



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

(Stock Code: 889)

*Annual Report 2013*

# A w a r d s

**ASTRONICS**  
"Best Value Added"



**LUTRON**  
"Customer Service"



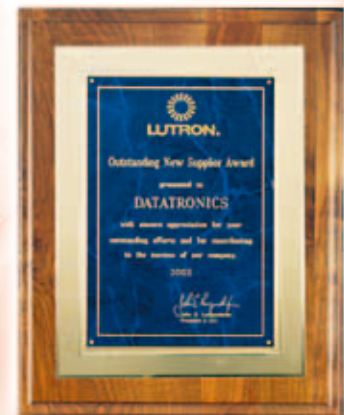
**MEDTRONIC**  
"Outstanding Performance"



**PHYSIO CONTROL**  
"Supplier of the Year"



**DATAFORTH**  
"Vendor of the Year"



**LUTRON**  
"Outstanding New Supplier"

# A w a r d s

## 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

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## **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**

MUFG Fund Services (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**

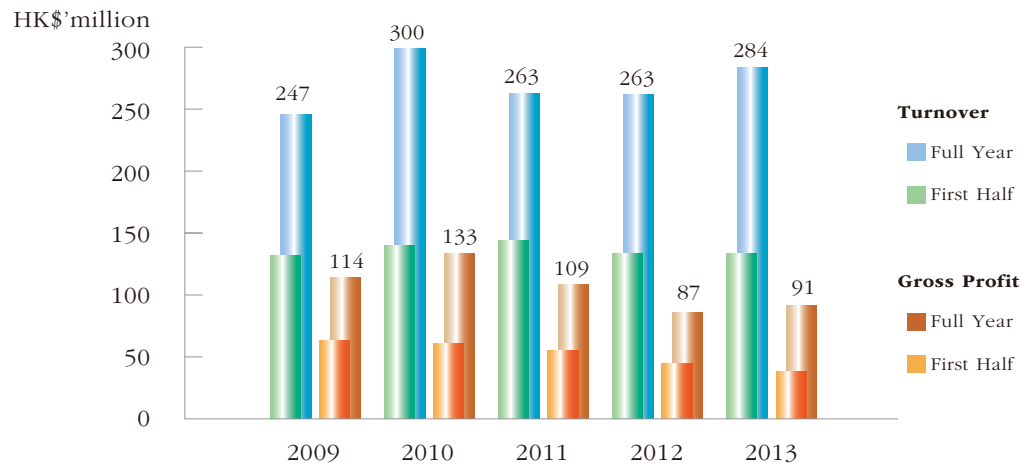
The Hongkong and Shanghai Banking  
Corporation Limited  
Bank of Communications

## **WEBSITE**

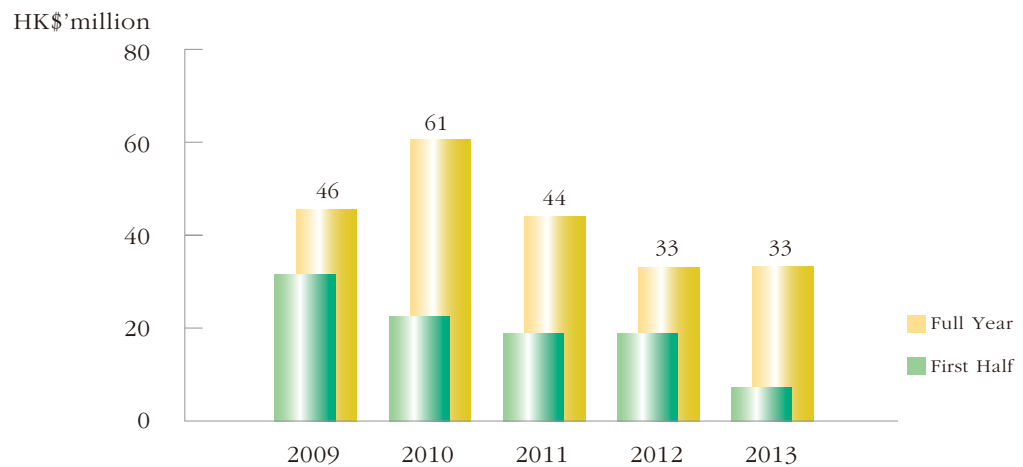
[www.datronixhldgs.com.hk](http://www.datronixhldgs.com.hk)



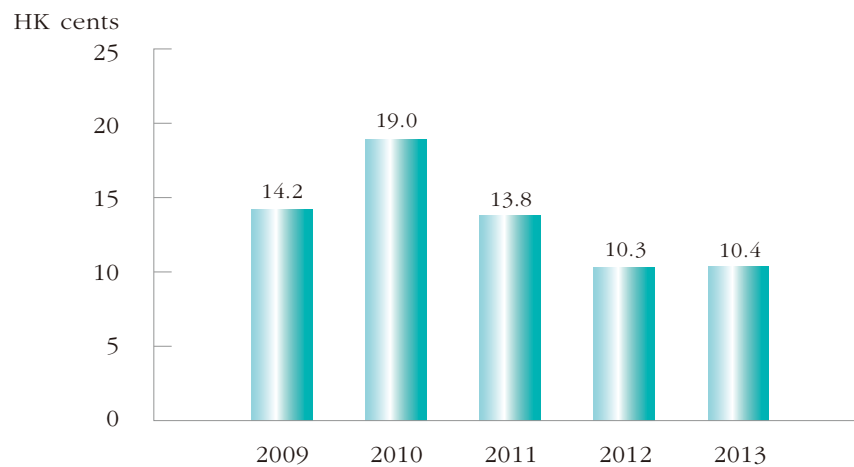
**TURNOVER / GROSS PROFIT**



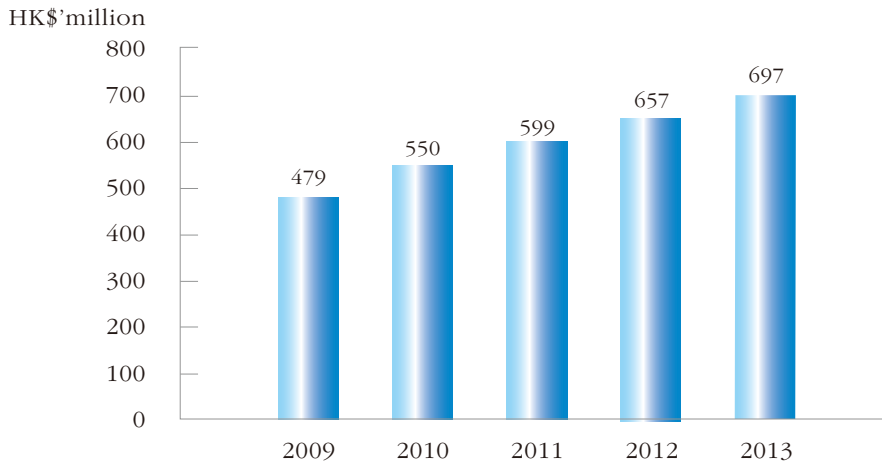
**PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**



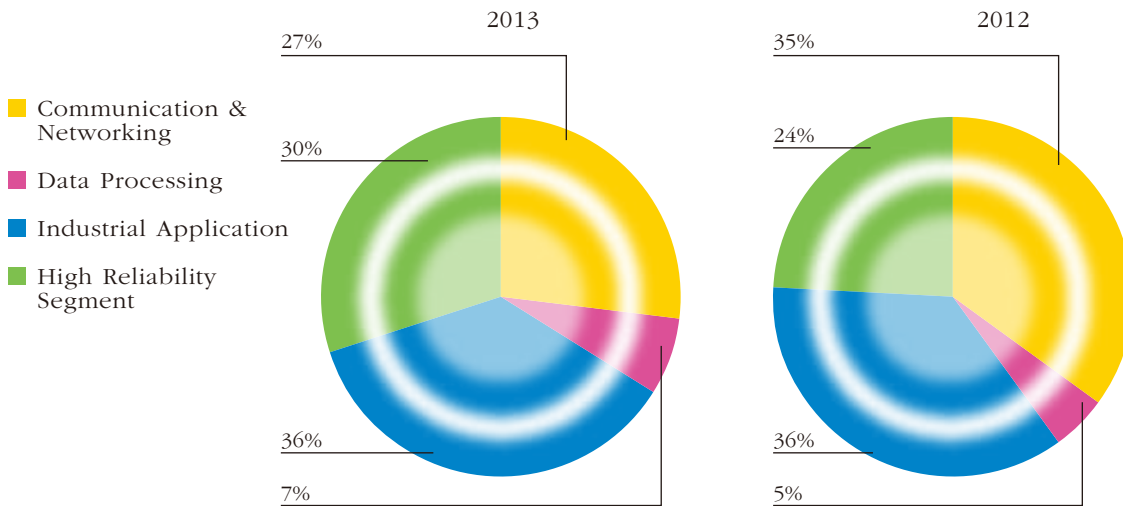
**EARNINGS PER SHARE (cents)**



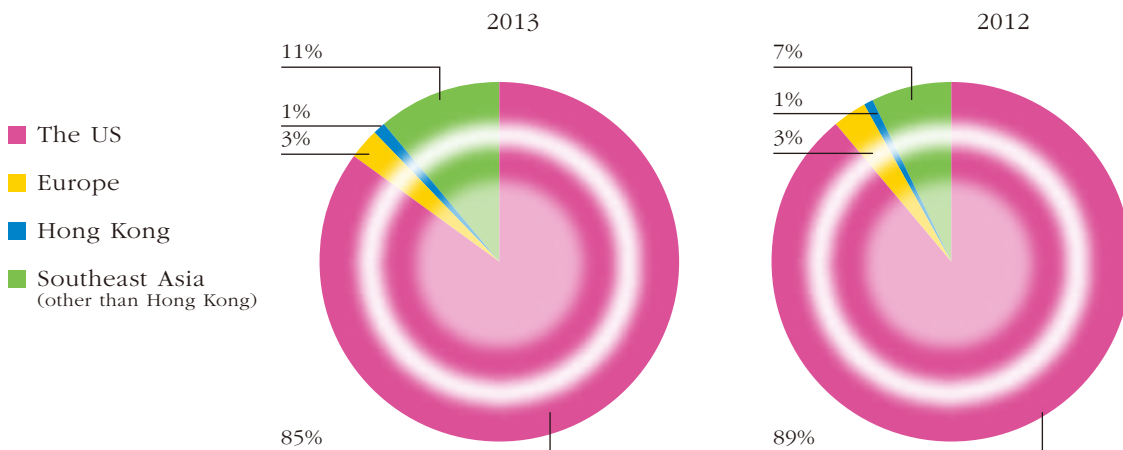
## NET ASSETS



## 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

**MARKETS SERVED**

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

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

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

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

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

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

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

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

**BUSINESS REVIEW**

Despite of the performance of the first half of 2013, Datronix has come back strong with substantial progress in implementing strategy to improve our growth in revenue and profitability. A successful strategy was adopted to improve our competitiveness and regain our position with our existing customers and products. Through additional integration and automation, management believes can further reduce lead times and offset the increasing direct labor cost in China. This is a continuing program that already has proven to be beneficial to our PRC manufacturing operations, as well as to our supply base and customer base.

Our second half of 2013 has regained our disappointed position experienced in first six months of 2013. Revenue for the year ended December 31, 2013 increased 8% to HK\$284 million, from HK\$263 million for the year ended December 31, 2012. Gross profit reported HK\$91 million, 32% of sales, has demonstrated our goal to tighten our labor cost control for the second half of 2013. The net earnings attributable to shareholders for the year ended December 31, 2013 were HK\$33 million, 12% of sales, compare to HK\$33 million for the prior year.

Datronix remains healthy financial position with cash balance of HK\$429 million and there is no issuance of debt for year 2013.

**MARKET REVIEW****Communication and Networking**

Communication segment contributed HK\$76 million of sales for year 2013, compared to HK\$92 million in previous year. This segment contributed 27% of the Group's total turnover. The communication and networking customers end demand was in a weakened state for year 2013. Gradual recovery is expected for this segment for year 2014.

**Data Processing**

Data processing segment contributed 7% of the Group's turnover. Sales for this segment were HK\$21 million in 2013, compare to HK\$14 million in 2012. The segment was affected by the general recovered economy.

**Industrial Application**

Industrial application segment sales reached to HK\$102 million in 2013, an increase of 7% compared to HK\$95 million in 2012, due to a continuous growth on major customers in this segment. 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 and high reliability products showed strengthen rebound and improved our sales in this segment. The segment reported HK\$85 million for year 2013, and HK\$62 million in year 2012. This segment contributed 30% 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 39 awards from customers including the "SUPPLIER OF THE YEAR" received in 2013.

**LOOKING FORWARD**

As the economy in the United States and Europe show sign of improvement, our backlog orders for the coming year look optimistic. Our short and mid term goal will be exploring new horizons and opportunities on various industries and segment through our existing sales channels and our acquired company. Yet, we remain cautious on the continuous rise in labor costs in China. Efforts in streamline manufacturing procedures, improve efficiencies and invest in automation will be our primary effort to fight the rise in labor costs in China.

We 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 2014

**FINANCIAL REVIEW**

The Group delivered a stable earnings result for year ended 2013. Turnover was HK\$284 million as at 31 December 2013 (2012: HK\$263 million).

Gross profit in 31 December 2013 was HK\$91 million with gross margin representing 32%, compared to HK\$87 million with gross margin representing 33% for the same period last year. Profit recorded HK\$33 million and HK\$33 million for the year ended 2013 and 2012 respectively. Net profit margin was 12% in 31 December 2013, compared to 13% in 31 December 2012.

**LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31 December 2013, the Group had a total equity of approximately HK\$697 million (2012: HK\$657 million), and cash and cash equivalents of approximately HK\$429 million (2012: HK\$405 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2013, 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 2013.

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 2013, the Group employed approximately 1,175 personnel around the world, with approximately 134 in Hong Kong, 980 in the PRC and 61 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 2013 (2012: Nil).

**CAPITAL COMMITMENTS**

The Group did not have any capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment in the financial statement (2012: HK\$0.03 million).



**EXECUTIVE DIRECTORS**

*Mr. Siu Paul Y.*, aged 73, 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 68, 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 65, 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 37, 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 73, 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 73, 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.

*Mr. Lee Kit Wah*, aged 59, 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 Limited, which is listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). Mr. Lee was an independent non-executive director of SinoCom Software Group Limited from March 2004 to 10 September 2013, a company is listed on the Stock Exchange.

### **SENIOR MANAGEMENT**

*Mr. Randall Eller*, aged 56, 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 59, 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 64, 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 65, 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 35 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 2013.

**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:

	<b>Percentage of the Group’s total Sales</b>	<b>Purchases</b>
The largest customer	23%	
Five largest customers in aggregate	67%	
The largest supplier		21%
Five largest suppliers in aggregate		62%

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 profit or loss and other comprehensive income on page 30.

The state of affairs of the Group and the Company as at 31 December 2013 are set out in the consolidated statement of financial position on page 31 and the statement of financial position on page 32 respectively.

The directors recommend the payment of a final dividend of HK\$0.025 (2012: HK\$0.014) per share, totalling HK\$8,000,000 (2012: HK\$4,480,000) for the year ended 31 December 2013.

**FINANCIAL SUMMARY**

A summary of the results of the Group for each of the five years ended 31 December 2013 and of the assets and liabilities as at 31 December 2009, 2010, 2011, 2012 and 2013 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 2013 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 33 and 72, 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, Mr. Sheung Shing Fai, Mr. Chung Pui Lam 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.

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 2013, 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**

	<b>Ordinary shares of HK\$0.1 each</b>			<b>Total</b>
	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	
Mr. Siu Paul Y.	–	–	229,876,000	229,876,000
			<i>(Note 1)</i>	

**b) Associated corporation**

	<b>Name of corporation</b>	<b>Non-voting deferred shares of HK\$1 each</b>			<b>Total</b>
		<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	
Mr. Siu Paul Y.	Datatronix Limited	1	–	199,999	200,000
				<i>(Note 2)</i>	

*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 71.84% 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 2013, 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 2013, 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 5th 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 2013 was approximately HK\$64,709,000 (2012: HK\$49,214,000).

**CONNECTED TRANSACTIONS (Continued)**

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

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

**CORPORATE GOVERNANCE**

The Corporate Governance Report is set out on page 17 to 24 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 2014

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 Corporate Governance Code (the “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:

<b>Director</b>	<b>Number of attendance</b>
Mr. Siu Paul Y.	5/6
Ms. Shui Wai Mei	5/6
Mr. Sheung Shing Fai	6/6
Ms. Siu Nina Margaret (Appointed on 1 January 2013)	4/6
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.

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 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
<b>Executive Directors</b>		
Mr. Siu Paul Y.	✓	✓
Ms. Shui Wai Mei	✓	✓
Mr. Sheung Shing Fai	✓	✓
Ms. Nina Siu Margaret	✓	✓
<b>Independent Non-executive Directors</b>		
Mr. Chung Pui Lam	✓	✓
Mr. Chan Fai Yue, Leo	✓	✓
Mr. Lee Kit Wah	✓	✓

### CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors of the Company during the year of 2013 are set out below:

Name of Directors	Details of Changes
Ms. Siu Nina Margaret	Appointed as an Executive Director of the Company on 1 January 2013.
Mr. Lee Kit Wah	Resigned as an independent non-executive director of SinoCom Software Group Limited on 10 September 2013.

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

<b>Director</b>	<b>Number of attendance</b>
Mr. Siu Paul Y.	2/2
Mr. Chung Pui Lam	2/2
Mr. Chan Fai Yue, Leo	2/2
Mr. Lee Kit Wah	2/2

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 2013, the directors have adopted suitable accounting policies 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, three Audit Committee meetings were held. The attendance of each member is set out as follows:

<b>Director</b>	<b>Number of attendance</b>
Mr. Chung Pui Lam	3/3
Mr. Chan Fai Yue, Leo	3/3
Mr. Lee Kit Wah	3/3

During the meetings held in 2013, 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 2012 (the "2012 Financial Statements") and discussed with the external auditors on any findings in relation to the 2012 Financial Statements and audit issues;
2. reviewed the interim results for the six months ended 30 June 2013;

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:

<b>Director</b>	<b>Number of attendance</b>
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 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 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:

<b>Services rendered</b>	<b>Fees paid/payable</b> HK\$'000
Audit services	670

### 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 2013 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 2013.

**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](mailto: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 Wednesday, 28 May 2014 at 2:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December 2013 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 By-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 By-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, 23 April 2014

*Notes:*

- i. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- ii. To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the branch share registrars of the Company in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
- iii. The register of members of the Company will be closed from Monday, 26 May 2014 to Wednesday, 28 May 2014, 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 Friday, 23 May 2014.

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 Thursday, 5 June 2014 to Friday, 6 June 2014, 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 Wednesday, 4 June 2014. The cheques for dividend payment will be sent on about Tuesday, 17 June 2014.



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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 30 to 82, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 2013 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 2014

For the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Turnover</b>	7	284,038	262,606
Cost of sales		(193,042)	(176,090)
<b>Gross profit</b>		90,996	86,516
Other revenue and gain	7	15,671	15,788
Distribution and selling expenses		(19,232)	(18,881)
Administrative expenses		(51,091)	(50,104)
<b>Profit before income tax expense</b>	8	36,344	33,319
Income tax expense	10		
Current tax – tax for the year		(4,230)	(3,260)
– over provision in respect			
of prior years		1,248	3,048
Deferred taxation		(21)	(2)
		(3,003)	(214)
<b>Profit for the year and attributable to owners of the Company</b>	11	33,341	33,105
<b>Other comprehensive income, net of tax</b>	12		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		1,035	1,635
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of leasehold land and buildings held for own use		13,267	33,343
<b>Other comprehensive income for the year and attributable to owners of the Company, net of tax</b>		14,302	34,978
<b>Total comprehensive income for the year and attributable to owners of the Company</b>		47,643	68,083
<b>Earnings per share</b>			
– Basic and diluted	13	HK\$0.104	HK\$0.103

At 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	189,521	178,134
Payment for leasehold land held for own use under operating leases	16	4,310	4,378
Goodwill	17	9,486	9,486
		203,317	191,998
<b>Current assets</b>			
Inventories	20	87,839	84,288
Trade receivables	22	34,513	29,240
Prepayments, deposits and other receivables		3,984	1,882
Amount due from ultimate holding company	21	51	45
Amount due from a related company	21	94	25
Tax prepayment		1,348	5,192
Cash and cash equivalents		429,460	404,539
		557,289	525,211
<b>Current liabilities</b>			
Trade and other payables	23	17,655	17,900
Current tax liabilities		1,436	1,123
		19,091	19,023
<b>Net current assets</b>		538,198	506,188
<b>Total assets less current liabilities</b>		741,515	698,186
<b>Non-current liabilities</b>			
Employee benefits	24	19,482	18,397
Deferred tax liabilities	25	25,121	22,840
		44,603	41,237
<b>NET ASSETS</b>		696,912	656,949
<b>Capital and reserves</b>			
Issued capital	26	32,000	32,000
Reserves		664,912	624,949
<b>TOTAL EQUITY</b>		696,912	656,949

On behalf of the Board

**Siu Paul Y.**  
Director

**Shui Wai Mei**  
Director

At 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000
<b>Non-current assets</b>			
Interests in subsidiaries	19	113,606	113,606
		113,606	113,606
<b>Current assets</b>			
Prepayments, deposits and other receivables		103	104
Cash and cash equivalents		266	122
		369	226
<b>Current liabilities</b>			
Amounts due to subsidiaries	19	16,343	16,823
Trade and other payables	23	125	100
		16,468	16,923
<b>Net current liabilities</b>		(16,099)	(16,697)
<b>NET ASSETS</b>		97,507	96,909
<b>Capital and reserves</b>			
Issued capital	26	32,000	32,000
Reserves	27	65,507	64,909
<b>TOTAL EQUITY</b>		97,507	96,909

On behalf of the Board

**Siu Paul Y.**  
*Director*

**Shui Wai Mei**  
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Equity attributable to owners of the Company						Total
	Issued capital	Share premium	Capital reserve	Property	Exchange reserve	Retained earnings	
				revaluation reserve			
(note 26)	(note 27(c)(i))	(note 27(c)(ii))	(note 27(c)(iii))	(note 27(c)(iv))	(note 27(c)(vi))		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2012</b>	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)
<b>At 31 December 2012 and 1 January 2013</b>	32,000	57,099	(23,724)	128,399	14,456	448,719	656,949
Profit for the year	-	-	-	-	-	33,341	33,341
Other comprehensive income for the year (note 12)							
Exchange differences on translating foreign operations	-	-	-	-	1,035	-	1,035
Surplus on revaluation of leasehold land and buildings held for own use	-	-	-	13,267	-	-	13,267
Total comprehensive income for the year	-	-	-	13,267	1,035	33,341	47,643
Dividends paid (note 27(b))	-	-	-	-	-	(7,680)	(7,680)
<b>At 31 December 2013</b>	32,000	57,099	(23,724)	141,666	15,491	474,380	696,912



For the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
<b>Cash flows from operating activities</b>		
Profit before income tax expense	36,344	33,319
Adjustments for:		
Interest income	(7,988)	(5,822)
Depreciation of property, plant and equipment	6,838	7,545
Loss on disposal of property, plant and equipment	69	42
Amortisation of payment for leasehold land held for own use under operating leases	122	117
Reversal of provision for impairment loss on trade receivables	(14)	–
Provision/(reversal of provision) for impairment loss of inventories (note 20)	141	(1,368)
<b>Operating profit before working capital changes</b>	35,512	33,833
(Increase)/decrease in inventories	(3,692)	10,357
Increase in trade receivables	(5,259)	(5,439)
(Increase)/decrease in prepayments, deposits and other receivables	(1,414)	405
Increase in amount due from ultimate holding company	(6)	(5)
Increase in amount due from a related company	(69)	(10)
(Decrease)/increase in trade and other payables	(245)	3,291
Increase/(decrease) in employee benefits	888	(2,722)
<b>CASH GENERATED FROM OPERATIONS</b>	25,715	39,710
Income tax refund/(paid)	1,156	(3,321)
<b>Net cash from operating activities</b>	26,871	36,389
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(2,533)	(2,826)
Acquisition of business (note 35)	–	(12,327)
Interest received	7,300	5,822
<b>Net cash generated from/(used in) investing activities</b>	4,767	(9,331)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(7,680)	(10,880)
<b>Net cash used in financing activities</b>	(7,680)	(10,880)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	23,958	16,178
<b>Cash and cash equivalents at beginning of year</b>	404,539	388,082
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	963	279
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
represented by bank balances and cash (note)	429,460	404,539

*Note:*

Bank balances and cash included an amount of HK\$325,547,000 (2012: HK\$34,488,000) 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.

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**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 2013**

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement

Except as explained below, the adoption of these amendments has no material impact on the Group’s financial statements.

*HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle*

The Basis of Conclusions for HKFRS 13 Fair Value Measurement was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group’s existing accounting policy.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2013 (Continued)

#### *Amendments to Hong Kong Accounting Standards (“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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of profit or loss and other comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group’s financial position or performance.

#### *Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities*

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

The adoption of the amendments has no impact on these financial statements as the Group has not offset financial instruments, nor has it entered into a master netting agreement or a similar arrangement.

#### *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.

**2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)****(a) Adoption of new/revised HKFRSs – effective 1 January 2013 (Continued)***HKFRS 10 – Consolidated Financial Statements (Continued)*

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 accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (see note 4(b)).

The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 January 2013.

*HKFRS 13 – Fair Value Measurement*

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 “Financial Instruments: Disclosures”. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group’s assets and liabilities and therefore has no effect on the Group’s financial position and performance. The standard requires additional disclosures about fair value measurements and these are included in notes 15 and 34. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

## 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:

HKFRSs (Amendments)	Annual Improvements to 2010-2012 Cycle <sup>3</sup>
HKFRSs (Amendments)	Annual Improvements to 2011-2013 Cycle <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>3</sup> Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014.

#### *Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle*

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. Among them, HKAS 16 Property, Plant and Equipment have been amended to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

#### *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.

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## 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 36 – Recoverable Amount Disclosures for Non-Financial Assets*

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit (“CGU”) to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal.

#### *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.

#### *Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions*

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

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 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 investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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.

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**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 recognised 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, 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 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 HKFRS.

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, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

#### 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 on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

##### (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.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

##### (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;

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(p) Related parties (Continued)**

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

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)

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

#### (i) *Determination of functional currency*

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

### (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 depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (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. The Group recognised an inventory write down of approximately HK\$141,000 for the year (2012: reversal of inventory previously written down by approximately HK\$1,368,000).

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

### (b) Key sources of estimation uncertainty (Continued)

#### (iv) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures a number of items at fair value:

- Revalued land and buildings – Property, Plant and Equipment (note 15).

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

#### (v) Impairment of trade receivables

The Group recognised an impairment loss on trade receivables for estimated losses resulting from the inability of the debtors to make required payments. The Group bases the estimates of future cash flows on the ageing of the receivable balances, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtor were to deteriorate, actual write-offs would be higher than estimated. Details of movements in provision for impairment of trade receivables are disclosed in note 22.

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## 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	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Hong Kong (place of domicile)	1,718	1,085	167,761	157,199
The PRC	–	–	24,933	23,890
The US	241,083	233,536	10,614	10,900
Europe	10,551	9,442	9	9
Other countries	30,686	18,543	–	–
	282,320	261,521	35,556	34,799
	284,038	262,606	203,317	191,998

### (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:

	2013 HK\$'000	2012 HK\$'000
Customer A	55,346	69,274
Customer B	64,709	49,214
Customer C	47,630	48,465
	167,685	166,953

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**7. TURNOVER AND OTHER REVENUE****(a) Turnover**

Turnover represents the net invoiced value of goods sold.

**(b) Other revenue and gain**

	2013 HK\$'000	2012 HK\$'000
Bank interest income	7,988	5,822
Exchange gain, net	6,789	7,836
Income from disposal of scrap materials	538	599
Reversal of interest accrued on unitary income tax	–	1,046
Reversal of provision for impairment loss on trade receivables (note 22)	14	–
Sundry income	342	485
	15,671	15,788

**8. PROFIT BEFORE INCOME TAX EXPENSE**

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

	2013 HK\$'000	2012 HK\$'000
Carrying amount of inventories sold	192,901	177,458
Provision/(reversal of provision) for impairment loss of inventories (note 20)	141	(1,368)
Cost of inventories recognised as expenses	193,042	176,090
Amortisation of payment for leasehold land held for own use under operating leases	122	117
Auditor's remuneration	748	702
Depreciation of property, plant and equipment	6,838	7,545
Loss on disposal of property, plant and equipment	69	42
Research and development expenditure	6,187	5,823

**9. STAFF COSTS**

	2013 HK\$'000	2012 HK\$'000
Staff costs (including directors' remuneration) comprise:		
Wages and salaries	100,091	81,700
Contributions to defined contribution retirement plan	5,577	5,051
	105,668	86,751

The staff costs included the amount of HK\$5,592,000 (2012: HK\$5,086,000) which is classified as research and development expenditure.

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**10. INCOME TAX EXPENSE**

	2013 HK\$'000	2012 HK\$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	3,044	2,341
– over provision in respect of prior years	(27)	(38)
	3,017	2,303
Current tax – overseas		
– tax for the year	1,186	919
– over provision in respect of prior years	(1,221)	(3,010)
	(35)	(2,091)
Deferred taxation (note 25)	21	2
	3,003	214

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2012: 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 profit or loss and other comprehensive income as follows:

	2013 HK\$'000	2012 HK\$'000
Profit before income tax expense	36,344	33,319
Effect of tax at Hong Kong profits tax rate of 16.5% (2012: 16.5%)	5,997	5,496
Effect of different tax rates of subsidiaries operating in other jurisdictions	883	118
Tax effect of revenue not taxable for tax purposes	(3,703)	(4,339)
Tax effect of unused tax losses	680	1,151
Tax effect of expenses not deductible for tax purposes	394	836
Over provision in prior years	(1,248)	(3,048)
Income tax expense	3,003	214

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.

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**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

Profit attributable to shareholders includes a loss of approximately HK\$1,122,000 (2012: loss of approximately HK\$1,052,000) 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:

	2013			2012		
	Before-tax amount HK\$'000	Tax expense (note 25) HK\$'000	Net-of-tax amount HK\$'000	Before-tax amount HK\$'000	Tax expense (note 25) HK\$'000	Net-of-tax amount HK\$'000
Exchange differences on translating foreign operations	1,035	-	1,035	1,635	-	1,635
Surplus on revaluation of leasehold land and buildings held for own use	15,527	(2,260)	13,267	39,791	(6,448)	33,343
	16,562	(2,260)	14,302	41,426	(6,448)	34,978

**13. EARNINGS PER SHARE**

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

	2013 HK\$'000	2012 HK\$'000
Profit attributable to owners of the Company	33,341	33,105

	Number of shares	
	2013	2012
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.



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#### 14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANagements' 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 2013			
	Fees HK\$'000	Basic salaries, allowance and other benefits HK\$'000	Contributions to defined contribution retirement plan HK\$'000	Total HK\$'000
<b>Executive directors</b>				
Siu Paul Y. ( <i>Chairman</i> )	-	7,190	-	7,190
Shui Wai Mei	-	600	-	600
Sheung Shing Fai	-	1,600	12	1,612
Siu Nina Margaret	-	1,426	15	1,441
<b>Independent non-executive directors</b>				
Chung Pui Lam	125	-	-	125
Chan Fai Yue, Leo	125	-	-	125
Lee Kit Wah	125	-	-	125
	375	10,816	27	11,218
	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
<b>Executive directors</b>				
Siu Paul Y. ( <i>Chairman</i> )	-	7,040	-	7,040
Shui Wai Mei	-	550	-	550
Sheung Shing Fai	-	1,550	14	1,564
<b>Independent non-executive directors</b>				
Chung Pui Lam	125	-	-	125
Chan Fai Yue, Leo	125	-	-	125
Lee Kit Wah	125	-	-	125
	375	9,140	14	9,529

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#### 14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGERMENTS' 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 2013 (2012: Nil).

As at 31 December 2013, 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, four (2012: three) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining one (2012: two) individuals were as follows:

	2013 HK\$'000	2012 HK\$'000
Salaries and other benefits	584	1,651
Contributions to defined contribution retirement plan	15	28
	599	1,679

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

The emoluments paid or payable to members of senior management were within the following bands:

	Number of employees	
	2013	2012
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$2,000,000	–	1
	1	2

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**15. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and buildings held for own use</b>	<b>Machinery and equipment</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation</b>					
At 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 and 1 January 2013	169,330	29,515	27,539	5,862	232,246
Additions	–	1,387	1,146	–	2,533
Disposals	–	(412)	(493)	–	(905)
Surplus on revaluation	12,726	–	–	–	12,726
Exchange adjustment	234	20	40	7	301
At 31 December 2013	182,290	30,510	28,232	5,869	246,901
<b>Accumulated depreciation</b>					
At 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 and 1 January 2013	–	26,631	21,955	5,526	54,112
Charge for the year	2,801	1,968	1,803	266	6,838
Disposals	–	(412)	(424)	–	(836)
Written back on revaluation	(2,801)	–	–	–	(2,801)
Exchange adjustment	–	45	16	6	67
At 31 December 2013	–	28,232	23,350	5,798	57,380
<b>Carrying amount</b>					
At 31 December 2013	182,290	2,278	4,882	71	189,521
At 31 December 2012	169,330	2,884	5,584	336	178,134

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

	<b>Leasehold land and buildings held for own use</b>	<b>Machinery and equipment</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Representing:					
2013					
At cost	–	30,510	28,232	5,869	64,611
At valuation	182,290	–	–	–	182,290
	182,290	30,510	28,232	5,869	246,901
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

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

	2013 HK\$'000	2012 HK\$'000
Hong Kong	162,580	151,050
The PRC	19,710	18,280
	182,290	169,330

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 and PRC were valued at 31 December 2013 (2012: 31 December 2012) by qualified valuers from LCH (Asia-Pacific) Surveyors Limited, an independent firm of chartered surveyors. The valuations were carried out in accordance with guidance set by the International Valuation Standards 2011 published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, 2012 Edition published by the Hong Kong Institute of Surveyors. The revaluation surplus net of applicable deferred income taxes was credited to property revaluation reserve.

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

Analysis of the leasehold land and buildings by valuation method is as follows:

**Fair value hierarchy**

<b>Description</b>	<b>Fair value measurements at 31 December 2013 using</b>	
	<b>Significant unobservable inputs (Level 3)</b>	
	HK\$'000	
Recurring fair value measurements		
Property, plant and equipment:		
Leasehold land and buildings in Hong Kong		162,580
Buildings in PRC		19,710
		<u>182,290</u>

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Levels 1, 2 and 3 during the year.

The fair value of leasehold land and buildings is a level 3 recurring fair value measurements using significant unobservable inputs. A reconciliation of the opening and closing fair value balance is provided below.

	<b>Buildings in PRC</b>	<b>2013 Leasehold land and buildings in Hong Kong</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Opening balance	18,280	151,050	169,330
Depreciation charge on revaluation of properties held for own use	(814)	(1,987)	(2,801)
Unrealised gains included in other comprehensive income	2,010	13,517	15,527
Exchange adjustment	234	-	234
Closing balance	<u>19,710</u>	<u>162,580</u>	<u>182,290</u>

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

For leasehold land and buildings in Hong Kong, the valuation was determined using a market comparison approach. The fair value of leasehold land and buildings was based on the prices of recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The significant input of this valuation approach is the price per square feet, which has adjusted to reflect the time of transaction, location, size, level, and age of the property, site view and building quality.

For buildings in PRC, the valuation was determined using depreciated replacement cost approach. The fair value of buildings was based on estimation of new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below.

Description	Fair value at 31 December 2013 (HK\$'000)	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Leasehold land and buildings in Hong Kong	162,580	Market comparison approach	Price per square feet ("sq.ft"), using market direct comparables which has adjusted to reflect the time of transaction, location, size, level, and age of the property, site view and building quality.	HK\$6,510/sq.ft - HK\$7,398/sq.ft (HK\$7,120/sq.ft)	Higher the price per sq.ft will result in correspondingly higher fair value.

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

Description	Fair value at 31 December 2013 (HK\$'000)	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Buildings in PRC	19,710	Depreciated replacement cost approach	Estimated cost of construction per square meter ("sq.m"), taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use.	HK\$1,664/sq.m - HK\$1,792/sq.m (HK\$1,734/sq.m)	Higher the estimated cost of construction per sq.m will result in correspondingly higher fair value.
			Age adjustment on the cost of buildings, taking in to account of remaining useful life of buildings.	26% and 28%	Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value.

There were no changes to the valuation techniques during the year.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

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 2013 would have been approximately HK\$21,781,000 (2012: HK\$23,082,000).

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

	2013 HK\$'000	2012 HK\$'000
At 1 January	4,378	4,389
Amortisation for the year	(122)	(117)
Exchange adjustment	54	106
At 31 December	4,310	4,378

	2013 HK\$'000	2012 HK\$'000
Leases of between 10 to 50 years, held in: The PRC	4,310	4,378

**17. GOODWILL**

	2013 HK\$'000	2012 HK\$'000
<b>Cost</b>		
At 1 January	9,486	–
Acquisition of business (note 35)	–	9,486
At 31 December	9,486	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 0% (2012: 1%), which does not exceed the long-term growth rate for the magnetic component production industry.

	2013	2012
Pre-tax discount rate	16%	16%
Growth rate within the five-year period	0% – 5%	0% – 5%
Wage inflation	5%	6%

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.



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**19. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	2013 HK\$'000	2012 HK\$'000
Unlisted shares, at cost	113,606	113,606
Amounts due to subsidiaries	16,343	16,823

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%
Datatron 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%
Datatron 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%

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**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**

	2013 HK\$'000	2012 HK\$'000
Raw materials	51,269	51,334
Work-in-progress	4,054	4,480
Finished goods	32,516	28,474
	87,839	84,288

For the reporting period ended 2012, an impairment loss provision of HK\$1,368,000 made in prior years against the carrying value of finished goods was reversed. This reversal arose due to an increase in the estimated net realizable value of the respective inventories caused by the increase in usage of scrap inventories. No such reversal of provision for impairment loss was needed for the reporting period ended 2013. The Group's inventories with carrying amount of approximately HK\$10,214,000 (2012: HK\$10,239,000) was stated at net realizable value.

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

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

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**22. TRADE RECEIVABLES**

Customers are generally 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:

	2013 HK\$'000	2012 HK\$'000
Within 30 days	24,035	18,028
31 to 60 days	7,225	7,917
61 to 90 days	2,555	2,581
Over 90 days	981	1,011
	<hr/> 34,796	<hr/> 29,537
Less: Allowance for doubtful debts	(283)	(297)
	<hr/> 34,513	<hr/> 29,240

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

	2013 HK\$'000	2012 HK\$'000
At 1 January	297	297
Recovery of impairment loss previously recognised	(14)	–
	<hr/> 283	<hr/> 297
At 31 December	283	297

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

	2013 HK\$'000	2012 HK\$'000
Less than 1 month past due	4,582	4,322
1 to 3 months past due	1,584	1,935
	<hr/> 6,166	<hr/> 6,257
Total amounts past due but not impaired	6,166	6,257
Current	28,347	22,983
	<hr/> 34,513	<hr/> 29,240

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**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**

	<b>Group</b>		<b>Company</b>	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Trade payables	11,755	12,001	–	–
Other payables and accruals	5,900	5,899	125	100
	17,655	17,900	125	100

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

	<b>Group</b>	
	2013 HK\$'000	2012 HK\$'000
Within 30 days	5,107	5,760
31 to 60 days	4,105	4,085
61 to 90 days	2,077	1,955
Over 90 days	466	201
	11,755	12,001

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**24. EMPLOYEE BENEFITS**

Details of the employee benefits and movements thereof:

	<b>Provision for long service payments</b>	
	2013 HK\$'000	2012 HK\$'000
At the beginning of the year	18,397	20,717
Exchange adjustments	197	402
Add: Additional provision made	3,360	4,071
Less: Reversal of provision	(2,472)	(6,793)
<b>At the end of the year</b>	<b>19,482</b>	<b>18,397</b>
Categorised as:		
Due after more than one year	19,482	18,397

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:

	<b>Revaluation of leasehold land and buildings for own use HK\$'000</b>	<b>Depreciation allowances in excess of the related depreciation HK\$'000</b>	<b>Total HK\$'000</b>
At 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 and 1 January 2013	22,861	(21)	22,840
Debit to profit or loss (note 10)	–	21	21
Debit to other comprehensive income (note 12)	2,260	–	2,260
<b>At 31 December 2013</b>	<b>25,121</b>	<b>–</b>	<b>25,121</b>

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**25. DEFERRED TAX (Continued)**

The Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$21,293,000 during the year (2012: HK\$17,229,000) 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 approximately HK\$7,538,000 (2012: HK\$5,067,000) 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**

	<b>Group and Company</b>	
	2013 HK\$'000	2012 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.

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**27. RESERVES****(a) Company**

	<b>Share premium</b> (note (c)(i)) HK\$'000	<b>Contributed surplus</b> (note (c)(v)) HK\$'000	<b>Accumulated losses</b> (note (c)(vi)) HK\$'000	<b>Total</b> HK\$'000
At 1 January 2012	57,099	89,606	(82,864)	63,841
<b>Changes in equity for 2012:</b>				
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 and 1 January 2013	57,099	89,606	(81,796)	64,909
<b>Changes in equity for 2013:</b>				
Dividends paid (note b(i))	-	-	(7,680)	(7,680)
Profit and total comprehensive income for the year	-	-	8,278	8,278
At 31 December 2013	57,099	89,606	(81,198)	65,507

**(b) Dividends***(i) Dividends paid during the year:*

	2013 HK\$'000	2012 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.014 (2012: HK\$0.02) per ordinary share	4,480	6,400
Interim, declared and paid, of HK\$0.01 (2012: HK\$0.014) per ordinary share	3,200	4,480
	7,680	10,880

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**27. RESERVES (Continued)****(b) Dividends (Continued)***(ii) Dividend proposed during the year:*

	2013 HK\$'000	2012 HK\$'000
Final, proposed, of HK\$0.025 (2012: HK\$0.014) per ordinary share	8,000	4,480

The final dividend for 2013 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.



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**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:

	2013 HK\$'000	2012 HK\$'000
Datatronix Romoland, Inc. ("DRI") #		
Sales to DRI	64,709	49,214
Reimbursement of expenses to DRI	11,295	6,877

\* 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:

	2013 HK\$'000	2012 HK\$'000
Year-end balance included in trade receivables arising from sales of goods to DRI	3,940	5,601
Year-end balance arising from advanced payment due from a related company:		
– Data Express Limited*	34	25
– Citicheer Enterprise Inc**	60	–

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**28. RELATED PARTY TRANSACTIONS (Continued)**

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

- \* 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 2013 was amounted to HK\$34,000 (2012: HK\$25,000).
- \*\* Mr. Siu Paul Y., a director of the Company, has beneficial interest in Citicheer Enterprise Inc. The maximum balance outstanding during the year ended 31 December 2013 was amounted to HK\$60,000 (2012: nil).

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

(c) Key management personnel remuneration of the Group

	2013 HK\$'000	2012 HK\$'000
Short-term employee benefits	10,816	9,140
Post-employment benefits	27	14
	<u>10,843</u>	<u>9,154</u>

**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:

	2013 HK\$'000	2012 HK\$'000
Minimum leases payments	729	868

The total future minimum lease payments are due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	727	652
In the second to the fifth year	224	568
	<u>951</u>	<u>1,220</u>

### 30. CAPITAL COMMITMENTS

As at 31 December 2012, the Group's capital commitment contracted but not provided for in the financial statements in respect of property, plant and equipment is approximately HK\$31,000. There is no capital commitment as at 31 December 2013.

### 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 2013, 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 11% (2012: 13%) and 49% (2012: 60%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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**31. FINANCIAL RISK MANAGEMENT (Continued)****(i) Credit risk (Continued)***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.

**(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:

	2013 HK\$'000	2012 HK\$'000
Trade and other payables	17,655	17,900

**(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:

	2013		2012	
	Effective interest rate %	One year or less HK\$'000	Effective interest rate %	One year or less HK\$'000
Cash and cash equivalents	1.86%	429,460	1.44%	404,539

*(ii) Sensitivity analysis*

At 31 December 2013, 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\$1,288,000 (2012: HK\$1,214,000). Other components of consolidated equity would not be affected (2012: 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 2012.

**(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.

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**31. FINANCIAL RISK MANAGEMENT (Continued)****(iv) Currency risk (Continued)***(i) Exposure to currency risk (Continued)*

	2013			
	United States dollars HK\$'000	Renminbi HK\$'000	Pound Sterling HK\$'000	Euro HK\$'000
Cash and cash equivalents	78,210	289,840	675	1,701
Trade and other receivables	13,094	–	6	–
Trade and other payables	(4,037)	(4)	–	–
Overall exposure arising from recognised assets and liabilities	87,267	289,836	681	1,701
	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

**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:

	2013		2012	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings HK\$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained earnings HK\$'000
Euros	8% (8%)	136 (136)	8% (8%)	70 (70)
Renminbi	3% (3%)	8,695 (8,695)	4% (4%)	15 (15)

Other components of consolidated equity would not be affected (2012: 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 2012.

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

**(v) Fair values**

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

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**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 2012 and as a result, the overprovision in California income tax of HK\$2,610,000 made in 2010 was reversed in the financial year 2012.

**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):

	<b>Carrying amount and fair value</b>	
	2013 HK\$'000	2012 HK\$'000
<b>Financial assets</b>		
Loans and receivables		
– Cash and cash equivalents	429,460	404,539
– Trade receivables	34,513	29,240
– Deposits and other receivables	1,621	1,025
– Amount due from ultimate holding company	51	45
– Amount due from a related company	94	25
	465,739	434,874
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost		
– Trade and other payables	17,655	17,900

The above financial instruments are not measured at fair value. Due to their short term nature, the carrying value of the above financial instruments approximates fair value.



**35. ACQUISITION OF BUSINESS**

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
<hr/>		
Fair value of consideration transferred:		
Cash		12,327
<hr/>		
Goodwill arising on acquisition (note 17)		9,486
<hr/>		

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 for the year ended 31 December 2012.

**36. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2014.

For the year ended 31 December 2013

The consolidated statement of comprehensive income of the Group for the financial years 2009 to 2013 and the consolidated statements of financial position of the Group as at 31 December 2009, 2010, 2011, 2012 and 2013 are as follows:

<b>Results</b>	<b>Year ended 31 December</b>				
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Turnover	247,281	300,255	263,353	262,606	284,038
Profit before taxation	55,880	72,119	48,821	33,319	36,344
Income tax	(10,285)	(11,198)	(4,521)	(214)	(3,003)
Profit for the year	45,595	60,921	44,309	33,105	33,341
Attributable to:					
Owners of the Company	45,595	60,921	44,309	33,105	33,341

<b>Assets and liabilities</b>	<b>At 31 December</b>				
	2009 HK\$'000	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Total assets	530,120	614,011	652,455	717,209	760,606
Total liabilities	(59,707)	(63,994)	(52,709)	(60,260)	(63,694)
Total equity	470,413	550,017	599,746	656,949	696,912

#### Major land held by the Group

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

#### Overseas building

A parcel of industrial land at the Old Guang-Zhu Highway, Lun Jian Town Shunde District Fushan City Guangzhou, Guangdong Province The People's Republic of China	Industrial	Medium term	100%
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