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If you have sold or transferred all your shares in Datronix Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

INDEPENDENT SHAREHOLDERS' APPROVAL FOR RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Financial Adviser to the Company

MESSIS  **大有融資**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



紅日資本有限公司
RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 3 to 13 of this circular.

A notice convening the SGM to be held at 19th Floor, North Point Industrial Building, 499 King's Road, North Point, Hong Kong on 13 December 2019 at 11:00 a.m. is set out on pages 31 to 32 of this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

28 November 2019

* For identification purposes only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms or expressions shall have the meanings set out below:

“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
“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

DEFINITIONS

“Independent Shareholders”	shareholders other than Mr. Siu Paul Y. and his associates as defined in the Listing Rules
“Latest Practicable Date”	25 November 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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
“SFO”	Securities and Futures Ordinance of Hong Kong, Chapter 571 of the laws of Hong Kong
“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

LETTER FROM THE BOARD



DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 889)

Executive Directors:

Siu Paul Y. (Chairman)

Shui Wai Mei (Vice Chairman)

Sheung Shing Fai

Siu Nina Margaret

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent non-executive Directors:

Chung Pui Lam

Lee Kit Wah

Wong Wah Sang, Derek

Principal place of business in

Hong Kong:

19th Floor

North Point Industrial Building

499 King's Road

North Point Hong Kong

28 November 2019

To the Shareholders

Dear Sir/Madam,

INDEPENDENT SHAREHOLDERS' APPROVAL FOR RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

References are made to (i) 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; and (ii) the announcement of the Company dated 18 October 2019 in relation to New Master Supply Agreement.

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.

LETTER FROM THE BOARD

As at the Latest Practicable Date, 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 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.

The purpose of this circular is to provide you with the information, 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.

THE NEW MASTER SUPPLY AGREEMENT

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

Date

18 October 2019

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.

LETTER FROM THE BOARD

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 based on a cost-plus pricing basis, 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. For illustrative purpose, the Group determines the pricing of each new and existing products as set out below:

Pricing policy and approval procedures of new products

When a new programme or product is required, Datatronics Romoland provides the respective specifications and drawings and requests for a quotation from the Group. The Group's sales administration team then prepares the pricing and quotation of such product based on the respective costs of the following components, including (i) engineering efforts, where the degree of complexity of manufacturing such products is estimated by the Group's engineers upon the review of the drawing, requirements and specifications of the product required; (ii) raw materials, which are determined based on the bill of materials prepared by the Group's engineers and reviewed by the manager of the engineering department according to the quantities and types of raw materials and parts necessary for production; and (iii) labour skill and time involved, where the Group's production managers and engineers determine the estimated labour time required for the manufacturing process based on production quantities and manufacturing stages required.

In accordance with the Group's current pricing policy, the selling price of such products is calculated based on a cost-plus approach with a mark-up margin. Regarding the methods and procedures the management will follow to determine, review and approve the mark-up margin, the sales administration team will take into account the above factors and the length of credit period offered to Datatronics Romoland and determine the selling price, including the mark-up margin and pass the quotation to the managing director or general manager for consideration. Such mark-up margin will be determined based on (i) the historical prices on products with similar complexity in the same industry, for example, similar mark-up margin will be applied for magnetic components used in medical devices; (ii) the historical prices quoted on previous quotations not accepted by customers, which would serve as a benchmark and guideline for the Group's maximum suggested price offered to its customers. According to the Group's past experience, it had not encountered any occasion where a historical price is not available in the recent years. As the Company's managing director or general manager are well aware of the nature and requirements of the products of all customers, including Datatronics Romoland, they will review the calculation basis and approve the quotation before submitting to Datatronics Romoland.

For the avoidance of doubt, the Group applies the same pricing policy and approval procedures for products sold to each of Datatronics Romoland and independent third-party customers of the Group to ensure the mark-up margin offered to each of them are determined on arm's length basis. Due to the customised nature of the Group's products, there were no overlapping products sold to both Datatronics Romoland and other independent third-party customers. However, for illustrative purpose, if Datatronics Romoland requires an identical product from the Group which had been required by other independent third-party customers, the Group would apply the same pricing policy and a mark-up margin no less favourable than other independent third-party customers.

LETTER FROM THE BOARD

The Group generally charges a higher mark-up margin for products sold to Datatronics Romoland than that to other independent third-party customers of the Group. Such difference in the mark-up margin is mainly due to (i) the complex and technical requirements of the products, where Datatronics Romoland's sophisticated products mainly apply on aerospace and medical related industries requiring higher precision and reliability, such as magnetic devices for supporting space programs and medical pacemakers. On the other hand, products of other independent third-party customers mainly apply on communication and networking, data processing and industrial application industries requiring lower precision, such as transformers and other magnetics for internet equipment; and (ii) labour skill and time involved for the product, where the Group's top management and more experienced senior engineers would be involved to provide engineering support and to resolve technical difficulties in the manufacturing process and workers of higher ability or skill would normally be assigned to handle the manufacturing process for Datatronics Romoland's products, whereas the products sold to other independent third-party customers of the Group would normally carry less complications and complexity and thus require less technical and engineering support in their manufacturing procedures.

Pricing policy and approval procedures of existing products

For existing products sold to Datatronics Romoland, the Group's pricing would be based on historical prices quoted with adjustments made by the Group's sales administration team based on current direct and indirect costs, such as the current prices of raw material and labour time involved. Such pricing, including the mark-up margin, will be reviewed and approved by the Company's general manager or managing director.

Right of first refusal

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.

Conclusion

Taking in account that (i) the Group applies the same pricing policy and approval procedures for products sold to Datatronics Romoland and independent third-party customers of the Group; and (ii) the Group has adopted internal control measures to ensure that the price and terms that the Group offered to Datatronics Romoland are no less favourable than those offer to independent third-party customers, where further details of such internal control measures adopted by the Group are set out in the paragraph headed "Internal control measures" in this letter, the Directors consider the methods and procedures as stated above for the transactions contemplated under the New Master Supply Agreement will be conducted on normal commercial terms or on terms no less favourable to the Company than terms available to independent third-party customers of the Group.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 forecast provided by Datatronics Romoland and historical records of the transactions made pursuant to the Existing Master Supply Agreement, the Board expects that the sales to Datatronics Romoland will remain relatively stable for the three years ending 31 December 2020, 2021 and 2022 respectively. The Group shall keep the proportion of sales to Datatronics Romoland so that it will not be an over-reliance on one particular customer.

To the best knowledge of the Company, the forecast provided by Datatronics Romoland, was prepared based on the following:

- (i) the positive impact by the stable relationship established between Datatronics Romoland and its existing customers and opportunities for new product development programmes with new customers. As understood from Datatronics Romoland, there are ongoing discussion with several existing customers in relation to the production roadmap for existing or upgraded products, which will result in an estimated increase in the quantity sold for approximately 20% in 2020, as compared with the normal transaction volume in years 2017 to 2018; and
- (ii) due to the potential negative impact by the continuous unresolved trade dispute between the US and China, the observable stagnant economy in the US and the possible drive of price reduction from customers, which may result in Datatronics Romoland's restraint in negotiating higher selling prices with its customers and thus a relatively stable expected transaction amount in years 2020 to 2022.

LETTER FROM THE BOARD

The Group has also assessed the Datatronics Romoland's forecast and considers the figures of the forecast to be reasonable and the proposed Annual Caps are determined to be fairly stable based on the following:

- (i) given the aggregate transaction amount under the Existing Master Supply Agreement for the six months ended 30 June 2019 amounted to approximately HK\$25 million, the Group expects that the aggregate consideration would amount to approximately HK\$55 million for the full financial year ended 31 December 2019. As understood from Datatronics Romoland, the reason for the lowered transaction amount in 2019 was mainly attributable to (i) the lowering of the minimum stock level required by several customers of Datatronics Romoland due to the heightened US-China trade tensions, whereby such stock demand is expected to return to historical level in the near future; and (ii) the impact on temporary slowdown on production schedule in 2019 due to the re-engineering of certain products and corresponding revision on manufacturing process, and the production of which are expected to ramp up from 2020 onwards;
- (ii) with reference to the historical transaction records, Datatronics Romoland's sales had been in line with the Group's revenue. As the general economy had been softening moderately, Datatronics Romoland's performance had been affected accordingly. Nevertheless, as Datatronics Romoland is a supplier of high reliability magnetics to the medical and aerospace industries, which these segments are less cyclical in nature, the Group believes that the end customers of Datatronics Romoland will be affected by the economy to a lesser extent;
- (iii) the Group experienced cost pressure from its end customers due to the ongoing trade dispute between US and China and therefore there was a slight reduction in sales recorded by the Group since 2019;
- (iv) based on the assumption that the trade dispute between US and China may not have a significant impact on the demand from Datatronics Romoland's customers and taking into account the forecast provided by Datatronics Romoland, and the counter cyclical nature of the segment in which Datatronics Romoland served, the Group expects the Continuing Connected Transactions demand shall be strengthened over time; and
- (v) for the sake of conservativeness, the Group applied a buffer of approximately 10% to 20% on top of the forecast provided by Datatronics Romoland.

Based on the above, the Directors are of the view that the Annual Caps are fair and reasonable.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors consider that entering into the New Master Supply Agreement 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 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.

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.

LETTER FROM THE BOARD

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.

IMPLICATION UNDER THE LISTING RULES

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. As Mr. Siu Paul Y. has a material interest in the transaction, he has abstained from voting on the Board resolution.

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.

LETTER FROM THE BOARD

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.

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). Mr. Siu Paul Y. and his respective associates, holding 231,412,000 shares, representing approximately 72.32% of the entire issued shares of the Company through Onboard Technology Limited, shall abstain from voting at the SGM on the relevant resolution(s) to approve the Continuing Connected Transactions. Save for Mr. Siu Paul Y. and his 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 Transactions.

The notice convening the SGM to be held at 19th Floor, North Point Industrial Building, 499 King's Road, North Point, Hong Kong on 13 December 2019 at 11:00 a.m. is set out on pages 31 to 32 of this circular. An ordinary resolution will be proposed at the SGM to approve the New Master Supply Agreement and the transactions contemplated thereunder. The resolution proposed to be approved at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the result of the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the form of proxy enclosed and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjournment meeting thereof if you so wish and, in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATIONS

Taking into consideration of the reasons set out in the paragraph headed "Reasons for and benefits of the Continuing Connected Transactions" above, the Directors (including the independent non-executive Directors) consider that the entering into the New Master Supply Agreement and the transactions contemplated thereunder are in the ordinary and usual course of the Group's business, on normal commercial terms and the proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as far as the Company and the Shareholders are concerned. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution be proposed at the SGM to approve the Continuing Connected Transactions.

LETTER FROM THE BOARD

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 14 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the New Master Supply Agreement and the Annual Caps of the transactions contemplated thereunder, (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 15 to 26 of this circular; and (iii) the information set out in the appendix of this circular.

Yours faithfully,
By Order of the Board
Sheung Shing Fai
Executive Director



DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 889)

28 November 2019

To the Independent Shareholders

Dear Sir or Madam,

**INDEPENDENT SHAREHOLDERS' APPROVAL FOR
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the “**Circular**”) dated 28 November 2019 issued by the Company of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We have been formed to advise the Independent Shareholders in relation to the New Master Supply Agreement and the transaction contemplated thereunder. Red Sun Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise us in these regards. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 15 to 26 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

After taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we concur with their views and consider that the entering into the New Master Supply Agreement and the transactions contemplated thereunder are in the ordinary and usual course of the Group’s business, on normal commercial terms and the proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as far as the Company and the Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favor of the resolution to be proposed at the SGM to approve the Continuing Connected Transactions.

Yours faithfully

For and on behalf of the

Independent Board Committee

Mr. Chung Pui Lam

Mr. Lee Kit Wah

Mr. Wong Wah Sang, Derek

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the independent financial adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

28 November 2019

*To: The Independent Board Committee and the Independent Shareholders
of Datronix Holdings Limited*

Dear Sir/Madam,

INDEPENDENT SHAREHOLDERS' APPROVAL FOR RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions (including the Annual Caps), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) issued by the Company to the Shareholders dated 28 November 2019 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

References are made to (i) 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; (ii) the announcement of the Company dated 18 October 2019 in relation to New Master Supply Agreement.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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. As at the Latest Practicable Date, 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. As Mr. Siu Paul Y. has a material interest in the transaction, he has abstained from voting on the Board resolution.

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.

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Chung Pui Lam, Mr. Lee Kit Wah, Mr. Wong Wah Sang, Derek, has been formed to advise the Independent Shareholders in relation to the proposed Annual Caps in respect of the transactions contemplated under the New Master Supply Agreement for each of the three years ending 31 December 2020, 2021 and 2022, in particular as to whether the terms of the New Master Supply Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We, Red Sun Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Continuing Connected Transactions and the proposed Annual Caps are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the proposed resolutions relating to the Continuing Connected Transactions and the proposed Annual Caps at the Special General Meeting.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interests in the Company, or any other parties, that could reasonably be regarded to compromise our independence. In the past two years, we had not acted as an independent financial adviser of the Company's other transactions. Apart from normal professional fee received by us for opining on the Continuing Connected Transactions, no arrangements exist or remained in existence whereby we had received or will receive any fees or benefits from the Company or any other parties. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Company, the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our view and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent investigation into the business and affairs of the Group.

We have taken all reasonable steps which include the following:

- (a) obtaining all the information and documents relevant to an assessment of the fairness and reasonableness of the terms of the Continuing Connected Transactions and their respective Annual Caps, including but not limited to, the Letter from the Board, the Existing Master Supply Agreements, the New Master Supply Agreement, the analysis of the transactions of the magnetic products including both to Datatronics Romoland and to independent third parties in 2017, 2018 and 2019 (the “**Sales Analysis**”), the annual report of the Company for the year ended 31 December 2018 (the “**AR2018**”) and the interim report of the Company for six months ended 30 June 2019 (the “**IR2019**”) respectively;
- (b) reviewing the performance and financial situation of the Company as well as the reasons and background of the Continuing Connected Transactions;
- (c) reviewing the terms of the New Master Supply Agreement;
- (d) reviewing the projected amounts of the Continuing Connected Transactions provided by Datatronics Romoland for those three years ending 31 December 2022; and

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- (e) reviewing the Sales Analysis of the magnetic products relevant to the Continuing Connected Transactions.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding whether the Continuing Connected Transactions are in the interest of the Company and the Independent Shareholders as a whole and whether the terms of each of the Continuing Connected Transactions and the respective Annual Caps are fair and reasonable, we have considered the following principal factors and reasons:

1. Reasons for the Continuing Connected Transactions

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. The Directors consider that entering into the New Master Supply Agreement 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. We have reviewed the historical records of the transactions between the Group and Datatronics Romoland and reviewed the per unit price and the material and labor costs for each of the transactions and note that the profit margins for the sales of such high reliability magnetic components to Datatronics Romoland were 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. Based on the above reasons, the Group entered into the Continuing Connected Transactions.

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We have reviewed the nature of business of the Group set out in the AR2018 and the IR2019 and note that the manufacturing and trading of the magnetic components is the main business of the Group. We have also discussed with the management of the Company in relation to the business of the magnetic products and note that the Continuing Connected Transactions have been commenced for years before the new listing of the shares of the Company in 2001. Accordingly, we are of the view that the Continuing Connected Transactions, to be commenced during 2020, 2021 and 2022, are within the ordinary and usual course of business of the Company.

Based on the Sales Analysis, the AR2018 and the IR2019, we note that (i) the Continuing Connected Transactions were approximately 23.2%, 20.5% and 16.9% of the total revenue of the Group for the financial years ended 31 December 2017, 2018 and the six months ended 30 June 2019 respectively with the range of profit margins being substantially higher than those of sales to other customers; and (ii) the Continuing Connected Transactions are expected to contribute to both the revenue and the net profit of the Group for the financial years ending 31 December 2020, 2021 and 2022. Accordingly, we are of the view that the Continuing Connected Transactions are in the interest of the Group and the Shareholders as a whole.

2. Terms of the Continuing Connected Transactions

We have reviewed the major terms and conditions of the New Master Supply Agreement and the Existing Master Supply Agreements. The major terms and conditions of the Existing Master Supply Agreements are all for an initial term of three years and shall continue thereafter until terminated by either party giving to the other party not less than three months' written notice. Pursuant to the New Master Supply Agreement, the selling prices of the magnetics are to be agreed between the Group and Datatronics Romoland.

As mentioned in the Letter from the Board, when a new program is required, Datatronics Romoland provides the respective specifications and drawings and request for a quotation from the Group. The Group's sales administration team then prepares the pricing and quotation of such product based on the respective costs of the following components, including (i) engineering efforts, where the degree of complexity of manufacturing such products is estimated by the Group's engineers upon the review of the drawing, requirements and specifications of the product required; (ii) raw materials, which are determined based on the bill of materials prepared by the Group's engineers and reviewed by the manager of the engineering department according to the quantities and types of raw materials and parts necessary for production; and (iii) labour skill and time involved, where the Group's production managers and engineers determine the estimated labour time required for the manufacturing process based on production quantities and manufacturing stages required.

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In accordance with the Group's current pricing policy, the selling price of such products is calculated based on a cost-plus approach with a mark-up margin. Regarding the methods and procedures the management will follow to determine, review and approve the mark-up margin, the sales administration team will take into account the above factors and the length of credit period offered to Datatronics Romoland and determine the selling price, including the mark-up margin and pass the quotation to the managing director or general manager for consideration. Such mark-up margin will be determined based on (i) the historical prices on products with similar complexity in the same industry, for example, similar mark-up margin will be applied for magnetic components used in medical devices; (ii) the historical prices quoted on previous quotations not accepted by customers, which would serve as a benchmark and guideline for the Group's maximum suggested price offered to its customers. According to the Group's past experience, it had not encountered any occasion where a historical price is not available in the recent years. As the Company's managing director or general manager are well aware of the nature and requirements of the products of all customers, including Datatronics Romoland, they will review the calculation basis and approve the quotation before submitting to Datatronics Romoland.

For the avoidance of doubt, the Group applies the same pricing policy and approval procedures for products sold to each of Datatronics Romoland and independent third-party customers of the Group to ensure the mark-up margin offered to each of them are determined on arm's length basis. Due to the customised nature of the Group's products, there were no overlapping products sold to both Datatronics Romoland and other independent third-party customers. However, for illustrative purpose, if Datatronics Romoland requires an identical product from the Group which had been required by other independent third-party customers, the Group would apply the same pricing policy and a mark-up margin no less favourable than other independent third-party customers.

The Group generally charges a higher mark-up margin for products sold to Datatronics Romoland than that to other independent third-party customers of the Group. Such difference in the mark-up margin is mainly due to (i) the complex and technical requirements of the products, where Datatronics Romoland's sophisticated products mainly apply on aerospace and medical related industries requiring higher precision and reliability, such as magnetic devices for supporting space programs and medical pacemakers. On the other hand, products of other independent third-party customers mainly apply on communication and networking, data processing and industrial application industries requiring lower precision, such as transformers and other magnetics for internet equipment; and (ii) labour skill and time involved for the product, where the Group's top management and more experienced senior engineers would be involved to provide engineering support and to resolve technical difficulties in the manufacturing process and workers of higher ability or skill would normally be assigned to handle the manufacturing process for Datatronics Romoland's products, whereas the products sold to other independent third-party customers of the Group would normally carry less complications and complexity and thus require less technical and engineering support in their manufacturing procedures.

For existing products sold to Datatronics Romoland, the Group's pricing would be based on historical prices quoted with adjustments made by the Group's sales administration team based on current direct and indirect costs, such as the current prices of raw materials and labour time involved. Such pricing, together with the mark-up margin, will be approved by the Company's general manager or managing director.

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Taking in account (i) the Group applies the same pricing policy for product sold to Datatronics Romoland and independent third-party customers of the Group; and (ii) the Group has adopted internal control measures to ensure that the price and terms that the Group offered to Datatronics Romoland are no less favourable than those offer to independent third-party customers. Further details of the internal control measures adopted by the Group are set out in the paragraph headed “Internal control and monitor” in this letter, the Directors consider and we concur the methods and procedures as stated above for the transactions contemplated under the New Master Supply Agreement will be conducted on normal commercial terms or on terms no less favourable to the Company than terms available to independent third-party customers of the Group.

As stated in the Letter from the Board, the Group currently offers credit sales to Datatronics Romoland with a term of payment of 30 days, while the payment term offered to other customers of the Group varies from 30 to 90 days. The payment term of the Continuing Connected Transactions offered to Datatronics Romoland by the Group are more favourable to the Group as compared to those payment terms offered to other customers of the Group.

We have reviewed the Sales Analysis obtained from the management of the Company in relation to the sales of the magnetic products to both Datatronics Romoland and independent third parties during the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019 with the breakdown of the direct costs of these transactions, including the raw material and labor time costs. Based on the information provided in the Sales Analysis, we are of the view that (i) the profit margin of the sales to Datatronics Romoland were generally substantially higher than the sales to independent third parties; and (ii) the Group currently offers credit sales to Datatronics Romoland with a term of payment of 30 days, while the payment term offered to other customers of the Group varies from 30 to 90 days.

The Group is granted a right of first refusal by Datatronics Romoland under the New Master Supply Agreement to the effect that only if the Group declines to supply the magnetics, Datatronics Romoland may source the same from any third-party supplier, provided that the terms of such purchase shall not be more favourable to Datatronics Romoland than those offered by the Group.

The New Master Supply Agreement is on substantially the same terms as those in the Existing Master Supply Agreements pursuant to which the Group has agreed to sell magnetic products 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.

Having considered that (i) no irregular terms are noted in the New Master Supply Agreement; (ii) the Group being granted a first refusal right by Datatronics Romoland; and (iii) the profit margin and the payment term of the Continuing Connected Transactions are more favourable to the Group as compared to sales to other customers of the Group, we are of the view that the terms of the New Master Supply Agreement are on normal commercial basis and fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PROPOSED ANNUAL CAPS AND BASIS FOR DETERMINATION

Set out below are the amounts under the Existing Master Supply Agreement for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019.

	Financial year ended 31 December 2017 <i>HK\$'000</i>	Financial year ended 31 December 2018 <i>HK\$'000</i>	Six months ended 30 June 2019 <i>HK\$'000</i>
Aggregate consideration under the Existing Master Supply Agreement	65,065	64,112	24,769
Total revenue of the Group	280,964	312,644	146,670
Percentage of aggregate consideration under the Existing Master Supply Agreement to total revenue of the Group	23.2%	20.5%	16.9%
Annual Cap amount	100,000	110,000	120,000

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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The proposed Annual Caps under the New Master Supply Agreement are determined with reference to the forecast provided by Datatronics Romoland and historical records of the transactions made pursuant to the Existing Master Supply Agreement, the Board expects that the sales to Datatronics Romoland will remain relatively stable for the three years ending 31 December 2020, 2021 and 2022 respectively. The Group shall keep the proportion of sales to Datatronics Romoland so that it will not be an over-reliance on one particular customer.

The Board 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 more 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. We have also reviewed the Company's projection of the Continuing Connected Transactions and also Datatronics Romoland's sales forecast which is based on Datatronics Romoland's forecasted sales to each of their customers and discussed with the management of the Company of the reasonableness of the Company's projection and Datatronics Romoland's sales forecast including searching independently online about the status of the China-US trade dispute and discussed with the management of the Company and obtained from the Company and reviewed the total amount of the purchase orders on hands provided by Datatronics Romoland and we also reviewed the transaction volume of the sales to Datatronics Romoland of HK\$65,065,000, HK\$64,112,000, and HK\$24,769,000 for the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively. To the best knowledge of the Company, the forecast provided by Datatronics Romoland was prepared based on the following:

- (i) the positive impact by the stable relationship established between Datatronics Romoland and its existing customers and opportunities for new product development programmes with new customers. As understood from Datatronics Romoland, there are ongoing discussion with several existing customers in relation to the production roadmap for existing or upgraded products, which will result in an estimated increase in the quantity sold for approximately 20% in 2020, as compared with the normal transaction volume in years 2017 to 2018; and
- (ii) due to the potential negative impact by the continuous unresolved trade dispute between the US and China, the observable stagnant economy in the US and the possible drive of price reduction from customers, which may result in Datatronics Romoland's restraint in negotiating higher selling prices with its customers and thus a relatively stable expected transaction amount in years 2020 to 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the management of the Company and assessed the Datatronics Romoland's forecast and consider the figures of the forecast to be reasonable and the proposed Annual Caps are determined to be fairly stable based on the following:

- (i) given the aggregate transaction amount under the Existing Master Supply Agreement for the six months ended 30 June 2019 amounted to approximately HK\$25 million, the Group expects that the aggregate consideration would amount to approximately HK\$55 million for the full financial year ended 31 December 2019. As understood from Datatronics Romoland, the reason for the lowered transaction amount in 2019 was mainly attributable to (i) the lowering of the minimum stock level required by several customers of Datatronics Romoland due to the heightened US-China trade tensions, whereby such stock demand is expected to return to historical level in the near future; and (ii) the impact on temporary slowdown on production schedule in 2019 due to the re-engineering of certain products and corresponding revision on manufacturing process, and the production of which are expected to ramp up from 2020 onwards;
- (ii) with reference to the historical transaction records, Datatronics Romoland's sales had been in line with the Group's revenue. As the general economy had been softening moderately, Datatronics Romoland's performance had been affected accordingly. Nevertheless, as Datatronics Romoland is a supplier of high reliability magnetics to the medical and aerospace industries, which these segments are less cyclical in nature, the Group believes that the end customers of Datatronics Romoland will be affected by the economy to a lesser extent;
- (iii) the Group experienced cost pressure from its end customers due to the ongoing trade dispute between US and China and therefore there was a slight reduction in sales recorded by the Group since 2019;
- (iv) based on the assumption that the trade dispute between US and China may not have a significant impact on the demand from Datatronics Romoland's customers and taking into account the forecast provided by Datatronics Romoland, and the counter cyclical nature of the segment in which Datatronics Romoland served, the Group expects the Continuing Connected Transactions demand shall be strengthen over time; and
- (v) for the sake of conservativeness, the Group applied an average buffer of approximately 10% to 20% on top of the forecast provided by Datatronics Romoland.

Based on the above, we find that the Company's sales projection and Datatronics Romoland's sales forecast were reasonable.

Based on the forecasts, the Board proposes that the Annual Caps of the Continuing Connected Transactions for the three years ending 31 December 2020, 2021 and 2022 be HK\$100 million respectively. The Board considers that the Annual Caps are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the management of the Company in relation to the basis of the Annual Caps of the Continuing Connected Transactions with reference to various factors, including (i) the transaction volume in the past; (ii) the value of purchase orders on hands provided by Datatronics Romoland; (iii) the forecast provided by Datatronics Romoland, based on following grounds, namely: (a) the positive impact by the stable relationship established between Datatronics Romoland and its existing customers and opportunities for new product development programmes with new customers; and (b) the negative impact by the continuous unresolved trade dispute between the US and China, the observable stagnant economy in the US and the possible drive of price reduction from customers., we are of the view that the Annual Caps of the Continuing Connected Transactions proposed by the Board are based on reasonable grounds as well as are fair and reasonable so far as the Independent Shareholders are concerned.

INTERNAL CONTROL AND MONITOR

As set out in the Board Letter that 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.

In light of the above, we are of the view that the Company has appropriate internal control procedures in place to monitor the operation of and safeguard the Continuing Connected Transactions.

Internal audit of the Continuing Connected Transactions by the audit committee and review by the external auditor would help to ensure that respective annual caps of the Continuing Connected Transactions are not exceeded and that over-reliance by the Group on the Continuing Connected Transactions is prevented. Auditors of the Group would review annually to confirm that the transactions were approved by the Board, conducted in accordance with the pricing policies and have not exceeded the respective annual caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have obtained and reviewed (i) the sample records of monthly sales analysis under the Continuing Connected Transactions; (ii) the monthly internal reports in relation to the actual transaction amounts of the Continuing Connected Transactions prepared by the sales administration team which is responsible for monitoring and reviewing of the actual amount of the annual caps for the Continuing Connected Transactions; and (iii) the internal records in relation to the monthly sales analysis which have been reviewed by the audit committee of the Company. We also note that the auditor of the Company provided letters to the Board and confirmed that no abnormality has come to its attention.

Having considered (i) the internal policies and procedures to monitor the Continuing Connected Transactions; (ii) the monthly sales analysis and annual reviews by the audit committee of the Company; and (iii) the annual review by the auditor of the Company, we are of view that the Company has appropriate measures to govern future execution of such transactions and to safeguard the interest of the Group and the Shareholders as a whole.

RECOMMENDATION

Having taken into account of the factors and reasons set out in the above sections, we are of the view that (i) the entering into of the New Master Supply Agreement together with the Continuing Connected Transactions contemplated thereunder are in the interest of the Group and the Shareholders as a whole; (ii) the New Master Supply Agreement are entered into on normal commercial terms and within the Company's ordinary and usual course of business; (iii) the terms of the Continuing Connected Transactions, including the respective Annual Caps for the Continuing Connected Transactions for the three years ending 31 December 2020, 2021 and 2022, are fair and reasonable so far as the Independent Shareholders are concerned and (iv) the internal control and monitoring for the Continuing Connected Transactions are sufficient.

Accordingly, we recommend the Independent Board Committee and the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting to approve the Continuing Connected Transactions and Annual Caps for the three years ending 31 December 2020, 2021, and 2022.

Yours faithfully

For and on behalf of

Red Sun Capital Limited

Robert Siu

Angel Ip

Managing Director

Director

Note: Mr. Robert Siu is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 21 years of experience in corporate finance industry.

Ms. Angel Ip is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 8 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company, or their associates, had any interest or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV to the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO); or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange:

(i) the Company

Name	Ordinary shares of HK\$0.1 each				Total no. of shares	Percentage in total share capital
	Personal Interests	Family interests	Corporate interests	Other Interest		
Mr. Siu Paul Y.	–	–	231,412,000 (note 1)	–	231,412,000	72.32%

(ii) Associated corporation – Datatronic Limited

Name	Non-voting deferred shares of HK\$1.00 each				Total no. of shares	
	Personal Interests	Family interests	Corporate interests	Other Interest		
Mr. Siu Paul Y.		1	–	199,999 (note 2)	–	200,000

Notes: 1. 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, spouse of Mr. Siu Paul Y., hold 90% and 10% of its issued share capital respectively.

2. These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is owned by Mr. Siu Paul Y..

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

As at the Latest Practicable Date, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

3. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or substantial Shareholders or any of their respective associates had an interest in a business which competes or may compete with the business of the Group or had any other conflict of interest which any such person has or may have with the Group.

4. DIRECTORS' INTERESTS IN ASSET, CONTRACT OR ARRANGEMENT

Mr. Siu Paul Y. is interested in the Continuing Connected Transactions as disclosed in this circular.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

Save as disclosed in this circular, there is no contract or arrangement subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

5. SERVICE CONTRACTS

Amongst the executive Directors, Mr. Siu Paul Y., Ms. Shui Wai Mei and Mr. Sheung Shing Fai have each entered into a service contract with the Company for an initial fixed term of three years commencing from 22 June 2001 while Ms. Siu Nina Margaret has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 January 2013. Such contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of the executive Directors is entitled to a basic salary, which is determined on the basis of his/her qualification, experience, involvement in and contribution to the Company and by reference to the market rate. In addition, the executive Directors are also entitled to a management bonus of a sum at the discretion of the Directors. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him.

Save as disclosed above, none of the Directors has any existing or proposed service contracts with any member of the Group (other than contracts expiring or determinable by the Group within one year without the payment of compensation (other than statutory compensation)).

6. MATERIAL LITIGATION

As far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor its subsidiaries was involved in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited financial statements of the Company were made up.

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the expert, and its qualification, who has given opinion contained in this circular:

Name	Qualification
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 New Master Supply Agreement and the transaction contemplated thereunder

Red Sun Capital Limited has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice, opinion and/or reports and references to its name in the form and context in which they respectively appeared.

As at the Latest Practicable Date, Red Sun Capital Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interests, either direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (i) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (ii) The head office and principal place of business of the Company in Hong Kong is located at 19th Floor, North Point Industrial Building, 499 King's Road, North Point, Hong Kong.
- (iii) The secretary of the Company is Ms. LEUNG Sau Fong, ACIS, LLB(Hons).
- (iv) The Company's branch share registrar and transfer office in Hong Kong Registrars Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's head office in Hong Kong at 19th Floor, North Point Industrial Building, 499 King's Road, North Point, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the New Master Supply Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 14 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 26 of this circular;
- (d) the annual reports of the Company for the years ended 31 December 2017 and 2018;
- (e) the interim report of the Company for the six months ended 30 June 2019;
- (f) the written consents referred to in the paragraph headed "Expert's qualification and consent" in this appendix;
- (g) the service contracts referred to in the paragraph headed "Service contracts" in this appendix; and
- (h) this circular.

NOTICE OF THE SGM



DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 889)

NOTICE IS HEREBY GIVEN that an special general meeting (the “**SGM**”) of Datronix Holdings Limited (the “**Company**”) will be held at 19th Floor, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong on Friday, 13 December 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company. Capitalized terms used herein without definition have the same meanings as in the circular issued by the Company on 28 November 2019, unless the context otherwise requires:

ORDINARY RESOLUTION

“THAT:

- (a) the New Master Supply Agreement dated 18 October 2019 entered into between the Company and Datatronics Romoland, and the Annual Caps of the transactions contemplated thereunder for the three years ending 31 December 2022 be and are hereby approved, confirmed and ratified; and
- (b) any one Director be and is hereby authorised for and on behalf of the Company to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the New Master Supply Agreement and the transactions contemplated thereunder.”

By Order of the Board

Leung Sau Fong

Company Secretary

Hong Kong, 28 November 2019

NOTICE OF THE SGM

Notes:

1. A member of the Company entitled to attend and vote at the SGM is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
3. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the SGM.
4. Completion and return of the form of proxy will not preclude members from attending and voting at the SGM.
5. A form of proxy for use at the meeting is enclosed herewith.
6. The votes at the abovementioned meeting will be taken by a poll.

As at the date of this notice, the executive Directors are Mr. Siu Paul Y., Ms. Shui Wai Mei, Mr. Sheung Shing Fai and Ms. Siu Nina Margaret; and the independent non-executive Directors are Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek.