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If you have sold or transferred all your shares in Daiwa Associate Holdings Limited, you should at once hand this circular 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 the transferee.

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DAIWA
DAIWA ASSOCIATE HOLDINGS LIMITED
台和商事控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1037)

DISCLOSEABLE TRANSACTION

**DISPOSAL OF INTEREST IN
DAIWA SOUND CO., LTD**

Financial Advisor to the Company



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

* For identification purpose only

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise require:

“Allied Concept”	Allied Concept Limited, a corporation duly registered in Hong Kong, the purchaser of the Sale Shares and a third party independent of the Company and its connected persons
“Board”	the board of Directors
“BVI”	British Virgin Island
“Company”	Daiwa Associate Holdings Limited (台和商事控股有限公司) *, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares or any part thereof in accordance with the terms of the Sale and Purchase Agreement
“connected persons”	has the meaning ascribed to this term under the Listing Rules
“Daiwa Sound”	Daiwa Sound Company Limited, an indirect, non wholly-owned subsidiary of the Company incorporated in Osaka, Japan with issued capital stock of 300 shares of JYP50,000 par value
“Daiwa Sound Shares”	share(s) in the capital stock of Daiwa Sound issued at a par value of JYP50,000 each
“DAL”	Daiwa Associate Limited, an indirect, wholly-owned subsidiary of the Company incorporated in BVI with issued share capital of US\$2, also the legal and beneficial owner of the Sale Shares
“Directors”	directors (including the non-executive and independent non-executive directors) of the Company from time to time
“Disposal”	the proposed disposal of the Sale Shares by DAL pursuant to the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong GAAP”	the generally accepted accounting principles of Hong Kong
“Japanese GAAP”	the generally accepted accounting principles in Japan
“Latest Practicable Date”	5 May 2008, being the latest practicable date prior the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Sale and Purchase Agreement”	the sale and purchase agreement dated 25 March 2008 and made between DAL and Allied Concept in relation to the sale and purchase of the Sale Shares
“Sale Shares”	a total of 15 issued Daiwa Sound Shares to be purchased and sold pursuant to the Sale and Purchase Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JYP”	Japanese Yen, the lawful currency of Japan
“%”	per cent.

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LETTER FROM THE BOARD

DAIWA
DAIWA ASSOCIATE HOLDINGS LIMITED
台和商事控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1037)

Executive Directors:

Mr. LAU Tak Wan (*President*)

Ms. CHAN Yuen Mei, Pinky (*Vice-President*)

Mr. WAN Chor Fai

Mr. MAK Hon Kai, Stanly

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Independent Non-Executive Directors:

Mr. Barry John BUTTIFANT

Mr. LIU Ngai Wing

Mr. CHOI Yuk Fan

*Head office and principal
place of business:*

11th Floor, Block G

East Sun Industrial Centre

16 Shing Yip Street

Kwun Tong, Kowloon

Hong Kong

7 May 2008

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

DISPOSAL OF INTEREST IN DAIWA SOUND CO., LTD

INTRODUCTION

Reference is made to the announcement of the Company dated 17 April 2008 in which the Board announced that on 25 March 2008, DAL as vendor entered into the Sale and Purchase Agreement with Allied Concept in relation to the sale and purchase of the Sale Shares, being 15 issued Daiwa Sound Shares, representing 5% of the issued share capital of Daiwa Sound, for a consideration of HK\$192,000 in cash. Upon Completion, Daiwa Sound would cease to be a subsidiary and become an associated company of the Company.

LETTER FROM THE BOARD

The Disposal and the transactions contemplated thereunder constitute a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with further details regarding the Disposal and the transactions contemplated thereunder.

THE SALE AND PURCHASE AGREEMENT

Date

25 March 2008

Parties

- (i) DAL as the vendor
- (ii) Allied Concept as the purchaser

Allied Concept is a corporation duly registered in Hong Kong. It is principally engaged in investment holding. The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, Allied Concept and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

There was no previous transaction between the Company and Allied Concept (and its beneficial owners) which would require aggregation under the Listing Rules.

Assets to be disposed of

Pursuant to the Sale and Purchase Agreement, DAL has agreed to sell and Allied Concept has agreed to purchase the Sale Shares, being 15 issued Daiwa Sound Shares, representing 5% of the issued capital stock of Daiwa Sound.

Consideration

The consideration for the disposal of the Sale Shares is HK\$192,000 and shall be payable by Allied Concept to DAL or its designated agent in cash upon the execution of the Sale and Purchase Agreement.

The consideration was determined after arm's length negotiations among the parties by reference to the acquisition cost of the Sale Share in June 2006 which amounted to JYP2,850,000 (equivalent to approximately HK\$191,538).

LETTER FROM THE BOARD

The amount of net liabilities of Daiwa Sound and the amount of goodwill attributable to Daiwa Sound in the consolidated financial statement of the Group as at 31 March 2007 were HK\$553,618 and HK\$239,136 respectively. Based on the latest management accounts of Daiwa Sound available to the Company, the 15 issued Daiwa Sound Shares represent net liabilities of approximately HK\$81,080 (after taken into account the unaudited net loss of Daiwa Sound for the period from 1 April 2007 to 30 November 2007) and goodwill of approximately HK\$11,957 as at 30 November 2007. The Board considers the consideration which is a premium over the present net asset value in respect of the 15 issued Daiwa Sound Shares to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

It is intended that the consideration to be received by DAL or its designated agent will be used for general working capital of the Group.

Completion

DAL and Allied Concept mutually agree that the effective date of the transfer of beneficial interest of the Sale Shares shall be 1 February 2008, which is the date on which both parties had principally agreed to the sale and purchase of the Sale Shares subject to completion of the due diligence exercise carried out by Allied Concept. There is no material change subsequent to 1 February 2008 which might affect the terms of the Sale and Purchase Agreement.

Completion for the sale and purchase of the Sale Shares will take place in Hong Kong within one month after the execution of the Sale and Purchase Agreement, or in such other place, date and time as the parties may agree.

Prior to the completion of the Disposal, the Group held 52% of issued capital stock of Daiwa Sound. Upon completion of the Disposal, the Group will continue to hold 141 Daiwa Sound Shares, representing 47% of the issued capital stock of Daiwa Sound through Daiwa Acoustic Products Manufacturing Ltd, an indirect, wholly-owned subsidiary of the Company. Hence, Daiwa Sound will cease to be a subsidiary of the Company, however, it will become an associated company of the Company.

INFORMATION ON THE GROUP AND OTHERS

The Group is principally engaged in the design, development, manufacturing and distribution of electronic components, contract electronic manufacturing services and consumer electronics, and manufacturing and distribution of personal computer and digital products.

DAL is an indirect, wholly-owned subsidiary of the Company incorporated in BVI and is principally engaged in investment holding.

LETTER FROM THE BOARD

Daiwa Sound is an indirect, non wholly-owned subsidiary of the Company established in Osaka, Japan with an issued capital stock of JYP15,000,000. It is principally engaged in the trading and manufacturing of speaker elements and components. The Group acquired 52% shareholding of Daiwa Sound at the end of June 2006 at a cost of JYP29,640,000 (equivalent to approximately HK\$1,992,000).

The unaudited net loss of Daiwa Sound before and after taxation and extraordinary items for the year ended 31 March 2006 amounted to approximately HK\$2,988,000 and HK\$3,023,000 respectively (prepared in accordance with Japanese GAAP).

The audited net loss of Daiwa Sound before and after taxation and extraordinary items for the year ended 31 March 2007 amounted to approximately HK\$5,853,000 and HK\$5,972,000 respectively (prepared in accordance with Hong Kong GAAP).

FINANCIAL EFFECT ON THE DISPOSAL

Subject to the confirmation from the Group's auditors, it is estimated that, upon Completion:

- (i) the Group will record a gain on disposal of approximately HK\$261,123 with reference to the net liabilities and goodwill of Daiwa Sound as at 30 November 2007; and
- (ii) the total assets and the total liabilities of the Group will be decreased by approximately HK\$65,814,000 and HK\$66,499,000 respectively based on the management accounts of Daiwa Sound as at 30 November 2007.

These will be reflected in the consolidated financial statements of the Group for the ensuring year. It is expected that the Disposal will not have any material adverse financial impact on the earnings, assets and liabilities of the Company.

REASONS FOR THE DISPOSAL AND BENEFITS TO THE COMPANY

Upon completion of the Disposal, Daiwa Sound will cease to be a subsidiary of the Company and such account will no longer be consolidated in the Group's accounts. The Directors are of the view that the Disposal will result in a decrease in the management involvement and hence costs to the Group.

The Directors (including the non-executive and independent non-executive Directors) consider that the terms of the Disposal and the transactions contemplated thereunder have been entered into upon normal commercial terms and are in the interests of the Company and its Shareholders as a whole, and the terms are fair and reasonable as far as the Company and the Shareholders are concerned.

LETTER FROM THE BOARD

LISTING RULES IMPLICATION

The Disposal and the transactions contemplated thereunder constitute a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully
By order of the Board
Daiwa Associate Holdings Limited
LAU Tak Wan
President

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), to be notified to the Company and the Stock Exchange, or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

a) Long positions in shares and warrants of the Company

Name of Directors	Number of issued ordinary shares/underlying shares attached to derivatives					
	Unlisted warrants	Ordinary shares in issued			Total	
	Corporate interests	Personal interests	Corporate interests	Other interest	Interests	Percentage
Mr. LAU Tak Wan	7,862,388 <i>(Note 2)</i>	6,537,141 <i>(Note 1)</i>	147,706,499 <i>(Notes 2,3,4)</i>	1,142,854	163,248,882	53.66%
Mr. CHAN Yuen Mei, Pinky	7,862,388 <i>(Note 2)</i>	4,022,854 <i>(Note 1)</i>	147,706,499 <i>(Notes 2,3,4)</i>	3,657,141	163,248,882	53.66%
Mr. WAN Chor Fai	—	50,000	—	—	50,000	0.016%
Mr. Barry John BUTTIFANT	—	500,000	—	—	500,000	0.16%

Notes:

- 1. 2,880,000 shares in the Company were jointly held by Mr. Lau Tak Wan (“Mr. Lau”) and Ms. Chan Yuen Mei, Pinky (“Ms. Chan”, the spouse of Mr. Lau).
- 2. 7,862,388 warrants and 74,431,436 shares in the Company were beneficially owned by China Capital Holdings Investment Limited (“China Capital”). The issued share capital of China Capital is 60% owned by Mr. Lau, and 40% owned by Ms. Chan.
- 3. 60,918,396 shares in the Company were beneficially owned by Leading Trade Limited (“Leading Trade”). The issued share capital of Leading Trade is 50% owned by Mr. Lau and 50% owned by Ms. Chan.
- 4. 12,356,667 shares in the Company were beneficially owned by Cyber Concept Limited (“Cyber Concept”). The issued share capital of Cyber Concept is 50% owned by Mr. Lau and 50% owned by Ms. Chan.

b) Long position in shares of associated corporations of the Company

Dominion International Limited, which is 50% owned by Mr. Lau Tak Wan, and 50% owned by Ms. Chan Yuen Mei, Pinky:

	Number of non-voting deferred shares held
Cosmos Wires and Connectors Manufacturing Limited	50,000
Westpac Digital Limited	1
Vastpoint Industrial Limited	455,000
Daiwa Associate (H.K.) Limited	1,500,000

In addition, each of Mr. Lau and Ms. Chan beneficially owns 140,000 and 10,000 non-voting deferred shares respectively in Cosmotec Precision Industrial Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives of the Company or their associates had any 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 were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), to be notified to the Company and the Stock Exchange, or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, to the best knowledge of the Directors and save as disclosed in paragraph headed “2. Directors’ Interests” in this appendix, the following parties (other than Directors or chief executives of the Company), had an interest or short position in the shares, underlying shares or debentures of the Company which are required to be disclosed to the Company under the provision of Divisions 2 and 3 and Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Interests in the shares and warrants of the Company

Name of substantial shareholder	Note	Number of ordinary shares held	Interest in underlying shares – unlisted warrants	% of the total issued shares
China Capital Holdings Investment Limited	(2)	74,431,436	7,862,388	27.05%
Leading Trade Limited	(1)	60,918,396	—	20.02%
Mr. NG Hung Sang		36,502,198	—	12.00%
South China Holdings Limited		36,502,198	—	12.00%

Notes:

1. Leading Trade Limited (“Leading Trade”) is 50% owned by Mr. Lau Tak Wan (“Mr. Lau”) and 50% owned by Ms. Chan Yuen Mei, Pinky (“Ms. Chan”, the spouse of Mr. Lau). Accordingly, Leading Trade, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 60,918,396, 163,248,882 and 163,248,882 shares of the Company.
2. China Capital Holdings Investment Limited (“China Capital”) is 60% owned by Mr. Lau and 40% owned by Ms. Chan. Accordingly, China Capital, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 74,431,436, 163,248,882 and 163,248,882 shares of the Company respectively.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other persons (other than Directors or chief executives of the Company) who have interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 and Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

4. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

5. DIRECTORS' SERVICE CONTRACTS

None of the Directors had entered or been proposed to enter into any service contracts with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its members.

7. GENERAL

- (a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (b) The head office and principal place of business of the Company is situated at 11th Floor, Block G, East Sun Industrial Centre, 16 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) The share registrar of the Company is Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The secretary and qualified accountant of the Company is Mr. Ho Chui Sing, a member of the Hong Kong Institute of Certified Public Accountants.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.