



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



INNOVATION BY DESIGN

Interim Report
2004

* For identification purposes only

The board of directors (the "Directors") 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 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

		Six months ended 30 June	
	<i>Note</i>	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	97,982	67,599
Cost of sales		(60,257)	(42,022)
Gross profit		37,725	25,577
Other revenue		1,438	1,761
Distribution and selling expenses		(7,246)	(6,823)
Administrative expenses		(11,298)	(10,663)
Profit before taxation	3	20,619	9,852
Taxation	4	(2,914)	(2,138)
Profit attributable to shareholders		17,705	7,714
Interim dividend		7,040	6,400
Earnings per share	5		
– Basic		5.5 HK cents	2.4 HK cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Note	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
ASSETS			
Non-current assets			
Goodwill		506	1,014
Property, plant and equipment	6	52,839	46,327
		53,345	47,341
Current assets			
Inventories		55,708	53,470
Amount due from ultimate parent enterprise		4	4
Tax reserve certificates		13,624	13,624
Prepayments, deposits and other receivables		5,950	3,500
Trade receivables	7	35,453	30,208
Cash and bank balances		66,846	58,684
		177,585	159,490
LIABILITIES			
Current liabilities			
Trade payables	8	15,807	8,268
Other payables and accruals		4,497	4,585
Taxation payable		17,156	14,381
Dividend payable		1	–
		37,461	27,234
Net current assets		140,124	132,256
Total assets less current liabilities		193,469	179,597
Non-current liability			
Deferred taxation		2,686	2,686
NET ASSETS		190,783	176,911
CAPITAL AND RESERVES			
Issued capital	9	32,000	32,000
Reserves		158,783	144,911
		190,783	176,911

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2004*

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash inflow / (outflow) from operations	19,807	(8,330)
Net cash used in investing activities	(7,803)	(388)
Net cash used in financing	(3,839)	(3,197)
Net increase / (decrease) in cash and cash equivalents	8,165	(11,915)
Effect on cumulative translation adjustment	(3)	22
Cash and cash equivalents at beginning of period	58,684	65,046
Cash and cash equivalents at end of period	66,846	53,153

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2004

	Issued capital	Share premium	Capital reserve	Property revaluation reserve	Cumulative translation adjustments	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	32,000	57,099	(23,724)	10,774	(1,068)	101,830	176,911
Dividends paid	-	-	-	-	-	(3,840)	(3,840)
Translation adjustments	-	-	-	-	7	-	7
Net profit for the period	-	-	-	-	-	17,705	17,705
At 30 June 2004	32,000	57,099	(23,724)	10,774	(1,061)	115,695	190,783
At 1 January 2003							
as previously reported	32,000	57,099	(23,724)	13,178	(1,126)	100,601	178,028
Prior year adjustment							
- changes in accounting policy of deferred taxation	-	-	-	(2,403)	-	778	(1,625)
As restated	32,000	57,099	(23,724)	10,775	(1,126)	101,379	176,403
Dividends paid	-	-	-	-	-	(12,800)	(12,800)
Translation adjustments	-	-	-	-	55	-	55
Net profit for the period	-	-	-	-	-	7,714	7,714
At 30 June 2003	32,000	57,099	(23,724)	10,775	(1,071)	96,293	171,372

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and methods of computation used are consistent with those adopted by the Group in its financial statements for the year ended 31 December 2003.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. 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.

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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
United States of America (the "US")	73,511	49,931
Europe	20,164	16,393
Southeast Asia (excluding Hong Kong)	1,812	1,235
Hong Kong	2,495	40
	97,982	67,599

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

3. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Crediting:		
Write-back of provision for obsolete and slow-moving inventories	301	2,601
Charging:		
Amortisation of goodwill	505	511
Cost of inventories sold (excluding write-back of provision for obsolete and slow-moving inventories)	60,558	44,623
Depreciation	1,655	1,509
Staff costs (including directors' remuneration)	19,255	18,162

4. Taxation

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	2,808	2,109
Overseas taxation	106	29
	2,914	2,138

Hong Kong profits tax was calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit 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	
	2004 HK\$'000	2003 HK\$'000
Profit before taxation	20,619	9,852
Effect of tax at Hong Kong profits tax rate of 17.5% (2003:17.5%)	3,608	1,724
Income that are not taxable	(784)	(146)
Unrecognised tax losses	189	532
Others	(99)	28
	2,914	2,138

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2004 was based on the profit attributable to shareholders of approximately HK\$17,705,000 (2003: HK\$7,714,000) and on the weighted average number of 320,000,000 (2003: 320,000,000) shares in issue during the period.

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence during the period (2003: Nil).

6. Property, plant and equipment

The total cost of additions to property, plant and equipment of the Group during the six months ended 30 June 2004 was HK\$8,155,000 (2003: HK\$647,000). There were no material disposals and write-offs of fixed assets during the six months ended 30 June 2004 and 30 June 2003.

7. Trade receivables

Customers are usually offered a credit period ranging from 30 days to 120 days. The ageing analysis of trade receivables after provision is as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 to 30 days	17,634	12,524
31 to 60 days	12,656	7,973
61 to 90 days	3,465	3,928
Over 90 days	1,698	5,783
	35,453	30,208

8. Trade payables

The ageing analysis of trade payables is as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
0 to 30 days	8,772	4,029
31 to 60 days	4,551	2,063
61 to 90 days	1,945	1,423
Over 90 days	539	753
	15,807	8,268

9. Share capital

	Number of shares	Amount HK\$'000
Authorised ordinary shares of HK\$0.1 each		
At 1 January 2004 and 30 June 2004	1,000,000,000	100,000
Issued and fully paid ordinary shares		
of HK\$0.1 each		
At 1 January 2004 and 30 June 2004	320,000,000	32,000

10. Related party transactions

During the six months ended 30 June 2004, the Group's sales to Datatronics Romoland, Inc., a company in which Mr. Siu Paul Y., a director, has beneficial interest, amounted to HK\$22,940,000 (2003:HK\$9,216,000). The transactions constituted a continuing connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and were carried out in the ordinary course of business and on normal commercial terms.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

The Group's sales increase was mainly driven by stronger growth in the US market for military, aerospace applications, high reliability products and power conversion markets for the first six months of year 2004. Growing unit volumes and revenues increase of the Group displayed strong demands in electronics markets. The Group showed significant improvement in operating profit for the first half year of 2004. The Directors believe that it is reflecting the continued success of the Group's efforts to design for a new variety of customized magnetic components and its manufacturing efficiency.

The Group continues to believe that a strong growth in its legacy customized military, aerospace applications and high reliability magnetic components business will increase in the next few quarters and in the future.

The Group recognizes and anticipates that the electronics industry will continue to be competitive. In order to compete and expand business growth, it is increasingly necessary for higher productivity and efficiency in production and overheads cost reduction.

The Group remained strong in cash position. The Directors believe that our aggressive cost-cutdown activities have positioned us very well for the future. In the next cyclical changes in the market we serve, our cost structure will allow us to produce strong operating margins, maximize the significant strength of our balance sheet and create a more valuable enterprise for our shareholders.

Financial Review

For the six months ended 30 June 2004, the Group recorded a turnover of HK\$98.0 million, which represented a growth of approximately 45%, or HK\$30.4 million as compared to HK\$67.6 million of the same period last year. The increase was mainly due to strong growth in the US market for military and high reliability, telecommunications and technology equipment products, driven by the continuing recovery of the US economy. The US market is the largest market of the Group, which contributed over 75% of the Group's turnover for the half year ended 30 June 2004. Sales in the US market alone increased by over 47%, or HK\$23.6 million compared with the corresponding period last year, out of which sales of military products contributed over HK\$13.7 million increase.

Financial Review (Continued)

For the period under review, the Group reported a profit attributable to shareholders and earnings per share of approximately HK\$17.7 million and HK cents 5.5 respectively as compared to HK\$7.7 million and HK cents 2.4 for the same period in 2003. The significant improvement in operating results was largely due to the growth in turnover, increase in operational efficiency and the benefits brought about by economies of scale due to higher production volumes.

However, the market for electronic components trading remained competitive which affects the selling price of our products. As a result, there is only a slight improvement in gross profit margin from 38% in the first half of 2003 to 39% of the corresponding period in 2004.

With the continued improvement of market sentiment, the expansion of customer base, our continued design efforts and the value of purchase orders on hand, it is expected that the Group will attain a gradual business growth for the rest of the year.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2004, the Group had a total shareholders' equity of approximately HK\$191 million (31 December 2003: HK\$177 million), and cash and cash equivalents of approximately HK\$66.8 million (31 December 2003: HK\$58.7 million), which were predominately denominated in US and Hong Kong dollars.

For the six months ended 30 June 2004, 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 2004.

Capital expenditure for the period under review amounted to approximately HK\$8 million (2003: HK\$0.6 million). In particular, a new office premises was acquired in Hong Kong for expansion of the Group's Hong Kong office to cater for the business growth of the Group.

The Group had 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 2004, the Group employed approximately 1,720 personnel around the world, with approximately 100 in Hong Kong, 1,600 in the PRC 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 is no contingent liability as at 30 June 2004 (31 December 2003: HK\$Nil).

Capital Commitments

The Group has authorised and contracted capital commitments of HK\$0.8 million as at 30 June 2004 (31 December 2003: HK\$Nil). The Group has adequate financial resources to fund such commitments from its existing cash resources.

Updated Information on Public Shareholding and Onboard Litigation

Trading in the shares of the Company has been suspended since 15 August 2002 due to the public float issue of the Company and the litigation of the Company's substantial shareholder, Onboard Technology Limited. Details of which have been published by the Company's announcement dated 17 September 2004.

OTHER INFORMATION**Directors' Interests in Shares**

As at 30 June 2004, the directors had the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company pursuant to Section 352 of the SFO:

(a) The Company

	Ordinary shares of HK\$0.1 each			
	Personal interests	Family interests	Corporate interests	Total
Mr. Siu Paul Y.	–	–	240,000,000	240,000,000
			(Note 1)	

(b) Associated corporation

	Name of corporation	Non-voting deferred shares of HK\$1 each			Total
		Personal interests	Family interests	Corporate interests	
Mr. Siu Paul Y.	Datatronix Limited	1	–	199,999	200,000
				(Note 2)	

Notes:

- These shares are held by Onboard Technology Limited, a company incorporated in the British Virgin Islands, and in which Mr. Siu Paul Y. and Ms. Shui Wai Mei beneficially owns 90% and 10% of its issued share capital respectively, representing 75% of the issued share capital of the Company.
- These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is beneficially owned by Mr. Siu Paul Y..

Directors’ Interests in Shares (Continued)

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code of Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the directors and chief executives (including their spouses and children under the age of 18), had, as at 30 June 2004, any interest in, or had been granted any right to subscribe for the securities and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Directors’ Rights to Acquire Shares or Debentures

At no time during the six months ended 30 June 2004 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As far as is known to any director or chief executive of the Company, as at 30 June 2004, shareholders (other than the directors or chief executives of the Company) interested in 5% or more in the shares or underlying shares of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Long positions in the shares of the Company

Shareholders	Capacity	No. of shares held	% of issued share capital of the Company
Fortune Treasure Worldwide Limited	Beneficial owner	21,784,000	6.80
Lee Pei Jin	Beneficial owner	18,974,000	5.92

Save as disclosed above, as at 30 June 2004, the Company has not been notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Interim Dividend

At the board meeting held on 17 September 2004, the Directors have resolved to declare an interim dividend of HK cents 2.2 (2003: HK cents 2) per share, totaling HK\$7,040,000 (2003: HK\$6,400,000) in respect of the six months ended 30 June 2004 to shareholders whose names appear on the register of members of the Company on Friday, 8 October 2004.

Close of Register of Members

The register of members of the Company will be closed from Wednesday, 6 October 2004 to Friday, 8 October 2004, 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 registrars in Hong Kong, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 5 October 2004. The cheques for dividend payment will be sent on about Monday, 18 October 2004.

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 2004.

Audit Committee

The audit committee has reviewed the unaudited interim report and discussed with the Directors 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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws.

By order of the board

SIU Paul Y.

Chairman

Hong Kong, 17 September 2004