

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 889)

INDEPENDENT SHAREHOLDERS' APPROVAL FOR RENEWAL OF CONTINUING CONNECTED TRANSACTION

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The Existing Master Supply Agreement will be expired on 31 December 2019. As the Group intends to continue carrying out the transactions under the Existing Master Supply Agreement in the ordinary and usual course of business of the Group, the Company (for itself and other group companies) entered into the New Master Supply Agreement on 18 October 2019 with Datatronics Romoland for the sale of magnetic components for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022.

The proposed Annual Caps for the transactions under and contemplated under the New Master Supply Agreement for each of the three years commencing on 1 January 2020 and expiring on 31 December 2022 will not exceed HK\$100 million respectively.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Datatronics Romoland is wholly owned by Mr. Siu Paul Y., the chairman and the controlling shareholder of the Company, who together with his spouse holding approximately 72.32% of the entire issued shares of the Company through Onboard Technology Limited. Datatronics Romoland is an associate of Mr. Siu Paul Y. and hence a connected person of the Company under Chapter 14A of the Listing Rule. Accordingly, the transactions contemplated under the New Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the proposed Annual Caps contemplated under the New Master Supply Agreement exceed 5%, the New Master Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The SGM will be convened by the Company to seek the approval from the Independent Shareholders in respect of the New Master Supply Agreement and the transactions contemplated thereunder (including the proposed Annual Caps) by way of poll. Save for Mr. Siu Paul Y. and his associates, none of the Shareholders will be required to abstain from voting at the SGM in respect of the ordinary resolution(s) to approve the Continuing Connected Transactions.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the New Master Supply Agreement and the transactions and matters contemplated thereunder and on how to vote. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular containing, among other things, (i) details of the New Master Supply Agreement and the proposed Annual Caps thereunder; (ii) the advice and recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Master Supply Agreement; and (iv) the notice of the SGM will be despatched to the Shareholders on or before 8 November 2019.

BACKGROUND

Reference is made to the announcement of the Company dated 7 October 2016 and the circular of the Company dated 18 November 2016 in relation to the continuing connected transactions under the Existing Master Supply Agreement entered into by the Group and Datatronics Romoland on 7 October 2016 for a term of three years up to 31 December 2019. It is expected that further Continuing Connected Transactions between Datatronics Romoland and the Group will continue in the three years ending 31 December 2020, 2021 and 2022 for the sale of magnetic components to Datatronics Romoland.

THE NEW MASTER SUPPLY AGREEMENT

The major terms of the New Master Supply Agreement are as follows:

Date

18 October 2019 (after trading hours)

Parties

- (i) The Company; and
- (ii) Datatronics Romoland

Subject matter

Pursuant to the New Master Supply Agreement, the Group agreed to sell and/or supply and Datatronics Romoland agreed to purchase magnetic components on substantially the same terms as those in the Existing Master Supply Agreement for a term of three years up to 31 December 2022 and subject to the terms and conditions set out therein at a price to be determined by the parties.

Pricing basis

The selling prices of the magnetics components under the New Master Supply Agreement are to be agreed between the Group and Datatronics Romoland. The Group will determine the selling price of the magnetic components required by Datatronics Romoland according to the Group's pricing policy, which has taken into account the engineering efforts, raw materials, labour skill and time involved, on normal commercial terms and at arm's length basis. The Group was granted a right of first refusal to the effect that Datatronics Romoland may source supply of the magnetic components from third-party suppliers only if the Group does not accept the order, provided that the terms should not be more favourable than those offered to the Group.

Payment terms

The Group offers credit sales to Datatronics Romoland with payment term of 30 days while the payment term offered to other customers of the Group ranges from 30 to 90 days. The payment terms and other terms of the Continuing Connected Transactions offered by the Group are no less favourable to the Group than those offered to other customers of the Group.

Condition precedent

The New Master Supply Agreement is conditional upon approval by the Independent Shareholders at the SGM in accordance with the requirements of the Listing Rules.

THE ANNUAL CAPS

Historical figures

The Board has been carefully monitoring the historical transaction amounts under the Existing Master Supply Agreement. The table below sets out the annual cap for each of the two years ended 31 December 2018 and the six months ended 30 June 2019 under the Existing Master Supply Agreement:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Annual cap under the Existing Master Supply Agreement	100,000	110,000	120,000
Historical transaction amounts under the Existing Master Supply Agreement	65,056	64,112	24,769
Total revenue of the Group	280,964	312,644	146,670
Percentage of aggregate consideration of the continuing connected transactions to total revenue of the Group	23.2%	20.5%	16.9%

For the two years ended 31 December 2018, the historical transaction amounts under the Existing Master Supply Agreement remained stable at approximately HK\$65,056,000 and HK\$64,112,000 respectively. The decrease in transaction amounts under the Existing Master Supply Agreement for the six months ended 30 June 2019 was mainly due to the slowing down on the US economy and the ongoing trade dispute between the US and China leading to a more conservative attitude of our customers.

The proposed Annual Caps

The below table sets out the proposed Annual Caps of the Continuing Connected Transactions for each of the three years ending 31 December 2022 under the New Master Supply Agreement:

	For the year ending 31 December		
	2020	2021	2022
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Proposed Annual Cap	100,000	100,000	100,000

The Directors estimate that the aggregated sales amount of the Continuing Connected Transactions for each of the three years ending 31 December 2022 will not exceed HK\$100,000,000 respectively.

The proposed Annual Caps under the New Master Supply Agreement are determined with reference to the historical records of the transaction made pursuant to the Existing Master Supply Agreement. Based on the forecast provided by Datatronics Romoland, the Group has assessed the historical figure of the Datatronics Romoland's forecasts and considers the figures of the forecasts to be reasonable. The Directors are of the view that the Annual Caps are fair and reasonable.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors consider that entering into the New Master Supply Agreement for further Continuing Connected Transaction would constitute a good opportunity for the Company to generate stable income by carrying out the sales transactions to satisfy Datatronics Romoland's orders and it is in the interests of the Company and the Shareholders as a whole and the pricing term thereunder are on normal commercial terms, which are fair, reasonable and beneficial to the Group.

As far as the Board is aware, Datatronics Romoland is one of the few reputable suppliers of high reliability magnetics to the US medical and aerospace industries and the Group is the sole supplier of high reliability magnetic components to Datatronics Romoland. As the products sourced by Datatronics Romoland are tailor-made and require more advanced and sophisticated technology and skills to manufacture than the products required by other customers of the Group, the Group can obtain a higher profit margin. According to the historical records of the transactions between the Group and Datatronics Romoland, the profit margin for the sales of such high reliability magnetic components to Datatronics Romoland was substantially higher than those for sales to other customers. Moreover, Datatronics Romoland has a good track record for making payment to the Group on a timely basis. Furthermore, Datatronics Romoland is the supplier to the end customers in the US aerospace and medical-related markets. The end customers recognize the Group as the manufacturer of the magnetic products supplied by Datatronics Romoland. In order to minimize the insurance, transportation and customer service costs as well as the related time costs which would be incurred in the direct sales by the Group from Hong Kong to the end customers in the US, the Group has elected to sell the products to various end customers in the US via Datatronics Romoland.

The Board (excluding the independent non-executive Directors whose view will be rendered upon receiving the advice of the Independent Financial Adviser) is of the view that the New Master Supply Agreement has been entered into on normal commercial terms, in the ordinary and usual course of business of the Company and the Group with terms no less favourable to the Company and the Group than those offered to other customers of the Group and is fair and reasonable to the Shareholders taken as a whole and it is in the interest of the Company and the Group to continue the Continuing Connected Transactions upon the terms and conditions set out in the New Master Supply Agreement.

INTERNAL CONTRAL MEASURES

In order to ensure the transactions are conducted in accordance with the Company's pricing mechanism, quotation can only be approved by Managing Director or General Manager. All sales transactions of the Group with Datatronics Romoland would be reported to the management of the Company and the Group on a monthly basis. To ensure the transactions are in the interests of the Group and its shareholders, monthly reviews of sales transactions and gross margin will be conducted to ensure that the terms of the transactions are no less favourable than those available to other customers.

Analysis of sales by customers and by region and end application markets analysis would be made quarterly to enable the management to closely monitor and ensure that the Continuing Connected Transactions would comply with all requirements. The sales administration team of the Group would closely monitor the sales under the Continuing Connected Transactions and report to the management of the Company and the Group on a monthly basis to ensure that the pricing policy, terms of the Continuing Connected Transactions and the Annual Caps would be complied with. In addition, the Group will continually explore and diversify its market base in other parts of the global market with the aim to minimize the Group's reliance on Datatronics Romoland.

Internal audit of the Continuing Connected Transactions review by the audit committee and the external auditor would be carried out to scrutinize the Continuing Connected Transactions to ensure that the Continuing Connected Transactions do not exceed the respective Annual Caps and to prevent over-reliance by the Group on the Continuing Connected Transactions. Auditors of the Group would review annually to confirm the transaction is conducted in accordance with the Group's pricing policy.

INFORMATION ON THE GROUP AND DATATRONICS ROMOLAND

The Group is principally engaged in the design, manufacture and sales of magnetics components through its own brand, Datatronics. Its products are applied in communications and networking equipment, data processing, industrial applications and medical equipment and devices, among others.

Datatronics Romoland is a company incorporated in the State of California, US, with limited liability and is supplier of high reliability magnetics to the medical and aerospace industries in the US.

LISTING RULES IMPLICATIONS

As Datatronics Romoland is wholly owned by Mr. Siu Paul Y., the chairman and the controlling Shareholder of the Company, who together with his spouse holding approximately 72.32% of the entire issued shares of the Company through Onboard Technology Limited. Datatronics Romoland is an associate of Mr. Siu Paul Y. and hence a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the proposed Annual Caps contemplated under the New Master Supply Agreement will exceed 5%, the New Master Supply Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

SGM

The SGM will be convened by the Company to seek the approval from the Independent Shareholders in respect of the New Master Supply Agreement and the transactions contemplated thereunder (including the proposed Annual Caps) by way of poll. Save for Mr. Siu Paul Y. and their respective associates, none of the Shareholders will be required to abstain from voting at the SGM in respect of the ordinary resolution(s) to approve the Continuing Connected Transaction.

Independent Board Committee and Independent Financial Adviser

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to, among other things, the New Master Supply Agreement and the transactions and matters contemplated thereunder and on how to vote. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

General

A circular containing, among others, (i) details of the New Master Supply Agreement and the transactions contemplated thereunder; (ii) the advice and recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Master Supply agreement and the proposed Annual Caps; and (iv) the notice of SGM will be despatched to the Shareholders on or before 8 November 2019.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Annual Cap”	the annual limit of the aggregate consideration of the Continuing Connected Transactions
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Datronix Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 889)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Continuing Connected Transactions”	the transactions under the New Master Supply Agreement
“Datatronics Romoland”	Datatronics Romoland, Inc., a company incorporated in the State of California, US, with limited liability and is a company 100% owned by Mr. Siu Paul Y.
“Director(s)”	the director(s) of the Company
“Existing Master Supply Agreement”	the agreement entered into by the Group and Datatronics Romoland on 7 October 2016 in respect of the supply of magnetic components from the Group to Datatronics Romoland for the three years ending 31 December 2019
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Company comprising Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek

“Independent Financial Adviser”	Red Sun Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
“Independent Shareholders”	shareholders other than Mr. Siu Paul Y. and his associates as defined in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Siu Paul Y.”	Mr. Siu Paul Y., the chairman and the controlling shareholder of the Company who together with his spouse hold 72.32% of the issued shares of the Company through Onboard Technology Limited
“New Master Supply Agreement”	the agreement entered into by the Group and Datatronics Romoland on 18 October 2019 in respect of the supply of magnetic components from the Group to Datatronics Romoland for the three years ending 31 December 2022
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and approving the New Master Supply Agreement and the respective Annual Caps for the three years ending 31 December 2022
“Shareholder(s)”	holder(s) for the time being of the shares of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“US”	the United States of America

By Order of the Board
SHEUNG Shing Fai
Executive Director

Hong Kong, 18 October 2019

As at the date of this announcement, the Board comprises Mr. Siu Paul Y. (Chairman), Ms. Shui Wai Mei (Vice-Chairman), Mr. Sheung Shing Fai and Ms. Siu Nina Margaret as executive Directors, Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek as independent non-executive Directors.

** For identification purposes only*