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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 2022

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 2022 together with comparative figures in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
Revenue	3	127,261	116,883
Cost of sales		(103,530)	(85,857)
Gross profit		23,731	31,026
Other revenue and gain	3	3,168	3,073
Distribution and selling expenses		(8,406)	(8,150)
Administrative expenses		(36,378)	(35,032)
Finance costs		(16)	(15)
Loss before income tax expense	5	(17,901)	(9,098)
Income tax expense	6	(763)	(2,139)
Loss for the period and attributable to owners of the Company		(18,664)	(11,237)
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss:			
Change in fair value of equity instruments at fair value through other comprehensive income, net of tax		(95)	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(12,352)	80
Other comprehensive income for the period and attributable to owners of the Company, net of tax		(12,447)	80
Total comprehensive income for the period and attributable to owners of the Company		(31,111)	(11,157)
Loss per share			
- Basic and diluted	8	(HK\$0.058)	(HK\$0.035)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 30 JUNE 2022**

	Note	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		528,061	541,076
Investment property		84,200	84,200
Equity instruments at fair value through OCI		3,920	-
Prepayments for acquisition of property, plant and equipment		1,000	2,490
Goodwill		9,486	9,486
Deferred tax asset		311	311
		626,978	637,563
CURRENT ASSETS			
Inventories		106,428	106,647
Trade receivables	9	39,144	29,904
Amount due from ultimate holding company		112	112
Amount due from related companies		257	257
Tax prepayment		727	1,223
Prepayments, deposits and other receivables		8,097	5,578
Cash and cash equivalents		166,634	208,215
		321,399	351,936
CURRENT LIABILITIES			
Trade and other payables	10	37,591	42,143
Amount due to a related company		176	423
Lease liabilities		542	576
Current tax liabilities		1,977	2,272
		40,286	45,414
NET CURRENT ASSETS		281,113	306,522
TOTAL ASSETS LESS CURRENT LIABILITIES		908,091	944,085

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED**AS AT 30 JUNE 2022**

		30 June 2022	31 December 2021
		(Unaudited)	(Audited)
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		440	690
Employee benefits		18,729	19,424
Retention payable		3,772	4,510
Deferred tax liabilities		41,272	41,272
		64,213	65,896
NET ASSETS		843,878	878,189
EQUITY			
Share capital	11	32,000	32,000
Reserves		811,878	846,189
TOTAL EQUITY		843,878	878,189

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 2021 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 2022 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 3	Reference to the Conceptual Framework
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018-2020
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract

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 2022 HK\$'000	2021 HK\$'000
Bank interest income	362	482
Change in expected credit loss on other receivable	-	2,368
Income from disposal of scrap materials	-	127
Rental income under operating lease	889	96
Employment support scheme	1,512	-
Sundry income	405	-
	<u>3,168</u>	<u>3,073</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	
	2022	2021
	HK\$'000	HK\$'000
Hong Kong (place of domicile)	178	535
The PRC	8,205	9,837
The United States	109,754	97,934
European Union	3,352	1,972
Other countries	5,772	6,605
	<u>127,083</u>	<u>116,348</u>
	<u>127,261</u>	<u>116,883</u>

5. Loss before income tax expense

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Cost of inventories recognized as expenses	103,530	85,857
Depreciation charge of:		
- owned property, plant and equipment	2,252	2,010
- right-of-use assets included within		
- ownership interest in leasehold land and buildings held for own use carried at fair value	3,655	3,585
- ownership interests in leasehold land held for own use carried at cost	378	378
- other properties leased for own use carried at cost	285	224
Exchange loss, net	<u>201</u>	<u>6</u>

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 2022 HK\$'000	2021 HK\$'000
Current tax – Hong Kong profits tax		
- provision for the period	392	998
- over provision in respect of prior years	(10)	-
Current tax – Overseas		
- provision for the period	424	1,003
- (over) / under provision in respect of prior years	(43)	138
	<u>763</u>	<u>2,139</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 2022 HK\$'000	2021 HK\$'000
Interim dividend declared, HK\$0.01 (2021: HK\$0.01) per ordinary share	<u>3,200,000</u>	<u>3,200,000</u>

At the board meeting held on 24 August 2022, the Board has resolved to declare an interim dividend of HK\$0.01 (2021: HK\$0.01) per share in respect of the six months ended 30 June 2022, to shareholders whose names appear on the register of members of the Company on Wednesday, 21 September 2022.

8. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2022 was based on the loss attributable to the owners of the Company of approximately HK\$18,664,000 (six months ended 30 June 2021: HK\$11,237,000) and on the weighted average number of 320,000,000 (2021: 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 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within 30 days	22,854	17,425
31 to 60 days	10,960	6,611
61 to 90 days	3,579	2,211
Over 90 days	2,409	4,315
	<u>39,802</u>	<u>30,562</u>
Less: Loss allowances for impairment	(658)	(658)
	<u>39,144</u>	<u>29,904</u>

10. Trade and other payables

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Trade payables	15,512	11,170
Other payables and accruals	14,539	12,921
Fee and retention payables for construction of manufacturing plants	7,540	18,052
	<u>37,591</u>	<u>42,143</u>

The aging analysis of trade payables is as follows:

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Within 30 days	6,518	4,523
31 to 60 days	6,190	3,681
61 to 90 days	2,193	1,570
Over 90 days	611	1,396
	<u>15,512</u>	<u>11,170</u>

11. Share capital

	Number of shares	Amount <i>HK\$'000</i>
Authorised ordinary shares of HK\$0.1 each At 1 January 2022 and 30 June 2022	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid ordinary shares of HK\$0.1 each At 1 January 2022 and 30 June 2022	<u>320,000,000</u>	<u>32,000</u>

INTERIM DIVIDEND

At the board meeting held on 24 August 2022, the Board has resolved to declare an interim dividend of HK\$0.01 (2021: HK\$0.01) per share, totaling HK\$3,200,000 (2021: HK\$3,200,000) in respect of the six months ended 30 June 2022 to shareholders whose names appear on the register of members of the Company on Wednesday, 21 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19 September 2022 to Wednesday, 21 September 2022, 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 Friday, 16 September 2022. The cheques for dividend payment will be sent on about Wednesday, 28 September 2022.

MANAGEMENT DISCUSSION & ANALYSIS**Business Review**

Datronix revenue for the first half of 2022 reported HK\$127.3 million, an increase of 9% or HK\$ 10.4 million from the comparable period of 2021. The increase is majorly due to the slight recovery observed in earlier of 2022 and most companies' backlog required to be replenished.

Yet, the global political and economic environment continued to pressure business operations during the year of 2022. In addition, consumer confidence and sentiment were getting weaker amid inflation and economy shrank. With all such factors we are facing, our gross profit reported HK\$ 23.7 million, a decrease of 24% due to various costs factors such as labor costs, inflated raw material costs and overhead costs.

During the period, operating costs increased by approximately 4% as due to increase of research & development and employee costs. We reported an operating loss of HK\$17.9 million, compare to HK\$9.1 million loss for the same period in 2021. Our net loss was at HK\$18.7 million for the first half of 2022 while of HK\$11.2 million in the first half of 2021.

As of June 30, 2022, cash balance for the Group was at HK\$166.6 million, and no issuance of any bank loan.

Market Review*Communication and Networking*

Communication segment contributed HK\$28.0 million of sales for the first six months of 2022, a decrease of 26% compared to HK\$38.1 million for the comparable period of last year. This segment contributed 22% of the Group's total revenue.

Data Processing

Data processing segment contributed 14% of the Group's revenue. Sales increased 103% for this segment were HK\$18.1 million for the first half of 2021, compare to HK\$8.9 million for the six months ended 2021.

Industrial Application

For the first six months of 2021, industrial application segment sales were HK\$48.6 million, compared to HK\$42.2 million, an increase of 15% compare to the same period of 2021. This segment contributed 38% 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\$32.6 million for first half of 2022, compared to \$27.7 million for the first six months in 2020. This segment contributed 26% of our total sales.

Financial Review

For the six months period ended 30 June 2022, Group sales reported HK\$127.3 million, an increase of HK\$10.4 million, compared to same period of 2021. Our gross profit was HK\$23.7 million, compared to HK\$31.0 million for the first half of 2022. Gross margin decreased from 26.5% to 18.7%.

Operating result of first half of 2022 decreased from a loss of HK\$9.1 million to HK\$17.9 million when compared to same period of 2021. The net loss reported HK\$18.7 million, compared to a net loss of HK\$11.2 million for the six months period ended 30 June 2021. Loss per share for the first half of 2022 was HK5.8 cents, compared to loss per share of HK3.5 cents for the first half of 2021.

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 2022, the Group had a total equity of approximately HK\$843.9 million (31 December 2021: HK\$878.2 million), and cash and cash equivalents of approximately HK\$166.6 million (31 December 2021: HK\$208.2 million), which were predominately denominated in US dollars and Renminbi.

For the six months ended 30 June 2022, 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\$5.1 million (six months ended 30 June 2021: HK\$20.7 million).

Employees and Remuneration Policies

As at 30 June 2022, the Group employed approximately 1,235 personnel around the world, with approximately 94 in Hong Kong, 602 in the People's Republic of China and 539 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 2022, the Group has capital commitment contracted but not provided for in the financial statements in respect of property, plant and equipment approximately HK\$5.4 million (31 December 2021: HK\$4.7 million).

Contingent Liabilities

The Group did not have any material contingent liability as at 30 June 2022 (31 December 2021: Nil).

Looking Forward

Multiple challenges are ahead of us. As inflation continues to rise on nearly every commodity and service, and the border restriction is to be continued, the path to drive costs down and the development for new projects to strive will be obstructed. Datronix will proactively monitor the changes and impact on our business.

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 2022.

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. Siu Ronald (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, 24 August 2022

** For identification purposes only*