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## **DAISHO MICROLINE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0567)

### **CONTINUING CONNECTED TRANSACTIONS SALES AGREEMENT**

On 19 February 2013, DML, a wholly-owned subsidiary of the Company, entered into the Sales Agreement with Daisho Denshi (HK), a wholly-owned subsidiary of Daisho Denshi, whereby Daisho Denshi Group agreed to purchase and the Group agreed to sell and deliver to Daisho Denshi Group PCB for their use or consumption and/or for sale on a non-exclusive basis for a term of three years commencing from 1 April 2013. The Transactions are also subject to the Annual Caps of HK\$95 million, HK\$115 million and HK\$140 million for each of the three financial years ending 31 March 2014, 2015 and 2016 respectively.

Daisho Denshi is a substantial shareholder of the Company and therefore is a connected person of the Company under the Listing Rules. The applicable percentage ratios for the Transactions on an annual basis exceed 5% and the annual consideration is more than HK\$10 million. Therefore, the entering into of the Sales Agreement and the Transactions between the Group and Daisho Denshi Group constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules, and are subject to the reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the approval of the Independent Shareholders under Rule 14A.48 of the Listing Rules and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

In view of the interests of Daisho Denshi in the Transactions, Daisho Denshi and its associates will abstain from voting in relation to the ordinary resolution approving the Sales Agreement, the Transactions and the Annual Caps at the SGM.

The Board has established the Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Sales Agreement, the Transactions and the Annual Caps; and has appointed an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, amongst other things, particulars of the Sales Agreement, the Transactions and the Annual Caps, a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders and the recommendations of the Independent Board Committee, together with a notice convening the SGM, will be despatched to the Shareholders on or about 12 March 2013.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 5 February 2010 and the circular of the Company dated 26 February 2010 in relation to the sales transactions of PCB between the Group and Daisho Denshi Group. Pursuant to the Company's special general meeting on 26 March 2010, an ordinary resolution was passed to approve the sales transactions of PCB between the Group and Daisho Denshi Group and the maximum aggregate annual values of HK\$120 million, HK\$144 million and HK\$173 million of the sales transactions for the two financial years ended 31 March 2011 and 31 March 2012 and the financial year ending 31 March 2013, respectively.

The Board wishes to continue to sell PCB to Daisho Denshi Group after the financial year ending 31 March 2013 on an ongoing basis. On 19 February 2013, DML, a wholly-owned subsidiary of the Company, entered into the Sales Agreement with Daisho Denshi (HK), a wholly-owned subsidiary of Daisho Denshi, whereby Daisho Denshi Group agreed to purchase and the Group agreed to sell and deliver to Daisho Denshi Group PCB for their use or consumption and/or for sale on a non-exclusive basis for a term of three financial years commencing from 1 April 2013.

## **THE SALES AGREEMENT**

### ***Date***

19 February 2013

### ***Parties***

- (1) Daisho Denshi (HK) as the purchaser; and
- (2) DML as the supplier.

### ***Term***

The term of the Sales Agreement is three financial years commencing from 1 April 2013 and ending on 31 March 2016.

### ***Condition Precedent***

The Sales Agreement is conditional upon the obtaining of the approval of the Independent Shareholders.

### ***Particulars of the Sales Agreement***

The Sales Agreement is a master agreement which sets out the principles upon which detailed terms are to be determined between the relevant members of the Group and Daisho Denshi Group. Pursuant to the Sales Agreement, members of the Group and Daisho Denshi Group will enter into separate and definitive agreements from time to time to provide for the detailed terms of each single transaction in accordance with the principles in the Sales Agreement. Such detailed terms include (but without limitation) the basis on and particular

specification for which the PCB will be supplied, the price of the PCB, payment and settlement terms and other terms and conditions in relation to the provision of PCB by the Group to Daisho Denshi Group. The parties agree that such detailed terms shall be on normal commercial terms and shall be determined with reference to and be comparable with the market rates and the terms and conditions for the provision of PCB by the Group to the Independent Third Parties, or if there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) the Independent Third Parties.

## **ANNUAL CAPS**

The Transactions between the Group and Daisho Denshi Group under the Sales Agreement are subject to the reporting and disclosure requirements, the approval of the Independent Shareholders and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Chapter 14A of the Listing Rules. The Transactions are also subject to the maximum aggregate annual value of HK\$95 million, HK\$115 million and HK\$140 million for the three financial years ending 31 March 2014, 2015 and 2016 respectively.

The Annual Caps are based on:

1. Historical figures of the amounts of the sales transactions with Daisho Denshi Group:

Year ended 31 March 2011	Approximately HK\$47 million
Year ended 31 March 2012	Approximately HK\$48 million
Ten months ended 31 January 2013	Approximately HK\$37 million

Based on the unaudited total amount of the sales transactions with Daisho Denshi Group for the ten months ended 31 January 2013 of approximately HK\$37 million and the estimated orders to be placed by Daisho Denshi Group to the Group for PCB in February to March 2013, the aggregate annual value for the year ending 31 March 2013 is estimated to be HK\$40 million.

The amount of the sales transactions with Daisho Denshi Group for the year ended 31 March 2011 fell short of the approved maximum aggregate annual values of the sales transactions for the same period because DML had not met the stringent requirements of Daisho Denshi Group by that time. The amount of the sales transactions with Daisho Denshi Group for the year ended 31 March 2012 and year ending 31 March 2013 fell short of the approved maximum aggregate annual values of the sales transactions for the same periods due to the decrease in the purchase orders from Daisho Denshi Group because the businesses of the customers of Daisho Denshi Group were greatly affected in the aftermath of the massive earthquake and tsunami in Japan and the catastrophic deluge in Thailand during the year 2011; and

2. The purchase forecast of Daisho Denshi (HK) for the period between 1 April 2013 and 31 March 2016 after considering the new projects currently under negotiation between Daisho Denshi Group and the Group, and an estimated annual growth rate of about 20%.

## **INFORMATION ON THE GROUP**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company, including DML, are investment holding and the manufacturing and trading of PCB.

## **INFORMATION ON DAISHO DENSHI GROUP**

Daisho Denshi is one of the top PCB suppliers in Japan manufacturing delicate PCB for numerous world-renowned electronic and telecommunication products customers. Daisho Denshi brings in modern factory management skill and advanced technological know-how which benefits the Group. As at the date of this Announcement, Daisho Denshi held approximately 10.41% of the issued share capital of the Company, whereas the Group had approximately 7.46% equity interest in Daisho Denshi.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE SALES AGREEMENT**

As mentioned above, the Board wishes to continue to sell PCB to Daisho Denshi Group after the financial year ending 31 March 2013 on an ongoing basis.

With experience gained from the manufacture of highly delicate PCB for Daisho Denshi Group, the Group would further sharpen its edge in the application of advanced technology for the manufacture of highly delicate PCB in the future.

Due to (i) the strong sales network of PCB possessed by Daisho Denshi Group; (ii) the well-established long-term business relationship between the Group and Daisho Denshi Group, the Board is of the view that it is justified to have continuous growth in business between the Group and Daisho Denshi Group by entering into of the Sales Agreement.

Accordingly, the Directors (except for the independent non-executive Directors who have deferred their views until after considering the opinion of the independent financial adviser) consider that the terms of the Sales Agreement and the Transactions are entered in the ordinary and usual course of business of the Group, made on an arm's length basis or on terms no less favourable than terms available to or from the Independent Third Parties. They are also of the view that the terms of the Sales Agreement, the Transactions and the Annual Caps are fair and reasonable and in the best interest of the Group and the Shareholders as a whole.

## **LISTING RULES REQUIREMENTS**

Daisho Denshi is a substantial shareholder of the Company and therefore is a connected person of the Company under the Listing Rules. The applicable percentage ratios for the Transactions on an annual basis exceed 5% and the annual consideration is more than HK\$10 million. Therefore the entering into of the Sales Agreement and the Transactions between the Group and Daisho Denshi Group constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules, and are subject to the reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the approval of the Independent Shareholders under Rule 14A.48 of the Listing Rules and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

In view of the interests of Daisho Denshi in the Transactions, Daisho Denshi and its associates will abstain from voting in relation to the ordinary resolution approving the Sales Agreement, the Transactions and the Annual Caps at the SGM.

The Board has established the Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Sales Agreement, the Transactions and the Annual Caps, and has appointed an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, amongst other things, particulars about the Sales Agreement, the Transactions and the Annual Caps, a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders and the recommendations of the Independent Board Committee, together with a notice convening the SGM, will be despatched to the Shareholders on or about 12 March 2013.

## DEFINITIONS

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

<b>“Annual Caps”</b>	the proposed maximum aggregate annual values of the Transactions for each of the three financial years ending 31 March 2016
<b>“associates”</b>	as defined under the Listing Rules
<b>“Board”</b>	the board of Directors
<b>“Company”</b>	Daisho Microline Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange
<b>“Daisho Denshi”</b>	Daisho Denshi Co., Ltd., a company incorporated in Japan with limited liability and a substantial shareholder of the Company holding approximately 10.41% of the issued share capital of the Company, and a company in which the Group had approximately 7.46% equity interest, as at the date of this Announcement
<b>“Daisho Denshi Group”</b>	Daisho Denshi and its subsidiaries
<b>“Daisho Denshi (HK)”</b>	Daisho Denshi (H.K.) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Daisho Denshi
<b>“Directors”</b>	directors of the Company
<b>“DML”</b>	Daisho Microline Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company

<b>“Group”</b>	the Company and its subsidiaries
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Independent Board Committee”</b>	an independent committee of the Board, comprising the independent non-executive Directors, Mr. Chan Yuk Tong, Dr. Li Chi Kwong and Mr. Yeung Chi Shing, Bret, established to advise the Independent Shareholders in relation to the terms of the Sales Agreement, the Transactions and the Annual Caps
<b>“Independent Shareholders”</b>	Shareholders other than Daisho Denshi and its associates
<b>“Independent Third Parties”</b>	persons or companies which are independent of any member of the Group, the directors, the chief executives, the controlling shareholders, the substantial shareholders of the Company or its subsidiaries, and their respective associates
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“PCB”</b>	printed circuit boards
<b>“Sales Agreement”</b>	the sales and purchase agreement dated 19 February 2013 entered into between Daisho Denshi (HK) as purchaser and DML as supplier
<b>“SGM”</b>	the special general meeting of the Company to be held to approve the Sales Agreement, the Transactions and the Annual Caps
<b>“Shareholder(s)”</b>	holder(s) of the ordinary share(s) of HK\$0.10 each in the share capital of the Company
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“subsidiaries”</b>	as defined under the Listing Rules
<b>“Transactions”</b>	the transactions as contemplated under the Sales Agreement
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board  
**CHAN Sik Ming, Harry**  
*Chairman*

Hong Kong, 19 February 2013

*As at the date of this announcement, the Board comprises the following members:*

***Executive directors:***

CHAN Sik Ming, Harry (*Chairman & CEO*)  
AU-YEUNG Wai Hung  
HANDA Yoshio  
SUGAYA Shozo

***Independent non-executive directors:***

CHAN Yuk Tong  
LI Chi Kwong  
YEUNG Chi Shing, Bret