



DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

Interim Report

2001

** For identification purposes only*

The Board of Directors (the "Directors") of Datronix Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated income statement of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2001 together with comparative figures for the corresponding periods in 2000, and the unaudited consolidated balance sheet of the Group as at 30 June 2001 together with audited comparative figures as at 31 December 2000, are as follows:

CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	2	105,833	117,497
Cost of sales		(61,307)	(72,948)
Gross profit		44,526	44,549
Other revenue		690	570
Research and development		(3,116)	(2,577)
Distribution and selling expenses		(8,715)	(7,157)
General and administrative expenses		(8,990)	(7,758)
Profit from operations		24,395	27,627
Finance cost		(204)	(19)
Profit before taxation	3	24,191	27,608
Taxation	4	(4,267)	(6,949)
Profit after taxation but before minority interests		19,924	20,659
Minority interests		3	(12)
Profit attributable to shareholders		19,927	20,647
Earnings per share			
– Basic	5	8.17 cents	8.60 cents

CONSOLIDATED BALANCE SHEET

		As at 30 June 2001 (Unaudited) HK\$'000	As at 31 December 2000 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	6	37,864	39,521
Goodwill		3,555	4,041
Total non-current assets		41,419	43,562
CURRENT ASSETS			
Inventories		73,100	66,600
Trade receivables	7	30,850	40,339
Due from related company		2,872	5,218
Prepayments, deposits and other current assets		5,419	2,065
Cash and other bank deposits		62,837	21,980
Total current assets		175,078	136,202
CURRENT LIABILITIES			
Bills payable		(232)	(137)
Accounts payable	8	(8,531)	(12,312)
Accruals and other payables		(8,303)	(16,247)
Proposed final dividend		-	(40,000)
Taxation payable		(10,837)	(8,074)
Total current liabilities		(27,903)	(76,770)
Net current assets		147,175	59,432
Total assets less current liabilities		188,594	102,994
NON-CURRENT LIABILITIES			
Deferred taxation		(1,156)	(1,156)
Minority interests		(34)	(38)
Net assets		187,404	101,800
CAPITAL AND RESERVES			
Share capital	9	32,000	276
Reserves	10	32,402	(1,291)
Retained profit		123,002	102,815
Shareholders' equity		187,404	101,800

CONSOLIDATED STATEMENT OF RECOGNIZED GAINS AND LOSSES

	Six months ended 30 June 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Translation adjustment	321	196
Profit attributable to shareholders	<u>19,927</u>	<u>20,647</u>
Total recognized gains	<u><u>20,248</u></u>	<u><u>20,843</u></u>

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2001 (Unaudited) HK\$'000
Operating activities	<u>17,681</u>
Returns of investments and servicing of finance	
Interest received	616
Interest paid	(69)
Dividend paid	<u>(40,000)</u>
	<u>(39,453)</u>
Taxation	
Hong Kong profits tax paid	<u>(1,194)</u>
Investing activities	
Purchase of fixed assets	<u>(1,594)</u>
Financing activities	
Increase in paid-in capital	<u>65,096</u>
Effect on cumulative translation adjustment	<u>321</u>
Increase in cash and bank deposits	<u>40,857</u>
Cash and bank deposits	
Beginning of period	<u>21,980</u>
End of period	<u><u>62,837</u></u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Principal accounting policies

Pursuant to a group reorganization in June 2001 to rationalize the structure of the Group in preparation for the new listing on the Main Board of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group. The shares of the Company were listed on the Main Board on 22 June 2001.

The same principal accounting policies and methods of computation are followed in these interim financial statements for the six months ended 30 June 2001 as compared with the combined financial statements for the year ended 31 December 2000 in the prospectus.

The interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 "Interim Financial Reporting", except that the comparative figures of the consolidated cash flow statement have been omitted under the provisions set out in Appendix 16 of the Listing Rules of the Stock Exchange.

2. Business activities and turnover

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.

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

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
United States of America	46,565	52,460
Europe	52,938	54,941
South East Asia (exclude Hong Kong)	5,415	4,033
Hong Kong	859	5,821
Middle East	56	242
	<u>105,833</u>	<u>117,497</u>

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

3. Profit before taxation

Profit before taxation in the consolidated income statement was determined after charging or crediting the following items:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
After charging –		
Provision for obsolete and slowing moving inventories	–	5,858
Depreciation of property, plant and equipment	3,159	1,718
Amortization of goodwill	486	110
Interest expenses	69	19
Operating lease of premises	802	1,077
After crediting –		
Net exchange gain	43	–
Interest income from bank deposits	616	570

4. Taxation

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	4,117	6,192
Overseas taxation	150	757
	<u>4,267</u>	<u>6,949</u>

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax was provided at the rate of 16% (2000: 16%) on the estimated assessable profit arising in or derived from Hong Kong for the periods. The subsidiary of the Company established in Shunde, Mainland China was in a tax loss position and still exempted from state income tax and local income tax. Overseas tax was provided at the applicable rates relating to the profits of subsidiaries of the Company established in France and the United States of America.

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2001 was based on the profit attributable to shareholders of approximately HK\$19,927,000 (2000: HK\$20,647,000) and on the weighted average number of 243,977,900 (2000: 240,000,000) shares in issue during the period.

6. Property, plant and equipment

During the six months ended 30 June 2001, the additions to property, plant and equipment were approximately HK\$1,594,000 (2000: HK\$3,393,000).

7. Trade receivables

The credit terms of Group ranges from 30 days to 120 days.

An aging analysis of accounts receivable is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Aged		
0 to 30 days	17,470	18,638
31 to 60 days	6,534	13,286
61 to 90 days	2,865	6,285
91 to 180 days	2,895	708
181 to 365 days	1,086	1,422
	<u>30,850</u>	<u>40,339</u>

8. Trade payables

An aging analysis of accounts payable is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Aged		
0 to 30 days	4,194	7,750
31 to 60 days	3,873	4,030
61 to 90 days	464	525
91 to 180 days	-	7
	<u>8,531</u>	<u>12,312</u>

9. Share capital

	Six months ended 30 June 2001		Year ended 31 December 2000	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorized shares of HK\$0.10 each				
Beginning of period/year	1,000	100	—	—
Upon incorporation	—	—	1,000	100
Addition	999,000	99,900	—	—
End of period/year	<u>1,000,000</u>	<u>100,000</u>	<u>1,000</u>	<u>100</u>
Issued and fully paid shares of HK\$0.10 each				
Beginning of period/year	1,000	100	—	—
Issued upon incorporation	—	—	1,000	100
Issue of shares arising from reorganization	239,000	23,900	—	—
Issue of shares through public offering and placing	80,000	8,000	—	—
End of period/year	<u>320,000</u>	<u>32,000</u>	<u>1,000</u>	<u>100</u>

10. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Cumulative translation adjustments HK\$'000	Total HK\$'000
Balance as at 1 January 2001	—	—	(1,291)	(1,291)
Attributable to reorganization	—	(23,724)	—	(23,724)
Premium arising from issue of shares	72,000	—	—	72,000
Share issuance expenses	(14,904)	—	—	(14,904)
Translation adjustments	—	—	321	321
Balance as at 30 June 2001	<u>57,096</u>	<u>(23,724)</u>	<u>(970)</u>	<u>32,402</u>

11. Dividend

Due to the uncertainty of market condition and to preserve the working capital position of the Group, the Directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Directors are pleased to announce that the Group has continued to maintain similar size in both turnover and earnings during the six months ended 30 June 2001 over the corresponding period in 2000. The Group recorded a turnover of approximately HK\$105,833,000, compared to HK\$117,497,000 for the same period in 2000. Profit attributable to shareholders was approximately HK\$19,973,000, compared to HK\$20,647,000 for the same period last year.

With recent worldwide sluggish economy and stiff market condition, the second half-year of 2001 are not so pleasing. Demand from the customers of U.S.A. has decreased. However, it is hoped that with the recent rapid drops in interest rate, it will stimulate the growth in the U.S.A.'s economy.

Capital Structure

In June 2001, the Company issued 80,000,000 units of shares at HK\$1.0 per share through a public offer and placement, resulting in net proceeds of approximately HK\$65,096,000, after deduction of related issuance expenses of approximately HK\$14,904,000.

The net proceeds are deposited with licensed banks in Hong Kong and will be applied to finance the new factory building and general working capital as set out in the prospectus.

Management of Production Cost

The Group has focused to control the production cost in continuous improvement in production yields, efficiency in manufacturing and higher vertical integration of manufacturing.

Future Plans and Prospects

As stated in the prospectus the Group intends to implement the following business plans and objectives to enhance its business prospects and profitability.

Product Development

The rapid development in technology has created substantial demand for magnetic components and magnetic modules in the telecommunications and data processing industries. In order to enhance its sales and market position and to remain competitive in the magnetic industry, the Group will continue to commit resources to product development. To this end, the Group plans to recruit 3 staff to strengthen its research and development capability and to develop new series of magnetic to expand its range of products.

Marketing and Sales

The Group intends to expand its sales and marketing operations by recruiting 3 sales personnel. The Directors consider that an expanded sales and marketing team will strengthen the promotion of the sales of the Group and the capability to collect valuable information on customers' requirements and market movements.

Production Capability

The Group plans to expand its production capacity by setting up new production facilities for different types of magnetic products. Construction of new factory premises and dormitory buildings in Shunde, the PRC adjacent to the existing production facilities of the Group is scheduled to commence in early 2002 and be completed in the third quarter of 2002. It is proposed that the new factory premises will have a total gross floor area of about 150,000 sq.ft.. The Group intends to recruit about 3,000 additional workers for two shifts of operations. It is expected that the new production facilities will commence full operations in the fourth quarter of 2002. The total construction cost of the new production facilities is estimated at approximately HK\$29 million. The planned annual production capacity of the new facilities will be 45 million units.

To enhance the production efficiency and to increase the total output of the Group's existing production facilities, the Group plans to purchase advance machinery and equipment and to upgrade its existing production lines.

OTHER INFORMATION

Directors' Interests in Share Capital

As at 30 June 2001, the Directors of the Company had the following interests in the share capital of the Company and its associated corporations as recorded in the register required to be kept by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the SDI Ordinance):

Director	Type of interest	Number of shares	Percentage of issued capital
Mr. Paul Siu	Corporate (Note 1)	240,000,000	75%

The Directors' interests in Datatronic, a subsidiary of the Company, are as follows:

Director	Type of interest	Number of shares
Mr. Paul Siu	Personal	1 non-voting deferred share of HK\$1
	Corporate	199,999 non-voting deferred shares of HK\$1 each (Note 2)

Notes:

- These shares are held by Onboard Technology Limited, a company of which Mr. Paul Siu and Ms. Shui Wai Mei respectively held 90% and 10% of its issued share capital.
- These shares are held by Data Express Limited, a company whose entire issued share capital is owned by Mr. Paul Siu.

Save as disclosed above, none of the Directors of the Company or any of their associates had any interests in the securities of the Company or its associated corporations as defined in the SDI Ordinance.

Directors' Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2001 was the Company or any of its associated corporations a party to any arrangement to enable the Directors of the Company or any of their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2001, save as disclosed in Directors' Interests in Share Capital above, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company which was required to be recorded under Section 16(1) of the SDI Ordinance.

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 Company's listed securities during the period from listing date 22 June 2001 to 30 June 2001.

Audit Committee

The audit committee of the Company presently comprises two independent non-executive directors. The audit committee has reviewed this un-audited interim report and discussed with the Board the internal control and financial reporting of the Group.

Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

By Order of the Board
Paul Y. SIU
Chairman

Hong Kong, 26 September 2001