# 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 2008

The board of directors (the "Board") of Datronix Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008 together with comparative figures in 2007 as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2008*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2008** | 2007 |
| | | **(Unaudited)** | (Unaudited) |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Turnover | *3* | **142,551** | 150,072 |
| Cost of sales | | **(77,608)** | (80,279) |
| Gross profit | | **64,943** | 69,793 |
| Other revenue | | **2,230** | 3,887 |
| Distribution and selling expenses | | **(9,931)** | (10,817) |
| Administrative expenses | | **(14,776)** | (13,960) |
| Profit before taxation | *4* | **42,466** | 48,903 |
| Income tax | *5* | **(6,029)** | (7,299) |
| Profit attributable to the equity shareholders of the Company | | **36,437** | 41,604 |
| Interim dividend | | **13,440** | 13,440 |
| Earnings per share | *6* | | |
| - Basic | | **HK11.39 cents** | HK13.00 cents |
| - Diluted | | **N/A** | N/A |

**CONDENSED CONSOLIDATED BALANCE SHEET**

*At 30 June 2008*

| | Note | **30 June 2008 (Unaudited) *HK$'000*** | 31 December 2007 (Audited) *HK$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **36,804** | 36,788 |
| Lease premium for land | | **19,578** | 19,398 |
| | | **56,382** | 56,186 |
| **CURRENT ASSETS** | | | |
| Lease premium for land | | **341** | 558 |
| Inventories | | **78,132** | 77,425 |
| Amount due from ultimate parent enterprise | | **18** | 18 |
| Tax reserve certificates | | **13,624** | 13,624 |
| Prepayments, deposits and other receivables | | **1,643** | 2,683 |
| Trade receivables | *7* | **40,689** | 36,913 |
| Cash and cash equivalents | | **235,959** | 214,532 |
| | | **370,406** | 345,753 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *8* | **12,638** | 14,303 |
| Other payables and accruals | | **5,616** | 6,071 |
| Taxation payables | | **17,618** | 14,301 |
| | | **35,872** | 34,675 |
| **NET CURRENT ASSETS** | | **334,534** | 311,078 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **390,916** | 367,264 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred taxation | | **3,310** | 3,310 |
| **NET ASSETS** | | **387,606** | 363,954 |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | *9* | **32,000** | 32,000 |
| Reserves | | **355,606** | 331,954 |
| **TOTAL EQUITY** | | **387,606** | 363,954 |

*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 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation adopted in these condensed consolidated interim financial statements are consistent with those adopted in the Company's 2007 Annual Report except as described below.

**2. Accounting policies**

In the current period, the Group has adopted, for the first time, the new/revised Hong Kong Financial Reporting Standards ("new HKFRSs"), 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 2008 and which are relevant to its operations. The adoption of the new HKFRSs has no significant impact on these condensed consolidated interim financial statements.

**3. Turnover and segment information**

The Group is principally engaged in the design, development, manufacture and sale of magnetic commonly used in consumer electronics, telecommunication equipment, data processing appliances and other electronics systems for coupling, isolation, filtering, interfacing and timing control appliances. No business segment analysis is presented as there is only one business segment.

The following is an analysis of the Group's turnover by geographical locations where merchandise is delivered:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| United States of America (the "US") | **125,243** | 127,978 |
| Europe | **7,029** | 10,564 |
| Hong Kong | **2,513** | 3,539 |
| Southeast Asia (excluding Hong Kong) | **7,766** | 7,991 |
| | **142,551** | 150,072 |

No analysis of profit attributable to the equity shareholders of the Company by geographical locations is presented as they were generally in line with the distribution of turnover as set out above.

**4. Profit before taxation**

Profit before taxation is stated after charging the following:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold (excluding write-down of inventories) | **77,354** | 79,701 |
| Depreciation and amortization | **2,743** | 2,569 |
| Write-down of inventories, net | **254** | 578 |

**5. Income tax**

The amount of taxation charged to the condensed consolidated income statement represents:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax | **2,756** | 3,403 |
| Overseas taxation | **3,273** | 3,896 |
| | **6,029** | 7,299 |

Hong Kong profits tax was calculated at the rate of 16.5% (2007: 17.5%) 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.

The charge for the period can be reconciled to the profit per the condensed consolidated income statement as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **42,466** | 48,903 |
| Effect of tax at Hong Kong profits tax rate of 16.5% (2007: 17.5%) | **7,007** | 8,558 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **2,027** | 2,373 |
| Income that are not taxable | **(3,200)** | (3,976) |
| Tax losses not recognized | **195** | 175 |
| Others | **-** | 169 |
| | **6,029** | 7,299 |

**6. Earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2008 was based on the profit attributable to the equity shareholders of the Company of approximately HK$36,437,000 (six months ended 30 June 2007: HK$41,604,000) and on the weighted average number of 320,000,000 (2007: 320,000,000) shares in issue during the period.

Diluted earnings per share is not presented as there was no dilutive potential ordinary share in existence during the period (2007: Nil).

**7. Trade receivables**

Customers are usually offered a credit period ranging from 30 days to 90 days. The ageing analysis of trade receivables after provision is as follows:

| | **30 June 2008** | 31 December 2007 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **23,427** | 18,767 |
| 31 to 60 days | **12,413** | 13,233 |
| 61 to 90 days | **3,784** | 3,824 |
| Over 90 days | **1,065** | 1,089 |
| | **40,689** | 36,913 |

**8. Trade payables**

The ageing analysis of trade payables is as follows:

| | **30 June 2008** | 31 December 2007 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **5,950** | 8,163 |
| 31 to 60 days | **4,404** | 3,811 |
| 61 to 90 days | **1,855** | 2,164 |
| Over 90 days | **429** | 165 |
| | **12,638** | 14,303 |

**9. Share capital**

| | **Number of shares** | **Amount** *HK$'000* |
|---|---|---|
| Authorised ordinary shares of HK$0.1 each | | |
| At 1 January 2008 and 30 June 2008 | 1,000,000,000 | 100,000 |
| Issued and fully paid ordinary shares of HK$0.1 each | | |
| At 1 January 2008 and 30 June 2008 | 320,000,000 | 32,000 |

**INTERIM DIVIDEND**

At the board meeting held on 18 September 2008, the Board has resolved to declare an interim dividend of HK4.2 cents (2007: HK4.2 cents) per share, totaling HK$13,440,000 (2007: HK$13,440,000) in respect of the six months ended 30 June 2008 to shareholders whose names appear on the register of members of the Company on Thursday, 16 October 2008.

**CLOSE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 13 October 2008 to Thursday, 16 October 2008, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's branch share registrars 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, 10 October 2008. The cheques for dividend payment will be sent on about Tuesday, 28 October 2008.

**MANAGEMENT DISCUSSION & ANALYSIS**

**Business Review**

We are pleased to announce the results to our shareholders for the first six months ended 30 June 2008. The macroeconomic environment is impacting our overall business, particularly the slowdown among electronic manufacturers in global markets and the weakness in the US market. The pace of growth is gradually slowing in 2008 as consumer spending in the US is beginning to be affected by the financial market turmoil. In China, both the imposition of new labor regulations and appreciation of the Renminbi have posed challenges to us. Despite these difficulties, Datronix has worked diligently to lower costs, increase efficiency and enhance productivity in manufacturing.

**Market Review**

Communication and Networking

For the first half of 2008, sales for the communication market were HK$38.5 million, a decrease of 16% from the same period in 2007. Due to the cyclical nature of this sector, sales have been affected by the slowdown in spending. This market contributes 27% of Group sales.

Data Processing

For the first half of 2008, the data-processing market reported sales of HK$7.2 million, an increase of 38% from same period in 2007. This market contributed 5% of Group sales.

Industrial Application

The industrial application market, having been less impacted by the economic slowdown, reported HK$42.9 million in sales, an increase of 13%. We have observed a steady demand for safety equipment, lighting fixtures and other industrial applications. This market contributed 30% of Group sales.

High Reliability Segment

*Military and Aerospace*

The military and aerospace market reported HK$41.3 million in sales for the first half of 2008. As this market consists of commercial aircraft and other military applications in the US, it is subject to government budget spending programs. This market contributes 29% of Group sales.

*Healthcare*

The healthcare market reported HK$12.7 million in sales for the first six months of 2008. The main contributors to this sector are medical equipment/devices and oral healthcare products. This market contributed 9% of total sales.

**Financial Review**

The turnover for the six months ended 30 June 2008 was HK$142.6 million, compared to HK$150.1 million for the same period in 2007. The profit attributable to equity shareholders for the six months ended 30 June 2008 was HK$36.4 million, compared to HK$41.6 million for the same period in 2007. The gross profit for the first six months in 2008 was HK$64.9 million, compared to HK$69.8 million for same period in 2007. The gross profit margin held steady at 45.5%, compared to 46.5% for the first six months of 2007. Datronix has continued to generate sufficient cash, with cash flow from operations currently at HK$33.9 million.

**Liquidity, Financial Resources and Capital Structure**

As at 30 June 2008, the Group had a total equity of approximately HK$387.6 million (31 December 2007: HK$364 million), and cash and cash equivalents of approximately HK$236 million (31 December 2007: HK$214.5 million), which were predominately denominated in Hong Kong dollars.

For the six months ended 30 June 2008, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no debt and no bank loan for the six months ended 30 June 2008.

Capital expenditure for the period under review amounted to approximately HK$1.7 million (2007: HK$2 million).

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

**Employees and Remuneration Policies**

As at 30 June 2008, the Group employed approximately 1,450 personnel around the world, with approximately 110 in Hong Kong, 1,320 in the People's Republic of China and 20 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.

**Contingent Liabilities**

There was no material contingent liability as at 30 June 2008 (31 December 2007: HK$ Nil).

**Capital Commitments**

The Group had no material capital commitment as at 30 June 2008 (31 December 2007: HK$0.4 million).

**Looking Ahead**

Facing sluggish spending in the US market, our management is currently focused on exploring new geographic markets. We are applying lean manufacturing processes and restructuring efforts to better control manufacturing expenses. We believe that our management team, which has delivered strong profits in the past due to its successful execution of operations, will continue to enjoy success in the future.

We may be uncertain of what lies ahead, but with our healthy and strong balance sheet position, we continue to strive to provide confidence to our customers and shareholders. Once again, we thank our staff, customers and shareholders for their support and faith in Datronix.

**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 2008.

**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 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. alias Siu Paul Yin Tong (Chairman), Ms. Shui Wai Mei (Vice-Chairman), Mr. Sheung Shing Fai and Ms. Siu Nina Margaret as executive directors, Mr. Siu Ronald as a non-executive director and Mr. Chung Pui Lam, Mr. Lam Tak Shing, Harry and Mr. Chan Fai Yue, Leo as independent non-executive directors.

By order of the Board

**SIU Paul Y.**

*Chairman*

Hong Kong, 18 September 2008

** For identification purposes only*