DATRONIX HOLDINGS LIMITED
連達科技控股有限公司*

(Stock Code: 889)

Annual Report 2014

* For identification purposes only

Awards

ASTRONICS
"Best Value Added"

LUTRON
"Customer Service"

PHYSIO CONTROL
"Supplier of the Year"

LUTRON
"Preferred Supplier"

MEDTRONIC
"Outstanding Performance"

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

A w a r d s

Xerox

Xerox

ICL/Fujitsu

Xerox

Xerox

Xerox

Tektronix

Sola Electric

Tektronix

Customer Recognition For Quality, Service, Value

Honeywell

Honeywell

Harris

Honeywell

Honeywell

Delco

Honeywell

Hughes Aircraft
General Motors

IBM

CONTENTS

CORPORTE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

CHUNG Pui Lam
CHAN Fai Yue, Leo
LEE Kit Wah

AUDIT COMMITTEE

LEE Kit Wah
CHUNG Pui Lam
CHAN Fai Yue, Leo

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

QUALIFIED ACCOUNTANT

MOK Sim Wa

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITORS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

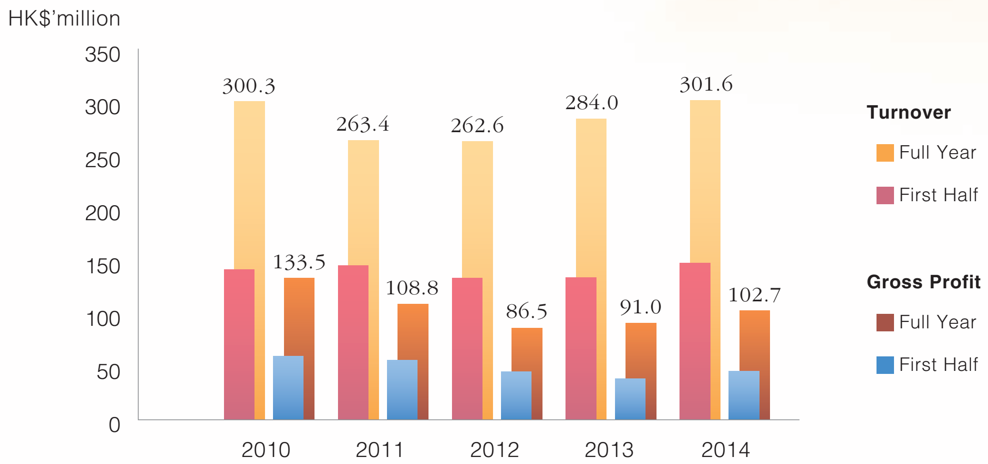
The Hongkong and Shanghai Banking Corporation Limited
Bank of Communications

WEBSITE

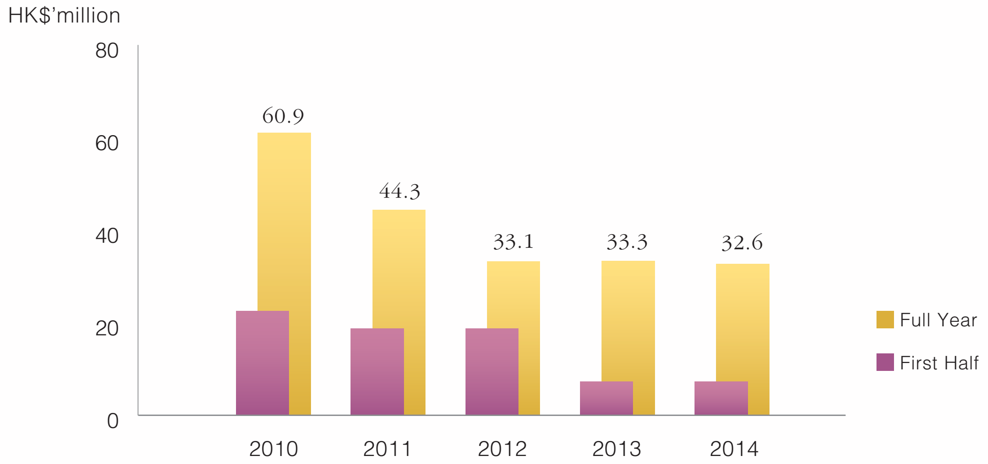
www.datronixhldgs.com.hk

FINANCIAL HIGHLIGHTS

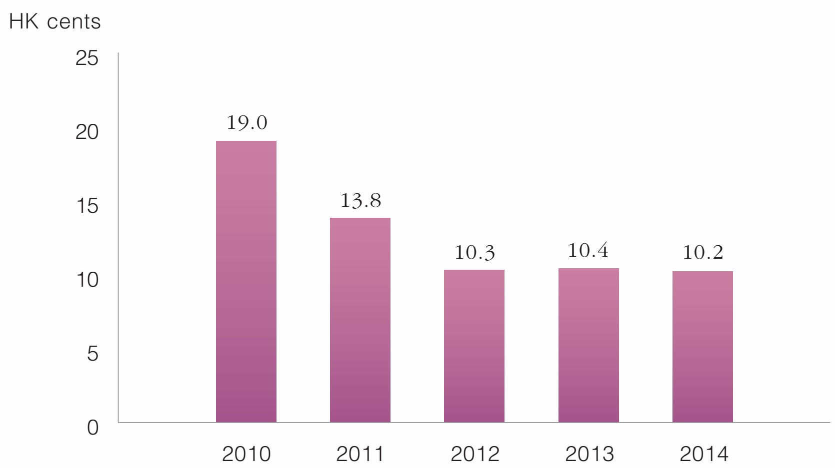
Turnover / Gross Profit



Profit Attributable to Owners of the Company

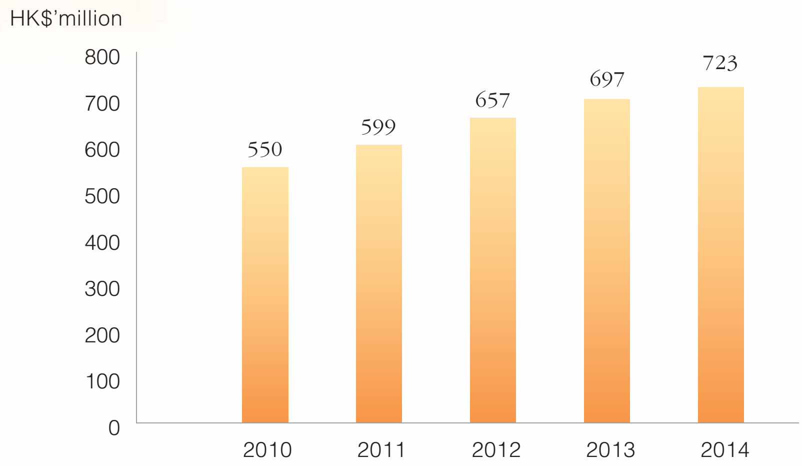


Earnings per share (cents)

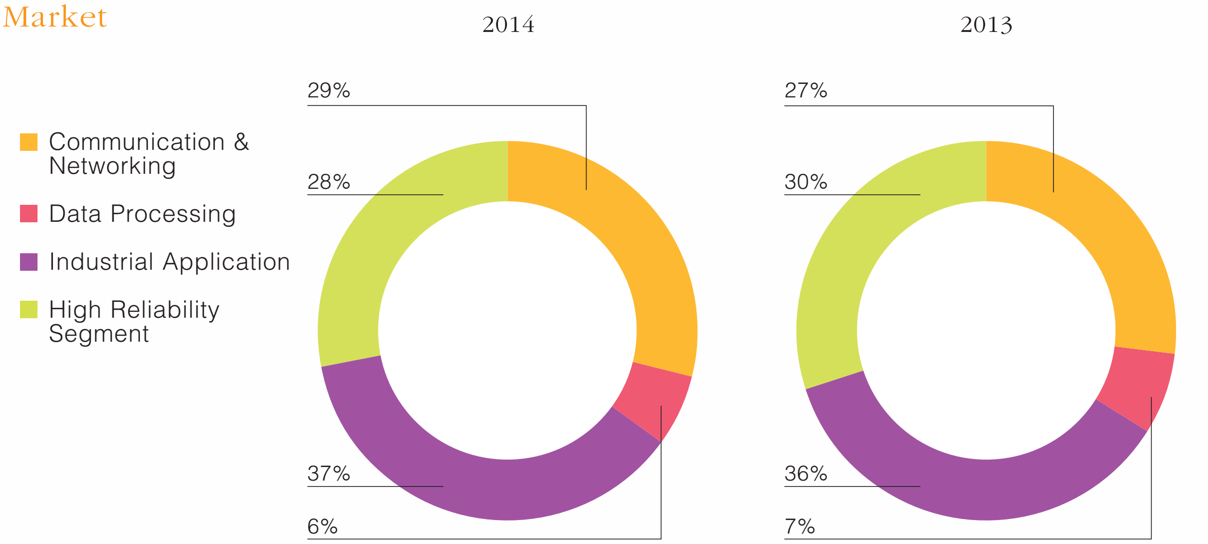


FINANCIAL HIGHLIGHTS

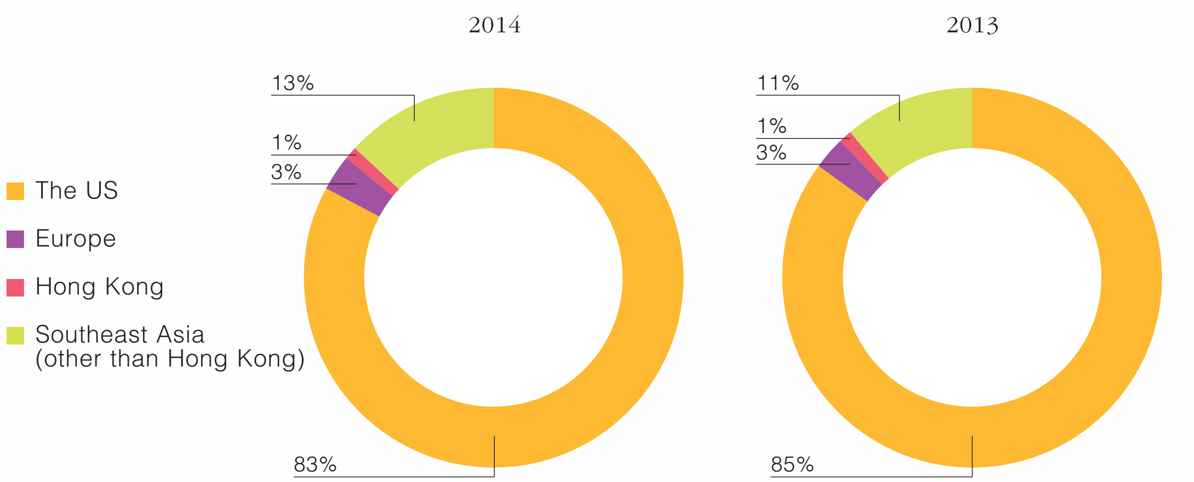
Net Assets



Market



Geographical Destination of Products



GENERAL

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

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

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

THE GROUP'S PRODUCT LINE

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

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

GENERAL

MARKETS SERVED

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

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

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

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

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

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

GENERAL

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

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

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Datronix ended the year of 2014 with record high sales of HK$302 million, an increase of 6% from HK$284 million in 2013. Our group operation has remained solid in the year of 2014. Our order backlog has remained strong and we have maintained a strong competitive edge in the high end segment of the market. On the other hand, we have successfully diversified our customer base by penetrating into several U.S. companies. We expect the trend will continue and our business will remain relatively strong for the year of 2015.

Gross profit was HK$103 million, compare to HK$91 million in 2013, an increase of 13%. The challenges in PRC remain a main cost issue. The higher labor cost and raw material cost in PRC is hurting our profit margin. In order to offset the cost increase, we enhance our automated production process, optimize our production planning and improve our efficiency. These measures are proven to be effective to offset the cost increase in PRC and we maintain a relatively stable margin throughout the year. Gross margin in 2014 was 34%, compare to 32% in 2013.

Our net profit in the year of 2014 dropped 2.1% to HK$32.6 million, comparing to HK$33.3 million for the year of 2013. The main reason for the drop is caused by net exchange loss of approximately HK$6.8 million of which was mainly contributed by the depreciation of Renminbi. The net exchange loss does not reflect our underlying operation. Excluding the effect of exchange rate and interest income, our operating profit reached HK$29 million, compare to HK$19 million in 2013, an increase of 53%. We are optimistic that our business has remained stable and we are expecting our business will steadily grow in the year of 2015.

Datronix remains healthy financial position with cash balance of HK$464 million and there is no issuance on debt for year 2014.

MARKET REVIEW

Communication and Networking

Communication segment contributed HK$87 million of sales for year 2014, compared to HK$76 million, an increase of 14% versus the previous year. This segment contributed 29% of the Group's total turnover. The communication and networking customers end demand has rebound from a slowdown in 2013.

Data Processing

Data processing segment contributed 6% of the Group's turnover. Sales for this segment were HK$18 million in 2014, compare to HK$21 million in 2013. The Group focused on higher margin generated segments other than the Data Processing segment.

Industrial Application

Industrial application segment sales reached to HK$113 million in 2014, an increase of 10% compared to HK$102 million in 2013. As the continuous growth of major customers, and the improve penetration of customers from the acquired company, performance in this segment has performed well. This segment contributed 37% of the Group's total turnover.

CHAIRMAN'S STATEMENT

High Reliability Segment

This segment demands precise technology, advance technical know-how and good workmanship by the Group. While the healthcare segment and high reliability products showed a rebound and improved our sales in 2013, sales for this segment were HK$84 million in 2014, compare to HK$85 million in 2013. This segment contributed 28% of our total sales.

ACHIEVEMENT AND AWARDS

In recognition of the quality, value of our products and of the Group's service and performance, the Group has to date received 40 awards. The newly received awards from customers included the "SUPPLIER OF THE YEAR" by Physio-Control, Inc. and "PREFERRED SUPPLIER AWARD" by Lutron Electronics Co., Inc..

LOOKING FORWARD

Since the economy in the United States is gradually improving, we expect the sales order will remain relatively strong in this year. In order to satisfy customer demand and improve our lead time, we increase our capacity by investing in automated production process, enhancing manufacturing technique and hiring more labor. Moreover, we continued to strengthen our capabilities and position us even better to take advantage of the opportunities in our markets. We are confident and optimistic as to what lies ahead.

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

By order of the Board

SIU Paul Y.
Chairman

Hong Kong, 27 March 2015

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

The Group delivered a stable earnings result for year ended 2014. Turnover was HK$302 million as at 31 December 2014 (2013: HK$284 million).

Gross profit in 31 December 2014 was HK$103 million with gross margin representing 34%, compared to HK$91 million with gross margin representing 32% for the same period last year. Profit recorded HK$32.6 million and HK$33.3 million for the year ended 2014 and 2013 respectively. Net profit margin was 11% in 31 December 2014, compared to 12% in 31 December 2013.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2014, the Group had a total equity of approximately HK$723 million (2013: HK$697 million), and cash and cash equivalents of approximately HK$464 million (2013: HK$429 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2014, 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 2014.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2014, the Group employed approximately 1,195 personnel around the world, with approximately 124 in Hong Kong, 1,006 in the PRC and 65 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 2014 (2013: 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 (2013: Nil).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Siu Paul Y., aged 74, 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 69, 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 66, 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 38, 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 74, 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 74, was appointed as an Independent Non-executive Director of the Company in September 2004. Mr. Chan is also a chairman of the Nomination Committee and a member of each of the Remuneration Committee and Audit Committee of the Company. Mr. Chan is a member of The Hong Kong Institute of Directors. Mr. Chan has over 20 years of experience in Hong Kong stock market and manufacturing industry. He was exposed to the trading and finance field during his early years in Japan. He is a director of a paint manufacturing company in Bangkok, Thailand.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Kit Wah, aged 60, 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. Bradley D. Turner, aged 58, is the Vice President and General Manager of all U.S.A. based operations for the Group. Prior to joining the company in 2013, Mr. Turner served as President for BI Technologies Components, and has over 33 years' experience of operations management, sales, and engineering of magnetic and other passive electronic components. Mr. Turner holds a BS from Azusa Pacific University, an Master Degree in Business Administration from California State Polytechnic University, and several US patents for electronic component design and manufacturing.

Mr. Patrick Julienne, aged 60, 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 65, 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 66, 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 36 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.

REPORT OF THE DIRECTORS

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 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 19 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	21%	
Five largest customers in aggregate	66%	
The largest supplier		13%
Five largest suppliers in aggregate		33%

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 32.

The state of affairs of the Group and the Company as at 31 December 2014 are set out in the consolidated statement of financial position on page 33 and the statement of financial position on page 34 respectively.

The directors recommend the payment of a final dividend of HK$0.025 (2013: HK$0.025) per share, totalling HK$8,000,000 (2013: HK$8,000,000) for the year ended 31 December 2014.

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 2010, 2011, 2012, 2013 and 2014 is set out on page 87.

PROPERTY, PLANT AND EQUIPMENT

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

REPORT OF THE DIRECTORS

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2014 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 35 and 76, 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

Independent Non-executive Directors
Mr. Chung Pui Lam
Mr. Chan Fai Yue, Leo
Mr. Lee Kit Wah

In accordance with Bye-laws 87(1) of the Company's Articles of Association, Ms. Siu Nina Margaret and Mr. Lee Kit Wah 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.

REPORT OF THE DIRECTORS

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 2014, the Directors had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO:

a) The Company

	Ordinary shares of HK$0.1 each			
	Personal interests	Family interests	Corporate interests	Total
Mr. Siu Paul Y.	–	–	230,632,000 *(Note 1)*	230,632,000

b) Associated corporation

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

Notes:

1. These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. and Ms. Shui Wai Mei beneficially own 90% and 10% of its issued share capital respectively, representing 72.07% 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 2014, 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.

REPORT OF THE DIRECTORS

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 2014, 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 6th Datatronic Master Supply Agreement on 3 September 2013 ("the 6th Datatronic Master Supply Agreement") which superseded the 5th Master Supply Agreement dated 28 September 2010 in respect of the supply of magnetics to DRI by DL.

CONNECTED TRANSACTIONS (Continued)

The 6th Datatronic Master Supply Agreement for a fixed term of three years from 1 January 2014 and on effectively the same terms and conditions of the Master Supply Agreement, 2nd Master Supply Agreement, 3rd Master Supply Agreement, 4th Master Supply Agreement and 5th Master Supply Agreement, was entered into on 3 September 2014 superseding the 5th Master Supply Agreement until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the 6th Datatronic Master Supply Agreement, the selling prices of the magnetics under the Datatronic Master Supply Agreement 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 profits margin for its sales in accordance with the prevailing market conditions, on normal commercial terms and at arm's length basis. DL would ascertain the prevailing market conditions by comparing the sales prices of the other customers of DL (the "Other Price") and those of similar products in the market in general (the "Market Price"). Benchmark on reasonable profits margin is set. DL would closely monitor the sales activities of its customers and would get research reports on its major customers who are listed companies in the US from time to time so as to ascertain the prevailing market conditions. DL will take into account all the factors stated above which include the Other Price and the Market Price and make sure that the profit margin obtained is no less favorable to the Group when compared with the Other price and the Market Price. The Group is granted a first refusal right by DRI to the effect that only if DL declines to supply the magnetics, DRI may source the same from any third-party supplier, provided that the terms of purchase shall not be more favourable than those offered to DL. The total purchases made by DRI under Datatronic Master Supply Agreement during the year ended 31 December 2014 was approximately HK$63,120,000 (2013: HK$64,709,000).

Innovative Power Inc. ("IPI"), a wholly owned subsidiary of the Company, and DRI entered into a IPI Master Supply Agreement on 3 September 2013 ("the IPI Master Supply Agreement") in respect of the supply of telemetric coil and perfect layered wounds coils and provide technological services to DRI by IPI.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

The IPI Master Supply Agreement is for an initial term of three years from 1 January 2014 and shall continue thereafter until terminated by either party giving the other party not less than three months' written notice. Any continuation after the initial term shall also be subjected to Independent Shareholders' approval. Pursuant to IPI Master Supply Agreement, IPI has agreed to sell products and/or to provide technological services to DRI for a three years term up to 31 December 2016 and subject to the terms and condition set out therein at a price to be agreed by the parties. IPI will determine the price of the products required by DRI according to its pricing policy of obtaining a reasonable profits margin for its sales in accordance with the prevailing market conditions, on normal commercial terms and at arm's length basis. IPI would ascertain the prevailing market conditions by comparing the Other Price and Market Price. Benchmark on reasonable profits margin is set. IPI would closely monitor the sales activities of its customers and would get research reports on its major customers who are listed companies in the US from time to time so as to ascertain the prevailing market conditions. IPI will take into account all the factors stated above, namely the Other Price and the Market Price and make sure that the profit margin obtained is no less favorable to the Group when compared with the Other price and the Market Price. In relation to the technological service fee, IPI would determine the same by reference to the actual time spent by the in-house expertise and the degree of complication of the services rendered. IPI would determine the service fee by reference to fees charged by IPI for similar services and by reference to the fee charged by other companies providing service in similar nature. Under the IPI Master Supply Agreement, IPI is granted a first refusal right by DRI to the effect that only if the IPI declines to supply the magnetics, DRI may source the same from any third-party supplier, provided that the terms of purchase shall not be more favourable than those offered to IPI. The total purchases made by DRI under IPI Master Supply Agreement during the year ended 31 December 2014 was approximately HK$213,000 (2013: Nil).

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

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

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on page 19 to 26 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, 27 March 2015

CORPORATE GOVERNANCE REPORT

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

Director	Number of attendance
Mr. Siu Paul Y.	4/4
Ms. Shui Wai Mei	4/4
Mr. Sheung Shing Fai	4/4
Ms. Siu Nina Margaret	4/4
Mr. Chung Pui Lam	4/4
Mr. Chan Fai Yue, Leo	4/4
Mr. Lee Kit Wah	4/4

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.

CORPORATE GOVERNANCE REPORT

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

REMUNERATION COMMITTEE

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

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

Director	Number of attendance
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 2014, the directors have adopted suitable accounting polices which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

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

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

During the meetings held in 2014, 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 2013 (the "2013 Financial Statements") and discussed with the external auditors on any findings in relation to the 2013 Financial Statements and audit issues;

2. reviewed the interim results for the six months ended 30 June 2014;

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

NOMINATION COMMITTEE

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

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

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

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

The Nomination Committee had reviewed the structure, size and the composition of the Board in consideration of re-election of retiring Directors in 2014 Annual General Meeting and reviewed the Board Diversity Policy of the Company during the year.

NOMINATION COMMITTEE (Continued)

Board Diversity Policy

During the year under review the Board, the Board reviewed a board diversity policy. All Board appointments will continue to be made on meritocracy and selection of candidate will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The nomination committee will review the board diversity policy, as appropriate, to ensure its continued effectiveness from time to time.

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:

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	710

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.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

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 2014 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 2014.

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.

SHAREHOLDERS RIGHTS (Continued)

Procedures for raising enquires

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

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

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

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 OF ANNUAL GENERAL 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, 3 June 2015 at 2:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December, 2014 and the Reports of the Directors and Auditors thereon.

2. To declare a final dividend.

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

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

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

A. "**THAT**

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

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

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

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

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

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

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

B. "**THAT**

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

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

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

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

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

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

NOTICE OF ANNUAL 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 2015

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 registrar of the Company in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, 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, 1 June 2015 to Wednesday, 3 June 2015, 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, 29 May 2015.

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 Wednesday, 10 June 2015 to Thursday, 11 June 2015, 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 Tuesday, 9 June 2015. The cheques for dividend payment will be sent on about Thursday, 25 June 2015.

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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 32 to 85, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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.

INDEPENDENT AUDITOR'S REPORT

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 2014 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, 27 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	7	301,593	284,038
Cost of sales		(198,858)	(193,042)
Gross profit		102,735	90,996
Other revenue and gain	7	11,154	15,671
Distribution and selling expenses		(17,463)	(19,232)
Administrative expenses		(60,752)	(51,091)
Profit before income tax expense	8	35,674	36,344
Income tax expense	10		
Current tax – tax for the year		(4,328)	(4,230)
– over provision in respect of prior years		1,294	1,248
Deferred taxation		(2)	(21)
		(3,036)	(3,003)
Profit for the year and attributable to owners of the Company	11	32,638	33,341
Other comprehensive income, net of tax	12		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(1,486)	1,035
Item that will not be reclassified to profit or loss:			
Surplus on revaluation of leasehold land and buildings held for own use		9,606	13,267
Other comprehensive income for the year and attributable to owners of the Company, net of tax		8,120	14,302
Total comprehensive income for the year and attributable to owners of the Company		40,758	47,643
Earnings per share			
– Basic and diluted	13	HK$0.102	HK$0.104

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	15	197,032	189,521
Payment for leasehold land held for own use under operating leases	16	4,082	4,310
Goodwill	17	9,486	9,486
		210,600	203,317
Current assets			
Inventories	20	79,265	87,839
Trade receivables	22	29,248	34,513
Prepayments, deposits and other receivables		2,835	3,984
Amount due from ultimate holding company	21	57	51
Amounts due from related companies	21	119	94
Tax prepayment		1,007	1,348
Cash and cash equivalents		463,808	429,460
		576,339	557,289
Current liabilities			
Trade and other payables	23	16,032	17,655
Current tax liabilities		1,638	1,436
		17,670	19,091
Net current assets		558,669	538,198
Total assets less current liabilities		769,269	741,515
Non-current liabilities			
Employee benefits	24	19,526	19,482
Deferred tax liabilities	25	26,473	25,121
		45,999	44,603
NET ASSETS		723,270	696,912
Capital and reserves			
Issued capital	26	32,000	32,000
Reserves		691,270	664,912
TOTAL EQUITY		723,270	696,912

On behalf of the Board

Siu Paul Y.
Director

Shui Wai Mei
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Interests in subsidiaries	19	113,606	113,606
		113,606	113,606
Current assets			
Prepayments, deposits and other receivables		104	103
Cash and cash equivalents		160	266
		264	369
Current liabilities			
Amounts due to subsidiaries	19	13,693	16,343
Trade and other payables	23	101	125
		13,794	16,468
Net current liabilities		(13,530)	(16,099)
NET ASSETS		100,076	97,507
Capital and reserves			
Issued capital	26	32,000	32,000
Reserves	27	68,076	65,507
TOTAL EQUITY		100,076	97,507

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 2014

	Equity attributable to owners of the Company						
	Issued capital (note 26) HK$'000	Share premium (note 27(c)(i)) HK$'000	Capital reserve (note 27(c)(ii)) HK$'000	Property revaluation reserve (note 27(c)(iii)) HK$'000	Exchange reserve (note 27(c)(iv)) HK$'000	Retained earnings (note 27(c)(vi)) HK$'000	Total HK$'000
At 1 January 2013	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)
At 31 December 2013 and 1 January 2014	32,000	57,099	(23,724)	141,666	15,491	474,380	696,912
Profit for the year	–	–	–	–	–	32,638	32,638
Other comprehensive income for the year (note 12)	–	–	–	–	–	–	–
Exchange differences on translating foreign operations	–	–	–	–	(1,486)	–	(1,486)
Surplus on revaluation of leasehold land and buildings held for own use	–	–	–	9,606	–	–	9,606
Total comprehensive income for the year	–	–	–	9,606	(1,486)	32,638	40,758
Dividends paid (note 27(b))	–	–	–	–	–	(14,400)	(14,400)
At 31 December 2014	32,000	57,099	(23,724)	151,272	14,005	492,618	723,270

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Cash flows from operating activities		
Profit before income tax expense	35,674	36,344
Adjustments for:		
Interest income	(10,447)	(7,988)
Depreciation of property, plant and equipment	5,637	6,838
(Gain)/loss on disposal of property, plant and equipment, net	(185)	69
Amortisation of payment for leasehold land held for own use under operating leases	122	122
Provision/(reversal of provision) for impairment loss on trade receivables	86	(14)
Provision for impairment loss of inventories	5,333	141
Operating profit before working capital changes	36,220	35,512
Decrease/(increase) in inventories	3,241	(3,692)
Decrease/(increase) in trade receivables	5,179	(5,259)
Decrease/(increase) in prepayments, deposits and other receivables	1,281	(1,414)
Increase in amount due from ultimate holding company	(6)	(6)
Increase in amounts due from related companies	(25)	(69)
Decrease in trade and other payables	(1,623)	(245)
Increase in employee benefits	437	888
CASH GENERATED FROM OPERATIONS	44,704	25,715
Income tax (paid)/refund	(2,475)	1,156
Net cash from operating activities	42,229	26,871
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,159)	(2,533)
Proceeds from disposal of property, plant and equipment	590	–
Interest received	10,315	7,300
Net cash generated from investing activities	7,746	4,767
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(14,400)	(7,680)
Net cash used in financing activities	(14,400)	(7,680)
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,575	23,958
Cash and cash equivalents at beginning of year	429,460	404,539
Effect of foreign exchange rate changes on cash and cash equivalents	(1,227)	963
CASH AND CASH EQUIVALENTS AT THE END OF YEAR represented by bank balances and cash	463,808	429,460

Note:

Bank balances and cash included an amount of HK$326,852,000 (2013: HK$325,547,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets

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

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. The amendments are applied retrospectively.

The adoption of the amendments has no impact on these financial statements as the Group does not have any offsetting arrangements.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2014 (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. The amendments are applied retrospectively.

The adoption of the amendments has no impact on these financial statements as the Group does not have any impairment on tangible and intangible assets.

(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[2]
HKFRSs (Amendments)	Annual Improvements to 2011-2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to 2012-2014 Cycle[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
HKFRS 9 (2014)	Financial Instruments[5]
HKFRS 15	Revenue from Contracts with Customers[4]
Amendments to HKAS 1	Presentation of Financial Statements[3]

1 Effective for annual periods beginning on or after 1 July 2014.

2 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014.

3 Effective for annual periods beginning on or after 1 January 2016.

4 Effective for annual periods beginning on or after 1 January 2017.

5 Effective for annual periods beginning on or after 1 January 2018.

Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. They include amendments to HKAS 16 Property, Plant and Equipment 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.

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 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

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

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

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the 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 1 – Presentation of Financial Statements

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

(c) New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap. 622, in relation to the preparation of financial statements will apply to the Company in its first financial year beginning on or after 3 March 2014 (i.e. the financial year ending 31 December 2015).

The directors consider that there will be no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. The Statement of Financial Position of the Company will be presented in the notes rather than a separate statement and the related notes need not be included, while generally the statutory disclosures will be simplified.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill (Continued)

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.

(e) Property, plant and equipment

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

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%

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

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

(f) Revenue recognition

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Instruments (Continued)

(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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Instruments (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income taxes (Continued)

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 (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.

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 exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Related parties

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

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

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

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

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 judgments, 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.

(ii) 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, judgment 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.

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

(b) Key sources of estimation uncertainty

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

(i) Useful lives of property, plant and equipment

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

(ii) Impairment of goodwill

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

(iii) Estimated net realisable value of inventories

The Group's management writes down for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Inventory will be written down where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and revision on the amount of inventories written down in the period in which such estimate has been changed. The Group recognised impairment loss of inventory of approximately HK$5,333,000 for the year (2013: HK$141,000).

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.

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 and consider 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**	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Hong Kong (place of domicile)	905	1,718	174,960	167,761
The PRC	34,446	14,629	25,321	24,933
The US	250,189	241,083	10,310	10,614
Europe	9,594	10,551	9	9
Other countries	6,459	16,057	–	–
	300,688	282,320	35,640	35,556
	301,593	284,038	210,600	203,317

(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:

	2014 HK$'000	2013 HK$'000
Customer A	63,333	64,709
Customer B	63,224	55,346
Customer C	49,549	47,630
	176,106	167,685

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. TURNOVER AND OTHER REVENUE

(a) Turnover

Turnover represents the net invoiced value of goods sold.

(b) Other revenue and gain

	2014 HK$'000	2013 HK$'000
Bank interest income	10,447	7,988
Exchange gain,net	–	6,789
Income from disposal of scrap materials	374	538
Reversal of provision for impairment loss on trade receivables (note 22)	–	14
Gain on disposal of property, plant and equipment, net	185	–
Sundry income	148	342
	11,154	15,671

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	2014 HK$'000	2013 HK$'000
Carrying amount of inventories sold	193,525	192,901
Provision for impairment loss of inventories	5,333	141
Cost of inventories recognised as expenses	198,858	193,042
Amortisation of payment for leasehold land held for own use under operating leases (note 16)	122	122
Auditor's remuneration	733	748
Depreciation of property, plant and equipment (note 15)	5,637	6,838
Exchange loss/(gain),net	6,817	(6,789)
(Gain)/loss on disposal of property, plant and equipment, net	(185)	69
Provision/(reversal of provision) for impairment loss on trade receivables	86	(14)
Research and development expenditure	5,995	6,187

9. STAFF COSTS

	2014 HK$'000	2013 HK$'000
Staff costs (including directors' remuneration) comprise:		
Wages and salaries	95,966	100,091
Contributions to defined contribution retirement plan	5,449	5,577
	101,415	105,668

The staff costs included the amount of HK$5,413,000(2013: HK$5,592,000) which is classified as research and development expenditure.

10. INCOME TAX EXPENSE

	2014 HK$'000	2013 HK$'000
Current tax – Hong Kong		
– Profits tax for the year	2,588	3,044
– under/(over) provision in respect of prior years	337	(27)
	2,925	3,017
Current tax – overseas		
– Profits tax for the year	1,740	1,186
– over provision in respect of prior years	(1,631)	(1,221)
	109	(35)
Deferred taxation (note 25)	2	21
	3,036	3,003

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2013: 25%).

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

10. INCOME TAX EXPENSE (Continued)

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:

	2014 HK$'000	2013 HK$'000
Profit before income tax expense	35,624	36,344
Effect of tax at Hong Kong profits tax rate of 16.5% (2013: 16.5%)	5,869	5,997
Effect of different tax rates of subsidiaries operating in other jurisdictions	762	883
Tax effect of revenue not taxable for tax purposes	(4,735)	(3,703)
Tax effect of unused tax losses	366	680
Utilisation of tax losses previously not recognised	(164)	–
Tax effect of expenses not deductible for tax purposes	2,231	394
Over provision in prior years	(1,293)	(1,248)
Income tax expense	3,036	3,003

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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to shareholders includes a loss of approximately HK$1,031,000 (2013: loss of approximately HK$1,122,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit and total comprehensive income for the year:

	2014 HK$'000	2013 HK$'000
Loss which has been dealt with in the Company's financial statements	(1,031)	(1,122)
Dividend received from a subsidiary	18,000	9,400
Company's profit and total comprehensive income for the year	16,969	8,278

12. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2014			2013		
	Before-tax amount	Tax expense (note 25)	Net-of-tax amount	Before-tax amount	Tax expense (note 25)	Net-of-tax amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Exchange differences on translating foreign operations	(1,486)	–	(1,486)	1,035	–	1,035
Surplus on revaluation of leasehold land and buildings held for own use	10,956	(1,350)	9,606	15,527	(2,260)	13,267
	9,470	(1,350)	8,120	16,562	(2,260)	14,302

13. EARNINGS PER SHARE

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

	2014 HK$'000	2013 HK$'000
Profit attributable to owners of the Company	32,638	33,341

	Number of shares	
	2014	2013
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS

(a) Details of Directors' remuneration are set out below:

	Year ended 31 December 2014			
	Fees HK$'000	Basic salaries, allowance and other benefits HK$'000	Contributions to defined contribution retirement plan HK$'000	Total HK$'000
Executive directors				
Siu Paul Y. *(Chairman)*	–	7,690	–	7,690
Shui Wai Mei	–	650	–	650
Sheung Shing Fai	–	1,650	–	1,650
Siu Nina Margaret	–	1,490	17	1,507
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Chan Fai Yue, Leo	125	–	–	125
Lee Kit Wah	125	–	–	125
	375	11,480	17	11,872

	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
Executive directors				
Siu Paul Y. *(Chairman)*	–	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
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Chan Fai Yue, Leo	125	–	–	125
Lee Kit Wah	125	–	–	125
	375	10,816	27	11,218

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS (Continued)

(a) Details of Directors' remuneration are set out below: (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 2014 (2013: Nil).

As at 31 December 2014, 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 (2013: four) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining one (2013: one) individual were as follows:

	2014 HK$'000	2013 HK$'000
Salaries and other benefits	595	584
Contributions to defined contribution retirement plan	17	15
	612	599

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	
	2014	2013
Nil to HK$1,000,000	4	5
HK$1,000,001 to HK$2,000,000	2	–
	6	5

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings held for own use HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1 January 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 and 1 January 2014	182,290	30,510	28,232	5,869	246,901
Additions	–	2,355	430	374	3,159
Disposals	–	(344)	(1,217)	–	(1,561)
Surplus on revaluation	8,203	–	–	–	8,203
Exchange adjustment	(493)	(43)	(83)	(503)	(1,122)
At 31 December 2014	190,000	32,478	27,362	5,740	255,580
Accumulated depreciation					
At 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 and 1 January 2014	–	28,232	23,350	5,798	57,380
Charge for the year	2,753	1,684	1,130	70	5,637
Disposals	–	(286)	(870)	–	(1,156)
Written back on revaluation	(2,753)	–	–	–	(2,753)
Exchange adjustment	–	(40)	(32)	(488)	(560)
At 31 December 2014	–	29,590	23,578	5,380	58,548
Carrying amount					
At 31 December 2014	190,000	2,888	3,784	360	197,032
At 31 December 2013	182,290	2,278	4,882	71	189,521

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold land and buildings held for own use	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Representing:					
2014					
At cost	–	32,478	27,362	5,740	65,580
At valuation	190,000	–	–	–	190,000
	190,000	32,478	27,362	5,740	255,580
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

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

	2014	2013
	HK$'000	HK$'000
Hong Kong	169,500	162,580
The PRC	20,500	19,710
	190,000	182,290

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 2014 (2013: 31 December 2013) 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 2013 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following table analyses the leasehold land and buildings by valuation method.

Fair value hierarchy

Description	Fair value measurements at 31 December 2014 using significant unobservable inputs (Level 3)	Fair value measurements at 31 December 2013 using significant unobservable inputs (Level 3)
	HK$'000	HK$'000
Recurring fair value measurements		
Property, plant and equipment:		
Leasehold land and buildings in Hong Kong	169,500	162,580
Buildings in PRC	20,500	19,710
	190,000	182,290

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.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings in PRC	Leasehold land and buildings in Hong Kong	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2013	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
At 31 December 2013 and 1 January 2014	19,710	162,580	182,290
Depreciation charge on revaluation of properties held for own use	(614)	(2,139)	(2,753)
Unrealised gains included in other comprehensive income	1,897	9,059	10,956
Exchange adjustment	(493)	–	(493)
At 31 December 2014	20,500	169,500	190,000

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

For buildings in PRC, the valuation was determined using depreciated replacement cost approach. The fair value of buildings is based on estimation of new replacement cost of the buildings and other site works of 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.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Description	Fair value at 31 December 2014 (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	169,500 (2013: HK$162,580)	Market comparison approach	Price per square feet ("sq.ft"), using market direct comparables and adjusted to reflect the time of transaction, location, size, level and age of property, site view and building quality.	HK$6,512/sq.ft – HK$8,082/sq.ft (HK$7,300/sq.ft) (2013: 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.
Buildings in PRC	20,500 (2013: HK$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$1,875/sq.m (2013: 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 into account of remaining useful life of buildings.	29% (2013: 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 2014 would have been approximately HK$20,480,000 (2013: HK$21,781,000).

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

	2014 HK$'000	2013 HK$'000
At 1 January	4,310	4,378
Amortisation for the year	(122)	(122)
Exchange adjustment	(106)	54
At 31 December	4,082	4,310

	2014 HK$'000	2013 HK$'000
Leases of between 10 to 50 years, held in:		
The PRC	4,082	4,310

17. GOODWILL

	2014 HK$'000	2013 HK$'000
Cost		
At 1 January and 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% (2013: 0%), which does not exceed the long-term growth rate for the magnetic component production industry.

	2014	2013
Pre-tax discount rate	16%	16%
Operating margin within the five-year period	12% – 16%	13% – 17%
Growth rate within the five-year period	0% – 5%	0% – 5%
Wage inflation	6%	5%

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

19. INTERESTS IN SUBSIDIARIES

	Company	
	2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	113,606	113,606
Amounts due to subsidiaries	13,693	16,343

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

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

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

19. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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

20. INVENTORIES

	2014 HK$'000	2013 HK$'000
Raw materials	49,265	51,269
Work-in-progress	5,923	4,054
Finished goods	24,077	32,516
	79,265	87,839

The Group's inventories with carrying amount of approximately HK$9,077,000 (2013: HK$10,214,000) was stated at net realisable value.

21. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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:

	2014 HK$'000	2013 HK$'000
Within 30 days	18,593	24,035
31 to 60 days	7,888	7,225
61 to 90 days	2,379	2,555
Over 90 days	757	981
	29,617	34,796
Less: Allowance for doubtful debts	(369)	(283)
	29,248	34,513

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

	2014 HK$'000	2013 HK$'000
At 1 January	283	297
Additional impairment loss recognized	86	–
Recovery of impairment loss previously recognised	–	(14)
At 31 December	369	283

22. TRADE RECEIVABLES (Continued)

(c) Trade receivables (net of impairment losses) which are past due but not impaired as follows:

	2014 HK$'000	2013 HK$'000
Less than 1 month past due	6,287	4,582
1 to 3 months past due	1,637	1,584
Total amounts past due but not impaired	7,924	6,166
Current	21,324	28,347
	29,248	34,513

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

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

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Trade payables	11,770	11,755	–	–
Other payables and accruals	4,262	5,900	101	125
	16,032	17,655	101	125

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

23. TRADE AND OTHER PAYABLES

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

	Group	
	2014 HK$'000	2013 HK$'000
Within 30 days	5,537	5,107
31 to 60 days	3,950	4,105
61 to 90 days	1,621	2,077
Over 90 days	662	466
	11,770	11,755

24. EMPLOYEE BENEFITS

Details of the employee benefits and movements thereof:

	Provision for long service payments	
	2014 HK$'000	2013 HK$'000
At the beginning of the year	19,482	18,397
Exchange adjustments	(393)	197
Add: Additional provision made	2,086	3,360
Less: Reversal of provision	(1,649)	(2,472)
At the end of the year	19,526	19,482
Categorised as:		
Due after more than one year	19,526	19,482

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 was terminated.

25. DEFERRED TAX

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

	Revaluation of leasehold land and buildings for own use	Depreciation allowances in excess of the related depreciation	Total
	HK$'000	HK$'000	HK$'000
At 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
At 31 December 2013 and 1 January 2014	25,121	–	25,121
Debit to profit or loss (note 10)	–	2	2
Debit to other comprehensive income (note 12)	1,350	–	1,350
At 31 December 2014	26,471	2	26,473

The Group has not recognised deferred tax assets in respect of tax losses of approximately HK$23,628,000 during the year (2013: HK$21,293,000) 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$10,127,000 (2013: HK$7,538,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

26. ISSUED CAPITAL

	Group and Company	
	2014	2013
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
320,000,000 ordinary shares of HK$0.1 each	32,000	32,000

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

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

27. RESERVES

(a) Company

	Share premium (note (c)(i)) HK$'000	Contributed surplus (note (c)(v)) HK$'000	Accumulated losses (note (c)(vi)) HK$'000	Total HK$'000
At 1 January 2013	57,099	89,606	(81,796)	64,909
Changes in equity for 2013:				
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 and 1 January 2014	57,099	89,606	(81,198)	65,507
Changes in equity for 2014:				
Dividends paid (note b(i))	–	–	(14,400)	(14,400)
Profit and total comprehensive income for the year	–	–	16,969	16,969
At 31 December 2014	57,099	89,606	(78,629)	68,076

(b) Dividends

(i) Dividends paid during the year:

	2014 HK$'000	2013 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.025 (2013: HK$0.014) per ordinary share	8,000	4,480
Interim, declared and paid, of HK$0.02 (2013: HK$0.01) per ordinary share	6,400	3,200
	14,400	7,680

27. RESERVES (Continued)

(b) Dividends (Continued)

(ii) Dividend proposed during the year:

	2014 HK$'000	2013 HK$'000
Final, proposed, of HK$0.025 (2013: HK$0.025) per ordinary share	8,000	8,000

The final dividend for 2014 proposed after the end of the reporting period is subject to shareholders' approval in the forthcoming general meeting. It has not been recognised as a liability at the end of the reporting period.

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

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

(iii) Property revaluation reserve

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

(iv) Exchange reserve

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

(v) Contributed surplus

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

27. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(vi) Retained earnings/accumulated losses

Cumulative net gains and losses recognised in profit or loss.

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

28. RELATED PARTY TRANSACTIONS

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

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

	2014 HK$'000	2013 HK$'000
Datatronics Romoland, Inc. ("DRI") #		
Sales to DRI	63,333	64,709
Reimbursement of expenses to DRI	11,228	11,295

\# 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:

	2014 HK$'000	2013 HK$'000
Year-end balance included in trade receivables arising from sales of goods to DRI	1,153	3,940
Year-end balance arising from advanced payment due from related companies:		
–Data Express Limited*	48	34
–Citicheer Enterprise Inc**	71	60

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014 was amounted to HK$48,000 (2013: HK$34,000).

** 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 2014 was amounted to HK$71,000(2013: HK$60,000).

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

	2014 HK$'000	2013 HK$'000
Short-term employee benefits	11,480	10,816
Post-employment benefits	17	27
	11,497	10,843

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 4 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:

	2014 HK$'000	2013 HK$'000
Minimum leases payments	189	729

The total future minimum lease payments are due as follows:

	2014 HK$'000	2013 HK$'000
Within one year	189	727
In the second to the fifth year	149	224
	338	951

30. CAPITAL COMMITMENTS

There is no capital commitment as at 31 December 2014 (2013:Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014, 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 16% (2013: 11%) and 51% (2013: 49%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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:

	2014 HK$'000	2013 HK$'000
Trade and other payables	16,032	17,655

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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:

	2014		2013	
	Effective interest rate %	One year or less HK$'000	Effective interest rate %	One year or less HK$'000
Cash and cash equivalents	2.25%	463,808	1.86%	429,460

(ii) Sensitivity analysis

At 31 December 2014, 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$1,391,000 (2013: HK$1,288,000). Other components of consolidated equity would not be affected (2013: HK$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 2013.

(iv) Currency risk

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

(i) Exposure to currency risk

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

31. FINANCIAL RISK MANAGEMENT (Continued)

(iv) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

	2014			
	United States dollars HK$'000	Renminbi HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	110,858	291,014	756	2,623
Trade and other receivables	11,669	–	6	–
Trade and other payables	(5,513)	(78)	–	–
Overall exposure arising from recognised assets and liabilities	117,014	290,936	762	2,623

	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

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.

	2014		2013	
	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%	210	8%	136
	(8%)	(210)	(8%)	(136)
Renminbi	3%	8,731	3%	8,695
	(3%)	(8,731)	(3%)	(8,695)

Other components of consolidated equity would not be affected (2013: 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 2013.

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

31. FINANCIAL RISK MANAGEMENT (Continued)

(v) Fair values

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

32. CAPITAL RISK MANAGEMENT

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

33. 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)(i) and 4(i)(iii):

	Carrying amount and fair value	
	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables		
– Cash and cash equivalents	463,808	429,460
– Trade receivables	29,248	34,513
– Deposits and other receivables	1,050	1,621
– Amount due from ultimate holding company	57	51
– Amounts due from related companies	119	94
	494,282	465,739
Financial liabilities		
Financial liabilities measured at amortised cost		
– Trade and other payables	16,032	17,655

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.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2015.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2014

The consolidated statement of comprehensive income of the Group for the financial years 2010 to 2014 and the consolidated statements of financial position of the Group as at 31 December 2010, 2011, 2012, 2013 and 2014 are as follows:

	Year ended 31 December				
Results	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000
Turnover	300,255	263,353	262,606	284,038	301,593
Profit before taxation	72,119	48,821	33,319	36,344	35,674
Income tax	(11,198)	(4,521)	(214)	(3,003)	(3,036)
Profit for the year	60,921	44,309	33,105	33,341	32,638
Attributable to:					
Owners of the Company	60,921	44,309	33,105	33,341	32,638

	At 31 December				
Assets and liabilities	2010 HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000
Total assets	614,011	652,455	717,209	760,606	786,939
Total liabilities	(63,994)	(52,709)	(60,260)	(63,694)	(63,669)
Total equity	550,017	599,746	656,949	696,912	723,270

Major land held by the Group

Location	**Existing use**	**Term of lease**	**Percentage of interest**
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%