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DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 889)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “Board”) of Datronix Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 together with comparative figures in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	3	116,883	108,945
Cost of sales		(85,857)	(74,175)
Gross profit		31,026	34,770
Other revenue and gain	3	3,073	6,107
Distribution and selling expenses		(8,150)	(9,736)
Administrative expenses		(35,032)	(36,180)
Finance costs		(15)	(24)
Loss before income tax expense	5	(9,098)	(5,063)
Income tax expense	6	(2,139)	(1,565)
Loss for the period and attributable to owners of the Company		(11,237)	(6,628)
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		80	(3,054)
Other comprehensive income for the period and attributable to owners of the Company, net of tax		80	(3,054)
Total comprehensive income for the period and attributable to owners of the Company		(11,157)	(9,682)
Loss per share			
- Basic and diluted	8	HK\$0.035	HK\$0.027

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 30 JUNE 2021**

	Note	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		502,392	487,073
Investment property		82,000	82,000
Payment for acquisition of a land use right and a property		-	1,134
Prepayments for acquisition of property, plant and equipment		298	310
Goodwill		9,486	9,486
Deferred tax asset		137	137
		594,313	580,140
CURRENT ASSETS			
Inventories		93,407	83,687
Trade receivables	9	23,549	23,584
Amount due from ultimate holding company		101	101
Amount due from related companies		229	229
Tax prepayment		1,284	1,254
Prepayments, deposits and other receivables		9,573	14,121
Cash and cash equivalents		224,556	256,722
		352,699	379,698
CURRENT LIABILITIES			
Trade and other payables	10	31,664	30,108
Amount due to a related company		282	583
Lease liabilities		454	454
Current tax liabilities		1,067	501
		33,467	31,646
NET CURRENT ASSETS		319,232	348,052
TOTAL ASSETS LESS CURRENT LIABILITIES		913,545	928,192

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED**AS AT 30 JUNE 2021**

		30 June 2021	31 December 2020
		(Unaudited)	(Audited)
	Note	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Lease liabilities		180	405
Employee benefits		18,996	18,996
Retention payable		3,274	3,339
Deferred tax liabilities		39,863	39,863
		62,313	62,603
NET ASSETS		851,232	865,589
EQUITY			
Share capital	11	32,000	32,000
Reserves		819,232	833,589
TOTAL EQUITY		851,232	865,589

Notes:

1. Basis of preparation

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

2. Accounting policies

The accounting policies and basis of preparation adopted in these condensed consolidated interim financial statements are consistent with those adopted in the Group’s annual consolidated financial statements for the year ended 31 December 2020 except as described below.

In the current period, the Group has adopted, for the first time, the new/revised Hong Kong Financial Reporting Standards, which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by HKICPA, that are effective for accounting periods beginning on 1 January 2021 and which are relevant to its operations. The new/revised HKFRSs adopted by the Group in the unaudited condensed consolidated interim financial statements are set out below:

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform – Phase 2

The adoption of the new/revised HKFRSs had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. Revenue and other revenue**a) Revenue**

Revenue represents the net invoiced value of goods sold.

b) Other revenue and gain

	Six months ended 30 June 2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	482	2,361
Change in expected credit loss on other receivable	2,368	-
Income from disposal of scrap materials	127	308
Rental income	96	1,488
Employment support scheme	-	1,950
	<u>3,073</u>	<u>6,107</u>

4. 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 of electronic components in both Hong Kong and overseas 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.

Geographical information

The Group comprises the following main geographical segments:

	Revenue from external customers	
	Six months ended 30 June 2021 HK\$'000	2020 HK\$'000
Hong Kong (place of domicile)	535	139
The PRC	9,837	10,515
The United States	97,934	91,085
European Union	1,972	1,941
Other countries	6,605	5,265
	116,348	108,806
	116,883	108,945

5. Loss before income tax expense

Loss before income tax expense is stated after charging the following:

	Six months ended 30 June 2021 HK\$'000	2020 HK\$'000
Cost of inventories recognized as expenses	85,857	74,175
Depreciation charge of:		
- owned property, plant and equipment	2,010	1,519
- right-of-use assets included within		
- ownership interest in leasehold land and buildings held for own use carried at fair value	3,585	2,141
- ownership interests in leasehold land held for own use carried at cost	378	381
- other properties leased for own use carried at cost	224	224
Exchange loss, net	6	997

6. Income tax expense

The amount of income tax charged to the condensed consolidated statement profit or loss and other comprehensive income represents:

	Six months ended 30 June 2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax – Hong Kong profits tax		
- provision for the period	998	63
Current tax – Overseas		
- provision for the period	1,003	1,471
- under provision in respect of prior years	138	31
	<u>2,139</u>	<u>1,565</u>

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

7. Interim dividend

	Six months ended 30 June 2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interim dividend declared, HK\$0.01 (2020: HK\$0.01) per ordinary share	<u>3,200,000</u>	<u>3,200,000</u>

At the board meeting held on 19 August 2021, the Board has resolved to declare an interim dividend of HK\$0.01 (2020: HK\$0.01) per share in respect of the six months ended 30 June 2021, to shareholders whose names appear on the register of members of the Company on Friday, 17 September 2021.

8. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2021 was based on the loss attributable to the owners of the Company of approximately HK\$11,237,000 (six months ended 30 June 2020: HK\$6,628,000) and on the weighted average number of 320,000,000 (2020: 320,000,000) shares in issue during the period.

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

9. 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.

The aging analysis of trade receivables is as follows:

	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Within 30 days	15,376	16,178
31 to 60 days	7,144	5,262
61 to 90 days	1,505	2,575
Over 90 days	437	482
	<u>24,462</u>	<u>24,497</u>
Less: Loss allowances for impairment	(913)	(913)
	<u>23,549</u>	<u>23,584</u>

10. Trade and other payables

	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Trade payables	14,796	11,537
Other payables and accruals	11,989	10,226
Fee and retention payables for construction of manufacturing plants	4,879	8,345
	31,664	30,108

The aging analysis of trade payables is as follows:

	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Within 30 days	7,684	7,320
31 to 60 days	3,746	3,327
61 to 90 days	1,670	677
Over 90 days	1,696	213
	14,796	11,537

11. Share capital

	Number of shares	Amount <i>HK\$'000</i>
Authorised ordinary shares of HK\$0.1 each At 1 January 2021 and 30 June 2021	1,000,000,000	100,000
Issued and fully paid ordinary shares of HK\$0.1 each At 1 January 2021 and 30 June 2021	320,000,000	32,000

INTERIM DIVIDEND

At the board meeting held on 19 August 2021, the Board has resolved to declare an interim dividend of HK\$0.01 (2020: HK\$0.01) per share, totaling HK\$3,200,000 (2020: HK\$3,200,000) in respect of the six months ended 30 June 2021 to shareholders whose names appear on the register of members of the Company on Friday, 17 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 15 September 2021 to Friday, 17 September 2021, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 14 September 2021. The cheques for dividend payment will be sent on about Thursday, 23 September 2021.

MANAGEMENT DISCUSSION & ANALYSIS**Business Review**

Datronix began with a rough year in 2021 as the continuous pandemic has adversely impacted on our business operations. Some of our customers had showed signs of recovery, yet the rate is still slow. The continuous travel restrictions have poised limitation and difficulties to grow and improve our operations. Under the pandemic, labor shortage in China remained a major concern for the group to capture more sales. For the first half of 2021, Datronix reported revenue of HK\$116.9 million, an increase of 8 million or 7% from HK\$108.9 million for the same period of 2020.

Various cost factors such as raw material prices, logistics costs and labour wages continued to rise and has significantly lowered our gross margin. For the first 6 months of 2021, our gross profit was at HK\$31 million, which was adversely affected by the increase of our manufacturing costs along with the appreciation of Renminbi. Our gross margin was 26.5%, declined of 11% from comparable period of 2020. We reported a net loss of HK\$11.2 million, compared to net loss of HK\$6.6 million for the same period of 2020.

The Group maintained a healthy financial position with no debt issuance for the first half of 2021.

Market Review*Communication and Networking*

Communication segment contributed HK\$38.1 million of sales for the first six months of 2021, an increase of 19% compared to HK\$32.1 million for the comparable period of last year. This segment contributed 33% of the Group's total revenue.

Data Processing

Data processing segment contributed 8% of the Group's revenue. Sales increased 28% for this segment were HK\$8.9 million for the first half of 2021, compare to HK\$6.9 million for the six months ended 2020.

Industrial Application

For the first six months of 2021, industrial application segment sales were HK\$42.2 million, compared to HK\$37.2 million, an increase of 13% compare to the same period of 2020. This segment contributed 36% of the Group's total revenue.

High Precision and Reliability Segment

This segment demands precise technology, advance technical know-how and good workmanship by the Group. The segment reported HK\$27.7 million for first half of 2021, compared to \$32.7 million for the first six months in 2020. This segment contributed 23% of our total sales.

Financial Review

For the six months period ended 30 June 2021, Group sales reported HK\$116.9 million, a increase of HK\$7.9 million, compared to same period of 2020. Our gross profit was HK\$31 million, compared to HK\$34.8 million for the first half of 2020. Gross margin decreased from 31.9% to 26.5%.

Operating result of first half of 2021 decreased from a loss of HK\$5.1 million to HK\$9.1 million when compared to same period of 2020. The net loss reported HK\$11.2 million, compared to a net loss of HK\$6.6 million for the six months period ended 30 June 2020. Loss per share for the first half of 2021 was HK3.5 cents, compared to loss per share of HK2.1 cents for the first half of 2020.

The Group maintained a healthy financial position with sufficient cash and no debt instrument was issued.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2021, the Group had a total equity of approximately HK\$851.2 million (31 December 2020: HK\$865.6 million), and cash and cash equivalents of approximately HK\$224.6 million (31 December 2020: HK\$256.7 million), which were predominately denominated in US dollars and Renminbi.

For the six months ended 30 June 2021, the Group had not arranged 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.

Capital expenditure for the period under review amounted to approximately HK\$20.7 million (six months ended 30 June 2020: HK\$66.2 million).

Employees and Remuneration Policies

As at 30 June 2021, the Group employed approximately 1,082 personnel around the world, with approximately 95 in Hong Kong, 633 in the People's Republic of China and 354 overseas. The Group has a staff education sponsorship program and also provides training courses to staff on operational system, product and technology development, and product safety.

Capital Commitments

As at 30 June 2021, the Group has capital commitment contracted but not provided for in the financial statements in respect of property, plant and equipment approximately HK\$26 million (31 December 2020: HK\$33.2 million).

Contingent Liabilities

The Group did not have any material contingent liability as at 30 June 2021 (31 December 2020: Nil).

Looking Forward

We had faced a challenging year in the first half of 2021, and we anticipated the impact is still ahead of us, with the minimum wages in China is expected to increase further in the second half of 2021. Datronix is focusing our priority to managing our costs effectively and by allocating our resources to more profitable and promising segment. On the other hand, we also actively explore business opportunities in Mainland China and other area of the globe, whilst trying to maintaining our trust relationship with our existing customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2021.

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices ("the Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report, except for the following deviations:

Code Provision A.2.1

Under the provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Company have been performed by Mr. Siu Paul Y.. The Board considered that the non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Code Provision A.4.1

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

Code Provision A.4.2

Under the provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Bye-laws of the Company, the chairman of the Company will not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of Hong Kong Exchange and Clearing Limited (“HKEx”) at www.hkex.com.hk and on the Company’s website at www.datronixhldgs.com.hk. The interim report of the Company will be dispatched to the shareholders and will be available on the websites of HKEx and the Company in due course.

DIRECTORS

As at the date of this announcement, the Board of the Company comprises Mr. Siu Paul Y. (Chairman), Ms. Shui Wai Mei (Vice-Chairman), Mr. Sheung Shing Fai and Ms. Siu Nina Margaret as Executive Directors, Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek as Independent Non-executive Directors.

By order of the Board

SIU Paul Y.

Chairman

Hong Kong, 19 August 2021

** For identification purposes only*