DATRONIX HOLDINGS LIMITED
連達科技控股有限公司*

(Stock Code: 889)

Annual Report
2017

* For identification purposes only

A W A R D S

ASTRONICS
"Best Value Added"

ASTRONICS
"Customer Intimacy Strategy"

MEDTRONIC
"Outstanding Performance"

PHYSIO CONTROL
"Supplier of the Year"

LUTRON
"Preferred Supplier"

LUTRON
"Customer Service"

DATAFORTH
"Vendor of the Year"

LUTRON
"Outstanding New Supplier"

A W A R D S

XICOM
"Outstanding Performance"

MICRO SYSTEMS ENGINEERING
"Special Recognition Award"

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)

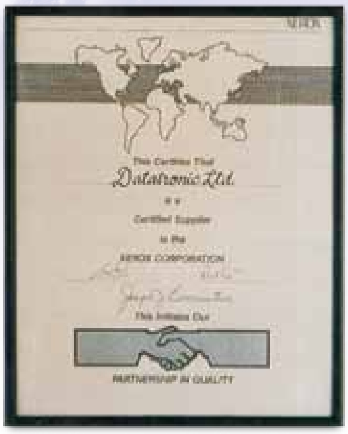
Preferred supplier
Primex Aerospace

Digital Equipment corp

Xerox

United Technologies

A W A R D S



Xerox

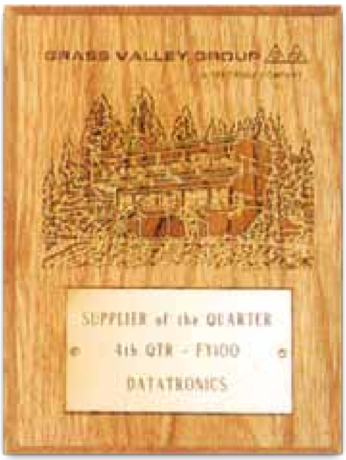
Xerox

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

CHUNG Pui Lam
LEE Kit Wah
WONG Wah Sang, Derek

AUDIT COMMITTEE

LEE Kit Wah
CHUNG Pui Lam
WONG Wah Sang, Derek

REMUNERATION COMMITTEE

CHUNG Pui Lam
LEE Kit Wah
WONG Wah Sang, Derek
SIU Paul Y.

NOMINATION COMMITTEE

CHUNG Pui Lam
LEE Kit Wah
WONG Wah Sang, Derek
SHEUNG Shing Fai

QUALIFIED ACCOUNTANT

MOK Sim Wa

COMPANY SECRETARY

LEUNG Sau Fong

AUTHORISED REPRESENTATIVES

SIU Paul Y.
SHEUNG Shing Fai

AUDITOR

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

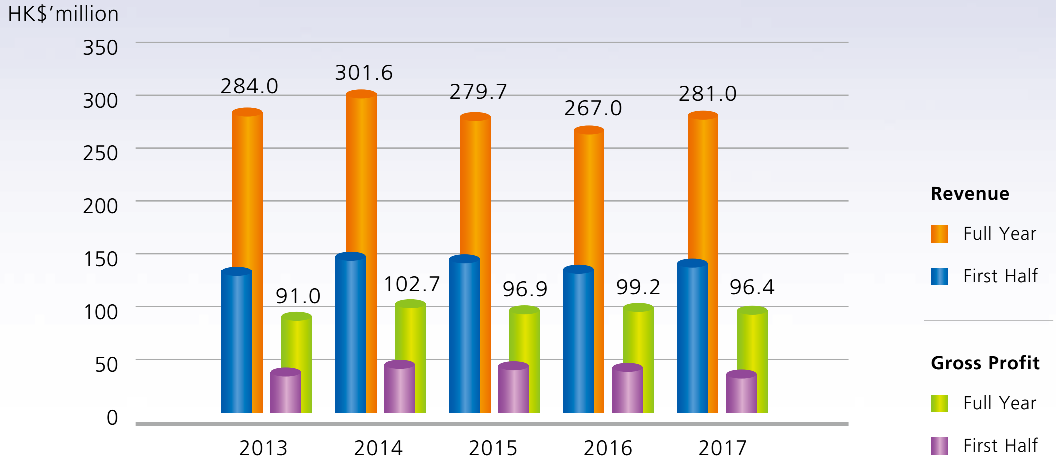
The Hongkong and Shanghai Banking
Corporation Limited
Bank of Communications

WEBSITE

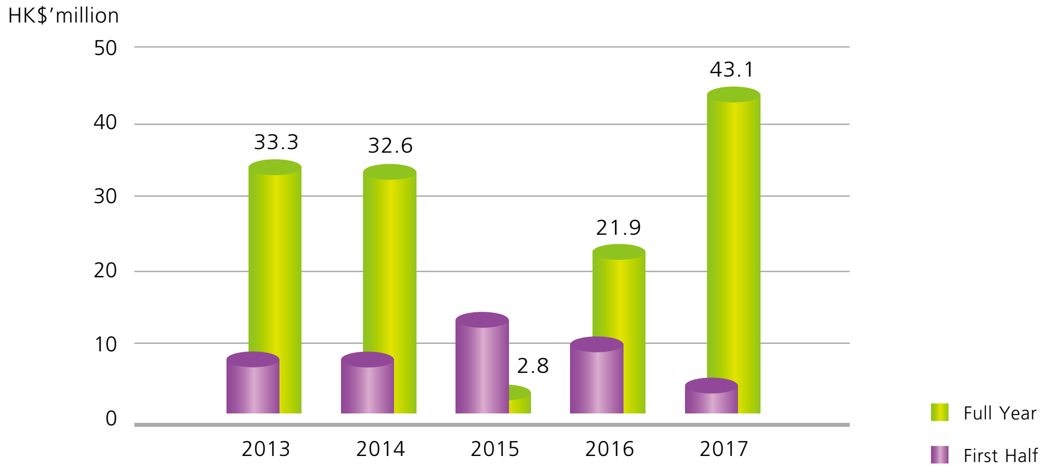
www.datronixhldgs.com.hk

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDEX

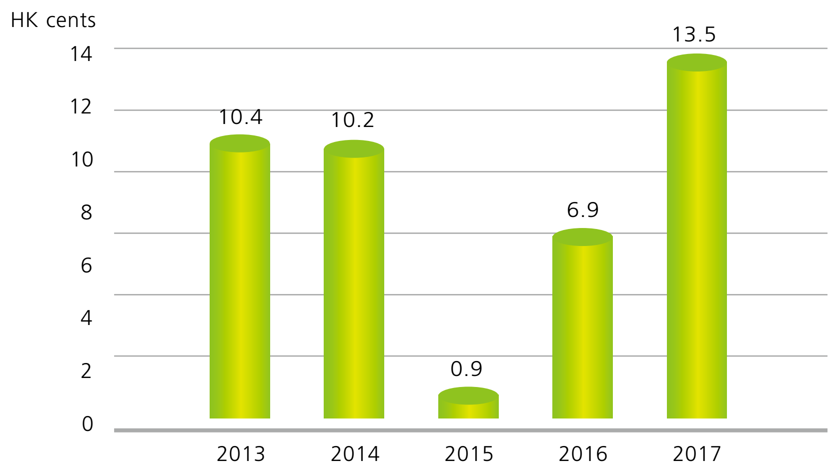
REVENUE / GROSS PROFIT



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

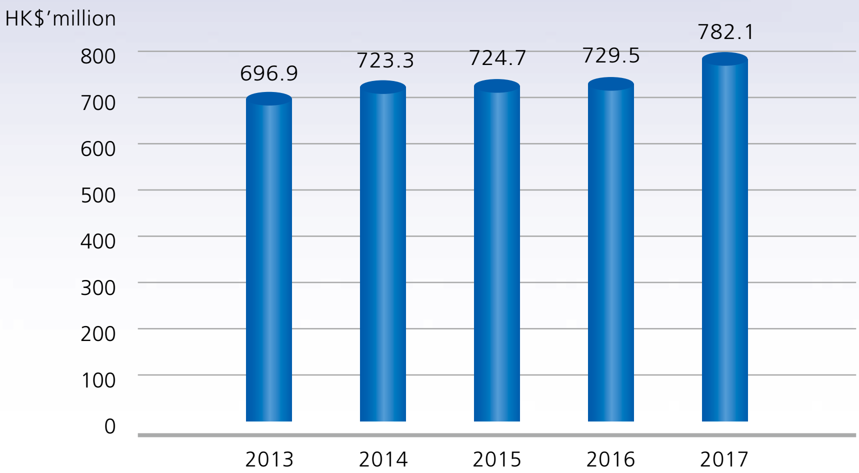


EARNINGS PER SHARE (CENTS)

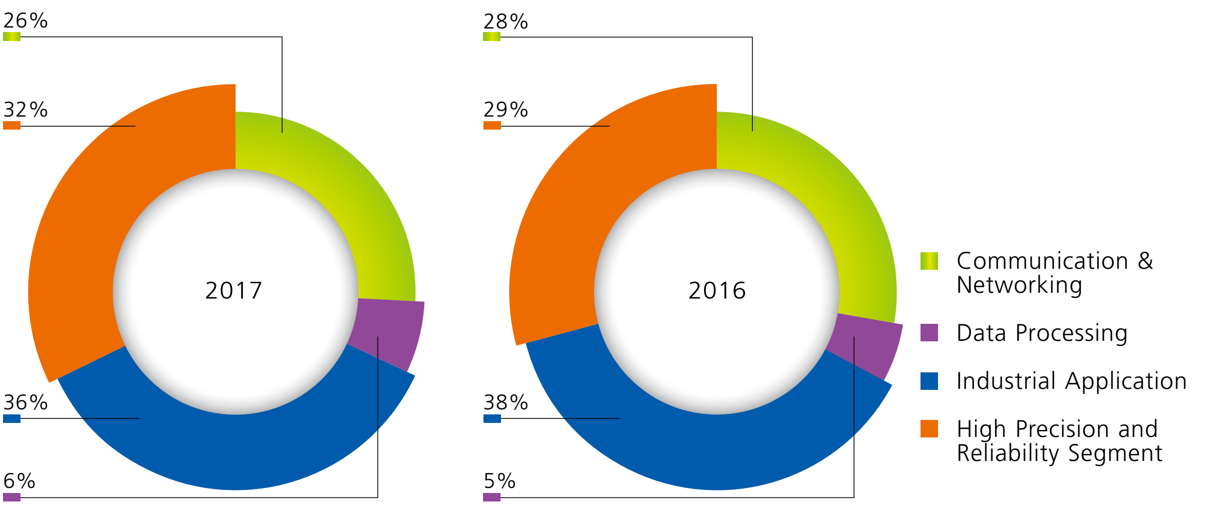


FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDEX

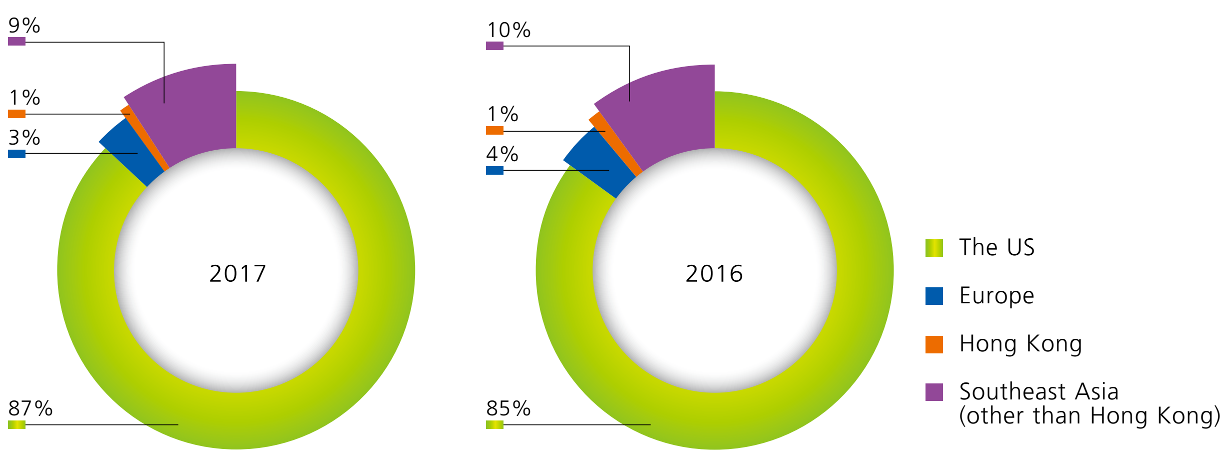
NET ASSETS



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 brand name "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, 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

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

- TS16949
- IEC950
- UL/CSA
- ISO 9001
- VDE

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. 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

OVERVIEW

As the global market had been stabilized and the economy had turnaround in 2017, Datronix had enjoyed a steady improvement in our operations. Revenue for the year 2017 reached HK$281.0 million, an increase of HK$14.0 million from 2016. Gross profit reported at HK$96.4 million with gross margin at 34.3% in 2017. Datronix has been continuously under cost pressure while striving to maintain a reasonable margin.

Operating profit increased 67.4% to HK$43.1 million. As the appreciation of Renminbi, Datronix has reported a gain of exchange rate of HK$6.0 million in 2017, while we reported a loss of exchange rate of HK$7.1 million last year. In addition, the fair value of investment property reported a gain of HK$0.4 million in 2017, while the value was at a loss of HK$9.2 million for the year of 2016. Net profit attributable to shareholders for year 2017 was HK$43.1 million, an increase of 96.5% from the comparable period of 2016.

Datronix has remained a solid financial position with no issuance on debt instrument for the year of 2017.

MARKET REVIEW

Communication and Networking

Communication segment reported HK$72.3 million for year 2017, compared to HK$74.0 million in 2016. This segment contributed 26% of the Group's total turnover. This segment showed a steady performance for year 2017.

Data Processing

Sales for this segment were HK$17.4 million in 2017, compare to HK$13.7 million in 2016. Data processing segment contributed 6% of the Group's turnover and has been growing 27.0% in year 2017.

Industrial Application

Industrial application segment sales reported at HK$100.7 million in 2017 compared to HK$102.7 million in 2016. The industrial application segment contributed 36% of the Group revenue.

High Precision and Reliability Segment

This segment demands precise technology, advance technical know-how and good workmanship by the Group. The sophistication of workmanship aids the Group to achieve a higher margin on our products. The continuous growth in the health care industry that we had been invested and developed has proven a steady and growing return. Sales on high reliability segment reported HK$90.6 million in 2017, compare to HK$76.6 million in 2016, an improvement of 18.3%. This segment contributed 32% of the Group's turnover.

ACHIEVEMENT AND AWARDS

Datronix was honored to receive the "Customer Intimacy Strategy" award in recognition of the Group's providing highly responsive solution presented by Astronics AES during this year. In recognition of our quality, value of our products and of the Group's service and performance, Datronix has to date received 41 awards from our customers.

LOOKING FORWARD

In order to cope with the increasing demand of the Group's expansion, the Group seeks to expand its production capacity and efficiency by investing into new location at the Zhongshan City. We anticipate the new facility will provide a new production factory equipped with upgraded machineries.

We will continue to intensify our organic growth with emphasis to focus on the newly developed opportunities. We recognized the many accomplishments this year were the result of hard work and dedication of Datronix associates around the world.

SIU Paul Y.
Chairman

Hong Kong, 23 March 2018

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue for year 2017 reached at HK$281.0 million, an increase of 5.2% compared to HK$267.0 million in same period of last year. Gross profit margin was 34.3% compared to 37.1% in 2016 mainly due to the payment of US$1.8 million for the understated custom duty. Excluding the custom duty payment, the gross margin would reach approximately 39.0% for 2017. Our operating profit increased to HK$43.1 million, an increase of 67.4% due to gain on appreciation of Reminbi and investment property. Profit attributable to shareholders reached HK$43.1 million in 2017 while we reported HK$21.9 million in 2016.

During the year of 2017, we dissolved our French subsidiary, Datamax S.A.R.L., due to non-significant contribution of sales and income to our Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group had a total equity of approximately HK$782.1 million (2016: HK$729.5 million), and cash and cash equivalents of approximately HK$402.5 million (2016: HK$367.3 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2017, 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 bank and other loan for the year ended 31 December 2017.

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 2017, the Group employed approximately 1,045 personnel around the world, with approximately 111 in Hong Kong, 904 in the PRC and 30 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 2017 (2016: 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 (2016: Nil).

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Siu Paul Y., aged 77, 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 72, 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 69, 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 41, 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 the daughter of Mr. Siu Paul Y..

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Pui Lam, GBS, OBE, JP, aged 77, was appointed as an Independent Non-executive Director of the Company in March 2001. Mr. Chung is also a chairman of each of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee of the Company. He is a practicing solicitor in Hong Kong. Mr. Chung is serving as consultant to numerous commercial enterprises, local district associations, trade unions, owners corporations and building management professional associations. 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. Lee Kit Wah, aged 63, 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 fellow 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 was an independent non-executive director of ITC Corporation Limited (presently PT International Development Corporation Limited) from 23 July 2004 to 28 March 2017, a company is listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

Mr. Wong Wah Sang, Derek, aged 62, was appointed as an independent Non-executive Director of the Company in July 2016. Mr. Wong is a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Wong graduated from The Chinese University of Hong Kong with a Bachelor of Arts degree. Mr. Wong has over 30 years of experience in Hong Kong and overseas manufacturing industry with extensive exposure to various managerial duties, including corporate management, internal control, corporate secretary, acquisitions and mergers, re- organizations, introduction of technologies, establishment and construction of new manufacturing plants, marketing and trading.

SENIOR MANAGEMENT

Mr. Bradley D. Turner, aged 61, 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.

Ms. Mok Sim Wa, aged 39, 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.

DIRECTORS' REPORT

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 2017.

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	23%	
Five largest customers in aggregate	70%	
The largest supplier		15%
Five largest suppliers in aggregate		38%

Except that one of the five largest customers, 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 financial performance of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 45.

The financial position of the Group and the Company as at 31 December 2017 are set out in the consolidated statement of financial position on page 46 and the statement of financial position on page 95 respectively.

The directors recommend the payment of a final dividend of HK$0.022 (2016: HK$0.02) per share, totalling HK$7,040,000 (2016: HK$6,400,000) for the year ended 31 December 2017.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2017 and of the assets and liabilities as at 31 December 2013, 2014, 2015, 2016 and 2017 is set out on page 103.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Movements in property, plant and equipment and investment property during the year are set out in note 14 and note 15 to the financial statements respectively.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2017 are set out in note 19 to the financial statements.

BUSINESS REVIEW

Details of the operation of the Company's principal business during the year, as required by Schedule 5 to the Companies Ordinance, including an indication of likely future development in the Group's business, an analysis of key performance indicators, and the Group's environmental policies and performance are set out under the section "Chairman's Statement" on pages 7 to 8, "Management Discussion and Analysis" on page 9, Environmental and Social Responsibility Report on page 30 to 35 and Financial Highlights and Key Performance Index on pages 2 to 3 of this annual report respectively.

There is no important event affecting the Group that has occurred after the year ended 31 December 2017.

Risk and uncertainties

Our Group's faces several risk and uncertainty factors that may affect the operating results and business prospects. There may have other risks and uncertainties in addition to those listed below which are not known to the Group or which may not be material now but could turn out to be material in the future.

The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events which may cause our operating results to fluctuate.

Our products are sold in highly competitive markets that we compete in products development, product quality, competitive pricing and adapt to technologies changes better than us.

Our future success depends to a significant degree upon the continued contributions of our management team and technical personnel.

Our failure to obtain, or fully adhere to the limitations contained in, the requisite licenses, meet registration standards or comply with other government export regulations may result in monetary penalties and would have a material adverse effect on us.

Relationships with Key Stakeholders

Datronix is dedicated to create fair manner while balancing interests of various stakeholders of our Group. We engage our employees, customers, regulators, business partners and community through variety of stakeholder engagement channels.

The Group provides quality service and products to our customers. The Group also viewed our suppliers as strategic partner. Lastly the Group values its employees as one of its greatest strengths and assets and strive to provide equal opportunities to employees.

Compliance with Laws and Regulations

The Group has strictly complied with applicable laws and regulations which have a significant impact on the operations of the Group during the year.

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. The Company adopted a share option on 6 June 2001 which remained in force for a period of 10 years from the date of adoption. The share option scheme expired on 6 June 2011.

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 47 and 91, 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. Lee Kit Wah
Mr. Wong Wah Sang, Derek

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

DIRECTORS – CONTINUED

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

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

MANAGEMENT CONTRACTS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 28 to the financial statements, no other transactions, arrangements or 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 2017, 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.	–	–	231,302,000 *(Note 1)*	231,302,000

DIRECTORS' INTERESTS IN SHARES – CONTINUED

b) Associated corporation

	Name of corporation	Non-voting deferred shares of HK$1 each 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 72.28% 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 2017, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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, Related Party Transactions, item (a) of Sales to DRI, 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").

The Company and its subsidiaries ("the Group") and Datatronics Romoland, Inc. ("DRI") entered into a Datronix Master Supply Agreement on 7 October 2016 ("the Datronix Master Supply Agreement") which superseded the 6th Datatronic Master Supply Agreement dated 3 September 2013 in respect of the supply of magnetics to DRI by Datatronic Limited ("DL"), a wholly owned subsidiary of the Company, and the IPI Master Supply Agreement dated 3 September 2013 in respect of the supply of magnetics to DRI by Innovative Power Inc. ("IPI"), a wholly owned subsidiary of the Company.

The Datronix Master Supply Agreement for a fixed term of three years from 1 January 2017 and on effectively the same terms and conditions of the previous master supply agreements for the supply for magnetic products entered into by the Group and DRI including the 6th Datatronic Master Supply Agreement and IPI Master Supply Agreement until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the Datronix Master Supply Agreement, the selling prices of the magnetics under the Datatronic Master Supply Agreement are to be agreed between the Group and DRI. The Group will determine sale price of the magnetic product required by DRI according to the Group's pricing policy based on a cost-plus pricing basis, which takes into account the sum of all direct and indirect manufacturing costs and overhead such as raw materials costs, labor time costs and quantities of products. Due to the stringent requirements of DRI's products, involvement of the Group's top management and more experienced senior engineers would be required to provide engineering support and to resolve technical difficulties in the manufacturing process. Workers of higher ability or skill would also be assigned to handle the manufacturing process for DRI's products, whereas the products sold to other customers would carry less complications and complexity and thus require less technical and engineering support in their manufacturing procedures. As a result, the mark up margin based on the time cost and pay rate scale incurred by top management, senior engineers and skilled workers for DRI's products would yield a higher mark up than that of the products sold to other customers. When a new program or product is launched during a bid, this bidding process serves as an indication on the price in which the customers would be willing to pay. This also serves as a guidance for determining the Group's mark up margin in respect of products sold to DRI. For existing products sold to DRI, the Group's quotations issued to DRI would be based on historical prices quoted, adjustments based on current direct and indirect costs, and a mark up margin. Furthermore, end customers are price sensitive to the economy and their behavior may affect the purchase sentiment hence having an effect on the price quoted. Thus, the Group would also consider such aforementioned factors based on the prevailing market conditions to determine the mark up margin. The total purchases made by DRI under the Datronix Master Supply Agreement during the year ended 31 December 2017 was approximately HK$65,065,000 (2016: 6th Datatronic Master Agreement was HK$53,122,000 and IPI Master Supply Agreement was HK$24,000 respectively).

CONNECTED TRANSACTIONS – CONTINUED

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

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

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

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

In accordance with Rule 14A.56 of the Listing Rules, the auditor of the Company provided a letter to the Board of Directors confirming that the continuing connected transactions:

1. nothing has come to its attention that the transactions have not been approved by the Board;

2. nothing has come to its attention that the transactions involving the provision of goods or services were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to its attention that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

4. nothing has come to its attention that the transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement date 7 October 2016 made by the Company in respect of the disclosed continuing connected transactions.

COMPETING BUSINESS

None of the Directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year under review.

DIRECTORS' EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 13 to the consolidated financial statements.

EMPLOYEE RETIREMENT SCHEME IN HONG KONG

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong to all staff. Under the MPF Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

PERMITTED INDEMNITY

Pursuant to the Bye-laws, the Director(s) shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation to any affairs of the Company.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on page 21 to 29 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.

AUDITOR

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

On behalf of the Board

Siu Paul Y.
Chairman

Hong Kong, 23 March 2018

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

Director	Number of attendance
Mr. Siu Paul Y.	5/5
Ms. Shui Wai Mei	4/5
Mr. Sheung Shing Fai	5/5
Ms. Siu Nina Margaret	5/5
Mr. Chung Pui Lam	5/5
Mr. Lee Kit Wah	5/5
Mr. Wong Wah Sang, Derek	5/5

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. Lee Kit Wah and Mr. Wong Wah Sang, Derek.

The Independent Non-executive Directors of the Company are persons with academic and professional qualifications in the fields of accounting, law and business management. They provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director gives an annual confirmation of his independence to the Company and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT – CONTINUED

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

	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. Lee Kit Wah	✓	✓
Mr. Wong Wah Sang, Derek	✓	✓

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. Lee Kit Wah and Mr. Wong Wah Sang, Derek. Mr. Chung Pui Lam is the Chairman of the Remuneration Committee.

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

Director	Number of attendance
Mr. Siu Paul Y.	1/1
Mr. Chung Pui Lam	1/1
Mr. Lee Kit Wah	1/1
Mr. Wong Wah Sang, Derek	1/1

The major roles and functions of the Remuneration Committee are summarized as follows:

1. To make recommendations with respect to the remuneration of the Executive Directors and the senior management of the Company; and

2. To review the remuneration package and recommend salaries, bonuses, including the incentive awards for Directors and senior management.

During the year, the Remuneration Committee has reviewed and recommended to the Board the overall remuneration policy and the remuneration package for the executive directors and key senior management.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31 December 2017, 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. Lee Kit Wah and Mr. Wong Wah Sang, Derek. 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, internal control system and risk management system of the Group.

AUDIT COMMITTEE – CONTINUED

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

Director	Number of attendance
Mr. Chung Pui Lam	4/4
Mr. Lee Kit Wah	4/4
Mr. Wong Wah Sang, Derek	4/4

During the meetings held in 2017, 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 2016 (the "2016 Financial Statements") and discussed with the external auditors on any findings in relation to the 2016 Financial Statements and audit issues;

2. reviewed the interim results for the six months ended 30 June 2017;

3. reviewed the internal control system.

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. Lee Kit Wah and Mr. Wong Wah Sang, Derek. Mr. Chung Pui Lam 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. Lee Kit Wah	1/1
Mr. Wong Wah Sang, Derek	1/1

NOMINATION COMMITTEE – CONTINUED

The Nomination Committee had reviewed the structure, size and the composition of the Board in consideration of re-election of retiring Directors in 2017 Annual General Meeting and reviewed the Board Diversity Policy of the Company during the year.

Board Diversity Policy

During the year, 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.

AUDITOR'S REMUNERATION

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

Services rendered	**Fees paid/ payable** HK$'000
Audit services	760

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.

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 Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness.

The Board has conducted review of the effectiveness of the system of internal control system and risk management system and is of the view that the systems of internal control and risk management adopted for the year ended 31 December 2017 are sound and are effective to safeguard the interests of the shareholders' investment and the Company's assets. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board.

The Audit Committee has received the risk management and internal control evaluation reports submitted by the management of the Company. The reports summarised information relating to the work carried out in the following areas:

1. the results of selective testing of internal control procedures, operation, and financial records of the Company;

2. a general evaluation of risk management and internal control systems installed by the Company; and

3. an outline of major control issues, if any, noticed during the year under review.

The Audit Committee has reviewed the reports and discussed with the management. The Audit Committee acknowledged that the management has been progressively implementing adequate and effective risk management and internal control systems in order to ensure the effective functioning of the Company's operations.

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 2017.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

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

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

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

Procedures for raising enquires

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

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

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

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:

SHAREHOLDERS' RIGHTS – CONTINUED

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

(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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environment, Social and Governance (ESG) Report aims to give the Group's stakeholders an overall review of our performance in managing environmental and social related issues. The reporting period of this section is same as the Annual Report (from 1 January 2017 to 31 December 2017). The scope covered in this section includes our head office, warehouse and manufacturing operations in Hong Kong and Shunde, China, while our sales offices in US and France are excluded due to their limited significance from the environmental and social perspectives. The ESG Report has been prepared with reference to the ESG Reporting Guide by HKEx.

ESG MANAGEMENT

As the world's natural resources and environment continue to deteriorate, we understand that our stakeholders have increase their awareness and expectation for the Group's ESG performance. Having an effective management on the ESG issues has already become part of our business agenda.

The Group has long recognized the risks and opportunities of the ESG related issues to its business. Our ESG management is overseen by our board who meets on regular basis to review the Group's ESG performance. The implementation of ESG related programmes or actions is supported by the management of the Group with participation from all the staff across different departments.

In 2017, the Group established its ESG policy to formally convey our environmental and social commitment to internal and external stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

Environment, Social and Governance are essential parts of our business. They form the pillars for our sustainable growth. At Datronix, we believe that we have an obligation – to our employees, our communities, our investors, our customers and the environment – to operate in a sustainable manner.

Sustainability at Datronix is based on our guiding principles: reducing our environmental impact through resources conservation and waste reduction, creating a healthy and safe working environment; operating profitably; fostering a culture of involvement in sustainability through stakeholder engagement; and enable our customers to become more sustainable through their use of our products.

Environment

We continue to develop our products with better environmental, health and safety performance for both employees and customers. During the manufacturing and the use of our products, we continue to find ways to reduce the pollutions and carbon emissions. Throughout our production lines and offices, we are committed to enhancing the efficiency with the use of energy, materials and other natural resources by measuring and minimizing our environmental impact wherever possible. In our product supply chain, we continue to increase the tracking of sustainability of our suppliers by using reporting metrics to ensure our suppliers are operating in a sustainable way.

Social

We engage our employees, customers, regulators, business partners and community through variety of stakeholder engagement channels. We strive to provide equal opportunities to employees regardless of gender, race, national or ethnic origin, religion, cultural background, disability, marital status, family status, sexual orientation, age or political opinion.

Compliance

We adopt a combination of self and third party audits and certifications systems to ensure the legal and corporate compliance are fulfilled and report the results of compliance together with our environmental, social and governance performance to employees, executive management and other stakeholders on regular basis.

We acknowledge that achieving our goals and objectives will require many changes to be made over time. However we strongly believe that our environmental, social and governance efforts serve the interests of both current and future generations and constitute the foundation for the long-lasting success.

MATERIALITY

In order to be more objective in identifying the Group's material ESG aspects, a formal materiality checking was conducted in 2017. Questionnaires have been sent out to some of the Group's key internal and external stakeholders which include the Group's investors, management, employees and business partners to collect their views in different ESG aspects. Their views were used to help identify the Group's material ESG aspects. The following aspects are considered material after the materiality checking.

Environment

- Emissions
- Use of Resources

Social

- Employment
- Health and Safety
- Development and Training
- Labor Standards
- Supply Chain Management
- Product Responsibility
- Anti-corruption

The Group will re-conduct the materiality checking on a regular basis so as to obtain an up-to-date views from our stakeholders and re-define our material aspects if required.

ENVIRONMENT

The Group commits to minimizing its impact on the environment during its operation. In particular, it strives to reduce carbon emissions and waste generation, and hence to promote efficient use of environmental resources.

Emissions

	Scope 1	Scope 2	Total	Intensity
Carbon emissions	98 tonnes	2,581 tonnes	2,679 tonnes	9.53 tCO_2 per million HKD revenue
Non-harzardous waste	–	–	255 kg	–

The Group started measuring its carbon emissions in 2017. Majority of the Group carbon emissions is from electricity consumption which accounts for over 99% of total carbon emissions of the Group. Energy efficiency programmes and waste recycling are two majors approaches the Group adopts for minimizing its carbon emissions and waste discharge. For example, the copper wires and solder wires waste generated during the manufacturing process will all be collected and recycled to minimize waste disposal to landfill. Wastes generated by the Group are basically all non-hazardous. The Group's operational carbon emissions and discharges are fully complied with the local legislation.

Use of resources

The Group continues to improve its efficiency in the use of resources on our operations and production line through variety of operational control, technology enhancement and staff awareness raising. The Group's energy efficiency programmes include the extensive use of energy efficient lighting tubes and provision of light zoning in all the premises; and switching off air-conditioning during winter time whenever possible and lighting when not in used. These programmes are all highly supported by company staff. The Group also raises staff awareness in water saving in production and office operations through education and promotion.

	Hong Kong	PRC	Total	Intensity (per million HKD revenue)
Natural Resources usage				
Electricity	324,076 kWh	2,594,909 kWh	2,918,985 kWh	10,388 kWh
Water			46,485 m^3	165 m^3
Diesel			30,281 Litre	
Gasoline			5,330 Litre	
Paper packaging material			38,255 kg	
Plastic packaging material			2,933 kg	
Natural Resources recycled				
Paper			434 kg	
Copper			2,919 kg	

SOCIAL

Employment and Labor Practices

The Group values its employees as one of its greatest strengths and assets. The Group is committed to providing the best possible working and career environment for its employees, in order to attract, develop and retain the best talents.

The Group aims to provide equal opportunities to individuals regardless of gender, race, national or ethnic origin, religion, cultural background, disability, marital status, family status, sexual orientation, age or political opinion. As part of the Group's social commitment, the Group actively employs individuals with disabilities, primarily at the operation in China, which represent 1.7% of the Group's total workforce in China.

Each of the Group's employee is protected by the local labor laws and regulations which the Group strictly complies. The Group has no legal non-compliance issues during the reporting period.

Total workforce (excluding operations in USA and France)			1,015 people
By gender		Male	Female
in%		12%	88%
By employment type		Full time	Part time
in%		100%	0%
By age group	Below 30	30 to 50	Above 50
in%	20%	72%	8%
By geographical region		Hong Kong	PRC
in number of employee		111	904

Health and Safety

The Group is committed to providing a health and safe working environment for our skilled workers in factories and employees in offices. The Group places its employee's health and safety as one of the highest priority in its operation.

On the production line, the factory supervisors and managers both help to ensure all the health and safety measures are being implemented effectively. Any non-conformities will be corrected immediately. In case of high level decision is required, the factory supervisors and manager will escalate the issues to the Group's top management to seek further instruction. The Group has established a Code of Practice, in where safety and health issues are addressed, for our skilled workers to follow. Training and work instructions will be given to new workers to make sure they are capable of operating the production equipment safely. For some of the manufacturing procedures where fumes or particles may be emitted, ventilation units have been installed to minimize the potential safety and health risks. The Group is fully complied with the local legislation for its operations during the reporting period.

	2017
Number and rate of work-related fatalities	0
Lost days due to work injury	0

Development and Training

The Group recognizes the importance and value of continuous learning. All the new employees are provided with on-the-job training by their direct supervisors. By encouraging our existing employees to have a continuous lifelong learning, the Group offers education subsidies to its employee as an employee investment in variety of fields ranging from quality system management, to business management, to engineering and technology management.

Labor Standards

The Group is committed to not using child labor and forced labor in its operation. Each of the Group's employee is protected by the local labor laws and regulations which the Group strictly complies. Employee's age and identity documentation will be checked thoroughly during the recruitment and employment processes. For our factory in China, which is the Group's main manufacturing site, the Group adopts a Voluntary Overtime Working Scheme, which provide flexibility for skilled workers overtime work. The Group strictly complies with the overtime working remuneration regulations of the local laws in China. There is no occurrence of child labor and forced labor discovered during the reporting period.

The Group upholds high operating practices standard. The Group believes having a high operating practices standard increases its competitiveness and provides values to its stakeholders.

Supply Chain Management

The Group aims to ensure its supply chain as sustainable as possible. Many of the Group's suppliers are required to demonstrate they are certified or complied with internationally recognized environmental and safety related standards such as ISO or RoHS. In particular, the Group seeks to ensure all of its materials or components received from suppliers are lead free. The Group requires its suppliers to provide Certificate of Conformance to confirm the products' specification. The Group's Quality Assurance Team will conduct a throughout and rigorous due diligence on its new suppliers along with on-site audits to assess their product quality as well as their practices in managing environmental and social risks.

Product Responsibility

The Group has long been emphasizing on its product responsibility regarding its product quality, health and safety, advertising, labeling and privacy related matters as part of its core values and business strategy. The products the Group manufactured will be tested and certified by third party to make sure the products are up to the satisfactory level that the Group and its customers expect in terms of quality and health and safety. The Group is committed to ensuring all products it manufactures will comply with applicable relevant laws and regulations.

Anti-corruption

The Group is committed to the highest standards of openness, probity and accountability and to conduct business with integrity, honesty and transparency. The internal Quality Assurance Team of the Group conducts internal audit annually on the Group's operations against applicable compliances and Group internal requirements. The Group has rigorous internal control to minimize the risk of corruption, bribery, fraud and money laundering. The Group procurement process is strictly monitored by top management and suppliers are all selected from the Group's Approved Vendor List (AVL) in which vendors are assessed through the Group's due diligence procedures.

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 Tuesday, 29 May 2018 at 2:30 p.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 31 December, 2017 and the Reports of the Directors and Auditor thereon.

2. To declare a final dividend.

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

4. To re-appoint auditor and to authorise the board of directors to fix its 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 Byelaws 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 Byelaws of the Company to be held; and

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

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

By order of the Board
LEUNG Sau Fong
Company Secretary

Hong Kong, 25 April 2018

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 later than Hong Kong time 2:30 p.m. on Sunday, 27 May 2018.

iii. The register of members of the Company will be closed from Thursday, 24 May 2018 to Tuesday, 29 May 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 23 May 2018.

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, 6 June 2018 to Friday, 8 June 2018, 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, 5 June 2018. The cheques for dividend payment will be sent on about Wednesday, 20 June 2018.

INDEPENDENT AUDITOR'S REPORT

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)

OPINION

We have audited the consolidated financial statements of Datronix Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 102, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS – CONTINUED

Impairment assessment of goodwill

Refer to note 18 to the consolidated financial statements

The Group had goodwill of approximately HK$9,486,000 arising from the Company's acquisition of a business in 2012.

Management concluded that there was no impairment of the goodwill based on the recoverable amount of the cash-generating unit ("CGU") which was determined by a value-in-use calculation based on cash flow projections from formally-approved budgets covering a five-year period. The preparation of cash flow projections requires significant management judgement with respect to assumptions in relation to discount rate and underlying cash flows, in particular future operating margin and growth rate. We identified the impairment assessment of goodwill as a key audit matter as it requires management to exercise significant judgement on the cash flow projections and the goodwill is quantitatively significant to the consolidated financial statements.

Our response:

Our procedures in relation to management's impairment assessment included:

– Assessing the valuation methodology;

– Challenging the reasonableness of the key assumptions based on our knowledge of the business and industry;

– Reconciling input data to supporting evidence, such as approved budget, and considering the reasonableness of this budget; and

– Engaging independent valuation specialist to assist us in assessing the valuation methodology applied in the impairment assessment of goodwill.

We found the assumptions made by management in relation to the value-in-use calculation were reasonable based on available evidence. The significant inputs are appropriately disclosed on page 83.

KEY AUDIT MATTERS – CONTINUED

Write-down assessment of inventories

Refer to note 20 to the consolidated financial statements

The Group had inventories of approximately HK$80,682,000 which consist of raw materials, work-in-progress and finished goods.

The Group's management writes down slow moving or obsolete inventories based on an assessment of net realisable value. 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. The change in estimation will impact carrying value of the inventories and may lead to a revision of the amount of inventories written down in the period. The Group recognised a reversal of write-down on inventory of approximately HK$3,834,000 for the year. We identified the write-down assessment of inventories as a key audit matter as it requires management to exercise significant judgement on net realizable value of the inventories and the inventories are quantitatively significant to the consolidated financial statements.

Our response:

Our procedures in relation to management's write-down assessment included:

– Assessing the reasonableness of the inventory provision policy applied by the management;

– Discussing with operating staff or managers who have knowledge of the condition of inventories, utilisation pattern and turnover days and considering whether the provisions made by management are consistent with those assessments made by operating personnel;

– Assessing the ageing of inventories prepared by management;

– Observing obsolete inventories by performing physical inventory inspection; and

– Challenging the reasonableness of the reversal amount recognised for the year.

We found that management's estimation of net realisable value and write-down of inventories are reasonable based on the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibilities in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Tang Tak Wah
Practising Certificate Number P06262
Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	7a	280,964	266,967
Cost of sales		(184,605)	(167,790)
Gross profit		96,359	99,177
Other revenue and gain	7b	16,279	9,638
Distribution and selling expenses		(13,835)	(13,324)
Administrative expenses		(56,069)	(60,522)
Fair value gain/(loss) on investment property	15	400	(9,200)
Profit before income tax expense	8	43,134	25,769
Income tax expense	10		
Current tax – tax for the year		(2,574)	(5,398)
– over provision in respect of prior years		811	1,074
Deferred tax credit		1,720	479
		(43)	(3,845)
Profit for the year and attributable to owners of the Company		43,091	21,924
Other comprehensive income, net of tax	11		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		2,722	(4,063)
Item that will not be reclassified to profit or loss:			
Surplus/(deficit) on revaluation of leasehold land and buildings held for own use, net of related income tax effect		19,655	(266)
Other comprehensive income/(expense) for the year and attributable to owners of the Company, net of tax		22,377	(4,329)
Total comprehensive income for the year and attributable to owners of the Company		65,468	17,595
Earnings per share			
– Basic and diluted	12	HK$0.135	HK$0.069

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	230,088	207,681
Investment property	15	98,500	98,100
Payment for leasehold land held for own use under operating leases	16	3,544	3,453
Goodwill	17	9,486	9,486
Deferred tax asset	25	2,191	–
		343,809	318,720
Current assets			
Inventories	20	80,682	77,963
Trade receivables	21	26,526	27,499
Prepayments, deposits and other receivables		3,677	3,080
Amount due from ultimate holding company	22	77	70
Amounts due from related companies	22	151	131
Tax prepayment		1,573	1,435
Cash and cash equivalents		402,453	367,251
		515,139	477,429
Current liabilities			
Trade and other payables	23	23,143	18,950
Current tax liabilities		1,109	2,315
		24,252	21,265
Net current assets		490,887	456,164
Total assets less current liabilities		834,696	774,884
Non-current liabilities			
Employee benefits	24	19,985	17,467
Deferred tax liabilities	25	32,573	27,947
		52,558	45,414
NET ASSETS		782,138	729,470
Equity			
Share capital	26	32,000	32,000
Reserves		750,138	697,470
TOTAL EQUITY		782,138	729,470

On behalf of the Board of Directors

Siu Paul Y.
Director

Shui Wai Mei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 2016	32,000	57,099	(23,724)	167,133	11,147	481,020	724,675
Profit for the year	–	–	–	–	–	21,924	21,924
Exchange differences on translating foreign operations	–	–	–	–	(4,063)	–	(4,063)
Deficit on revaluation of leasehold land and buildings held for own use, net of related income tax effect	–	–	–	(266)	–	–	(266)
Total comprehensive income for the year	–	–	–	(266)	(4,063)	21,924	17,595
Dividends paid (note 27(b))	–	–	–	–	–	(12,800)	(12,800)
At 31 December 2016 and 1 January 2017	32,000	57,099	(23,724)	166,867	7,084	490,144	729,470
Profit for the year	–	–	–	–	–	43,091	43,091
Exchange differences on translating foreign operations	–	–	–	–	2,722	–	2,722
Surplus on revaluation of leasehold land and buildings held for own use, net of related income tax effect	–	–	–	19,655	–	–	19,655
Total comprehensive income for the year	–	–	–	19,655	2,722	43,091	65,468
Dividends paid (note 27(b))	–	–	–	–	–	(12,800)	(12,800)
At 31 December 2017	32,000	57,099	(23,724)	186,522	9,806	520,435	782,138

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities		
Profit before income tax expense	43,134	25,769
Adjustments for:		
Interest income	(6,932)	(6,963)
Fair value (gain)/loss on investment property	(400)	9,200
Depreciation of property, plant and equipment	5,281	5,347
Loss/(gain) on disposal of property, plant and equipment, net	10	(49)
Amortisation of payment for leasehold land held for own use under operating leases	113	113
Reversal of provision for impairment loss on trade receivables	–	(36)
(Reversal)/provision for write-down of inventories	(3,834)	2,753
Operating profit before working capital changes	37,372	36,134
Decrease in inventories	1,115	2,818
Decrease in trade receivables	973	2,209
(Increase)/decrease in prepayments, deposits and other receivables	(439)	983
Increase in amount due from ultimate holding company	(7)	(7)
Increase in amounts due from related companies	(20)	(22)
Increase in trade and other payables	4,193	624
Increase/(decrease) in employee benefits	1,708	(157)
CASH GENERATED FROM OPERATIONS	44,895	42,582
Income tax paid	(4,876)	(3,743)
Net cash from operating activities	40,019	38,839
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,698)	(2,427)
Proceeds from disposal of property, plant and equipment	–	50
Interest received	6,774	6,667
Net cash generated from investing activities	4,076	4,290

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(12,800)	(12,800)
Net cash used in financing activities	(12,800)	(12,800)
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,295	30,329
Cash and cash equivalents at beginning of year	367,251	340,457
Effect of foreign exchange rate changes on cash and cash equivalents	3,907	(3,535)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR represented by bank balances and cash	402,453	367,251

Note:

Bank balances and cash included an amount of approximately HK$101,406,000 (2016: HK$160,022,000) which is denominated in Renminbi. Included in this amount, approximately HK$33,713,000 (2016: HK$34,891,000) is deposited in the People's Republic of China. Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currency and remittance of Renminbi out of the People's Republic of China are subject to the rules and regulations of exchange controls promulgated by the People's Republic of China authorities.

1. GENERAL

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

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

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

The Company's immediate and ultimate holding company is Onboard Technology Limited, a company incorporated in British Virgin Islands. The Company's ultimate controlling party is Mr. Siu Paul Y.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the note to the consolidated statement of cash flow, note 35.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017 – Continued

Annual Improvements to HKFRSs 2014-2016 – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investment in Associate and Joint Ventures[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transaction[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instrument with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

HKFRS 9 – 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 Fair Value through Other Comprehensive Income ("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 Fair Value through Profit and Loss ("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.

The new impairment model requires the recognition of impairment provisions based on credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, contract assets under HKFRS 15 Revenue from Contracts with Customers, and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material impact on the loss allowance for trade receivables.

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 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.

The Group anticipates that the application of HKFRS 15 in the future may result in more disclosures, however, the Group does not anticipate that the application of HKFRS 15 will have a material impact on the revenue recognised in the respective reporting periods.

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Amendments to HKAS 40 – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

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

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

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transaction that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liabilities arising from the payment or receipt of advance consideration.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

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

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

The Group has already commenced an assessment of the impact of adopting the above new standards and amendments to existing Standards to the Group. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(d) Goodwill – Continued

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

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

(e) Property, plant and equipment

Leasehold land and buildings in Hong Kong and buildings in the PRC are 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 recognised in profit or loss on disposal.

(f) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(g) 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.

(h) 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

(i) 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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

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.

(j) 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

(j) 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Financial Instruments – Continued

(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.

(k) 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 (recognised in the Company's statement of financial position (see note 31)); 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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(l) 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.

(m) 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.

(n) 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.

(o) 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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(o) Income taxes – Continued

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.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

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

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

(p) 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.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(p) Foreign currency – Continued

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

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

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

(q) 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;

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(q) Related parties – Continued

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

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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 may 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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

(a) Critical judgments in applying accounting policies – Continued

(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.

(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 in inventory provision policy. 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. In making this estimation, the Group evaluates the usage and extent by all means to which the amount will be recovered. During the year, certain inventories written down in prior years have been used and sold. The Group recognised reversal of impairment loss on inventory of approximately HK$3,834,000 for the year (2016: HK$2,753,000)

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 14).

- Investment Property (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 21.

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 of the Group as a whole 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 (by customers' location)		Specified non-current assets (by assets' location)	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Hong Kong (place of domicile)	922	790	303,687	284,948
The PRC	21,867	22,899	27,937	23,874
The US	245,406	228,799	12,185	9,890
European Union	8,359	9,902	–	8
Other countries	4,410	4,577	–	–
	280,042	266,177	40,122	33,772
	280,964	266,967	343,809	318,720

(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:

	2017 HK$'000	2016 HK$'000
Customer A (note 28)	65,065	53,146
Customer B	58,451	55,716
Customer C	37,148	40,619
	160,664	149,481

7. REVENUE AND OTHER REVENUE

(a) Revenue

Revenue represents the net invoiced value of goods sold.

(b) Other revenue and gain

	2017 HK$'000	2016 HK$'000
Bank interest income	6,932	6,963
Income from disposal of scrap materials	158	249
Gain on disposal of property, plant and equipment, net	–	49
Rental income under operating lease	2,867	2,044
Exchange gain, net	5,979	–
Sundry income	343	333
	16,279	9,638

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	2017 HK$'000	2016 HK$'000
Carrying amount of inventories sold	188,439	165,037
(Reversal)/provision for write-down of inventories	(3,834)	2,753
Cost of inventories recognised as expenses	184,605	167,790
Amortisation of payment for leasehold land held for own use under operating leases (note 16)	113	113
Auditor's remuneration	807	807
Depreciation of property, plant and equipment (note 14)	5,281	5,347
Exchange (gain)/loss, net (note 7)	(5,979)	7,064
Loss/(gain) on disposal of property, plant and equipment, net	10	(49)
Reversal of provision for impairment loss on trade receivables	–	(36)
Operating lease rental payments (note 29)	442	441
Research and development expenditure	5,120	5,256
Direct operating expense arising from:		
– investment property that generated rental income during the year	87	30

9. STAFF COSTS

	2017 HK$'000	2016 HK$'000
Staff costs (including directors' remuneration as set out in note 13) comprise:		
Wages and salaries	99,851	92,663
Contributions to defined contribution retirement plan	6,488	6,469
	106,339	99,132

The staff costs included the amount of HK$4,723,000 (2016: HK$4,829,000) which is classified as research and development expenditure.

10. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax – Hong Kong		
– Profits tax for the year	2,348	3,195
– over provision in respect of prior years	(512)	(80)
	1,836	3,115
Current tax – overseas		
– Profits tax for the year	226	2,203
– over provision in respect of prior years	(299)	(994)
	(73)	1,209
Deferred tax credit (note 25)	(1,720)	(479)
	43	3,845

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2016: 25%).

The US subsidiaries are subject to US Federal Corporate Income Tax at 34% (2016: 34%). Pursuant to the newly enacted Tax Cuts and Jobs Act of 2017 (the "Art"), the US Federal Corporate tax rate shall be changed to a flat rate of 21% for the year beginning 1 January 2018.

10. INCOME TAX EXPENSE – CONTINUED

Under prior law in US, for tax years beginning before 1 January 2018, net operating losses ("NOLs") were generally allowed to be carried back two years and carried forward 20 years. In addition, NOL carryovers could fully offset 100% of a taxpayer's regular taxable income if not otherwise limited. Under the Art, NOLs can offset only 80% of taxable income in any given tax year. Furthermore, NOLs can no longer be carried back, they must be carried forward. The 20-year carryforward period has been replaced with an indefinite carryforward period. NOLs created in tax years beginning before 1 January 2018 are subject to the old rules. Only NOLs generated in tax years beginning after 31 December 2017 are subject to the new rules.

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

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

	2017 HK$'000	2016 HK$'000
Profit before income tax expense	43,134	25,769
Effect of tax at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	7,117	4,252
Effect of different tax rates of subsidiaries operating in other jurisdictions	(979)	1,014
Tax effect of revenue not taxable for tax purposes	(6,757)	(4,475)
Tax effect of unused tax losses	–	59
Utilisation of tax losses previously not recognised	(837)	(601)
Tax effect of expenses not deductible for tax purposes	2,310	4,670
Over provision in prior years	(811)	(1,074)
Income tax expense	43	3,845

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. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2017			2016		
	Before-tax amount HK$'000	Increase in deferred tax liabilities (note 25) HK$'000	Net-of-tax amount HK$'000	Before-tax amount HK$'000	Decrease in deferred tax liabilities (note 25) HK$'000	Net-of-tax amount HK$'000
Exchange differences on translating foreign operations	2,722	–	2,722	(4,063)	–	(4,063)
Surplus/(deficit) on revaluation of leasehold land and buildings held for own use	23,810	(4,155)	19,655	(605)	339	(266)
	26,532	(4,155)	22,377	(4,668)	339	(4,329)

12. EARNINGS PER SHARE

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

	2017 HK$'000	2016 HK$'000
Profit attributable to owners of the Company	43,091	21,924

	Number of shares 2017	2016
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.

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

(a) Directors' emoluments is disclosed as follows:

	Year ended 31 December 2017			
	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	–	1,540	18	1,558
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Lee Kit Wah	125	–	–	125
Wong Wah Sang, Derek	80	–	–	80
	330	11,530	18	11,878

13. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS – CONTINUED

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

	Year ended 31 December 2016			
	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	–	1,439	18	1,457
Independent non-executive directors				
Chung Pui Lam	125	–	–	125
Chan Fai Yue, Leo	40	–	–	40
Lee Kit Wah	125	–	–	125
Wong Wah Sang, Derek	43	–	–	43
	333	11,429	18	11,780

No directors waived any remuneration during the year (2016: Nil). No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2017 (2016: Nil).

Basic salaries, allowance and other benefits paid to or payable to the executive directors are generally emoluments paid or payable in connection with the management of the affairs of the Company and its subsidiaries.

13. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' AND SENIOR MANAGEMENTS' EMOLUMENTS – CONTINUED

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, four (2016: four) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining one (2016: one) individual were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	704	667
Contributions to defined contribution retirement plan	18	18
	722	685

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 (2016: Nil).

The emoluments paid or payable to members of senior management excluding directors were within the following band:

	Number of employees	
	2017	2016
Nil to HK$1,000,000	2	4

14. 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 2016	204,550	33,827	27,772	5,721	271,870
Additions	–	1,249	517	661	2,427
Disposals	–	(287)	(85)	(656)	(1,028)
Deficit on revaluation	(3,405)	–	–	–	(3,405)
Exchange adjustment	(1,065)	(136)	(186)	(22)	(1,409)
At 31 December 2016 and 1 January 2017	200,080	34,653	28,018	5,704	268,455
Additions	–	839	525	1,334	2,698
Disposals	–	(288)	(684)	–	(972)
Surplus on revaluation	21,026	–	–	–	21,026
Exchange adjustment	1,064	171	195	22	1,452
At 31 December 2017	222,170	35,375	28,054	7,060	292,659
Accumulated depreciation					
At 1 January 2016	–	29,749	24,256	5,441	59,446
Charge for the year	2,800	1,673	728	146	5,347
Disposals	–	(287)	(84)	(656)	(1,027)
Written back on revaluation	(2,800)	–	–	–	(2,800)
Exchange adjustment	–	(89)	(95)	(8)	(192)
At 31 December 2016 and 1 January 2017	–	31,046	24,805	4,923	60,774
Charge for the year	2,784	1,475	738	284	5,281
Disposals	–	(288)	(674)	–	(962)
Written back on revaluation	(2,784)	–	–	–	(2,784)
Exchange adjustment	–	153	98	11	262
At 31 December 2017	–	32,386	24,967	5,218	62,571
Carrying amount					
At 31 December 2017	222,170	2,989	3,087	1,842	230,088
At 31 December 2016	200,080	3,607	3,213	781	207,681

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	Leasehold land and buildings held for own use HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Representing:					
2017					
At cost	–	35,375	28,054	7,060	70,489
At valuation	222,170	–	–	–	222,170
	222,170	35,375	28,054	7,060	292,659
2016					
At cost	–	34,653	28,018	5,704	68,375
At valuation	200,080	–	–	–	200,080
	200,080	34,653	28,018	5,704	268,455

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

	2017 HK$'000	2016 HK$'000
Hong Kong	200,900	182,200
The PRC	21,270	17,880
	222,170	200,080

The leasehold land and buildings held by the Group for own use located in Hong Kong and PRC were valued at 31 December 2017 (2016: 31 December 2016) 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/(deficit) net of applicable deferred income taxes was credited/(debited) to property revaluation reserve.

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

Fair value hierarchy

	Fair value measurements at 31 December 2017 using significant unobservable inputs (Level 3) HK$'000	Fair value measurements at 31 December 2016 using significant unobservable inputs (Level 3) HK$'000
Description		
Recurring fair value measurements		
Property, plant and equipment:		
Leasehold land and buildings in Hong Kong	200,900	182,200
Buildings in PRC	21,270	17,880
	222,170	200,080

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.

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

	Buildings in PRC HK$'000	Leasehold land and buildings in Hong Kong HK$'000	Total HK$'000
At 1 January 2016	18,950	185,600	204,550
Depreciation charge on revaluation of properties held for own use	(335)	(2,465)	(2,800)
Unrealised gains/(losses) included in other comprehensive income	330	(935)	(605)
Exchange adjustment	(1,065)	–	(1,065)
At 31 December 2016 and 1 January 2017	17,880	182,200	200,080
Depreciation charge on revaluation of properties held for own use	(328)	(2,456)	(2,784)
Unrealised gains included in other comprehensive income	2,654	21,156	23,810
Exchange adjustment	1,064	–	1,064
At 31 December 2017	21,270	200,900	222,170

For leasehold land and buildings in Hong Kong, the valuation was determined using a market comparison approach. The fair value of leasehold land and buildings is 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.

14. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

Description	Fair value at 31 December 2017 (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	200,900 (2016: HK$182,200)	Market comparison approach	Age of property factor	0% (2016: (9%)-0%)	Lower age, higher quality and transaction close to valuation date will result in correspondingly higher fair value.
			Quality factor	0% (2016: 8%-20%)	
			Time of transaction factor	8%-13% (2016:1%-9%)	
Buildings in PRC	21,270 (2016: HK$17,880)	Depreciated replacement cost approach	Age adjustment on the cost of buildings, taking into account the remaining useful life of buildings.	60%-86% (2016: 62%-88%)	Lower the age of buildings will result in correspondingly higher fair value.

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

The fair value measurements are 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 2017 would have been approximately HK$16,577,000 (2016: HK$17,878,000).

15. INVESTMENT PROPERTY

	2017 HK$'000	2016 HK$'000
Fair value		
At 1 January	98,100	107,300
Change in fair value	400	(9,200)
At 31 December	98,500	98,100

The investment property of the Group is held under long-term leases in Hong Kong.

There was no deferred tax for the fair value change of investment property located in Hong Kong as capital gain tax on sale of the investment property is not applicable in Hong Kong and the deferred tax for the fair value change of investment property is dealt with accordance with the accounting policy set out in note 4(o).

15. INVESTMENT PROPERTY – CONTINUED

The investment property held by the Group was valued by qualified valuers from LCH (Asia-Pacific) Surveyors Limited, an independent firm of chartered surveyors. The valuation was 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 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 valuation was determined using a market comparison approach. The fair value is based on the prices for recent market transactions in similar properties and adjusted to reflect the condition and location of the Group's investment property. The significant input of this valuation approach is price per square feet, which has been adjusted to reflect the time of transaction, location, size, level and age of the property, site view and building quality.

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

Description	Fair value at 31 December 2017 (HK$'000)	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Investment property in Hong Kong	98,500 (2016: HK$98,100)	Market comparison approach	Floor adjustment factor	(5%)-9% (2016:2%-6%)	Higher floor will result in correspondingly higher fair value.
			Location adjustment factor	5% (2016: (10%)-0%)	Higher rate of location adjustment will result in correspondingly higher fair value.

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

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

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

	2017 HK$'000	2016 HK$'000
At 1 January	3,453	3,773
Amortisation for the year	(113)	(113)
Exchange adjustment	204	(207)
At 31 December	3,544	3,453

	2017 HK$'000	2016 HK$'000
Leases between 10 to 50 years, held in:		
The PRC	3,544	3,453

17. GOODWILL

	2017 HK$'000	2016 HK$'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% (2016: 0%), which does not exceed the long-term growth rate for the magnetic component production industry.

	2017	2016
Pre-tax discount rate	14%	16%
Operating margin within the five-year period	13%-21%	16%-24%
Growth rate within the five-year period	0%-3%	0%-5%
Wage inflation	3%	6%

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

As a result of applying the impairment testing, no impairment loss has been recognised since initial recognition of goodwill.

19. INTERESTS IN SUBSIDIARIES

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	Percentage of ownership interests Directly 2017	Directly 2016	Indirectly 2017	Indirectly 2016
Guardsafe Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1,000	100%	100%	–	–
Great Vigour Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	100%	100%	–	–
Musthave Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$1	–	–	100%	100%
Think Machine Technology Limited	British Virgin Islands	Hong Kong	Investment holding	US$2	–	–	100%	100%
Century Electronics Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	–	100%	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%	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%	100%
Datatronic Distribution, Inc.	California, the United States of America	California, the United States of America	Trading of electronic components	US$1,000	–	–	100%	100%
Champ Asset Limited	Hong Kong	Hong Kong	Property holding	HK$1	–	–	100%	100%
Maxgain Venture Limited	Hong Kong	Hong Kong	Property holding	HK$2	–	–	100%	100%
Pulse Tek Trading Limited	Hong Kong	Hong Kong	Trading of electronic components	HK$2	–	–	100%	100%

19. INTERESTS IN SUBSIDIARIES – CONTINUED

Name	Place of incorporation	Place of operation	Principal activities	Issued and fully paid share capital	Percentage of ownership interests Directly 2017	Directly 2016	Indirectly 2017	Indirectly 2016
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%	100%
Datamax S.A.R.L. (iii)	France	France	Trading of electronic components	Euro7,622.45	–	–	–	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.

(iii) Pursuant to the deregistration certificate, a subsidiary, Datamax S.A.R.L. which incorporated in France for trading of electronic components in France, had been deregistered on 8 August 2017. Except for above deregistration, there is no change in the particulars of all subsidiaries of the Group during the year.

20. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	44,119	40,685
Work-in-progress	4,367	5,605
Finished goods	32,196	31,673
	80,682	77,963

The Group's inventories with carrying amount of approximately HK$6,005,000 (2016: HK$9,254,000) was stated at net realisable value.

21. 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, based on invoice dates, as at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Within 30 days	16,952	17,247
31 to 60 days	7,378	8,716
61 to 90 days	1,420	1,457
Over 90 days	1,072	375
	26,822	27,795
Less: Allowance for doubtful debts	(296)	(296)
	26,526	27,499

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

	2017 HK$'000	2016 HK$'000
At 1 January	296	332
Recovery of impairment loss previously recognised	–	(36)
At 31 December	296	296

21. TRADE RECEIVABLES – CONTINUED

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

	2017 HK$'000	2016 HK$'000
Less than 1 month past due	3,672	4,692
1 to 3 months past due	1,109	330
Total amounts past due but not impaired	4,781	5,022
Neither past due nor impaired	21,745	22,477
	26,526	27,499

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 had been 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.

22. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

Particulars of the amounts due from ultimate holding company and related companies, disclosed are as follows:

	2017 HK$'000	2016 HK$'000	Maximum amount outstanding during the year HK$'000
Ultimate holding company			
Onboard Technology Limited	77	70	77
Related companies			
Data Express Limited*	78	68	78
Citicheer Enterprise Inc**	73	63	73
	151	131	

22. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY AND RELATED COMPANIES – CONTINUED

	2016 HK$'000	2015 HK$'000	Maximum amount outstanding during the year HK$'000
Ultimate holding company			
Onboard Technology Limited	70	63	70
Related companies			
Data Express Limited*	68	58	68
Citicheer Enterprise Inc**	63	51	63
	131	109	

The amounts due from ultimate holding company and related companies are unsecured, interest free and repayable on demand.

* Mr. Siu Paul Y., a director of the Company, has controlling interest in Data Express Limited.

** Mr. Siu Paul Y., a director of the Company, has controlling interest in Citicheer Enterprise Inc..

23. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	13,334	10,177
Other payables and accruals	9,809	8,773
	23,143	18,950

An ageing analysis of trade payables, based on invoice dates, as at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Within 30 days	6,783	4,476
31 to 60 days	3,838	3,459
61 to 90 days	1,821	1,217
Over 90 days	892	1,025
	13,334	10,177

24. EMPLOYEE BENEFITS

Details of the employee benefits and movements thereof:

	Provision for long service payments	
	2017 HK$'000	2016 HK$'000
At the beginning of the year	17,467	18,422
Exchange adjustments	810	(798)
Add: Additional provision made	3,771	676
Less: Reversal of provision	(2,063)	(833)
At the end of the year	19,985	17,467
Categorised as:		
Due after more than one year	19,985	17,467

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 left the Group.

25. DEFERRED TAX

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

	Revaluation of leasehold land and buildings for own use HK$'000	Depreciation allowances in excess of the related depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2016	28,752	13	–	28,765
(Credit)/debit to profit or loss (note 10)	(490)	11	–	(479)
Credit to other comprehensive income (note 11)	(339)	–	–	(339)
At 31 December 2016 and 1 January 2017	27,923	24	–	27,947
(Credit)/debit to profit or loss (note 10)	(487)	958	(2,191)	(1,720)
Debit to other comprehensive income (note 11)	4,155	–	–	4,155
At 31 December 2017	31,591	982	(2,191)	30,382

25. DEFERRED TAX – CONTINUED

For the purpose of presentation in statement of financial position. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2017 HK$'000	2016 HK$'000
Deferred tax asset	2,191	–
Deferred tax liabilities	(32,573)	(27,947)
	(30,382)	(27,947)

A deferred tax asset has not been recognised for the following:

	2017 HK$'000	2016 HK$'000
Unused tax losses	–	9,837

The Group had not recognised deferred tax assets in respect of tax losses of approximately HK$9,837,000 for the year ended 31 December 2016 due to the unpredictability of taxable profits in the foreseeable future. Included in such unused tax losses not recognised was the unused tax losses of approximately HK$7,375,000 generated from a subsidiary in France deregistered during the year that could previously be carried forward indefinitely and the remaining unused tax losses of approximately HK$2,462,000 was generated from a subsidiary in the US that could be carried forward for 20 years from the incurred dates.

No deferred tax liability has been recognised on temporary differences of approximately HK$17,231,000 (2016: HK$15,251,000) relating to the undistributed earnings of the PRC subsidiary because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26. SHARE CAPITAL

	2017 HK$'000	2016 HK$'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

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 2016	57,099	89,606	(81,055)	65,650
Changes in equity for 2016:				
Dividends paid (note b(i))	–	–	(12,800)	(12,800)
Profit and total comprehensive income for the year	–	–	13,904	13,904
At 31 December 2016 and 1 January 2017	57,099	89,606	(79,951)	66,754
Changes in equity for 2017:				
Dividends paid (note b(i))	–	–	(12,800)	(12,800)
Profit and total comprehensive income for the year	–	–	12,940	12,940
At 31 December 2017	57,099	89,606	(79,811)	66,894

(b) Dividends

(i) Dividends paid during the year:

	2017 HK$'000	2016 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.02 (2016: HK$0.02) per ordinary share	6,400	6,400
Interim, declared and paid, of HK$0.02 (2016: HK$0.02) per ordinary share	6,400	6,400
	12,800	12,800

(ii) Dividend proposed in respect of the current year:

	2017 HK$'000	2016 HK$'000
Final, proposed, of HK$0.022 (2016: HK$0.02) per ordinary share	7,040	6,400

The final dividend for 2017 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.

27. RESERVES – CONTINUED

(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 operations. The reserve is dealt with accordance with the accounting policy set out in note 4(p).

(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.

(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, which also constitute connected transactions as defined in Chapter 14A of the Listing Rules, included in the consolidated statement of comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Datatronics Romoland, Inc. ("DRI")#		
Sales to DRI	65,065	53,146
Reimbursement of expenses to DRI	9,235	10,214

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

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

	2017 HK$'000	2016 HK$'000
Year-end balance included in trade receivables arising from sales of goods to DRI	1,128	1,683
Year-end balance arising from advanced payment due from related companies:		
– Data Express Limited (Note 22*)	78	68
– Citicheer Enterprise Inc (Note 22**)	73	63

(c) Key management personnel remuneration of the Group

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	11,530	11,429
Post-employment benefits	18	18
	11,548	11,447

The key management personnel of the Group are the executive directors of the Group.

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 expense are as follows:

	2017 HK$'000	2016 HK$'000
Minimum lease payments	442	441

The total future minimum lease payments are due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	188	187
In the second to the fifth year	298	–
	486	187

Operating lease – lessor

The Group's investment property is leased to a tenant under an operating lease. At the end of the year, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	2,976	2,831
In the second to the fifth year	6,144	183
	9,120	3,014

30. CAPITAL COMMITMENTS

There is no capital commitment as at 31 December 2017 (2016: Nil).

31. THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Interests in subsidiaries	19	113,606	113,606
		113,606	113,606
Current assets			
Prepayments, deposits and other receivables		103	103
Cash and cash equivalents		64	90
		167	193
Current liabilities			
Amounts due to subsidiaries		14,774	14,979
Trade and other payables		105	66
		14,879	15,045
Net current liabilities		(14,712)	(14,852)
NET ASSETS		98,894	98,754
Equity			
Share capital	26	32,000	32,000
Reserves	27	66,894	66,754
TOTAL EQUITY		98,894	98,754

On behalf of the Board of Directors

Siu Paul Y.
Director

Shui Wai Mei
Director

32. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include, cash and cash equivalents, trade and other 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 2017, 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, 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 26% (2016: 20%) and 61% (2016: 63%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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.

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.

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(ii) Liquidity risk

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

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

	2017 HK$'000	2016 HK$'000
Trade and other payables	23,143	18,950

(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.

(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:

	2017		2016	
	Effective interest rate %	One year or less HK$'000	Effective interest rate %	One year or less HK$'000
Cash and cash equivalents	2.03%	343,682	2.15%	323,968

32. FINANCIAL RISK MANAGEMENT – CONTINUED

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

(ii) Sensitivity analysis

At 31 December 2017, 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$1,031,000 (2016: HK$972,000). Other components of consolidated equity would not be affected (2016: HK$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 2016.

(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.

	2017			
	United States dollars HK$'000	Renminbi HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	286,016	67,693	1,169	2,816
Trade and other receivables	8,062	–	–	–
Trade and other payables	(2,227)	(223)	–	–
Overall exposure arising from recognised assets and liabilities	291,851	67,470	1,169	2,816

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(iv) Currency risk – Continued

(i) Exposure to currency risk – Continued

	2016			
	United States dollars HK$'000	Renminbi HK$'000	Pound Sterling HK$'000	Euro HK$'000
Cash and cash equivalents	181,742	125,131	753	1,720
Trade and other receivables	8,228	–	6	–
Trade and other payables	(2,375)	(11)	–	–
Overall exposure arising from recognised assets and liabilities	187,595	125,120	759	1,720

(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.

	2017		2016	
	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
Monetary net assets denominated in Renminbi	3%	2,024	3%	3,754
	(3%)	(2,024)	(3%)	(3,754)

Other components of consolidated equity would not be affected (2016: 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.

32. FINANCIAL RISK MANAGEMENT – CONTINUED

(iv) Currency risk – Continued

(ii) Sensitivity analysis – Continued

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 2016.

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

(v) Fair values

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

33. 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.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Total debt is calculated as the total of trade and other payables and provision of employee benefits. Capital includes equity attributable to owners of the Company.

	2017 HK$'000	2016 HK$'000
Total debt	43,128	36,417
Less: Cash and cash equivalents	(402,453)	(367,251)
Net debt	(359,325)	(330,834)
Equity attributable to the owners of the Company	782,138	729,470
Net debt and equity	422,813	398,636
Gearing ratio	(85%)	(83%)

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

	Carrying amount and fair value	
	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables		
– Cash and cash equivalents	402,453	367,251
– Trade receivables	26,526	27,499
– Deposits and other receivables	1,153	1,317
– Amount due from ultimate holding company	77	70
– Amounts due from related companies	151	131
	430,360	396,268
Financial liabilities		
Financial liabilities measured at amortised cost		
– Trade and other payables	23,143	18,950

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

35. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Dividend payable HK$'000	Total HK$'000
At 1 January 2016	–	–
Changes from cash flows:		
Dividends paid	(12,800)	(12,800)
Non-cash changes:		
Dividends declared	12,800	12,800
At 31 December 2016	–	–
Changes from cash flows:		
Dividends paid	(12,800)	(12,800)
Non-cash changes:		
Dividends declared	12,800	12,800
At 31 December 2017	–	–

36. EVENTS AFTER THE REPORTING DATE

The Group entered into an agreement on 6 February 2018 with the People's Government of Banfu Town, Zhongshan City, in PRC, pursuant to which the Group shall acquire the land use right of a piece of land with an area of approximately 23 mu located inside the Zhongshan Intelligent Manufacturing Equipment Industrial Park (the "Target Land") from the Zhongshan City Bureau of Land, subject to and conditional upon, inter alia, through the process of bidding invitation, auction or listing and, if the land use right of the Target Land is successfully acquired, the construction and development of a manufacturing plant thereon. Details of the proposed acquisition of the land use right of the Target Land could be referred to the announcement dated 6 February 2018.

37. PRIOR DISCLOSURE IN RESPECT OF CUSTOMS DUTY

On 24 March 2017, a Prior Disclosure (the "PD") was filed with U.S. Customs and Border Protection ("CBP") by an independent customs expert on behalf of a subsidiary of the Company in the US, Datatronic Distribution, Inc. ("DDI"). The PD primarily concerned the misclassification of various items imported by DDI broker under the Harmonised Tariff Schedule of the United States, incorrect valuation of entries of certain commercial samples imported by DDI and undeclared commercial invoices which DDI failed to report in certain entries. In the PD, the independent customs expert determined that DDI has underpaid duties and fees from the misdeclarations to CBP. Accordingly, DDI recognised an additional provision for customs duties in respect of the preceding five years with an aggregate amount of USD1,807,000 (approximately HK$14,022,000) plus interest thereon of USD154,000 (approximately HK$1,195,000) in accordance with the relevant laws in the US, and such amount was fully paid to CBP during the year and was recognised in the Company's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017. As at the date of this report, the PD is pending acceptance by CBP. In the opinion of directors of the Company, based on the current facts and circumstances and advices from an independent customs expert, CBP has no basis to reject the PD, and any additional liabilities arising from the PD, is likely to be immaterial. In addition, DDI had taken necessary remedial measures to ensure future compliance.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2018.

FINANCIAL SUMMARY

For the year ended 31 December 2017

The consolidated statement of comprehensive income of the Group for the financial years 2013 to 2017 and the consolidated statements of financial position of the Group as at 31 December 2013, 2014, 2015, 2016 and 2017 are as follows:

	Year ended 31 December				
Results	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000
Revenue	284,038	301,593	279,696	266,967	280,964
Profit before taxation	36,344	35,674	5,826	25,769	43,134
Income tax	(3,003)	(3,036)	(3,024)	(3,845)	(43)
Profit for the year	33,341	32,638	2,802	21,924	43,091
Attributable to:					
Owners of the Company	33,341	32,638	2,802	21,924	43,091

	At 31 December				
Assets and liabilities	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000
Total assets	760,606	786,939	791,593	796,149	858,948
Total liabilities	(63,694)	(63,669)	(66,918)	(66,679)	(76,810)
Total equity	696,912	723,270	724,675	729,470	782,138

Major land held by the Group

Location	Existing usage	Term of lease	Percentage of interest
78 Marble Road 499 King's Road North Point Hong Kong	Office	Long term	100%
8 Russell Street Causeway Bay	Investment property	Long 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%