries | 18,543 | 18,826 | – | – |
| | 261,521 | 261,692 | 25,313 | 28,364 |
| | 262,606 | 263,353 | 182,512 | 146,469 |

## 6. SEGMENT INFORMATION (Continued)

### (b) Information about major customers

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Customer A | 69,274 | 80,840 |
| Customer B | 49,214 | 61,403 |
| Customer C | 48,465 | 49,724 |
| | 166,953 | 191,967 |

## 7. TURNOVER AND OTHER REVENUE

### (a) Turnover

Turnover represents the net invoiced value of goods sold.

### (b) Other revenue and gain

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Bank interest income | 5,822 | 4,228 |
| Exchange gain, net | 7,836 | 1,554 |
| Income from disposal of scrap materials | 599 | 549 |
| Reversal of interest accrued on unitary income tax | 1,046 | – |
| Sundry income | 485 | 474 |
| | 15,788 | 6,805 |

## 8. PROFIT BEFORE INCOME TAX EXPENSE

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Carrying amount of inventories sold | 177,458 | 154,638 |
| Reversal of impairment loss of inventories (note 20) | (1,368) | (88) |
| Cost of inventories recognised as expenses | 176,090 | 154,550 |
| Amortisation of payment for leasehold land held for own use under operating leases | 117 | 117 |
| Auditor's remuneration | 702 | 828 |
| Depreciation of property, plant and equipment | 7,545 | 7,783 |
| Loss on disposal of property, plant and equipment | 42 | 30 |
| Impairment loss on trade receivables | – | 297 |
| Research and development expenditure | 5,823 | 5,788 |

## 9. STAFF COSTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Staff costs (including directors) comprise: | | |
| Wages and salaries | 81,700 | 74,991 |
| Contributions to defined contribution retirement plan | 5,051 | 4,283 |
| | 86,751 | 79,274 |

The staff costs included the amount of HK$5,086,000 (2011: HK$4,972,000) which is classified as research and development expenditure.

## 10. INCOME TAX EXPENSE

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Current tax – Hong Kong Profits Tax | | |
| – tax for the year | 2,341 | 3,730 |
| – over provision in respect of prior years | (38) | (1,793) |
| | 2,303 | 1,937 |
| Current tax – overseas | | |
| – tax for the year | 919 | 3,109 |
| – over provision in respect of prior years | (3,010) | (555) |
| | (2,091) | 2,554 |
| Deferred taxation (note 25) | 2 | 21 |
| | 214 | 4,512 |

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2011: 25%).

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

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

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Profit before income tax expense | 33,319 | 48,821 |
| Effect of tax at Hong Kong profits tax rate of 16.5% (2011: 16.5%) | 5,496 | 8,055 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 118 | 1,831 |
| Tax effect of revenue not taxable for tax purposes | (4,339) | (3,862) |
| Tax effect of unused tax losses | 1,151 | 164 |
| Tax effect of expenses not deductible for tax purposes | 836 | 672 |
| Over provision in prior years | (3,048) | (2,348) |
| Income tax expense | 214 | 4,512 |

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

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to shareholders includes a loss of HK$1,052,000 (2011: loss of HK$924,000) which has been dealt with in the financial statements of the Company.

## 12. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount | Tax expense (note 25) | Net-of-tax amount | Before-tax amount | Tax expense (note 25) | Net-of-tax amount |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Exchange differences on translating foreign operations | 1,635 | – | 1,635 | 1,342 | – | 1,342 |
| Surplus on revaluation of leasehold land and buildings held for own use | 39,791 | (6,448) | 33,343 | 19,564 | (3,006) | 16,558 |
| | 41,426 | (6,448) | 34,978 | 20,906 | (3,006) | 17,900 |

## 13. EARNINGS PER SHARE

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Profit attributable to owners of the Company | 33,105 | 44,309 |

| | **Number of shares** | |
|---|---|---|
| | 2012 | 2011 |
| Number of ordinary shares in issue | 320,000,000 | 320,000,000 |

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding for both years.

## 14. DIRECTORS' REMUNERATION AND INDIVIDUAL WITH HIGHEST EMOLUMENTS

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

| | Year ended 31 December 2012 | | | |
|---|---|---|---|---|
| | Fees HK$'000 | Basic salaries, allowance and other benefits HK$'000 | Contributions to defined contribution retirement plan HK$'000 | Total HK$'000 |
| **Executive directors** | | | | |
| Siu Paul Y. *(Chairman)* | – | 7,040 | – | 7,040 |
| Shui Wai Mei | – | 550 | – | 550 |
| Sheung Shing Fai | – | 1,550 | 14 | 1,564 |
| **Independent non-executive directors** | | | | |
| Chung Pui Lam | 125 | – | – | 125 |
| Chan Fai Yue, Leo | 125 | – | – | 125 |
| Lee Kit Wah | 125 | – | – | 125 |
| | 375 | 9,140 | 14 | 9,529 |

| | Year ended 31 December 2011 | | | |
|---|---|---|---|---|
| | Fees HK$'000 | Basic salaries, allowance and other benefits HK$'000 | Contributions to defined contribution retirement plan HK$'000 | Total HK$'000 |
| **Executive directors** | | | | |
| Siu Paul Y. *(Chairman)* | – | 7,040 | – | 7,040 |
| Shui Wai Mei | – | 550 | – | 550 |
| Sheung Shing Fai | – | 1,700 | 12 | 1,712 |
| Siu Nina Margaret | – | 1,140 | 12 | 1,152 |
| **Independent non-executive directors** | | | | |
| Chung Pui Lam | 125 | – | – | 125 |
| Lam Tak Shing, Harry | 54 | – | – | 54 |
| Chan Fai Yue, Leo | 125 | – | – | 125 |
| Lee Kit Wah | 45 | – | – | 45 |
| | 349 | 10,430 | 24 | 10,803 |

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

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

No directors waived any remuneration during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2012 (2011: Nil).

As at 31 December 2012, no share options have been granted and held by the directors under the Company's share option scheme. The details of the share options are disclosed in note 26.

**(b) Individuals with highest emoluments**

Of the five individuals with the highest emoluments in the Group, three (2011: four) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining two (2011: one) individuals were as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | 1,651 | 554 |
| Contributions to defined contribution retirement plan | 28 | 12 |
| | 1,679 | 566 |

The emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | 2012 | 2011 |
| Nil to HK$1,000,000 | 1 | 1 |
| HK$1,000,001 to HK$2,000,000 | 1 | – |
| | 2 | 1 |

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.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings held for own use HK$'000 | Machinery and equipment HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2011 | 113,520 | 26,357 | 25,323 | 5,837 | 171,037 |
| Additions | 206 | 1,969 | 1,331 | – | 3,506 |
| Disposals | – | (521) | (378) | – | (899) |
| Surplus on revaluation | 17,408 | – | – | – | 17,408 |
| Exchange adjustment | 366 | 34 | 71 | 12 | 483 |
| At 31 December 2011 and 1 January 2012 | 131,500 | 27,839 | 26,347 | 5,849 | 191,535 |
| Additions | – | 1,649 | 1,177 | – | 2,826 |
| Acquisition of business (note 35) | – | 531 | 77 | – | 608 |
| Disposals | – | (542) | (134) | – | (676) |
| Surplus on revaluation | 37,429 | – | – | – | 37,429 |
| Exchange adjustment | 401 | 38 | 72 | 13 | 524 |
| At 31 December 2012 | 169,330 | 29,515 | 27,539 | 5,862 | 232,246 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2011 | – | 23,460 | 17,368 | 3,766 | 44,594 |
| Charge for the year | 2,156 | 2,120 | 2,489 | 1,018 | 7,783 |
| Disposals | – | (521) | (348) | – | (869) |
| Written back on revaluation | (2,156) | – | – | – | (2,156) |
| Exchange adjustment | – | 73 | 21 | 9 | 103 |
| At 31 December 2011 and 1 January 2012 | – | 25,132 | 19,530 | 4,793 | 49,455 |
| Charge for the year | 2,362 | 1,961 | 2,500 | 722 | 7,545 |
| Disposals | – | (542) | (92) | – | (634) |
| Written back on revaluation | (2,362) | – | – | – | (2,362) |
| Exchange adjustment | – | 80 | 17 | 11 | 108 |
| At 31 December 2012 | – | 26,631 | 21,955 | 5,526 | 54,112 |
| **Carrying amount** | | | | | |
| At 31 December 2012 | 169,330 | 2,884 | 5,584 | 336 | 178,134 |
| At 31 December 2011 | 131,500 | 2,707 | 6,817 | 1,056 | 142,080 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Leasehold land and buildings held for own use HK$'000 | Machinery and equipment HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Representing: | | | | | |
| 2012 | | | | | |
| At cost | – | 29,515 | 27,539 | 5,862 | 62,916 |
| At valuation | 169,330 | – | – | – | 169,330 |
| | 169,330 | 29,515 | 27,539 | 5,862 | 232,246 |
| 2011 | | | | | |
| At cost | – | 27,839 | 26,347 | 5,849 | 60,035 |
| At valuation | 131,500 | – | – | – | 131,500 |
| | 131,500 | 27,839 | 26,347 | 5,849 | 191,535 |

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

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Hong Kong | 151,050 | 115,650 |
| The PRC | 18,280 | 15,850 |
| | 169,330 | 131,500 |

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

The leasehold land and buildings held by the Group for own use located in Hong Kong are stated at open market value as at 31 December 2012 as determined by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuer. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The leasehold land and buildings held by the Group for own use located in the PRC are stated at revalued amount as determined by depreciated replacement cost basis as at 31 December 2012. The revaluation surplus net of applicable deferred tax was credited to property revaluation reserve. Had the Group's leasehold land and buildings been carried at cost less accumulated depreciation, the carrying amount of the Group's leasehold land and buildings as at 31 December 2012 would have been approximately HK$23,082,000 (2011: HK$24,383,000).

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| At 1 January | 4,389 | 4,399 |
| Amortisation for the year | (117) | (117) |
| Exchange adjustment | 106 | 107 |
| At 31 December | 4,378 | 4,389 |

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Leases of between 10 to 50 years, held in: | | |
| The PRC | 4,378 | 4,389 |

## 17. GOODWILL

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | – | – |
| Acquisition of business (note 35) | 9,486 | – |
| At 31 December | 9,486 | – |

## 18. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill is allocated to the single cash generating unit ("CGU") identified, the magnetic components production.

The recoverable amounts of the CGU have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 1% (2011: N/A%), which does not exceed the long-term growth rate for the magnetic component production industry.

| | 2012 | 2011 |
|---|---|---|
| Pre-tax discount rate | 16% | N/A |
| Growth rate within the five-year period | 0% – 5% | N/A |
| Wage inflation | 6% | N/A |

The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU. The operating margin and growth rate within the five-year period have been based on estimation on the Group's similar products. Wage inflation has been based on the Group's past experience in the same manufacturing business.

## 19. INTERESTS IN SUBSIDIARIES

| | Company 2012 HK$'000 | Company 2011 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | 113,606 | 113,606 |
| Amounts due to subsidiaries | 16,823 | 17,928 |

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

The following list contains the particulars of all subsidiaries of the Group.

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

## 19. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation | Place of operation | Principal activities | Issued and fully paid share capital/ registered capital | Percentage of ownership interests Directly | Indirectly |
|---|---|---|---|---|---|---|
| Pulse Tek Trading Limited | Hong Kong | Hong Kong | Trading of electronic components | HK$2 | – | 100% |
| Innovative Power, Inc. | California, the United States of America | California, the United States of America | Manufacturing and trading of electronic components | US$1,000 | – | 100% |

(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.

## 20. INVENTORIES

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Raw materials | 51,334 | 54,383 |
| Work-in-progress | 4,480 | 3,326 |
| Finished goods | 28,474 | 33,335 |
| | 84,288 | 91,044 |

An impairment loss provision of HK$1,368,000 (2011: HK$88,000) made in prior years against the carrying value of finished goods was reversed. This reversal arose due to an increase in the estimated net realisable value of the respective inventories.

## 21. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND A RELATED COMPANY

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

## 22. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 30 days to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Within 30 days | 18,028 | 16,796 |
| 31 to 60 days | 7,917 | 5,416 |
| 61 to 90 days | 2,581 | 1,192 |
| Over 90 days | 1,011 | 694 |
| | 29,537 | 24,098 |
| Less: Allowance for doubtful debts | (297) | (297) |
| | 29,240 | 23,801 |

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| At 1 January | 297 | – |
| Impairment loss recognised | – | 297 |
| At 31 December | 297 | 297 |

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Less than 1 month past due | 4,322 | 2,884 |
| 1 to 3 months past due | 1,935 | 1,479 |
| Total amounts past due but not impaired | 6,257 | 4,363 |
| Current | 22,983 | 19,438 |
| | 29,240 | 23,801 |

## 22. TRADE RECEIVABLES (Continued)

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

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

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

## 23. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Trade payables | 12,001 | 7,679 | – | – |
| Other payables and accruals | 5,899 | 6,930 | 100 | 107 |
| | 17,900 | 14,609 | 100 | 107 |

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

| | Group | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'000 |
| Within 30 days | 5,760 | 5,230 |
| 31 to 60 days | 4,085 | 1,729 |
| 61 to 90 days | 1,955 | 573 |
| Over 90 days | 201 | 147 |
| | 12,001 | 7,679 |

## 24. EMPLOYEE BENEFITS

Details of the employee benefits and movements thereof:

| | Provision for long service payments | |
|---|---|---|
| | 2012 HK$'000 | 2011 HK$'000 |
| At the beginning of the year | 20,717 | 19,108 |
| Exchange adjustments | 402 | 410 |
| Add: Additional provision made | 4,071 | 3,368 |
| Less: Reversal of provision | (6,793) | (2,169) |
| At the end of the year | 18,397 | 20,717 |
| Categorised as: | | |
| Due after more than one year | 18,397 | 20,717 |

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

## 25. DEFERRED TAX

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

| | Revaluation of leasehold land and buildings for own use HK$'000 | Depreciation allowances in excess of the related depreciation HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2011 | 13,407 | (44) | 13,363 |
| Debit to profit or loss (note 10) | – | 21 | 21 |
| Debit to other comprehensive income (note 12) | 3,006 | – | 3,006 |
| At 31 December 2011 and 1 January 2012 | 16,413 | (23) | 16,390 |
| Debit to profit or loss (note 10) | – | 2 | 2 |
| Debit to other comprehensive income (note 12) | 6,448 | – | 6,448 |
| At 31 December 2012 | 22,861 | (21) | 22,840 |

## 25. DEFERRED TAX (Continued)

The Group has not recognised deferred tax assets in respect of tax losses of HK$17,229,000 during the year (2011: HK$13,158,000) due to the unpredictability of taxable profits in the foreseeable future. The tax losses do not expire under current tax legislations.

No deferred tax liability has been recorded on temporary differences of HK$5,067,000 (2011: HK$2,549,000) relating to the undistributed earnings of the PRC subsidiary because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 26. ISSUED CAPITAL

| | Group and Company | |
|---|---|---|
| | 2012<br>HK$'000 | 2011<br>HK$'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 normal value of the Company's shares, and (ii) 80% of the average of the closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant. Upon acceptance of options, the grantee shall pay $1 to the Company as consideration for the grant.

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

## 27. RESERVES

### (a) Company

| | Share premium (note (c)(i)) HK$'000 | Contributed surplus (note (c)(v)) HK$'000 | Accumulated losses (note (c)(vi)) HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2011 | 57,099 | 89,606 | (83,460) | 63,245 |
| **Changes in equity for 2011:** | | | | |
| Dividends paid (note b(i)) | – | – | (12,480) | (12,480) |
| Profit and total comprehensive income for the year | – | – | 13,076 | 13,076 |
| At 31 December 2011 and 1 January 2012 | 57,099 | 89,606 | (82,864) | 63,841 |
| **Changes in equity for 2012:** | | | | |
| Dividends paid (note b(i)) | – | – | (10,880) | (10,880) |
| Profit and total comprehensive income for the year | – | – | 11,948 | 11,948 |
| At 31 December 2012 | 57,099 | 89,606 | (81,796) | 64,909 |

### (b) Dividends

(i) Dividends paid during the year:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.02 (2011: HK$0.019) per ordinary share | 6,400 | 6,080 |
| Interim, declared and paid, of HK$0.014 (2011: HK$0.02) per ordinary share | 4,480 | 6,400 |
| | 10,880 | 12,480 |

## 27. RESERVES (Continued)

### (b) Dividends (Continued)

(ii) Dividend proposed during the year:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Final, proposed, of HK$0.014 (2011: HK$0.02) per ordinary share | 4,480 | 6,400 |

The final dividend for 2012 proposed after the end of the reporting period is subject to shareholders' approval in the forthcoming general meeting. It has not been recognised as a liability at the end of the reporting period.

### (c) Nature and purpose of reserves

*(i) Share premium*

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

*(ii) Capital reserve*

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

*(iii) Property revaluation reserve*

Property revaluation reserve represents gains/losses arising on the revaluation of properties held for own use.

*(iv) Exchange reserve*

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

*(v) Contributed surplus*

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

## 27. RESERVES (Continued)

### (c) Nature and purpose of reserves (Continued)

*(vi) Retained earnings/accumulated losses*

Cumulative net gains and losses recognised in profit or loss.

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

## 28. RELATED PARTY TRANSACTIONS

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

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Datatronics Romoland, Inc. ("DRI") # | | |
| Sales to DRI | 49,214 | 59,950 |
| Reimbursement of expenses to DRI | 6,877 | 7,486 |

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

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

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Year-end balance included in trade receivables arising from sales of goods to DRI | 5,601 | 2,753 |
| Year-end balance arising from advanced payment due from a related company, Data Express Limited * | 25 | 15 |

* Mr. Siu Paul Y., a director of the Company, has beneficial interest in Data Express Limited. The maximum balance outstanding during the year ended 31 December 2012 was amounted to HK$25,000 (2011: HK$15,000).

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

## 28. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management personnel remuneration of the Group

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | 9,140 | 10,779 |
| Post-employment benefits | 14 | 24 |
| | 9,154 | 10,803 |

## 29. LEASES

**Operating lease – lessee**

The Group leased its office premises under operating leases during the year. The leases run for an initial period of 1 to 10 years. Lease payments are negotiated to reflect market rentals. There are no contingent rentals under the operating lease.

The lease payments recognised as an expenses are as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Minimum leases payments | 868 | 514 |

The total future minimum lease payments are due as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Within one year | 652 | 56 |
| In the second to the fifth year | 568 | – |
| | 1,220 | 56 |

## 30. CAPITAL COMMITMENTS

The Group's capital commitment outstanding at the year end, contracted but not provided for in the financial statements in respect of property, plant and equipment is approximately HK$31,000 (2011: HK$255,000).

## 31. FINANCIAL RISK MANAGEMENT

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

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### (i) Credit risk

As at 31 December 2012, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

*Trade receivables*

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

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry and country in which customers operate and therefore significant concentration of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group has a certain concentration of credit risk as approximately 13% (2011: 25%) and 60% (2011: 66%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

*Deposits with banks*

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

## 31. FINANCIAL RISK MANAGEMENT (Continued)

### (ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The total contractual undiscounted cash flows of the Group's non-derivative financial liabilities are the same as their carrying amounts as their remaining contractual maturities are within one year as set out as below:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Trade and other payables | 17,900 | 14,609 |

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

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no interest-bearing liabilities, the Group's expenses and financing cash flows are independent of changes in market interest rates.

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

## 31. FINANCIAL RISK MANAGEMENT (Continued)

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

(i) *Interest rate profile*

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Effective interest rate % | One year or less HK$'000 | Effective interest rate % | One year or less HK$'000 |
| Cash and cash equivalents | 1.44% | 404,539 | 1.09% | 388,082 |

(ii) *Sensitivity analysis*

At 31 December 2012, it is estimated that a general increase/decrease of 30 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained earnings by approximately HK$1,214,000 (2011: HK$1,164,000). Other components of consolidated equity would not be affected (2011: HK$Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for cash and cash equivalents in existence at that date. The 30 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2011.

### (iv) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of operation to which they relate.

(i) *Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The Group is mainly exposed to the fluctuation of United States dollars, Renminbi, Euros and Pound Sterling. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

## 31. FINANCIAL RISK MANAGEMENT (Continued)

### (iv) Currency risk (Continued)

*(i) Exposure to currency risk (Continued)*

| | 2012 | | | |
|---|---|---|---|---|
| | United States dollars HK$'000 | Renminbi HK$'000 | Pound Sterling HK$'000 | Euro HK$'000 |
| Cash and cash equivalents | 306,382 | 535 | 710 | 876 |
| Trade and other receivables | 11,162 | – | 6 | – |
| Trade and other payables | (3,661) | (82) | – | – |
| Overall exposure arising from recognised assets and liabilities | 313,883 | 453 | 716 | 876 |

| | 2011 | | | |
|---|---|---|---|---|
| | United States dollars HK$'000 | Renminbi HK$'000 | Pound Sterling HK$'000 | Euro HK$'000 |
| Cash and cash equivalents | 130,539 | 173,537 | 700 | 2,602 |
| Trade and other receivables | 7,004 | – | 6 | – |
| Trade and other payables | (1,577) | (1) | – | – |
| Overall exposure arising from recognised assets and liabilities | 135,966 | 173,536 | 706 | 2,602 |

## 31. FINANCIAL RISK MANAGEMENT (Continued)

### (iv) Currency risk (Continued)

*(ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained earnings | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained earnings |
| | % | HK$'000 | % | HK$'000 |
| Euros | 8% | 70 | 9% | 234 |
| | (8%) | (70) | (9%) | (234) |
| Renminbi | 4% | 15 | 4% | 6,941 |
| | (4%) | (15) | (4%) | (6,941) |

Other components of consolidated equity would not be affected (2011: HK$Nil) by the changes in foreign exchange rates.

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2011.

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

## 31. FINANCIAL RISK MANAGEMENT (Continued)

### (v) Fair values

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

## 32. CAPITAL RISK MANAGEMENT

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

## 33. TAX DISPUTE

### California income tax

Datatronic Distribution, Inc. ("DDI"), a US subsidiary of the Company, came under examination by the State of California's Franchise Tax Board ("FTB") for the years ended 31 December 2006 and 2007 in respect of the unitary income tax. The FTB claimed 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. In response to such examination, DDI had made an additional provision for California income tax of HK$3,190,000 for the years ended 31 December 2006, 2007 and 2008 in the statement of comprehensive income for the year ended 31 December 2009. In October 2012, DDI received the notices of proposed assessment from FTB for the tax years of 2006 to 2008 to demand an aggregate of HK$680,000 additional taxes for the tax years of 2006 and 2007 after deducting an overpayment of HK$112,000 for the tax year of 2008. All of the outstanding balances were settled during the year and as a result, the overprovision in California income tax of HK$2,610,000 made in 2010 was reversed in current year.

## 34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

| | Carrying amount and fair value | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| **Financial assets** | | |
| Loans and receivables | | |
| – Cash and cash equivalents | 404,539 | 388,082 |
| – Trade receivables | 29,240 | 23,801 |
| – Deposits and other receivables | 1,025 | 2,170 |
| – Amount due from ultimate holding company | 45 | 40 |
| – Amount due from a related company | 25 | 15 |
| | 434,874 | 414,108 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | | |
| – Trade and other payables | 17,900 | 14,609 |

## 35. ACQUISITION OF BUSINESS DURING THE YEAR

On 9 April 2012, the Group has completed the acquisition of the business of Cal-Coil Magnetics Inc. and Cal-Coil Magnetics (China) Ltd (collectively referred to as the "acquiree"). The principal activity of the acquiree is manufacturing of magnetics products. The acquisition was made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence.

The fair value and identifiable assets acquired and liabilities assumed as at the date of acquisition were:

| | HK$'000 | HK$'000 |
|---|---|---|
| Property, plant and equipment (note 15) | 608 | |
| Inventories | 2,233 | 2,841 |
| Fair value of consideration transferred: | | |
| Cash | | 12,327 |
| Goodwill arising on acquisition (note 17) | | 9,486 |

## 35. ACQUISITION OF BUSINESS DURING THE YEAR (Continued)

The goodwill of HK$9,486,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Since the acquisition date, the acquired business has contributed HK$15,263,000 and HK$2,097,000 to Group's revenue and loss for the year ended 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit would have been HK$266,951,000 and HK$33,130,000 respectively for the year ended 31 December 2012.

The acquisition-related costs of HK$270,000 have been expensed and are included in administrative expenses.

## 36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2013.

# Financial Summary

For the year ended 31 December 2012

The consolidated statement of comprehensive income of the Group for the financial years 2008 to 2012 and the consolidated statements of financial position of the Group as at 31 December 2008, 2009, 2010, 2011 and 2012 are as follows:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| **Results** | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2012<br>HK$'000 |
| Turnover | 288,298 | 247,281 | 300,255 | 263,353 | 262,606 |
| Profit before taxation | 66,184 | 55,880 | 72,119 | 48,821 | 33,319 |
| Income tax | (10,921) | (10,285) | (11,198) | (4,521) | (214) |
| Profit for the year | 55,263 | 45,595 | 60,921 | 44,309 | 33,105 |
| Attributable to: | | | | | |
| Owners of the Company | 55,263 | 45,595 | 60,921 | 44,309 | 33,105 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| **Assets and liabilities** | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2012<br>HK$'000 |
| Total assets | 461,149 | 530,120 | 614,011 | 652,455 | 717,209 |
| Total liabilities | (42,738) | (59,707) | (63,994) | (52,709) | (60,260) |
| Total equity | 418,411 | 470,413 | 550,017 | 599,746 | 656,949 |

**Major land held by the Group**

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

**Overseas building**

| Location | Existing use | Term of lease | Percentage of interest |
|---|---|---|---|
| A parcel of industrial land at the<br>Old Guang-Zhu Highway, Lun Jian Town<br>Shunde District Fushan City<br>Guangzhou, Guangdong Province<br>The People's Republic of China | Industrial | Medium term | 100% |