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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “Board”) of Datronix Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022 together with the comparative figures for the corresponding year of 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	5	262,424	243,601
Cost of sales		(181,751)	(158,192)
Gross profit		80,673	85,409
Other revenue and gains	6	8,983	5,504
Fair value gain on investment property		29,500	2,200
Distribution and selling expenses		(18,200)	(17,604)
Administrative expenses		(72,740)	(68,601)
Finance costs		(39)	(36)
Profit before income tax expense	7	28,177	6,872
Income tax expense	8		
Current tax - tax for the year		(1,827)	(3,992)
- under / (over)-provision in respect of prior years, net		245	(31)
Deferred tax credit		1,280	977
		(302)	(3,046)
Profit for the year and attributable to owners of the Company		27,875	3,826

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year and attributable to owners of the Company		<u>27,875</u>	<u>3,826</u>
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(21,114)	5,819
Item that will not be reclassified to profit or loss:			
(Deficit)/surplus on revaluation of leasehold land and buildings held for own use		(16,264)	9,355
Changes in fair value of equity instruments designated at fair value through other comprehensive income		120	-
Impairment loss of leasehold land and buildings held for own use recognized in other comprehensive income		<u>(12,128)</u>	<u>-</u>
Other comprehensive (loss)/income for the year and attributable to owners of the Company, net of tax		<u>(49,386)</u>	15,174
Total comprehensive (loss)/income for the year and attributable to owners of the Company		<u>(21,511)</u>	<u>19,000</u>
Earnings per share			
- Basic and diluted	9	<u>HK\$0.087</u>	<u>HK\$0.012</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2022

	<i>Notes</i>	2022	2021
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		492,866	541,076
Investment property		113,700	84,200
Equity instruments designated at fair value through other comprehensive income		16,745	-
Prepayments for acquisition of property, plant and equipment		189	2,490
Goodwill		9,486	9,486
Deferred tax asset		272	311
		633,258	637,563
CURRENT ASSETS			
Inventories		108,629	106,647
Trade receivables	<i>10</i>	33,769	29,904
Prepayments, deposits and other receivables		6,341	5,578
Amount due from ultimate holding company		122	112
Amounts due from related companies		286	257
Tax prepayment		-	1,223
Financial assets measured at fair value through profit or loss		7,904	-
Cash and cash equivalents		136,772	208,215
		293,823	351,936
CURRENT LIABILITIES			
Trade and other payables	<i>11</i>	19,781	42,143
Amount due to a related company		1,055	423
Lease liabilities		584	576
Current tax liabilities		363	2,272
		21,783	45,414
NET CURRENT ASSETS			
		272,040	306,522
TOTAL ASSETS LESS CURRENT LIABILITIES			
		905,298	944,085
NON-CURRENT LIABILITIES			
Lease liabilities		834	690
Employee benefits		18,279	19,424
Retention payable	<i>11</i>	3,608	4,510
Deferred tax liabilities		32,299	41,272
		55,020	65,896
NET ASSETS			
		850,278	878,189

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2022 (CONTINUED)

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY		
Share capital	32,000	32,000
Reserves	818,278	846,189
TOTAL EQUITY	850,278	878,189

*Notes:***1. Statement of Compliance**

The consolidated financial statements have been prepared in accordance with all 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 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”).

2. Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold land and buildings, investment property, equity instruments designated at fair value through other comprehensive income and financial assets measured at fair value through profit or loss, 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 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 considered that it is more appropriate to present the financial statements in 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**(a) Adoption of new/amended HKFRSs – effective 1 January 2022**

Amendment to HKFRS 16	Covid-19-Related Rent Concession beyond 30 June 2021
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018-2020

The new/amended HKFRSs that are effective from 1 January 2022 did not have any significant impact on the Group’s accounting policies.

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

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.

5. 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 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.

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 contracts with external customers (by customers' location)		Specified non-current assets (by assets' location)	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Hong Kong (place of domicile)	522	849	340,356	322,421
The PRC	16,176	17,585	222,682	248,018
The US	230,248	210,198	11,771	11,765
Vietnam	-	-	58,449	55,359
European Union	4,778	4,855	-	-
Other countries	10,700	10,114	-	-
	<u>261,902</u>	<u>242,752</u>	<u>292,902</u>	<u>315,142</u>
Total	<u>262,424</u>	<u>243,601</u>	<u>633,258</u>	<u>637,563</u>

b) Disaggregated revenue information

In the following table, revenue is disaggregated by major products and timing of revenue recognition.

	2022 HK\$'000	2021 HK\$'000
Major products		
Electronic components	<u>262,424</u>	<u>243,601</u>
Timing of revenue recognition		
At a point in time	<u>262,424</u>	<u>243,601</u>

Disaggregation of revenue from contracts with customers by geographical markets is disclosed in note (a) above.

The following table provides information about trade receivables from contracts with customers:

	2022 HK\$'000	2021 HK\$'000
Trade receivables from sale of electronic components	<u>33,769</u>	<u>29,904</u>

Under HKFRS 15, advance receipts from customers in respect of the Group's sale contracts included in trade and other payables shall be reclassified to contract liabilities. The Group considers the amount of advance receipts from customers is immaterial to the financial statements and therefore the amount is not separately disclosed as contract liabilities.

5. Segment Information (continued)**c) Information about major customers**

Revenue from contract with external customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	58,301	56,184
Customer B	54,538	45,258
Customer C	42,029	39,682
	<u>154,868</u>	<u>141,124</u>

6. Other Revenue and Gains

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank interest income	1,234	1,055
Changes in expected credit loss on trade receivables	(173)	255
Changes in expected credit loss on other receivables	-	2,381
Changes in fair value of financial assets at fair value through profit or loss	114	-
Rental income under operating lease	1,969	1,176
Exchange gain, net	1,857	181
Government grants	2,546	70
Dividend income arising from equity instruments designated at fair value through other comprehensive income	256	-
Sundry income	1,180	386
	<u>8,983</u>	<u>5,504</u>

7. Profit Before Income Tax Expense

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount of inventories sold	182,705	162,987
Reversal of write-down of inventories	-	(4,795)
Provision for inventories	954	-
Cost of inventories recognised as expenses	181,751	158,192
Auditor's remuneration	870	830
Depreciation charge of:		
- owned property, plant and equipment	4,066	6,516
- right-of-use assets included within		
- ownership interests in leasehold land and buildings held for own use carried at fair value	7,798	4,840
- ownership interests in leasehold land held for own use carried at cost	743	757
- other properties leased for own use carried at cost	594	529
Changes in expected credit loss on trade receivables	173	(255)
Changes in expected credit loss on other receivables	-	(2,381)
Research and development expenditure	5,092	4,818
Direct operating expense arising from investment property that generated rental income during the year	99	444
	<u>99</u>	<u>444</u>

8. Income Tax Expense

	2022	2021
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
- Provision for the year	873	1,139
- Over provision in respect of prior years	(343)	(111)
	<u>530</u>	<u>1,028</u>
Current tax – overseas		
- Provision for the year	954	2,853
- Under provision in respect of prior years	98	142
	<u>1,052</u>	<u>2,995</u>
Deferred tax credit	<u>(1,280)</u>	<u>(977)</u>
	<u>302</u>	<u>3,046</u>

Hong Kong Profits Tax is calculated at the rate of 16.5% (2021: 16.5%) of the estimated assessable profits arising in Hong Kong, except for the first HK\$2,000,000 of qualified entity's assessable profit is calculated at 8.25%, which is in accordance with the two-tiered profits tax rates regime.

The PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2021: 25%).

The US subsidiaries are subject to US Federal Corporate Income Tax at 21% (2021: 21%).

The Vietnam subsidiary is subject to Vietnam Corporate Income Tax at 20% (2021: 20%). No provision for Vietnam Corporate Income Tax has been made as the Vietnam subsidiary has no assessable profits for the years.

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 following data:

	2022	2021
	HK\$'000	HK\$'000
Profit attributable to owners of the Company	<u>27,875</u>	<u>3,826</u>
	Number s of shares	
	2022	2021
Number of ordinary shares in issue	<u>320,000,000</u>	<u>320,000,000</u>

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 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.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 30 days	15,034	17,425
31 to 60 days	9,728	6,611
61 to 90 days	5,118	2,211
Over 90 days	4,720	4,315
	<u>34,600</u>	<u>30,562</u>
Less: Loss allowances for impairment	<u>(831)</u>	<u>(658)</u>
	<u>33,769</u>	<u>29,904</u>

11. Trade and Other Payables

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current liabilities		
Trade payables	8,618	11,170
Other payables and accruals	10,604	12,921
Fee payables for construction of manufacturing plants	559	18,052
	<u>19,781</u>	<u>42,143</u>
Non-current liabilities		
Retention payable	<u>3,608</u>	<u>4,510</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 30 days	3,916	4,523
31 to 60 days	3,022	3,681
61 to 90 days	1,046	1,570
Over 90 days	634	1,396
	<u>8,618</u>	<u>11,170</u>

12. Dividends

The Board does not recommend a final dividend in respect of the year ended 31 December 2022 (2021: HK\$0.01 per share, totaling HK\$3,200,000). An interim dividend of HK\$0.01 per share (2021: HK\$0.01) was paid during the year.

FINAL DIVIDEND

The Board does not recommend a final dividend in respect of the year ended 31 December .

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting to be held on Thursday, 1 June 2023, the register of members of the Company will be closed from Monday, 29 May 2023 to Thursday, 1 June 2023, 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, 25 May 2023.

SCOPE OF WORK OF BDO LIMITED

The figures in respect the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

MANAGEMENT DISCUSSION & ANALYSIS

Overview

Global economic activity experienced a wider than expected slowdown alongside with record high inflation observed. Datronix's sales and operation income were directly impacted due to the economic slowdown and increase of various cost factors. Datronix reported its revenue for 2022 at HK\$262.4 million, while 2021 was at HK\$243.6 million, an increase of 7.7%. Gross margin decreased to HK\$ 80.7 million for 2022, compared to HK\$85.4 million for the corresponding period a year ago. Gross margin, as a percentage of revenue, decreased to 30.7% in 2022, compared to 35.1% for the same period in 2021.

Operating profit increased to HK\$28.2 million in 2022, or 10.7%, compared to HK\$6.9 million in 2021 due to substantial fair value gain on revaluation for investment property of HK\$29.5 million. If excluding the other revenue and gains and fair value gain on investment property, we reported an operating loss of HK\$10.3 million in 2022 while 2021 was HK\$1 million in 2021. Net profit for year 2022 was HK\$27.9 million, an increase of HK\$24 million from comparable period of 2021.

As of 31 December 2022, Datronix balance sheet remains stable, with cash balance at HK\$136.7 million, and no issuance of any bank loan.

Market Review

Communication and Networking

Communication segment reported HK\$50.7 million for year 2022, compared to HK\$ 64.6 million in 2021, down 21%. This segment contributed 19% of the Group's total revenue.

Data Processing

Sales for this segment were HK\$34.8 million in 2022, an increase of 11% from 2021. The customers in this segment had shown improvement at their end market demand. Data processing segment contributed 13% of the Group's turnover.

Industrial Application

Industrial application segment demonstrated a stable demand for year 2022. Segment sales reported at HK\$ 93.7 million in 2022 compared to HK\$ 87.2 million, an increase of 7% from 2021. 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. Sales on high reliability segment reported HK\$ 83.2 million in 2022, compared to HK\$ 60.4 million in 2021, an increase of 38%. This segment contributed 32% of the Group's revenue.

Achievement and Awards

In recognition of our quality, value of our products and of the Group's service and performance, Datronix has to date received 42 awards from our customers.

Looking Forward

Manufacturers are currently experiencing concerns related to inflation and economic uncertainty, and these will setback the operating performance for the Group. With the rising costs of labour, Datronix will continue to look for automation to our production process to increase efficiency and remain competitive. For the past year, we have been actively pursuing different opportunities and diversifying our revenue streams. We have been actively involved in research and development on different horizons on the electronic consumer segment. We look forward to balancing out the cost factors while broaden our products and segment offerings in the coming years.

Business and Financial Review

Revenue for year 2022 reported at HK\$262.4 million, an increase of 7.7% compared to HK\$243.6 million in same period of last year. Gross profit margin was 30.7% compared to 35.1% in 2021. Our operating profit was HK\$28.2 million, when compared to HK\$6.9 million for the same period of last year. Profit attributable to owners of the Company was HK\$27.9 million in 2022 while we reported loss attributable to owners of the Company of HK\$3.8 million in 2021.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2022, the Group had a total equity of approximately HK\$850.3 million (2021: HK\$878.2 million), and cash and cash equivalents of approximately HK\$136.8 million (2021: HK\$208.2 million), which were predominately denominated in US dollars and Renminbi.

For the year ended 31 December 2022, 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 2022.

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 2022, the Group employed approximately 1,114 personnel around the world, with approximately 94 in Hong Kong, 600 in the PRC and 420 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 2022 (2021: Nil).

Capital Commitments

The Group has capital commitment outstanding at the year end and contracted but not provided for property, plant and equipment of HK\$6.9 million in the financial statements (2021: HK\$4.7 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 2022 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 2022 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 and 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, 21 March 2023

** For identification purposes only*