# DATRONIX HOLDINGS LIMITED
# 連達科技控股有限公司*

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 889)

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

The board of directors (the "Board") of Datronix Holdings Limited (the "Company") is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011 as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

| | *Notes* | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|---|
| **Turnover** | *5* | **263,353** | 300,255 |
| Cost of sales | | **(154,550)** | (166,805) |
| **Gross profit** | | **108,803** | 133,450 |
| Other revenue and gain | *5* | **6,805** | 3,629 |
| Distribution and selling expenses | | **(19,667)** | (22,047) |
| Administrative expenses | | **(47,120)** | (42,913) |
| **Profit before income tax expense** | *7* | **48,821** | 72,119 |
| Income tax expense | *8* | | |
| Current tax - tax for the year | | **(6,839)** | (10,912) |
| - over / (under) provision in respect of prior years | | **2,348** | (38) |
| Deferred taxation | | **(21)** | (248) |
| | | **(4,512)** | (11,198) |
| **Profit attributable to owners of the Company** | | **44,309** | 60,921 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

| | *Notes* | **2011** **HK$'000** | 2010 *HK$'000* |
|---|---|---|---|
| **Profit attributable to owners of the Company** | | **44,309** | 60,921 |
| **Other comprehensive income for the year** | | | |
| Exchange differences on translating foreign operations | | **1,342** | 3,007 |
| Surplus on revaluation of leasehold land and buildings held for own use | | **16,558** | 23,356 |
| **Total other comprehensive income for the year** | | **17,900** | 26,363 |
| **Total comprehensive income attributable to owners of the Company** | | **62,209** | 87,284 |
| **Earnings per share** | | | |
| - Basic and diluted | *9* | **HK$0.138** | HK$0.190 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

| | Notes | **2011** | 2010 |
|---|---|---|---|
| | | ***HK$'000*** | HK$'000 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **142,080** | 126,443 |
| Payment for leasehold land held for own use under operating leases | | **4,389** | 4,399 |
| | | **146,469** | 130,842 |
| **CURRENT ASSETS** | | | |
| Inventories | | **91,044** | 85,649 |
| Amount due from ultimate holding company | | **40** | 34 |
| Amount due from a related company | | **15** | 15 |
| Tax reserve certificates | | **-** | 32,222 |
| Tax prepayment | | **717** | 411 |
| Prepayments, deposits and other receivables | | **2,287** | 2,277 |
| Trade receivables | 10 | **23,801** | 33,042 |
| Cash and cash equivalents | | **388,082** | 329,519 |
| | | **505,986** | 483,169 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 11 | **14,609** | 22,401 |
| Employee benefits | | **-** | 19,108 |
| Current tax liabilities | | **993** | 9,122 |
| | | **15,602** | 50,631 |
| **NET CURRENT ASSETS** | | **490,384** | 432,538 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **636,853** | 563,380 |
| **NON-CURRENT LIABILITIES** | | | |
| Employee benefits | | **20,717** | - |
| Deferred tax liabilities | | **16,390** | 13,363 |
| | | **37,107** | 13,363 |
| **NET ASSETS** | | **599,746** | 550,017 |
| **CAPITAL AND RESERVES** | | | |
| Issued capital | | **32,000** | 32,000 |
| Reserves | | **567,746** | 518,017 |
| **TOTAL EQUITY** | | **599,746** | 550,017 |

*Notes:*

**1. Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("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 ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**2. Basis of measurement**

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

**3. Functional and presentation currency**

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

**4. Adoption of HKFRSs**

Adoption of new/revised HKFRSs – effective 1 January 2011

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC) – Interpretation 14 | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) – Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments |
| HKFRS 24 (Revised) | Related Party Disclosures |

Except as explained below, the adoption of these new / revised standards and interpretations has no material impact on the Group's financial statements.

<u>HKFRS 7 (Amendments) – Financial Instruments: Disclosures</u>

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amount of the Group's trade receivables represents the Group's maximum exposure to credit risk in respect of these financial assets as at 31 December 2011 and 2010. The prior year financial statements included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

<u>HKAS 24 (Revised) – Related Party Disclosures</u>

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition and no amendment is required for the disclosures of its related party transaction in the current and comparative periods. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

## 5. Turnover And Other Revenue

a) Turnover
Turnover represents the net invoiced value of goods sold.

b) Other revenue and gain

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **4,228** | 1,541 |
| Income from disposal of scrap materials | **549** | 1,781 |
| Exchange gain, net | **1,554** | - |
| Sundry income | **474** | 307 |
| | **6,805** | 3,629 |

## 6. Segment Information

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group is principally engaged in manufacturing and trading electronic components in both Hong Kong and oversea markets. The Group's chief operating decision-maker regularly reviews the consolidated financial information to assess the performance. Accordingly, there is only one operating segment for the Group.

a) Geographical information
The Group comprises the following main geographical segments:

| | **Revenue from external customers** | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Hong Kong (place of domicile) | **1,661** | 1,099 |
| The People's Republic of China | **-** | - |
| The United States of America ("US") | **236,280** | 271,158 |
| Europe | **6,586** | 8,075 |
| Other countries | **18,826** | 19,923 |
| | **261,692** | 299,156 |
| | **263,353** | 300,255 |

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:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **80,840** | 85,533 |
| Customer B | **61,403** | 70,768 |
| Customer C | **49,724** | 50,326 |
| | **191,967** | 206,627 |

## 7. Profit Before Income Tax Expense

Profit before income tax expense is arrived at after charging the following:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories recognised as expenses | **154,550** | 166,805 |
| Amortisation of payment for leasehold land held for own use under operating leases | **117** | 148 |
| Depreciation of property, plant and equipment | **7,783** | 3,021 |

**8. Income Tax Expense**

Income tax expense in the consolidated statement of comprehensive income represents:

| | 2011 | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong Profits Tax | | |
| - tax for the year | **3,730** | 4,353 |
| - (over) / under provision in respect of prior years | **(1,793)** | 129 |
| Current tax – Overseas | | |
| - tax for the year | **3,109** | 6,559 |
| - over provision in respect of prior years | **(555)** | (91) |
| Deferred taxation | | |
| - current year | **21** | 248 |
| | **4,512** | 11,198 |

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010:16.5%) of the estimated assessable profits for the year.

The PRC subsidiary is subject to PRC Enterprise Income Tax at 25% (2010: 25%).

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

**9. Earnings Per Share**

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of approximately HK$44,309,000 (2010: HK$60,921,000) and on the weighted average number of 320,000,000 (2010: 320,000,000) shares in issue during the year.

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

**10. Trade Receivables**

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

| | 2011 | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **16,796** | 22,422 |
| 31 to 60 days | **5,416** | 8,500 |
| 61 to 90 days | **1,192** | 1,742 |
| Over 90 days | **694** | 378 |
| | **24,098** | 33,042 |
| Less: Allowance for doubtful debts | **(297)** | - |
| | **23,801** | 33,042 |

**11. Trade And Other Payables**

| | 2011 | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **7,679** | 14,959 |
| Other payables and accrued expenses | **6,930** | 7,442 |
| | **14,609** | 22,401 |

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

| | 2011 | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **5,230** | 7,447 |
| 31 to 60 days | **1,729** | 5,000 |
| 61 to 90 days | **573** | 2,088 |
| Over 90 days | **147** | 424 |
| | **7,679** | 14,959 |

**12. Outstanding Tax Disputes**

California income tax

Datatronic Distribution Inc. ("DDI"), a US subsidiary of the Company, came under examination by the State of California's Franchise Tax Board ("FTB") for the years ended 31 December 2006 and 2007 in respect of the unitary income tax. In response to such examination, DDI had made an additional provision for California income tax of HK$3,190,000 for the years ended 31 December 2006, 2007 and 2008 in the statement of comprehensive income for the year ended 31 December 2009. The examination by FTB is still in progress and not yet finalised. For the year ended 31 December 2009 and onwards, DDI has filed the tax returns which complied with the relevant tax rules and regulations and such that there will be no additional liabilities in this regard.

**13. Retained Profits**

The Group's profit after dividend, of approximately HK$420,094,000(2010: HK$388,585,000) is retained and carried forward.

**14. Dividends**

The Board proposed a final dividend of HK$0.02per share (2010: HK$0.019 per share), totaling HK$6,400,000 in respect of the year ended 31 December 2011 (2010: HK$6,080,000). An interim dividend of HK$0.02 per share (2010: HK$0.012 per share) was paid during the year.

**FINAL DIVIDEND**

The Board proposed a final dividend of HK$0.02 per share in respect of the year ended 31 December 2011 subject to the approval of the shareholders at the Company's annual general meeting to be held on Wednesday, 6 June 2012 ("AGM"). The proposed final dividend is expected to be paid on Friday, 22 June 2012, to shareholders whose names appear on the register of members of the Company on Monday, 11 June 2012.

**CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 1 June 2012 to Wednesday, 6 June 2012, 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 Thursday, 31 May 2012.

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 Tuesday, 12 June 2012 to Friday, 15 June 2012, 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 Monday, 11 June 2012. The cheques for dividend payment will be sent on about Friday, 22 June 2012.

**MANAGEMENT DISCUSSION & ANALYSIS**

**Business Review**
Datronix had faced an unprecedent challenge in 2011. The macro concerns over the uncertain path of the US economy, as well as the impact of increasing European sovereign stress and monetary tightening are creating a more cautious spending environment. The weak consumer spending, high unemployment rate and a restrained housing market all affect the purchasing behavior of our customer, which in turns negatively impact our major sales market in the United States and Europe. Our production costs also faced pressure from inflation as various material costs, labor wages and overhead. Datronix's management had taken proactive action to weather this difficult year. We emphasis on streamlining our manufacturing procedures, invest on automation and machinery to lessen the reliance on labor and the impact of appreciating of Renminbi. Due to our strong financial position, we did not arrange any credit facility for the past year, and generated a positive cash flow for 2011.

Sales of Datronix for the year 2011 were HK$263.4 million, compared to HK$300.3 million in 2010, it was decreased by 12%. Minimum wages was imposed in Hong Kong and continuous increase in labor wages in China increase our cost of production. Gross profit was HK$108.8 million, a decrease of HK$24.6 million from 2010, whereas gross margin declined from 44% in year 2010 to 41% in year 2011. Our net profit for the year was HK$44.3 million, a decrease of 27% from 2010.

**Market Review**
Communication and Networking
Communication segment contributed HK$93.9 million of sales for year 2011, a decrease of 9% compared to HK$103.5 million in previous year. Customers on this segment are cautious in spending due to being hampered by their inventory level and also network shift in 2011. This segment contributed 36% of the Group's total turnover.

Data Processing
Data processing segment performed steadily in 2011. This segment reported sales a 34% increase of sales to HK$15.6 million, compared to HK$11.7 million in 2010. This segment contributed 6% of the Group's total turnover.

Industrial Application
Industrial application segment sales declined to HK$77.4 million in 2011, compared to HK$80.3 million in 2010. Overall housing market weak demand has led to fewer projects in last year. This segment contributed 29% of the Group's total turnover.

High Reliability Segment
This segment demands precise technology, advance technical know-how and good workmanship by the Group. The healthcare segment saw a recovery as some customers gain market share; whereas FDA investigation on our customer had come to an end, and their order placed to us was getting back to normal level. Yet, it was offset by military programs budget restrains for the year. For the year 2011, sales for this segment reported HK$76.5 million, compared with HK$104.8 million for the year 2010. The high reliability segment contributed 29% of the Group's turnover.

**Looking Forward**
We anticipate the coming year will show a gradual improvement in the demand markets and our customer backlog shall have remain to normal level. Yet, we also foresee the pricing pressure despite the end markets may show sign of recovery. As the electronic components industry experienced few consolidations in the past year, Datronix take this as an opportunity to exploit market share and increase our customer base during this period. We plan to implant additional steps to enable us to take advantage of a variety of operational efficiencies and to mitigate the pricing pressure as low as possible. Datronix had a solid foundations and our over 30 years of experience will enable us to be in a strong position in the coming years.

**Financial Review**

The Group delivered a stable earnings result for year ended 2011. Turnover was HK$263.4 million as at 31 December 2011 (2010: HK$300.3 million).

Gross profit in 31 December 2011 was HK$108.8 million with gross margin representing 41%, compared to HK$133.5 million with gross margin representing 44% for the same period last year. Profit recorded HK$44.3 million and HK$60.9 million for the year ended 2011 and 2010 respectively. Net profit margin was 17% in 31 December 2011, compared to 20% in 31 December 2010.

**Liquidity, Financial Resources and Capital Structure**

As at 31 December 2011, the Group had a total equity of approximately HK$599.7 million (2010: HK$550.0 million), and cash and cash equivalents of approximately HK$388.1 million (2010: HK$329.5 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2011, the Group had not arranged for any banking facilities and other resources for financing. With the above cash on hand, the Group has adequate resources to meet its working capital needs in the near future.

The Group has strong financial position. There were no debt and no bank loan for the year ended 31 December 2011.

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

**Employees and Remuneration Policy**

As at 31 December 2011, the Group employed approximately 1,015 personnel around the world, with approximately 133 in Hong Kong, 861 in the PRC and 21 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 2011 (2010: Nil).

**Capital Commitments**

The Group's capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment in the financial statement is approximately HK$0.3 million (2010: HK$0.4 million).

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

**AUDIT COMMITTEE**

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2011 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 annual 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 RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This 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 annual 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) and Mr. Sheung Shing Fai as executive directors and Mr. Chung Pui Lam, Mr. Chan Fai Yue, Leo and Mr. Lee Kit Wah as independent non-executive directors.

By order of the Board
**SIU Paul Y.**
*Chairman*

Hong Kong, 16 March 2012

* *For identification purposes only*