
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

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(s) or the transferee(s) or to the bank, licensed securities dealer or registered institution in securities 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)

**CONTINUING CONNECTED TRANSACTIONS
NEW MASTER SUPPLY AGREEMENT
AND
NOTICE OF THE SGM**

Financial adviser to the Company



紅日資本有限公司

RED SUN CAPITAL LIMITED

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

MESSIS 大有融資

Capitalised terms used on this cover shall have the same meanings as those defined in the section headed “Definitions” in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from the Independent Financial Adviser is set out on pages 15 to 28 of this circular.

A notice convening the SGM of the Company to be held at 19/F, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong on 13 December 2022 at 11:00 a.m. is set out on pages 33 to 34 of this circular. A form of proxy for use by the Shareholders at the SGM is enclosed with this circular.

Whether or not you intend to attend the SGM, you are requested to complete and sign the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong 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 thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE SPECIAL GENERAL MEETING

In view of the ongoing coronavirus disease (“COVID-19”) pandemic, the Company will implement the following precautionary measures at the SGM to protect attendings shareholders, staff and stakeholders of the Company from the risk of infection including, without limitation:

- (1) Compulsory temperate checks
- (2) Wearing of surgical face mask
- (3) No provision of refreshments or drinks

Any person who does not comply with the precautionary measures, is with a body temperature above 37.2 degree Celsius or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the SGM as an alternative to attending the SGM in person. Subject to the development of COVID-19 pandemic, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

23 November 2022

* For identification purpose only

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DEFINITIONS

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

“Annual Cap(s)”	the annual limit of the aggregate consideration of the Continuing Connected Transactions
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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 to it under the Listing Rules
“Continuing Connected Transaction(s)”	the transactions under the New Master Supply Agreement
“COVID-19”	an infectious disease caused by a newly discovered coronavirus since December 2019, namely, severe acute respiratory syndrome coronavirus 2 (SARS- CoV-2) which has spread globally and resulted in a pandemic
“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 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
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors to be established to advise the Independent Shareholders on the New Master Supply Agreement and the Annual Caps

DEFINITIONS

“Independent Financial Adviser” or “Messis Capital Limited”	Messis 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 appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the New Master Supply Agreement and the Annual Caps
“Independent Shareholders”	Shareholders other than Mr. Siu Paul Y. and his associates as defined in the Listing Rules
“Latest Practicable Date”	18 November 2022, 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 and as amended from time to time
“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 19 October 2022 in respect of the supply of magnetic components from the Group to Datatronics Romoland for the three years ended 31 December 2025
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened for the Independent Shareholders to consider and approve the New Master Supply Agreement and the respective Annual Caps for the three years ending 31 December 2025
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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)
Siu Ronald (Vice Chairman)
Sheung Shing Fai
Siu Nina Margaret

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
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

23 November 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS NEW MASTER SUPPLY AGREEMENT

INTRODUCTION

Reference is made to the announcements of the Company dated 18 October 2019 and 19 October 2022 in relation to, among others, the Existing Master Supply Agreement and the New Master Supply Agreement. As the Existing Master Supply Agreement will expire on 31 December 2022, the New Master Supply Agreement was entered into for the renewal of the Existing Master Agreement.

On 19 October 2022, the Company has entered into the New Master Supply Agreement with Datatronics Romoland, pursuant to which 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 ending 31 December 2025.

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.

* For identification purpose only

LETTER FROM THE BOARD

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the 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.

The purpose of this circular is to provide you with the information, among other things, (i) further details of the New Master Supply Agreement and the Annual Caps thereunder; (ii) the letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the New Master Supply Agreement; (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

19 October 2022

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 2025 and subject to the terms and conditions set out therein at a price to be determined by the parties.

Pricing policy

The selling prices of the magnetic 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:

LETTER FROM THE BOARD

Pricing policy and approval procedures of new products

When a new program 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; and (iii) the mark-up margin offered to Datatronics Romoland no less favourable than those offered to other independent third-party customers of the Group. Besides, the Group will prepare sales report with summary of mark-up margin for the transactions under the sell and/or supply of the magnetic components to Datatronics Romoland and compare with the overall Group's mark-up margin on monthly basis for review by the independent non-executive directors of the Company to ensure the mark-up margin offered to Datatronics Romoland no less favourable than those offered to other independent third-party customers of the Group and up to the Latest Practicable Date, there was no record of non-compliance with the Group's pricing policy was noted. According to the Group's past experience, it had not encountered any occasion where a historical price is not available in 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 products mainly apply on aviation and medical related industries requiring higher precision and reliability, such as magnetic devices for aircraft 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 and 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 independent third-party 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 amount

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 2021 and the nine months ended 30 September 2022 under the Existing Master Supply Agreement:

	For the year ended 31 December		For the nine months ended 30 September
	2020	2021	2022
	HK\$'000	HK\$'000	HK\$'000
Annual Cap under the Existing Master Supply Agreement	100,000	100,000	100,000
Historical transaction amounts under the Existing Master Supply Agreement	40,505	44,524	38,000

Annual Caps

The below table sets out the Annual Caps of the Continuing Connected Transactions for each of the three years ending 31 December 2025 under the New Master Supply Agreement:

	For the year ended 31 December		
	2023	2024	2025
	HK\$'000	HK\$'000	HK\$'000
Annual Cap under New Master Supply Agreement	65,000	70,000	75,000

LETTER FROM THE BOARD

The Annual Caps under the New Master Supply Agreement are determined with reference to the forecast transaction amount under the New Master Supply Agreement and historical records of the transactions made pursuant to the Existing Master Supply Agreement, the Board expects that the sales to Datatronics Romoland will represent stable growth for the three years ending 31 December 2023, 2024 and 2025 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 the global economy gradually recovered from the COVID-19 induced recession in year of 2020, demand for manufactured goods showed improvement along with market sentiment has become more optimistic compared with the year of 2020 which will result in an estimated increase in the quantity sold in 2023, as compared with the transaction volume in year of 2020 and 2021; and
- (ii) due to the potential impact of the fluctuation in price of raw materials caused by inflation, which may result in higher selling prices for the Datatronics Romoland's sales orders.

The above annual caps for each of the three years ending 31 December 2025 are determined by the Directors by reference to:

- (i) the historical transaction amounts made pursuant to the Existing Master Supply Agreement of approximately HK\$40.5 million, HK\$44.5 million and HK\$38.0 million for the two years ended 31 December 2021 and the nine months ended 30 September 2022;
- (ii) the forecast transaction amounts for the year ending 31 December 2022 of approximately HK\$50.7 million which is based on the annualised transactions amounts of the transactions made pursuant to the Existing Master Supply Agreement for the nine months ended 30 September 2022;
- (iii) the expected growth of approximately 16.6% in demand of magnetic components from Datatronics Romoland for the year ending 31 December 2023 which was determined based on (a) the growth rate of approximately 13.8% from the historical transaction amounts under the Existing Master Supply Agreement of approximately HK\$44.5 million for the year ended 31 December 2021 to approximately HK\$50.7 million of annualised transaction amounts for the year ending 31 December 2022; and (b) the forecast demand prepared by Datatronics Romoland and reviewed by the Directors after considering (i) the positive impact by the stable relationship established between Datatronics Romoland and its existing customers; (ii) Datatronics Romoland's good reputation of high reliability magnetics to the medical and aviation industries which helps Datatronics Romoland to capture opportunities for new product development program with new customers; and (iii) the sales analysis for historical transactions in recent years and it is expected that the recent economy recovery from the COVID-19 pandemic and the recovery of the aviation industry gradually resumed shall drive further the growth in demand of the Group's magnetic components, and approximately 10.0% buffer to cater for the unanticipated increase in demand of magnetic components from Datatronics Romoland; and

LETTER FROM THE BOARD

- (iv) the expected growth of approximately 7.7% and 7.1% in demand of magnetic components from Datatronics Romoland for the years ending 31 December 2024 and 2025, respectively.

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

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in the design, manufacture and sales of magnetic components to customers mainly in the United States of America (the “US”). Its products are applied in communications and networking equipment, data processing, industrial applications and medical equipment and devices, among others. 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.

Datatronics Romoland is a company incorporated in the State of California, US, with limited liability and is a supplier of high reliability magnetics to the medical and aviation industries in the US. To the best knowledge, information and belief of the Directors, Datatronics Romoland is one of the few reputable suppliers of high reliability magnetics to the US medical and aviation 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 medical-related and aviation 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 New Master Supply Agreement was entered into in the usual and ordinary course of the Group’s business and the terms of which were negotiated based on normal commercial terms and the prices were determined after arm’s length negotiation and on terms which the Group considers to be no less favourable than those terms offered to its independent third-party customers.

The Board (including all the independent non-executive Directors) is of the opinion that the terms of the New Master Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Sales Agreements is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP AND DATATRONICS ROMOLAND

The Group is principally engaged in the design, manufacture and sales of magnetic components to customers mainly in the US. 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 a supplier of high reliability magnetics to the medical and aviation industries in the US.

INTERNAL CONTROL 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 independent third-party 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.

LETTER FROM THE BOARD

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the 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.

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. Messis 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 Annual Caps) by way of poll. 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 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 to approve the Continuing Connected Transaction.

The notice convening the SGM of the Company to be held at 19/F, North Point Industrial Building, 499 King's Road, North Point, Hong Kong on 13 December 2022 at 11:00 a.m. is set out on pages 33 to 34 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 by the Shareholders 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, in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong 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 any adjournment thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

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 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 to be proposed at the SGM to approve the Continuing Connected Transactions.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 14 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders regarding 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 28 of this circular; and (iii) the information set out in the appendix of this circular.

Yours faithfully,
By order of the Board
Datronix Holdings Limited
Sheung Shing Fai
Executive Director

LETTER FROM INDEPENDENT BOARD COMMITTEE



DATRONIX HOLDINGS LIMITED

連達科技控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 889)

23 November 2022

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS NEW MASTER SUPPLY AGREEMENT

We refer to the circular of the Company dated 23 November 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been formed to advise the Independent Shareholders in relation to the New Master Supply Agreement and the transaction contemplated thereunder. Messis 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 28 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 Messis Capital Limited and its conclusion and advice, we concur with its 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 are fair and reasonable so far as the Company and the Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. 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

* For identification purpose only

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.

MESSIS 大有融資

23 November 2022

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

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS NEW MASTER SUPPLY AGREEMENT

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 23 November 2022 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 18 October 2019 and the circular of the Company dated 28 November 2019 in relation to the continuing connected transactions under the Existing Master Supply Agreement; and (ii) the announcement of the Company dated 19 October 2022 in relation to New Master Supply Agreement.

The Existing Master Supply Agreement will be expired on 31 December 2022. 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 19 October 2022 with Datatronics Romoland for the sale of magnetic components for a term of three years commencing on 1 January 2023 and expiring on 31 December 2025.

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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 2023 and expiring on 31 December 2025 will not exceed HK\$65 million, HK\$70 million and HK\$75 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 2023, 2024 and 2025, 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, Messis 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.

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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 remain 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.

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.

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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 sales amount and credit terms analysis of the transactions of the magnetic products including both to Datatronics Romoland and to independent third parties in 2020, 2021 and 2022 (the “**Sales Analysis**”), the annual report of the Company for the year ended 31 December 2021 (the “**AR2021**”) and the interim report of the Company for six months ended 30 June 2022 (the “**IR2022**”) 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 2025; and
- (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.

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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 magnetic components to customers mainly in the United States of America (the “US”). 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 a supplier of high reliability magnetics to the medical and aviation 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 terms 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 aviation 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 AR2021 and the IR2022 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 2023, 2024 and 2025, are within the ordinary and usual course of business of the Company.

Based on the Sales Analysis, the AR2021 and the IR2022, we note that (i) the Continuing Connected Transactions were approximately 17.5%, 18.2% and 18.0% of the total revenue of the Group for the financial years ended 31 December 2020, 2021 and the six months ended 30 June 2022 respectively with the range of profit margins being substantially higher than those of sales to other independent third-party 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 2023, 2024 and 2025. 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.; and (iii) the mark-up margin offered to Datatronics Romoland no less favourable than those offered to other independent third-party customers of the Group. Besides, the Group will prepare sales report with summary of mark-up margin for the transactions under the sell and/or supply of the magnetic components to Datatronics Romoland and compare with the overall Group margin on monthly basis for review by the independent non-executive directors of the Company to ensure the mark-up margin offered to Datatronics Romoland no less favourable than those offered to other independent third-party customers of the Group and up to the Latest Practicable Date, there was no record of non-compliance with the Group's pricing policy was noted. According to the Group's past experience, it had not encountered any occasion where a historical price is not available in 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 products mainly apply on aviation and medical related industries requiring higher precision and reliability, such as magnetic devices for aircraft 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 and 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.

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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 managing director or general manager.

As mentioned in the Board Letter, in the event that a new program 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. We have reviewed the three samples of agreement that covers the purchase of new tailor-made products as required by the Datatronics Romoland from the Company for the three years and six months ended 30 June 2022. It is noted that senior personnel from different aspects including engineering and procurement will have input on the estimated cost of the product required in order to ascertain the fairness and reasonableness of the prices to ensure that the prices would be fair and reasonable to the Company. We are of the view that these senior personnel's efforts with reference to the historical transaction prices of the most similar types of products and also take into account other factors, which include technical specifications, actual costs, product quality and geographical areas where the Company provide products, etc., makes a fair and reasonable pricing model. It is also noted that the mark-up rate charged to the Datatronics Romoland is generally not less favorable than that offering to independent third parties, we are of the view that the price charged to the Datatronics Romoland will be in normal commercial terms or better.

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 independent third-party 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 independent third-party customers of the Group.

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We have reviewed the Sales Analysis which includes the sales amount and credit terms 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 2020 and 2021 and the nine months ended 30 September 2022 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 noted that (i) the gross 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 independent third-party customers of the Group varies from 30 to 90 days. We are of the view that despite the underlying products being sold to Datatronics Romoland and independent third parties were different, the substantially higher gross profit margin charged to Datatronics Romoland and the generally shorter credit period have demonstrated that regardless of the sales amount and the cost of goods, the terms charged to Datatronics Romoland are more favourable to the Group as compared to sales to other customers of the Group.

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 2025 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.

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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 2020 and 2021 and the nine months ended 30 September 2022:

	For the year ended 31 December		For the nine months ended 30 September
	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Annual Cap under the Existing Master Supply Agreement	100,000	100,000	100,000
Historical transaction amounts under the Existing Master Supply Agreement	40,505	44,524	38,000

For the two years ended 31 December 2021, the historical transaction amounts under the Existing Master Supply Agreement remained stable at approximately HK\$40.5 million and HK\$44.5 million respectively. The forecast transaction amounts for the year ending 31 December 2022 of approximately HK\$50.7 million which is based on the annualised transaction amounts of the transactions made pursuant to the Existing Master Supply Agreement for the nine months ended 30 September 2022. The transaction amounts under the Existing Master Supply Agreement showed a slight increasing trend mainly due to the recovery on the US economy after COVID-19.

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 2025 under the New Master Supply Agreement:

	For the year ended 31 December		
	2023	2024	2025
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed Annual Cap	65,000	70,000	75,000

The Directors estimate that the aggregated sales amount of the Continuing Connected Transactions for each of the three years ending 31 December 2025 will not exceed HK\$65 million, HK\$70 million and HK\$75 million 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 with slight increase for the three years ending 31 December 2023, 2024 and 2025 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.

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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 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 recovery of the US economy after the COVID-19 pandemic, 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\$40,505,000 and HK\$44,524,000, and HK\$38,000,000 for the two years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022, 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;
- (ii) the expected economy recovery in the US from the COVID-19 pandemic; and
- (iii) the potential impact of the fluctuation in price of raw materials caused by inflation, which may result in higher selling prices for the Datatronics Romoland's sales orders.

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) The historical transaction amounts made pursuant to the Existing Master Supply Agreement of approximately HK\$40.5 million, HK\$44.5 million and HK\$38.0 million for the for the two years ended 31 December 2021 and the nine months ended 30 September 2022;
- (ii) the forecast transaction amounts for the year ending 31 December 2022 of approximately HK\$50.7 million which is based on the annualised transaction amounts of the transactions made pursuant to the Existing Master Supply Agreement for the nine months ended 30 September 2022;
- (iii) the expected growth of approximately 16% in demand of magnetic components from Datatronics Romoland for the year ending 31 December 2023 which was determined based on (a) the growth rate of approximately 13.8% from the historical transaction amounts under the Existing Master Supply Agreement of approximately HK\$44.5 million for the year ended 31 December 2021 to approximately HK\$50.7 million of annualised transaction amounts for the year ending 31 December 2022; and (b) the forecast demand prepared by Datatronics Romoland and reviewed by the Directors after considering (i) the positive impact by the stable relationship established between Datatronics Romoland and its existing customers; (ii)

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Datatronics Romoland's good reputation of high reliability magnetics to the medical and aviation industries which helps Datatronics Romoland to capture opportunities for new product development program with new customers; and (iii) the sales analysis for historical transactions in recent years and it is expected that the recent economy recovery from the COVID-19 pandemic and the recovery of the aviation industry gradually resumed shall drive further the growth in demand of the Group's magnetic components, and approximately 10.0% buffer to cater for the unanticipated increase in demand of magnetic components from Datatronics Romoland; and

- (iv) the expected growth of approximately 7.7% and 7.1% in demand of magnetic components from Datatronics Romoland for the years ending 31 December 2024 and 2025.

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 2023, 2024 and 2025 be HK\$65 million, HK\$70 million and HK\$75 million respectively. The Board considers that the Annual Caps are fair and reasonable.

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; (b) the positive impact by the recovery of economy in the US after the COVID-19 pandemic; and (c) the potential impact of the fluctuation in price of raw materials caused by inflation, which may result in higher selling prices for the Datatronics Romoland's sales orders, we are of the view that the Annual Caps of the Continuing Connected Transactions proposed by the Board are already lowered fairly as compared to the Annual Cap under the Existing Master Supply Agreement considering the historical transaction amount and are determined 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.

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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.

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 2023, 2024 and 2025, 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.

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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 2023, 2024, and 2025.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Thomas Lai
Chief Executive Officer

Mr. Thomas Lai is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Mesis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulatory activity under the SFO and has over 28 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

As at the Latest Practicable Date, the following Directors had interests 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 of the SFO) which (i) were 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were set out as follows:

(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 <i>(Note 1)</i>	-	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 <i>(Note 2)</i>	-	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 beneficially hold 90% and 10% of its issued share capital respectively, representing 72.32% of the issued share capital of the Company.
2. These shares are held by Data Express Limited, a company incorporated in the Republic of Liberia, whose entire issued share capital is beneficially owned by Mr. Siu Paul Y..

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any other interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(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. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their close associates have any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses to which the Directors were nominated and appointed as directors and/or senior management to represent the interests of the Company and/or the Group.

4. NO MATERIAL INTERESTS

Mr. Siu Paul Y. has interest in the Continuing Connected Transactions as disclosed in this circular.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors have any direct or indirect interest, 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 2021, being the date to which the latest published audited financial statements of the Group were made up.

Saved as disclosed in this circular, as at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, five executive Directors namely Mr. Siu Paul Y., Ms. Shui Wai Mei, Mr. Siu Ronald, Mr. Sheung Shing Fai and Ms. Siu Nina Margaret, have each entered into a service contract with the Company for an initial fixed terms of three years commencing from 22 June 2001, 22 June 2001, 1 August 2022, 22 June 2001 and 1 January 2013, respectively. Such contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. As at the Latest Practicable Date, all five service contracts are still effective.

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. The current basic annual salaries of the executive Directors under their service contracts as follows:

Name of Director	Annual basic salary
Mr. Siu Paul Y.	HK\$3,000,000
Ms. Shui Wai Mei	HK\$300,000
Mr. Siu Ronald	HK\$768,000
Mr. Sheung Shing Fai	HK\$1,200,000
Ms. Siu Nina Margaret	HK\$600,000

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

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has not been any material adverse changes in the financial or trading position of the Group since 31 December 2021 being the date to which the latest published audited financial statements of the Group were made up.

7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the experts who have given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Messis Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Messis Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Messis Capital Limited did not have any shareholding in 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 securities in any member of the Group, nor did it have any direct or indirect interest in any asset which has since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. 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 company 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 is Hong Kong Registrars Limited at Shops 1712-1716, 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.

9. DOCUMENTS ON DISPLAY

A copy of the New Master Supply Agreement will be available for display on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.datronixhldgs.com.hk) during the period of 14 days from the date of this circular (both days inclusive).

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 a special general meeting (the “SGM”) of Datronix Holdings Limited (the “Company”) will be held at 19/F, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong on 13 December 2022 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 23 November 2022, unless the context otherwise requires:

ORDINARY RESOLUTION

“**THAT:**

- (a) the New Master Supply Agreement dated 19 October 2022 entered into between the Company and Datatronics Romoland, and the Annual Caps of the transactions contemplated thereunder for the three years ending 31 December 2025 be and hereby approved; 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
Datronix Holdings Limited
LEUNG Sau Fong
Company Secretary

Hong Kong, 23 November 2022

* For identification purpose only

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 Shops 1712-1716, 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 Board of the Company comprises Mr. Siu Paul Y. (Chairman), Ms. Shui Wai Mei (Vice-Chairman), Mr. Siu Ronald (Vice-Chairman), Mr. Sheung Shing Fai and Ms. Siu Nina Margaret as Executive Directors, Mr. Chung Pui Lam, Mr. Lee Kit Wah and Mr. Wong Wah Sang, Derek as Independent Non-executive Directors.

PRECAUTIONARY MEASURES FOR THE SGM

In light of the coronavirus pandemic, and to better protect the safety and health of the Shareholders and other participants attending the SGM, the Company will implement the following precautionary measures at the venue of the SGM:

1. Compulsory body temperature checks will be conducted on all persons attending the SGM at the waiting area outside the venue of the SGM before they are admitted to the venue of the SGM. Any person with a body temperature of over 37.2 degree celsius, or who has any flu-like symptoms, or is otherwise apparently unwell will not be admitted to the venue of the SGM.
2. All attendees must wear face masks at all times inside the venue of the SGM or at the waiting area outside the venue of the SGM.
3. Seating at the venue of the SGM will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the SGM. The Company may limit the number of attendees at the SGM as may be necessary to avoid over-crowding.
4. Any attendee who does not follow any of the abovementioned measures will be refused admission to the venue of the SGM or requested to leave the venue of the SGM.
5. No refreshments or drinks will be served at the SGM to avoid close contact of attendees.
6. All attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the venue of the SGM.

Shareholders are reminded that attendance at the SGM in person is not necessary for the purpose of exercising voting rights. The Shareholders may choose to vote by filling in and submitting the relevant proxy form of the SGM, and appointing the chairman of the meeting as a proxy to vote on relevant resolution(s) at the SGM as instructed in accordance with the relevant proxy form instead of attending the SGM in person. For details, please refer to the proxy form of the SGM.