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## **DAISHO MICROLINE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0567)**

- (1) FULFILLMENT OF RESUMPTION CONDITIONS;  
(2) UPDATE ON THE BUSINESS DEVELOPMENT OF THE GROUP;  
(3) PROPOSED PLACING OF CONVERTIBLE BONDS  
UNDER SPECIFIC MANDATE;  
AND  
(4) RESUMPTION OF TRADING**

### **FULFILLMENT OF RESUMPTION CONDITIONS**

All the Resumption Conditions have been fulfilled and the details in relation to, among others, the completion of each of the Resumption Conditions are set out in this announcement below.

### **UPDATE ON THE BUSINESS DEVELOPMENT OF THE GROUP**

As a result of the implementation of the various cost-savings and quality improvement measures by the Group, the gross loss of the Group for the six months ended 30 September 2016 has been reduced to approximately HK\$2.4 million, as compared to approximately HK\$18.4 million for the last financial year ended 31 March 2016.

The Group is confident that the favourable effects resulting from the implementation of the various cost-savings and quality improvement measures will continue. If the operating environment surrounding the Group does not deteriorate further, it is expected that the Group will soon return to gross profit.

In order to realise business diversification, the Group has commenced in mid-2016 to undertake the business of indent trading of petrochemical products as well as petroleum and energy products by itself.

### **PROPOSED PLACING OF CONVERTIBLE BONDS**

On 28 November 2016, the Company and the Placing Agent entered into a conditional Placing Agreement pursuant to which the Placing Agent has agreed to procure not less than six independent Placees on a best effort basis to subscribe for Convertible Bonds up to the principal amount of HK\$130 million.

Assuming the maximum amount of the Convertible Bonds is placed under the Placing, the net proceeds from the issue of the Placing, after deduction of related expenses, are estimated to be approximately HK\$125 million and are intended to be used for the purposes as disclosed in the section headed “Use of proceeds and fund raising activities in the past twelve months” in this announcement.

Assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK\$0.65 per Share, a total number of 200,000,000 new Shares will be issued pursuant to such conversion, representing approximately 41.65% of the Company’s existing issued share capital of 480,243,785 Shares, and approximately 29.40% of the Company’s issued share capital of 680,243,785 Shares as enlarged by the issue and allotment of the Conversion Shares. An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the allotment and issue of the Conversion Shares.

No listing of the Convertible Bonds will be sought on the Stock Exchange or any other stock exchanges. The Company will apply to the Listing Committee for the listing of, and the permission to deal in, the Conversion Shares.

Under Rule 13.36(1)(a) of the Listing Rules, the consent of Shareholders in general meeting of the Company shall be obtained prior to the Directors allotting and issuing securities convertible into Shares. The SGM will be convened to propose a resolution to approve the Placing Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of a specific mandate for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds).

A circular containing, among other things, further details of the Placing Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of a specific mandate for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds), together with a notice of the SGM and a form of proxy, will be despatched by the Company to the Shareholders as soon as practicable.

**Shareholders and potential investors should note that completion of the Placing is subject to fulfillment of the Conditions Precedent. As such, the Placing and the issue of the Convertible Bonds may or may not proceed. Shareholders and potential investors are therefore urged to exercise caution when dealing in the Shares and other securities of the Company.**

### **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 25 June 2015. As all the Resumption Conditions have been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 26 January 2017.

Reference is made to the announcements of Daisho Microline Holdings Limited (the “**Company**”) dated 30 June 2015, 5 August 2015, 17 August 2015, 1 December 2015, 31 December 2015, 1 February 2016, 31 March 2016, 22 April 2016, 7 June 2016, 6 September 2016, 27 September 2016, 7 October 2016, 28 November 2016 and 23 December 2016 respectively (the “**Announcements**”). Unless otherwise defined in this announcement or the context requires otherwise, the capitalised terms used herein shall have the same meanings as defined in the Announcements.

### **FULFILLMENT OF RESUMPTION CONDITIONS**

As disclosed in the announcement of the Company dated 17 August 2015, the Stock Exchange has imposed the following resumption conditions (the “**Resumption Conditions**”) on the Company:

- (a) publish all outstanding financial results, and address any audit qualifications;
- (b) clarify, address and take appropriate actions on the transactions queried by the Audit Committee; and
- (c) inform the market of all material information for the Shareholders and the investors to appraise the Company’s position.

The Company must also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before resumption. The Stock Exchange may modify the above and/or impose further conditions if the situation changes.

All the Resumption Conditions have been fulfilled and the details in relation to, among others, the completion of each of the Resumption Conditions are set out below:

(a) **publish all outstanding financial results, and address any audit qualifications**

*Publication of financial information*

The Company had published the following financial information on the timeline below:

	<b>Deadline for publication pursuant to the Listing Rules</b>	<b>Actual date of publication</b>
annual results for the year ended 31 March 2015 (the “ <b>2015 Annual Results</b> ”)	30 June 2015	7 October 2016
annual report for the year ended 31 March 2015 (the “ <b>2015 Annual Report</b> ”)	31 July 2015	24 October 2016
interim results for the six months ended 30 September 2015 (the “ <b>2016 Interim Results</b> ”)	30 November 2015	7 October 2016
interim report for the six months ended 30 September 2015 (the “ <b>2016 Interim Report</b> ”)	31 December 2015	24 October 2016
annual results for the year ended 31 March 2016 (the “ <b>2016 Annual Results</b> ”)	30 June 2016	7 October 2016
annual report for the year ended 31 March 2016 (the “ <b>2016 Annual Report</b> ”)	31 July 2016	24 October 2016

The Company has also published the interim results (the “**2017 Interim Results**”) and interim report of the Group for the six months ended 30 September 2016 on 22 November 2016 and 28 November 2016 respectively in accordance with Rules 13.49(6) and 13.48(1) of the Listing Rules.

*Audit qualifications*

Mazars CPA Limited was appointed as the external auditors of the Company (the “**Auditor**”) in June 2016. The Auditor has expressed qualified audit opinion on the consolidated financial statements of the Company for the financial year ended 31 March 2015 only.

The independent auditor’s report from the Auditor on the Group’s consolidated financial statements for the year ended 31 March 2015 is set out on pages 24 to 26 of the 2015 Annual Report, and the extract containing the qualified audit opinion is set out below:

## ***Basis for Qualified Opinion***

### *Prepayment to a sewage treatment company*

*Included in the Group's "Other receivables, deposits and prepayments" as at 31 March 2014 was a prepayment of HK\$9,849,000 to a sewage treatment company. As explained in note 19(a)(i) to the consolidated financial statements, an impairment loss on the carrying amount of the prepayment of HK\$7,424,000 was recognised during the year ended 31 March 2015 as the directors considered the chance to recover the prepayment was low.*

*The sewage treatment company had been suffering from financial difficulties since July 2013 but we have not obtained sufficient appropriate audit evidence to substantiate the financial ability of the sewage treatment company as at 31 March 2014. In addition, since the financial and operating status of the guarantor of the sewage treatment company and the value of the assets being frozen as at 31 March 2014 had not been evaluated properly, we were unable to verify the financial ability of the guarantor of the sewage treatment company as at 31 March 2014. We were unable to obtain sufficient appropriate audit evidence to evaluate the recoverability of the prepayment of HK\$9,849,000 as at 31 March 2014. Therefore, we were unable to determine whether any adjustments to the impairment loss recognised during the year ended 31 March 2015 in respect of the prepayment were necessary, which may have a significant impact on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 March 2015.*

### *Loan receivable*

*Included in the Group's "Other receivables, deposits and prepayments" as at 31 March 2014 was a loan receivable of HK\$2,522,000. As explained in note 19(a)(ii) to the consolidated financial statements, an impairment loss on the unsettled loan receivable of HK\$2,499,000 was recognised during the year ended 31 March 2015 as the directors considered the chance to recover the loan receivable was low.*

*We have not obtained sufficient appropriate audit evidence to verify the financial ability of the borrower as at 31 March 2014 and we were unable to obtain sufficient documentation to evaluate the recoverability of the loan receivable of HK\$2,522,000 as at 31 March 2014. Therefore, we were unable to determine whether any adjustments to the impairment loss recognised during the year ended 31 March 2015 in respect of the loan receivable were necessary, which may have a significant impact on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 March 2015.*

### *Impairment of available-for-sale financial assets*

*As at 31 March 2014, the Group had available-for-sale financial assets carried at cost with carrying amount of HK\$19,281,000, which were an unlisted equity investment in a Japanese company. An impairment loss on this unlisted equity investment of HK\$10,000,000 had been recognised during the year ended 31 March 2015.*

*There was objective evidence of impairment as a result of the deteriorated economic environment of electronic component industry in Japan since an earthquake in 2011. However, we were unable to obtain sufficient appropriate audit evidence to assess the present value of estimated future cash flows discounted at the then current market rate of return for a similar financial asset at the dates when the objective evidence existed. There were no alternative audit procedures that we could perform to verify the carrying amount of the available-for-sale financial assets as at that date and 31 March 2014. Therefore, we were unable to determine whether any adjustments to the impairment loss recognised during the year ended 31 March 2015 in respect of the available-for-sale financial assets were necessary, which may have a significant impact on the financial performance and the elements making up the consolidated statement of cash flows of the Group for the year ended 31 March 2015.*

#### *Qualified opinion*

*In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.*

#### **Board's views on the audit qualifications**

The Directors have discussed with the Auditor in relation to the audit qualifications, and the Directors understand that the audit qualifications are unavoidable because the Auditor was unable to obtain sufficient appropriate audit evidence to evaluate the recoverability or the value of such financial assets as at 31 March 2014 as mentioned above. The audit qualifications do not relate to the balances of such financial assets as at 31 March 2015 or 31 March 2016.

The Directors are satisfied that the Auditor is of the opinion that except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. In other words, the Company has addressed all the above audit qualifications.

The independent auditor's report from the Auditor on the Group's consolidated financial statements for the year ended 31 March 2016 is set out on pages 25 to 26 of the 2016 Annual Report, and the extract containing the unqualified opinion is set out below:

#### *Opinion*

*In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.*

- (b) **clarify, address and take appropriate actions on the transactions queried by the Audit Committee**

*Queries Raised by the Audit Committee and Subsequent Actions Taken*

On 9 May 2015, the predecessor auditor of the Company, Crowe Horwath (HK) CPA Limited, received an anonymous e-mail questioning its concurrence with the accounting treatment of three transactions of the Group which were alleged to be bad debts already as at the financial year ended 31 March 2014.

The Audit Committee asked the relevant management of the Company and Huafeng at the material time of the relevant transactions (the “**Relevant Management**”), namely Mr. Chan Sik Ming, Harry (“**Mr. Chan**”) and Mr. Au-Yeung Wai Hung (“**Mr. Au Yeung**”) to explain fully the background and to review whether the allegations as stated in the said anonymous e-mail were justified and to report the findings to the Audit Committee to enable it to take a view if further action would be required. On 23 June 2015, the Relevant Management submitted a special review report to the Audit Committee together with answers to a list of questions made by the Audit Committee.

The Audit Committee resolved at its meeting on 24 June 2015 that it could only note (but not accept) the contents of the special review report prepared by the Relevant Management, and an independent external professional consultant (the “**Consultant**”) would have to be engaged immediately by the Audit Committee to carry out an independent and in-depth review on the transactions referred to above and for the longer term, to review comprehensively the internal control systems of the Group.

The Board had on 9 July 2015 resolved to engage the Consultant for conducting a forensic investigation on the five subject issues as identified by the Audit Committee requiring independent forensic investigations (the “**Subject Issues**”), namely:

- (1) a prepayment of RMB10 million paid to a sewage treatment company based in Huizhou, PRC (the “**Sewage Treatment Company**”);
- (2) a loan of RMB4.7 million granted to the ultimate holding company of the Sewage Treatment Company;
- (3) a loan of RMB6 million granted to a chamber of commerce in Huizhou, PRC (the “**Chamber**”);
- (4) a reimbursement of expenditures of RMB1.03 million to a friend of Mr. Chan; and
- (5) a prepayment of RMB2 million to a construction company (the “**Construction Company**”) for renovation of Huafeng’s factory after a fire incident in January 2013.

The brief details of the background facts of the five Subject Issues, and a summary of the key findings as contained in the report from the Consultant dated 30 November 2015 (the “**Consultant Report**”), are set out in the announcement of the Company dated 31 March 2016.

Further to the disclosure in the aforesaid announcement of the Company dated 31 March 2016, there was subsequent development for a few Subject Issues. For item (3) of the Subject Issues, the Group received a loan repayment for approximately RMB850,000 in August 2016 through the Huizhou Intermediate People’s Court (the “**Huizhou Court**”) as a result of the realisation of the frozen bank account of the Chamber. For item (4) of the Subject Issues, the Group received a refund of reimbursement of expenditures for RMB200,000 in cash from the friend of Mr. Chan in September 2016. For item (5) of the Subject Issues, the Group withdrew the appeal to the Huizhou Court in April 2016 as a result of the settlement agreement between the Group and the Construction Company following the receipt of RMB2 million in cash by the Group.

Because a considerable amount of time was required for the preparation of the Consultant Report along with the subsequent discussion of the Consultant Report by the relevant parties and the completion of the audit of the Company’s financial statements for both years ended 31 March 2015 and 31 March 2016 was postponed due to the resignation of the Company’s predecessor auditor in May 2016, there was a delay in publication of the 2015 Annual Results, the 2015 Annual Report, the 2016 Interim Results, the 2016 Interim Report, the 2016 Annual Results and the 2016 Annual Report. The delay in publication of the above financial information constituted a non-compliance of Rules 13.46(2), 13.48(1), 13.49(1) and 13.49(6) of the Listing Rules.

In response to the recommendation of the Consultant, the Group had engaged a reputable internal control advisor (the “**Advisor**”) in June 2016 to perform a review of the Group’s internal controls (the “**Internal Controls Review**”). The Advisor has made a number of observations with corresponding recommendations, which the Group agrees with and has implemented or will implement as far as possible and in a timely manner after considering the operating environment of the Group. The Group believes that after the implementation of the Advisor’s recommendations, the Group would be able to further enhance its internal controls system. The Group expects that the implementation of all the Advisor’s recommendations will be completed by the end of August 2017, and the internal audit department of the Group is following up on the progress of such implementation to ensure its timely completion. The Company will consider whether to engage the Advisor to conduct a follow-up review on its internal controls system after the completion of the implementation of the Advisor’s recommendations. Further details relating to the Internal Controls Review will be disclosed in the annual report of the Company for the year ending 31 March 2017.

### *Views of the Audit Committee*

Having considered the Consultant Report and the subsequent comments and responses of the Consultant and the Relevant Management, the Audit Committee considered that the forensic investigation by the Consultant was completed. Given that the Consultant did not find any clear evidence to suggest that the five Subject Issues were related to fraud, and to avoid prolonged suspension of the trading of the Company’s shares and to protect the interest of the shareholders of the Company as a whole, the Audit Committee decided not to propose any additional work to be done by the Consultant.



The Audit Committee noted that the Relevant Management exercised its authority to approve the transactions under the five Subject Issues by relying too much on its intuition without preparing sufficient documentary evidence in advance nor soliciting the advice from the independent non-executive Directors prior to the entering into of the transactions under the five Subject Issues. However, the Audit Committee acknowledged that the Relevant Management was under heavy workload during the period when the transactions under the five Subject Issues were entered into, and also noted the peculiar corporate governance structure of the Group following the involvement of a person without any official position within the Group in the management of the Group since the year 2011 till early January 2014.

The Audit Committee further noted that a series of recovery actions have been taken or will be taken by the Relevant Management to mitigate the loss to the Group and to strengthen the internal control system and the corporate governance system of the Group, including without limitation, that:

- (1) the Group had recruited a chief operating officer, who is responsible for managing the routine operation of the Group since August 2015 so as to lighten the workload of the Relevant Management;
- (2) the Group had recruited an internal audit manager with over 23 years of relevant experience to lead an in-house review of the corporate governance (including internal control system) of the Group since November 2015;
- (3) as mentioned above, the Group had engaged a reputable Advisor to perform a review of the Group's internal control and has implemented or will implement the Advisor's recommendations as far as possible and in a timely manner after considering the operating environment of the Group so as to further enhance its internal controls system.

The Audit Committee also noted that no fraud was involved, the Relevant Management did not have any personal interests in nor derive any personal benefits from the five Subject Issues, and the Relevant Management acted in good faith in the five Subject Issues.

In view of the above, the Audit Committee in its assessment in May 2016 on the recommendations of the Consultant considered that appropriate actions have been taken to clarify and address the queries raised by the Audit Committee, and it is considered that it would be in the interest of the Company for the Relevant Management to continue to act as the directors of the Company.

### ***Views of the Company***

Reference is made to the announcement of the Company dated 28 November 2016. With effect from 28 November 2016, Mr. Au-Yeung, a member of the Relevant Management, had resigned as an executive Director, the financial controller of the Company, and the company secretary of the Company, due to his intention to explore for new opportunities and experience after working for the Group for over 23 years.

Reference is made to the announcement of the Company dated 23 December 2016. With effect from 23 December 2016, Mr. Chan, the other member of the Relevant Management, was removed as an executive Director pursuant to Bye-Law 97(A)(vi) of the New Bye-Laws of the Company, and he also ceased to be the Chairman and Chief Executive Officer of the Company, as all of the Co-directors of the Company in office (which comprise all directors of the Company except Mr. Chan) took the view that Mr. Chan had conducted himself in a manner that has caused adverse interruption to the operation without justifiable grounds, and had been uncooperative, obstructive and being not responsive to the cash flow needs of the Company given the prolonged suspension and losses of the Company, and therefore the aforesaid removal is in the best interests of the Company and for the furtherance of business and operation of the Company.

As noted above, the Relevant Management's oversight in assessing the inherent risks of the five Subject Issues was caused mainly by the heavy workload of the Relevant Management and the peculiar corporate governance structure of the Group at the time when they exercised the authority to approve the transactions under the five Subject Issues. In light of the aforesaid recovery actions having been taken, notwithstanding the resignation of Mr. Au-Yeung and the removal of Mr. Chan as aforesaid, the Company is satisfied that the heavy workload of the management of the Company could be relieved by the recruitment of the new personnel, and the corporate governance structure of the Group will be further enhanced by the implementation of the Advisor's recommendations. The Company is therefore of the view that similar delay in publishing the Company's financial information is unlikely to occur in the future, and the Company will be able to comply with the relevant requirements under the Listing Rules going forward.

**(c) inform the market of all material information for the Shareholders and the investors to appraise the Company's position**

The Board considers that all material information for the Shareholders and the investors to appraise the Company's position has been disclosed in the Announcements and this announcement.

**UPDATE ON THE BUSINESS DEVELOPMENT OF THE GROUP**

As disclosed in the 2016 Annual Results, the Group incurred a gross loss of approximately HK\$18,439,000 for the year ended 31 March 2016. Such gross loss was mainly due to:

- (1) the decrease in the Group's sales revenue by approximately 13%, resulting in the reduction in the variable contribution (i.e. the sales revenue minus the variable production costs) of approximately HK\$9.6 million for the financial year ended 31 March 2016 (the "2015/16 FY");
- (2) the increase in the minimum wages level in the Mainland China by approximately 20% since May 2015, resulting in an increase in the direct labour cost by approximately HK\$5.2 million for the 2015/16 FY, and such increase in labour cost could not be totally shared by the Group's customers at once due to the fixed selling price for certain models of PCB during the contract period; and

- (3) the postponement of repair or replacement of certain production machinery until the 2015/16 FY, resulting in an increase in repair and maintenance expenses and scrap cost by approximately HK\$2.1 million and HK\$7.2 million respectively. The postponement was due to the lengthy negotiation with the insurance company for the insurance compensation relating to the fire accident occurred in the Group's principal production base in Huizhou, PRC on 24 January 2013 (particularly on whether certain damaged production machinery should be replaced or repaired by original equipment suppliers). As a result, the repair or replacement of certain production machinery which should have been carried out earlier were only carried out during the 2015/16 FY.

According to the 2017 Interim Results, the Group's revenue, gross loss and net loss for the Current Period relating to its existing printed circuit boards ("PCB") business were approximately HK\$90.1 million, HK\$2.4 million and HK\$27.5 million respectively.

As a result of the implementation of the various cost-savings and quality improvements measures by the Group, the gross loss of the Group for the six months ended 30 September 2016 has been reduced to approximately HK\$2.4 million, as compared to approximately HK\$18.4 million for the 2015/16 FY.

Examples of such cost-savings and quality improvement measures include:

- (1) Re-designing the production layout or size of the PCB panel for some models of the PCB so as to increase the utilization rate of copper-clad laminate (a raw material for manufacturing PCB), which resulted in the reduction of unit raw material cost;
- (2) Strengthening the maintenance arrangement for production machinery so as to reduce the production down-time and scrap rate due to the malfunction of production machinery, which resulted in the reduction of both unit production cost and scrap cost;
- (3) Replacing obsolete production machinery so as to increase the production efficiency and to reduce the scrap rate, which resulted in the reduction of both unit production cost and scrap cost;
- (4) Concentrating the production time for some production processes so as to increase the production efficiency, which resulted in the reduction of unit production cost especially concerning water, electricity and workers' overtime costs;
- (5) Adjusting the remuneration structure and providing incentive for workers so as to increase the production efficiency and reduce the scrap rate, which resulted in the reduction of both unit production cost and scrap cost; and
- (6) Recruiting a production controller in June 2016, who is very experienced in the field of PCB manufacturing so as to strengthen the production management, which resulted in the reduction of both unit production cost and scrap cost.

The Group is confident that the favourable effects resulting from the implementation of the various cost-savings and quality improvement measures will continue. If the operating environment surrounding the Group does not deteriorate further, it is expected that the Group will soon return to gross profit.

In order to realise business diversification which should be in the interest of the Shareholders, the Group has commenced in mid-2016 to undertake the business of indent trading of petrochemical products as well as petroleum and energy products by itself with the help of newly recruited experts in this field so as to provide stable income source and cash inflow for the Group gradually. As at the date of this announcement, the indent trading business of the Group has not yet generated any revenue for the Group.

The Group is well aware that its existing capital base may not be strong enough either to support the continuous investment in advanced machinery as required by its existing PCB business or to seize any golden business opportunity it comes across with promising return.

## **PLACING OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE**

On 28 November 2016, the Company entered into the Placing Agreement with the Placing Agent. Principal terms of the Placing Agreement are set out below:

### **1. Parties**

Issuer: The Company

Placing Agent: Kingston Securities Limited

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its associates are Independent Third Parties.

### **2. Placing of Convertible Bonds**

Pursuant to the Placing Agreement, the Placing Agent has agreed to procure not less than six independent Placees, which will be independent professional, institutional and/or private investors, and who and whose ultimate beneficial owner(s) are Independent Third Parties, on a best effort basis to subscribe for the Convertible Bonds up to the principal amount of HK\$130 million.

The Placing Agent has undertaken to the Company that no individual Placee will become a substantial Shareholder upon Completion assuming all Convertible Bonds being subscribed are fully converted.

### **3. Placing Commission**

The Placing Agent will receive a placing commission of 2% of the aggregate subscription money for the Convertible Bonds placed by the Placing Agent. The placing commission was determined after arm's length negotiations between the Company and the Placing Agent.

#### **4. Conditions Precedent**

Completion of the subscription of the Convertible Bonds is conditional upon the fulfillment of the following conditions precedent:

- (a) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which neither the Company nor the Placing Agent shall reasonably object) and not having withdrawn or revoked the approval of the listing of, and the permission to deal in, the Conversion Shares;
- (b) the Shareholders having approved at the SGM the Placing Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the specific mandate for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds); and
- (c) other necessary approvals, consents or authorization for the entering into of the Placing Agreement and the transactions contemplated thereunder (if any) having been obtained.

If the above conditions are not fulfilled on or before the date falling on the 30<sup>th</sup> day after the date of the SGM or the date falling 6 months after the date of the Placing Agreement, whichever is earlier, or such later date as may be agreed between the Placing Agent and the Company, the Placing Agreement will lapse.

#### **5. Completion**

Subject to fulfillment of the Conditions Precedent and performance by the Placing Agent of its obligations under the Placing Agreement, completion of the subscription of the Convertible Bonds will take place within 5 Business Days after fulfillment of all the Conditions Precedent or such other date as the Company and the Placing Agent may agree in writing.

#### **6. Principal terms of the Convertible Bonds**

- (A) The terms of the Convertible Bonds were arrived at after negotiations between the Company and the Placing Agent with reference to (i) the unaudited net asset value of the Group of approximately HK\$0.40 per Share as at 30 September 2016; and (ii) the loss-making financial performance of the Group for the year ended 31 March 2016 and the six months ended 30 September 2016.

The principal terms of the Convertible Bonds are summarised below:

Issuer:	The Company
Principal amount:	Up to HK\$130 million

Interest:	The Convertible Bonds shall bear interest at the rate of 8% per annum on the principal amount of the Convertible Bonds outstanding from time to time, payable quarterly in arrears.
Maturity:	The Company shall repay the principal amount outstanding under the Convertible Bonds to the Bondholders together with all interest accrued and outstanding on the third anniversary of the date of issue of the Convertible Bonds.
Form:	In registered form.
Completion date:	the 5th Business Day following the date on which the Conditions Precedent are fulfilled or such other date as the Company and the Placing Agent may agree in writing.
Conditions Precedent:	the conditions precedent set out in the sub-section headed “Conditions Precedent” under the section headed “Placing of Convertible Bonds under specific mandate” in this announcement.
Conversion price:	HK\$0.65 per Share. The conversion price is subject to adjustment for, among other matters, subdivision or consolidation of Shares, capital distribution of profits or reserves, rights issues and other issues at less than 90% of the market price of the Shares.
Conversion right:	The Bondholders will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Shares at any time and from time to time up to the third anniversary of the date of issue of the Convertible Bonds in the amounts of HK\$10,000,000 or its integral multiples on each conversion, save that if at any time, the principal outstanding amount of the Convertible Bonds is less than HK\$10,000,000, the whole (but not part only) of the principal amount of the Convertible Bonds may be converted, subject to the conditions that any conversion will (i) not trigger the mandatory offer obligation under Rule 26.1 of the Takeovers Code and (ii) not result in the Company not fulfilling the public float requirements to less than 25% (or any given percentage as required by the Listing Rules) of the issued shares.

Ranking of the Conversion Shares:	Shares issued upon conversion shall rank pari passu in all respects with all other existing Shares outstanding at the date of the conversion notice and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.
Transferability:	Subject to the compliance with any applicable requirements of the Stock Exchange (including the Listing Rules), the Convertible Bonds may not be assigned or transferred to any person except with the prior written approval of the Company and compliance with the relevant requirements of the Listing Rules. The Convertible Bonds may only be assigned or transferred in amounts of HK\$10,000,000 or its integral multiples on each assignment or transfer, save that if at any time, the principal outstanding amount of the Convertible Bonds is less than HK\$10,000,000, the whole (but not part only) of the principal outstanding amount of the Convertible Bonds may be assigned or transferred.
Redemption at maturity:	Unless previously redeemed, purchased, cancelled or converted, the Convertible Bonds will only be fully redeemed by the Company on the Maturity Date at an amount equals to 100% of the outstanding principal amount of the Convertible Bonds on the Maturity Date plus accrued interest outstanding under the Convertible Bonds which remain unpaid on the Maturity Date.
Early redemption prior to maturity:	The Company may at any time prior to the Maturity Date and from time to time redeem the Convertible Bonds (in whole or in part only) at an amount equals to the outstanding principal amount of such Convertible Bonds intended to be redeemed plus accrued interest outstanding under such Convertible Bonds to be redeemed which remain unpaid on the date of the redemption notice served by the Company to the Bondholders.
Voting:	The Bondholders will not be entitled to receive notice of, or to attend, or vote at any meeting of the Company by reason of it being the Bondholders.

Ranking of the Convertible Bonds: The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions provided by mandatory provisions of applicable laws under the terms and conditions of the Convertible Bonds, at all times rank at least equally with all of the Company's other present and future direct, unsubordinated, unconditional and unsecured obligations.

Listing: No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchanges. An application will be made by the Company for the listing, and the permission to deal in, the Conversion Shares which may be issued on exercise of the conversion rights attaching to the Convertible Bonds.

Default interest: If the Company fails to pay any sum in respect of the Convertible Bonds when it becomes due and payable, interest shall accrue on the overdue sum at the rate of 5% per annum.

(B) The initial conversion price of HK\$0.65 per Share was determined after arms-length negotiations between the Company and the Placing Agent, and represents a discount of approximately 43.97% to the closing price of HK\$1.16 per Share quoted on the Stock Exchange on the Last Trading Day, and a discount of approximately 45.83% to the average closing price of HK\$1.20 per Share quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day. Assuming the maximum amount of the Convertible Bonds is placed under the Placing, the net proceeds from the Placing, after deduction of related expenses, are estimated to be approximately HK\$125 million (assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK\$0.65 per Share) and the net price to the Company of each Conversion Share is therefore approximately HK\$0.625.

## **7. Use of proceeds and fund raising activities in the past twelve months**

Assuming the maximum amount of the Convertible Bonds is placed under the Placing, the net proceeds from the issue of the Convertible Bonds are estimated to be approximately HK\$125 million.

The proposed use of proceeds by the Company is as follows:-

- (a) approximately HK\$20 million will be used to establish a marketing department to promote the Company's business of manufacturing PCB for automobile components in PRC, including but not limited to, hiring operational staff, experts and marketing materials;



- (b) approximately HK\$15 million will be used for purchases of new machineries and equipment for the replacement and/or addition of new machineries and equipment. The Group intends to acquire a total of 29 units of machineries and equipment, including PCB etching machines and other components to upgrade and replace some old machineries and equipment on or before 30 September 2017. The cost of each machinery and equipment are estimated to range from RMB50,000 to RMB3.0 million. Upon installation of such machineries and equipment, they will help to increase efficiency, automation, minimise labour cost, and to enhance the Group's overall competitiveness in the market;
- (c) approximately HK\$5 million will be used to strengthen the Company's brand through branding building, advertisements, improving investor relationship and corporate image;
- (d) approximately HK\$5 million will be used to implement a factory improvement program for improving fit out of the Group's factory;
- (e) approximately HK\$5 million will be used to improve the Group's information system to enhance our overall production capabilities and quality of corporate management;
- (f) approximately HK\$5 million will be used to appoint the external consultants and/or establish internal control department to continue monitoring and/or improving the internal control of the Group from time to time; and
- (g) approximately HK\$5 million will be used to settle the fees and expenses (including placing commission and professional advisors fees, costs and expenses) which may be incurred in connection with the Placing;
- (h) the remaining proceeds of approximately HK\$70 million will be used as general working capital of the Group for the existing PCB business, including but not limited to any additional expenditure on inventory, procurement of raw materials, labour cost and other related administrative expenses which may be incurred as a result of the anticipated increase in production after the implementation of the cost-saving and quality improvement measures as mentioned on page 11 of this announcement and the future plans for the use of proceeds as mentioned under paragraphs (a) to (e)) above.

In addition, having considered (i) the foreign exchange control in PRC; and (ii) RMB may continue to depreciate in the future, the Board will continue to evaluate and monitor the exposure to its foreign exchange risks from time to time, and may consider to mitigate foreign exchange risks against RMB by allocating an amount of up to HK\$70 million for repaying the existing bank borrowings in Hong Kong dollars and US dollars in order to release the Group's pledged bank deposits in PRC and to use it for the above future plans.

The Company did not conduct any fund raising activities during the past twelve months immediately preceding the date of this announcement.

Save for the Placing and continuous discussion with the banks on any additional banking facilities, the Company does not have any immediate plan and is not currently contemplating to conduct any fund raising exercise as at the date of this announcement. The Group will continue to review its financial position and consider to further strengthen the financial position from time to time. If there shall arise any business opportunities which may support future development of the Group, the Group may conduct further equity and/or financing fund raising in next 12 months in order to develop the Group's existing business and any other business opportunities, if any.

The Board believes that the Company has sufficient working capital for its operation for at least twelve months from the date of this announcement.

Reference is made to the announcement of the Company dated 23 December 2016 in which it was disclosed that there was a disagreement on the proposed use of proceeds in respect of the Placing between Mr. Chan and the Board.

At a meeting of the Board held on 12 December 2016, it was agreed by the Directors that the proposed use of proceeds of the Placing should be amended, which included among other things, that the proposed use of proceeds for purchase of machineries should be revised from approximately HK\$50 million as previously proposed, to approximately HK\$15 million only, at the suggestion of Mr. Chan. The revised proposed use of proceeds was approved by the Board on 14 December 2016.

However, subsequently on the same day, Mr. Chan informed the other Directors that he had received an anonymous telephone notification (the "**Notification**") which raised the following issues:

1. it was questioned whether the figures in respect of the revision of the proposed use of HK\$50 million out of the proceeds for purchase of machineries to only an HK\$15 million were false or misleading, and who provided these figures and what supporting documents were available to justify the need for such an amount;
2. it was doubted that the proposed use of proceeds of the Placing is unclear and not supported by detailed explanation and information, and it was questioned who participated in the structuring the fund raising exercise;
3. it was alleged that the above situation was similar to the sale of a listed vehicle, and would constitute unfair situation for the minority shareholders. It was further alleged that the matter may have criminal consequences from the point of view of the Board, and the matter should be investigated by the Board in order to safeguard the interest of the shareholders; and
4. it was alleged that the Board may have already committed an offence under section 384 of the Securities and Futures Ordinance.

An urgent meeting of the Board was convened on 15 December 2016 to discuss the matter, and the Board came up with the following response:

The original proposal of using approximately HK\$50 million for purchase of machineries was based on information provided by Huafeng in October 2016. At the meeting of the Board on 12 December 2016, Mr. Chan proposed to reduce the use of proceeds from approximately HK\$50 million to approximately HK\$15 million in light of the operational circumstances and financial condition of the Group.

The Placing was thoroughly discussed by the Board, and was proposed to be conducted to support the future development of the Company. The proposed use of proceeds from the Placing was unanimously agreed to by the Directors on 14 December 2016 as mentioned above, and has already been clearly set out in this announcement.

The Placing Agent has undertaken to the Company that no individual Placee will become a substantial Shareholder upon Completion assuming all Convertible Bonds being subscribed are fully converted. Further, the Completion of the subscription of the Convertible Bonds is conditional upon, among others, the Placing Agreement having been approved by the Shareholders at the SGM. There is therefore no reasonable concern of any sale of listed vehicle or constituting unfair situation for the minority Shareholders.

Furthermore, the proposal for the Placing has been prepared with the assistance of the Company's financial advisers and with appropriate legal advice. The Board is not aware of any matter which would have criminal consequences and which would warrant investigation by the Board.

The Board also believes that it has performed all reasonable works to ensure the proposed use of proceeds under the Placing as set out above to be fair and reasonable and is in the interest of the Company and the Shareholders as a whole, such works include:

- (i) having discussed and reviewed the details of interest-bearing borrowings, the pledged deposits of the Group and the unaudited financial statements of the Group for the period from 1 April 2016 to 31 October 2016 in order to understand the latest financial position of the Company;
- (ii) having discussed and reviewed the details of the 29 units of new machineries and equipment as mentioned under paragraph (b) of this section above, such details include the name of new machinery or equipment, purchases cost, quantity and reason of such purchase;
- (iii) having reviewed the breakdown of the estimated fees and expenses to be incurred in connection with the Placing;
- (iv) having discussed the Group's internal control system and corporate governance system together with the relevant internal control issues raised and mentioned in the Internal Controls Review and by the Audit Committee;

- (v) having discussed the future plans and corporate strategies for improving the profitability of the Group in the future;
- (vi) having discussed the appropriate level of general working capital of the Group for the existing PCB business as mentioned under paragraph (h) of this section above; and
- (vii) having discussions to understand the basis for arriving at the proposed use of proceeds and the future plans for the use of proceeds as mentioned under paragraphs (a) to (h) of this section above.

Taking into account (i) the above mentioned works conducted by the Board; and (ii) the reasons and benefits for entering into the Placing Agreement as mentioned in this announcement, the Board considers that the proposed use of proceeds under the Placing have been fully discussed and is of the view that the proposed use of proceeds is justifiable, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Based on the above, the Board also considered that the matters raised in the Notification are unfounded and do not warrant a concern for further investigation, and it was considered that the revised draft announcement containing the revised proposed use of proceeds should have been submitted to the Stock Exchange for vetting, with a view to resume trading in the Shares soonest possible. However, Mr. Chan did not agree to the Board's view as mentioned above.

On 19 December 2016, a Board meeting was further convened at which Mr. Chan's concern on the proposed use of proceeds was discussed and it was resolved at the meeting that if Mr. Chan did not agree to the proposed use of proceeds as approved by the Board on 14 December 2016, Mr. Chan should come up with his recommendation or proposal regarding the use of proceeds of the Placing for the Board's further consideration. However, Mr. Chan had not been able to put forward a recommendation or proposal for the Board's consideration since then, and hence, the proposed use of proceeds set out above under this section represents the proposal for the use of proceeds of the Placing which was approved by the Board on 14 December 2016.

## **8. Reasons for and benefits of the Placing Agreement**

The Directors consider that the Placing is an opportunity and necessary for the Group to (i) enhance its working capital; and (ii) improve its current business operations by obtaining external funding for purchasing new machineries and equipment, and strengthening the Company's brand, the Company considers that the entering into of the Placing Agreement is in the interests of the Company and the Shareholders as a whole.

As disclosed in the Group's interim results announcement for the six months ended 30 September 2016, the Group's gross loss and net loss after tax for the six months ended 30 September 2016 were approximately HK\$2.4 million and HK\$27.5 million respectively. The Group requires further fund to acquire new machineries and equipment for the existing principal business, so as to enhance the production efficiency and lower its production cost. Given that the cash and cash equivalents available to the Group to

support its operations in both PRC and Hong Kong was approximately HK\$51.7 million as at 30 September 2016, the Group requires further financial resources to execute its business plan to improve its financial performance.

Given that the trading of the Shares has been suspended on the Stock Exchange since 25 June 2015 and the Group recorded the losses for year ended 31 March 2016 and the six months ended 30 September 2016, the Group faces difficulties in obtaining additional bank borrowings from the banks. If the Company cannot obtain external funding, it will be difficult for the Group to improve its business operations and financial position. Other than the additional bank borrowings, the Board has considered other fund raising alternatives such as open offer or rights issue. Due to (i) the loss-making financial performance of the Group; and (ii) that the trading of the Shares has been suspended as stated above, a rights issue or open offer may not be achievable on favourable terms or on terms which are acceptable to the Company under the current market conditions. Therefore, the Board is of the view that the Placing is an appropriate means to raise external funding in light of the current situation of the Group.

The Company has also considered the dilutive nature of the Placing if the Convertible Bonds are converted by any Bondholder. Assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK\$0.65 per Share and that there is no change in the issued share capital of the Company other than the issue of the Conversion Shares from the date of this announcement up to and including the date of conversion of the Convertible Bonds in full and no Share will be placed to any existing Shareholders, the Placing will have a dilution impact of approximately 29.40% to the shareholdings of all existing Shareholders. After taking into account of the above reason of entering into the Placing Agreement, the Board is of the view that the Placing is necessary for the Group under the current situation, which outweighs the potential dilution impact as mentioned above.

Although the initial conversion price of HK\$0.65 represents a discount of approximately 45.83% to the average closing price of HK\$1.20 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day, the Board considers that the terms of the Placing are fair and reasonable and is in the interest of the Company and the Shareholders as a whole in light of (i) the initial conversion price of HK\$0.65 per Share representing a premium of approximately 62.42% to the unaudited net asset value of the Group of approximately of HK\$0.40 per Share as at 30 September 2016; (ii) the Group's recent financial performances; and (iii) the fact that the Group is facing difficulties in obtaining additional bank borrowings due to suspension of trading of the Shares since 25 June 2015.

In view of the above, the Directors consider that the terms of the Placing are on normal commercial terms and are fair and reasonable and the entering into of the Placing Agreement is in the interest of the Company and the Shareholders as a whole.

## 9. Listing Rules Implications

Under Rule 13.36(1)(a) of the Listing Rules, the consent of Shareholders in general meeting of the Company shall be obtained prior to the Directors allotting and issuing securities convertible into Shares. The SGM will be convened to propose a resolution to approve the Placing Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of a specific mandate for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds).

A circular containing, among other things, further details of the Placing Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of a specific mandate for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds), together with a notice of the SGM and a form of proxy, will be despatched by the Company to the Shareholders as soon as practicable.

## 10. Allegations made by Mr. Chan

It was brought to the attention of the Company that Mr. Chan had through his legal advisers issued a letter of complaint to the Stock Exchange and the Securities and Futures Commission on 10 January 2017, setting out certain allegations against the Company and the Board as follows:–

- (1) The Placing was instigated by Mr. Cheung Ling Mun (“**Mr. Cheung**”), a substantial shareholder holding 25% of the Company’s shares, for the purpose of facilitating a sale of control of the Company to others and the Placing was not in the interests of the Company and its shareholders. The Company’s submission of 5 December 2016 to the Stock Exchange which said that the Placing is critical to the Company’s ongoing operation and financial circumstances was false, inaccurate, misleading and fictitious;
- (2) The use of proceeds stated in the resumption announcement submitted to the Exchange on 5 December 2016 was false, inaccurate, misleading and fictitious. The announcement disclosed that the Company will use about HK\$50 million and HK\$20 million for purchases of new machineries and equipment and establishment of a marketing department respectively. Mr. Chan said that, based on the Group’s sales order forecast for the coming year, the Group would only require purchasing new machineries and equipment amounting to HK\$13 million and would not require establishing a marketing department;
- (3) The reason disclosed in the Company’s announcement of 23 December 2016 for the removal of Mr. Chan is ill-founded. Save for the disagreement on proposed use of proceeds in respect of the Placing mentioned in the announcement, Mr. Chan was also in disagreement with the Board about:
  - (a) the timing of the Placing. The Placing would cause undue delay in the Company’s trading resumption;

- (b) the necessity of the Placing. The Group's existing operation and financial circumstances do not warrant the Placing;
- (c) the reasonableness of the conversion price of the convertible bonds. In determining the conversion price, the Board has failed to take into consideration the possible future gain arising from the redevelopment of the Group's existing factory site in Huizhou, PRC; and
- (d) the fund-raising method. There should be alternative fund-raising options available to the Company after the trading resumption.

Mr. Chan alleged that the Company failed to disclose the reasons for his removal as an executive director of the Company under Rule 13.51(2);

- (4) Mr. Cheung and his daughter, Ms. Cheung Lai Na ("**Ms. Zoe Cheung**"), an executive director of the Company pressured Mr. Au-Yeung to tender his resignation or else he would be dismissed; and
- (5) The Placing was approved by the Board on 26 November 2016 under the pressure of Mr. Cheung.

The Board does not consider any of the above allegations to have any substance, for the following reasons:

- (1) The Board considers it unfounded for the allegation that the Placing was instigated by Mr. Cheung and was for the purpose of facilitating a sale of control of the Company to others. As disclosed on page 12 of this announcement and pursuant to the Placing Agreement, the Placing Agent has agreed to procure the subscription of Convertible Bonds by not less than six independent Placees, all of which will be Independent Third Parties, and has also undertaken to the Company that no individual Placee will become a substantial Shareholder upon Completion assuming all Convertible Bonds being subscribed are fully converted. Accordingly, the Placing would not result in any change of control of the Company, and in no way could it be done for the purpose of facilitating a sale of control of the Company to others.

At a Board meeting held on 26 November 2016, after the Board's due and careful consideration of the terms and conditions of the Placing Agreement, the Placing Agreement was approved by a majority of the Board, with Ms. Zoe Cheung, Ms. Cheung Lai Ming, Mr. Leung King Fai and Mr. Chou Yuk Yan voting in favour, and Mr. Chan, Mr. Au-Yeung and Mr. Yeung Chi Shing, Bret abstaining from voting. The Placing was therefore a unanimous decision of those Board members who elected to vote. The Board does not consider that the Placing was instigated by Mr. Cheung.

As disclosed on page 20 of this announcement, the trading of the Shares has been suspended on the Stock Exchange since 25 June 2015 and the Group recorded losses for year ended 31 March 2016 and the six months ended 30 September 2016, the Group faces difficulties in obtaining additional bank borrowings from the banks

or alternative sources of financing on favourable terms. As the Group requires further fund to acquire new machineries and equipment for the existing principal business in order to enhance the production efficiency and lower its production cost, and to execute its business plan to improve its financial performance, the Board considers that the Placing is critical to the Company's on-going operation and financial circumstances and is in the best interest of the Company and the Shareholders as a whole.

- (2) As disclosed on page 18 of this announcement, at a Board meeting held on 12 December 2016, Mr. Chan proposed that in light of the operating conditions and financial situation of Huafeng, the proposed use of proceeds on the purchases of new machineries and equipment should be revised from HK\$50 million to HK\$15 million, to which all the Directors agreed. On 13 December 2016, Mr. Chan provided a revised list of machineries and equipment to Ms. Zoe Cheung and the revised proposed use of proceeds (which includes, among other things, the revision of the proposed use of proceeds on the purchases of new machineries and equipment from HK\$50 million to HK\$15 million) was approved by the Board on 14 December 2016. The Board is of the view that it had already addressed Mr. Chan's concerns by reducing the proposed use of proceeds on the purchases of new machineries and equipment as stated in this announcement.

The Board considers the establishment of a marketing department to be necessary. The management of the Company noted that despite the implementation of various cost-savings and quality improvement measures by the Group as disclosed on page 11 of this announcement, the Company continued to record losses or the year ended 31 March 2016 and the six months ended 30 September 2016. The management of the Company is of the view that the establishment of a new marketing department will help the Company to better understand its customers and position itself to compete in the open market. As the Company expects the demand in PRC to increase in the long run, the Company aims to restore the connection with its existing customers and to expand its customer base, especially in PRC, with the establishment of a marketing department.

- (3) Save as disclosed in the announcement of the Company dated 23 December 2016 in relation to the removal of Mr. Chan (the "**Removal Announcement**"), the Board was not aware of any other disagreement between Mr. Chan and the Board at the time the Removal Announcement was made. As disclosed on page 20 of this announcement, at a Board meeting held on 19 December 2016, it was noted that the Company could not proceed to resumption of trading, pending the confirmation from each and every Director to submit the Company's latest draft announcement for the Stock Exchange's clearance and the Company's draft reply to address the Stock Exchange's written and verbal comments. All along, Mr. Chan only expressed his concerns on the proposed use of proceeds and reiterated that he would refuse to give a confirmation to the Company's latest draft announcement unless and until the basis for the proposed use of proceeds is clarified.



Details of the Placing, including without limitation the timing and necessity of the Placing, the reasonableness of the conversion price and the fund-raising method have been discussed in this announcement, and the Board considers that the concerns raised by Mr. Chan have already been appropriately addressed. Further, contrary to Mr. Chan's allegation, in determining the conversion price of the Convertible Bonds, the Board had already taken into consideration of the possible future gain from the Group's existing factory site in Huizhou, PRC. As disclosed in this announcement, the conversion price of the Convertible Bonds was determined after arm's length negotiations between the Company and the Placing Agent, and the Board considers the conversion price of the Convertible Bonds to be reasonable.

The reason given to Mr. Chan for his removal as an executive Director had already been set out in the Removal Announcement in compliance with the Listing Rules. Further, the views of all the Co-directors of the Company (which comprise all directors of the Company except Mr. Chan) in support of the reason for such removal have also been set out on page 9 of this announcement.

- (4) As disclosed in the Company's announcement dated 28 November 2016, Mr. Au-Yeung tendered his resignation from the posts of Executive Director, Financial Controller and Company Secretary of the Company with effect from 28 November 2016. In Mr. Au-Yeung's written resignation letter of the said date, he clearly stated the reason for his resignation and confirmed that he had no disagreement with the Board and there are no matters relating to his resignation which need to be brought to the attention of the shareholders of the Company or the Stock Exchange. The Board has no reason to doubt that Mr. Au-Yeung's resignation was involuntary and was tendered under the pressure of Mr. Cheung and Ms. Zoe Cheung.
- (5) At the Board meeting held on 26 November 2016 where the Placing Agreement was approved unanimously by those Board members who elected to vote, none of the Directors voted against the resolution of entering into the Placing Agreement by the Company. The Board has no reason to suspect that the Placing so approved in the meeting was passed under the pressure of Mr. Cheung or any person.

## **CHANGE IN SHAREHOLDING STRUCTURE OF THE COMPANY**

Assuming the exercise in full of the conversion rights attaching to the Convertible Bonds at the initial conversion price of HK\$0.65 per Share, a total number of 200,000,000 new Shares will be issued, representing approximately 41.65% of the Company's existing issued share capital of 480,243,785 Shares, and approximately 29.40% of the Company's issued share capital of 680,243,785 Shares as enlarged by the issue and allotment of the Conversion Shares. An ordinary resolution will be proposed at the SGM to seek, among other things, a specific mandate for the allotment and issue of the Conversion Shares.

## EFFECT OF FULL CONVERSION OF THE CONVERTIBLE BONDS

Assuming the maximum amount of the Convertible Bonds is placed under the Placing of the Convertible Bonds, the following table illustrates the shareholding structure of the Company (i) as at the date of the Placing Agreement; (ii) immediately upon conversion of the Convertible Bonds in full at the initial conversion price of HK\$0.65 per Share (assuming that there is no change in the issued share capital of the Company other than the issue of the Conversion Shares since the date of the Placing Agreement up to the date of conversion of the Convertible Bonds in full):

Name of Shareholders	As at the date of the Placing Agreement		Immediately after full conversion of the Convertible Bonds	
	Number of Shares held <i>(Shares)</i>	Percentage of shareholding (approx.) <i>(%)</i>	Number of Shares held <i>(Shares)</i>	Percentage of shareholding (approx.) <i>(%)</i>
Bondholder(s)	–	–	200,000,000	29.40
Cheung Ling Mun <i>(Note)</i>	120,068,000	25.00	120,068,000	17.65
Daisho Denshi Co., Ltd.	50,000,000	10.41	50,000,000	7.35
Other public Shareholders	310,175,785	64.59	310,175,785	45.60
<b>Total:</b>	<b><u>480,243,785</u></b>	<b><u>100.00</u></b>	<b><u>680,243,785</u></b>	<b><u>100.00</u></b>

*Note:*

Ms. Zoe Cheung, an executive Director and the daughter of Mr. Cheung, holds 120,680,000 Shares in trust for Mr. Cheung.

## GENERAL

**Shareholders and potential investors should note that completion of the Placing is subject to fulfillment of the Conditions Precedent. As such, the Placing and the issue of the Convertible Bonds may or may not proceed. Shareholders and potential investors are therefore urged to exercise caution when dealing in the Shares and other securities of the Company.**

## RESUMPTION OF TRADING

Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Board confirms that to the best of its knowledge, information and belief, save as disclosed in this announcement and the Announcements, there is no other material information that needs to be disclosed pursuant to any of the requirements set out in the Listing Rules, nor are there any other matters that need to be brought to the attention of the Shareholders and potential investors of the Company, and it is not aware of any other inside information that needs to be disclosed under Part XIVA of the SFO as at the date of this announcement.

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 25 June 2015. As all the Resumption Conditions have been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 26 January 2017.

## **DEFINITIONS**

In this announcement, the following expressions have the following meanings unless otherwise requires.

“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“Bondholder(s)”	the person(s) who is/are for the time being the holder(s) of the Convertible Bond(s)
“Business Day”	a day (excluding Saturday, Sunday, a public holiday or a day on which typhoon signal no. 8 or above or a “black” rainstorm warning is hoisted in Hong Kong) on which banks in Hong Kong are generally open for business
“Company”	Daisho Microline Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of Stock Exchange (Stock Code: 0567)
“Completion”	completion of the Placing Agreement
“Conditions Precedent”	the conditions precedent set out in sub-section 5 headed “Conditions Precedent” under the section headed “Placing of Convertible Bonds under specific mandate” in this announcement
“Conversion Share(s)”	new Share(s) to be allotted and issued to the Bondholder(s) upon exercise of the conversion rights attached to the Convertible Bonds
“Convertible Bonds”	the convertible bonds in the principal amount of HK\$130 million proposed to be issued by the Company pursuant to the Placing Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Huafeng”	Huafeng Microline (Huizhou) Circuits Limited, a wholly-owned subsidiary of the Company
“Independent Third Parties”	third parties who are independent of and not connected with the Company and any of its connected persons (as defined in the Listing Rules)
“Last Trading Day”	24 June 2015, being the last trading day for the Shares prior to the date of suspension of trading
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placees”	independent professional, institutional and/or private investors selected and procured by the Placing Agent to subscribe for the Convertible Bonds pursuant to the Placing Agreement
“Placing”	the placing of the Convertible Bonds pursuant to the Placing Agreement
“Placing Agent”	Kingston Securities Limited, acting as the placing agent for the Placing of the Convertible Bonds under the Placing Agreement and a licensed corporation to carry on Type 1 regulated activity (dealing in securities) under Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the conditional placing agreement dated 28 November 2016 entered into between the Company and the Placing Agent in relation to placing of the Convertible Bonds
“PRC”	The People’s Republic of China
“SGM”	the special general meeting of the Company to be convened for considering and, if though fit, to approve the Placing Agreement and the transactions contemplated thereunder
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Takeovers Code”

the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission (as amended from time to time)

“%”

per cent.

By Order of the Board  
**Cheung Lai Na**  
*Interim Chairman*

Hong Kong, 24 January 2017

*As at the date of this announcement, the Board consists of two executive directors, namely, CHEUNG Lai Na and CHEUNG Lai Ming, and four independent non-executive directors, namely, YEUNG Chi Shing Bret, LEUNG King Fai, CHOU Yuk Yan and LEE Man Kwong.*