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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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### **DAISHO MICROLINE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0567)

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

**Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders**



**REXCAPITAL (Hong Kong) Limited**

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A letter from the Board is set out on pages 3 to 11 of this circular and a letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter of advice from REXCAPITAL containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 22 of this circular.

A notice convening a special general meeting of Daisho Microline Holdings Limited to be held at 10:30 a.m. on Friday, 16 March 2007 at Units B12-16, 3rd Floor, Block B, Hoplite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong is set out on pages 27 to 28 of this circular. A form of proxy for use by the Shareholders at the special general meeting and at any adjourned meeting is also enclosed. Whether or not you propose to attend the special general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the special general meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the special general meeting or any adjourned meeting should you so wish.

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## DEFINITIONS

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

“Annual Caps”	the proposed maximum aggregate annual values of the Transactions for each of the three financial years ending 31 March 2010
“associates”	as defined under the Listing Rules
“Board”	the board of Directors
“Company”	Daisho Microline Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange
“DML”	Daisho Microline Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Daisho Denshi”	Daisho Denshi Co., Ltd., a company incorporated in Japan with limited liability and a substantial shareholder of the Company holding 10.4% of the issued share capital of the Company as at the Latest Practicable Date
“Daisho Denshi Group”	Daisho Denshi and its subsidiaries
“Daisho Denshi (HK)”	Daisho Denshi (H.K.) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Daisho Denshi
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising of the independent non-executive Directors, Mr. Kohu Kashiwagi, Mr. Chan Yuk Tong and Dr. Li Chi Kwong, is established to advise the Independent Shareholders in relation to the terms of the Sales Agreement, the Transactions and the Annual Caps
“Independent Shareholders”	the Shareholders other than Daisho Denshi and its associates
“Independent Third Parties”	persons or companies which are independent of any members of the Group, the directors, the chief executives, the controlling shareholders, the substantial shareholders of the Company or its subsidiaries, and their respective associates

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## DEFINITIONS

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“Latest Practicable Date”	25 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PCB”	printed circuit boards
“PRC”	the People’s Republic of China
“REXCAPITAL”	REXCAPITAL (Hong Kong) Limited, a licensed corporation to carry out type 6 activity under the SFO and the independent financial adviser to the Independent Board Committee in respect of the Sales Agreement, the Transactions and the Annual Caps
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at Units B12-16, 3rd Floor, Block B, Hoplite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong on Friday, 16 March 2007 at 10:30 a.m. to approve the Sales Agreement, the Transactions and the Annual Caps
“SGM Notice”	the notice convening the SGM as set out on pages 27 to 28 of this circular
“Sales Agreement”	the Sales and Purchase Agreement dated 29 January 2007 entered into between Daisho Denshi (HK) as purchaser and DML as supplier
“Share(s)”	the share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	the holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	as defined under the Listing Rules
“Transactions”	the transactions as contemplated under the Sales Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## LETTER FROM THE BOARD

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### DAISHO MICROLINE HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0567)

***Executive Directors:***

CHAN Sik Ming, Harry (*Chairman & CEO*)

Motofumi TSUMURA

Hiroto SASAKI

Hiroyuki KIKUCHI

AU-YEUNG Wai Hung

***Registered Office:***

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

***Head Office and Principal***

***Place of Business:***

Units B12-16, 3rd Floor

Block B, Hoplite Industrial Centre

3-5 Wang Tai Road

Kowloon Bay

Hong Kong.

27 February 2007

***Independent Non-Executive Directors:***

Kohu KASHIWAGI

CHAN Yuk Tong

LI Chi Kwong

*To the Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS SALES AGREEMENT

#### INTRODUCTION

In an announcement of the Company dated 29 January 2007 published on 30 January 2007, the Company announced that 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 2007. The Transactions are also subject to the maximum aggregate annual value of HK\$132 million, HK\$158 million and HK\$190 million for the financial years ending 31 March 2008, 2009 and 2010 respectively.

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 by way of poll 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.

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## LETTER FROM THE BOARD

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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 appointed 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 also appointed REXCAPITAL as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders.

The purpose of this circular is (i) to provide you with further information relating to the Sales Agreement, the Transactions and the Annual Caps; (ii) to set out the opinions and recommendations of the Independent Board Committee and REXCAPITAL; and (iii) to give you the SGM Notice to consider and, if thought fit, to approve the Sales Agreement, the Transactions and the Annual Caps.

### **BACKGROUND**

Reference is made to the announcement of the Company dated 5 March 2004 and the circular of the Company dated 15 March 2004 in relation to the sales transaction of PCB between the Group and Daisho Denshi Group. Pursuant to the Company's special general meeting on 31 March 2004, an ordinary resolution was passed to approve the sales transaction of PCB between the Group and Daisho Denshi Group and the maximum aggregate annual value of HK\$132 million of the sales transaction for each of the three financial years ending 31 March 2007.

The Board wishes to continue to sell PCB to Daisho Denshi Group after the financial year ending 31 March 2007 on an on-going basis. On 29 January 2007, 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 2007.

### **THE SALES AGREEMENT**

#### **Date**

29 January 2007

#### **Parties**

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

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## LETTER FROM THE BOARD

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### **Term**

The term of the Sales Agreement is three years commencing from 1 April 2007 and ending on 31 March 2010.

### **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 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.

### **THE 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\$132 million, HK\$158 million and HK\$190 million for the financial years ending 31 March 2008, 2009 and 2010 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 2005	HK\$29 million
Year ended 31 March 2006	HK\$38 million
Nine months ended 31 December 2006	HK\$44 million

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## LETTER FROM THE BOARD

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Based on the unaudited total amount of the sales transactions with Daisho Denshi Group for the nine months ended 31 December 2006 of approximately HK\$44 million and the estimated orders to be placed by Daisho Denshi Group to the Group for PCB in January to March 2007, the annual cap for the year ending 31 March 2007 is estimated to be HK\$70 million.

- 2. The improvement in the production capability and capacity of the Group because the technological constraint and production equipment constraint have been gradually overcome since April 2006:*

Previously, Daisho Denshi Group had intended to place substantial orders of highly delicate PCB, such as High-Density Inter-connect (“HDI”) PCB, with the Group but the Group could not meet the orders due to the technological and production equipment constraints at that time. The Group had purchased a series of production machines for the manufacture of highly delicate PCB since the second half of 2005 (including the horizontal plating production line as detailed in the circular of the Company dated 7 November 2005). The Group’s production capability and capacity had substantially improved since April 2006. This can also be supported by the continuous growth of revenue of the Group, especially the revenue for the 6 months ended 30 September 2006 had increased by approximately 82% from the corresponding period.

With the constraints being overcome, the Group is now capable of handling larger volume of orders as indicated by the forecasts of Daisho Denshi Group as mentioned below. The Group expects that it will continue to increase its production capability and capacity to meet such increasing volume of orders to be placed by Daisho Denshi Group.

- 3. The projected sales of PCB to Daisho Denshi Group for each of the three years ending 31 March 2010:*

To facilitate the Group’s production planning, Daisho Denshi Group has already indicated in the Sales Agreement that the projected aggregate annual value of the PCB to be purchased from the Group will be around HK\$132 million, HK\$158 million and HK\$190 million for the financial years ending 31 March 2008, 2009 and 2010 respectively.

- 4. The Group’s strategy to broaden the customer base:*

The Group’s sales orders for the past 3 years were mostly from the telecommunication products customers. Daisho Denshi Group can help accelerate the Group’s expansion in the fields of non-telecommunication products and further broaden the customer base which is parallel with the Group’s strategic plan.



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## LETTER FROM THE BOARD

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### REASONS FOR ENTERING INTO THE SALES AGREEMENT

The Group's sales orders were mostly from the telecommunication products customers and Daisho Denshi Group would help accelerate the Group's expansion in the fields of non-telecommunication products and further broaden the Group's customer base. This is in line with the Group's strategic plan.

With experience gained from the manufacturing 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.

Accordingly, the Directors (including the independent non-executive Directors) consider that the terms of the Sales Agreement and the Transactions are entered in the ordinary and usual course of business of the Group. The Directors consider that the terms of the Sales Agreement and the Transactions are made on an arm's length basis or on terms no less favourable than terms available to or from the Independent Third Parties because the independent non-executive Directors have reviewed the sales transactions of PCB between the Group and Daisho Denshi Group for the two financial years ended 31 March 2006 and have confirmed in the annual reports of the Company that these sales transactions have been entered into on normal commercial terms.

In addition, the Directors have considered that the Company has always applied the same pricing policies to all its customers including Daisho Denshi Group. One of the pricing policies of the Group is that it may offer volume discount to the Group's large customers who have placed substantial orders from time to time and have long term relationships with the Group. This pricing policy has led to the slight difference of approximately 2.6% between the average gross profit margin of Daisho Denshi Group and that of the Group's other non-telecommunication customers as stated in the letter of advice of REXCAPITAL. The Directors (including the independent non-executive Directors) have also considered that Daisho Denshi Group has given valuable support to the Group, any slight differences in gross profit margin are justifiable and therefore will not affect the overall view that the sales transactions of PCB between the Group and Daisho Denshi Group are conducted on normal commercial terms. 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.

### GENERAL INFORMATION

#### Information on the Group

The Group is principally engaged in 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.

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## LETTER FROM THE BOARD

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### 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 2.5% 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 by way of poll 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.

The Board has appointed 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 REXCAPITAL as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

The Transactions will be required to be approved by the Independent Shareholders and will also be subject to the following conditions:

- (1) The Transactions will be entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from Independent Third Parties; and
  - (iii) in accordance with the Sales Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (2) the relevant amount of Transactions for each of the three financial years ending 31 March 2010 shall not exceed the relevant Annual Caps (as described above);
- (3) the independent non-executive Directors shall review annually the Transactions and confirm in the Company's corresponding annual report that the Transactions have been conducted in the manner as stipulated in paragraph (1) above;
- (4) the auditors of the Company shall review annually the Transactions and confirm in a letter to the Directors (a copy of which shall be provided to the Stock Exchange) whether such Transactions:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group;

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## LETTER FROM THE BOARD

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- (iii) have been entered into in accordance with the Sales Agreement governing the Transactions; and
- (iv) have not exceeded the relevant Annual Caps;
- (5) the Company shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (1), (3) and/or (4) respectively;
- (6) each of the member companies of the Group shall allow and shall procure that the relevant counterparties to the Transactions that, for so long that the Shares are listed on the Stock Exchange, it will provide the Company's auditors with sufficient access to the relevant records for the purpose of the auditors' review of the Transactions referred to in paragraph (4) above.

### THE SPECIAL GENERAL MEETING

Set out on pages 27 to 28 of this circular is the SGM Notice convening the SGM to be held at Units B12-16, 3rd Floor, Block B, Hoplite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong at 10:30 a.m. on Friday, 16 March 2007 at which an ordinary resolution will be proposed to the Independent Shareholders for the approval of the Sales Agreement, the Transactions and the Annual Caps. The voting results of the SGM will be published on the business day immediately following the SGM.

Pursuant to Rule 14A.59(5) of the Listing Rules, any connected person with a material interest in a transaction, and any shareholder with a material interest in the transaction and its associates will not vote. 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. No other shareholder is required to abstain from voting. As at the Latest Practicable Date, having made all reasonable enquiries, Daisho Denshi, together with its associates, are holding 10.4% of the issued share capital of the Company and therefore is a substantial Shareholder.

A proxy form for use at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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### PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to the existing Bye-Law 70, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded. A poll can be demanded in the following circumstances:

- (i) by the Chairman of the relevant meeting;
- (ii) by at least 3 Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative or corporate representative) or by proxy for the time being entitled to vote at the meeting;
- (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative or corporate representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting;
- (iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative or corporate representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or
- (v) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights of all the Shareholders having the right to vote at the meeting.

### RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to (i) the letter from the Independent Board Committee dated 27 February 2007 set out on pages 12 to 13 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Sales Agreement, the Transactions and the Annual Caps; and (ii) the letter of advice from REXCAPITAL dated 27 February 2007 set out on pages 14 to 22 of this circular which contains the recommendation from REXCAPITAL to the Independent Board Committee and the Independent Shareholders in relation to the Sales Agreement, the Transactions and the Annual Caps and the principal factors and reasons considered by REXCAPITAL in arriving at its recommendation.

Having taken into account, amongst other matters, (i) all the other factors and reasons considered by REXCAPITAL as a whole as stated in its letter of advice; and (ii) the fact that the Company has confirmed that the terms of the Transactions offered to Daisho Denshi Group will be no less favourable to the Group than those available to or from (as appropriate) Independent Third Parties (being one of the terms in the Sales Agreement), the Independent Board Committee considers that the terms of the Sales

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## LETTER FROM THE BOARD

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Agreement and the Transactions are entered into in the ordinary and usual course of business of the Group and are made on an arm's length basis or on terms no less favourable than terms available to or from the Independent Third Parties.

The Independent Board Committee has considered that the Company has always applied the same pricing policies to all its customers including Daisho Denshi Group. One of the pricing policies of the Group is that it may offer volume discount to the Group's large customers who have placed substantial orders from time to time and have long term relationships with the Group. This pricing policy has led to the slight difference of approximately 2.6% between the average gross profit margin of Daisho Denshi Group and that of the Group's other non-telecommunication customers as stated in the letter of advice of REXCAPITAL. In view of the fact that Daisho Denshi Group has given valuable support to the Group, any slight differences in gross profit margin are justifiable and therefore will not affect the overall view that the sales transactions of PCB between the Group and Daisho Denshi Group are conducted on normal commercial terms.

The Independent Board Committee is aware of the fact that REXCAPITAL considers that the terms of the PCB sale transactions with Daisho Denshi Group in the past had not been on normal commercial terms. However, the Independent Board Committee considers that in determining whether the sales transactions of PCB between the Group and Daisho Denshi Group are conducted on normal commercial terms, the reasons stated above instead of the fact of the slight differences in gross profit margin should be given heavier weight because the former reflects ordinary business custom while the latter is subject to the availability of limited historical information for meaningful comparison purpose given the uniqueness of each PCB product.

The Independent Board Committee also considers that the terms of the Sales Agreement and the Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sales Agreement, the Transactions and the Annual Caps.

### **RECOMMENDATION OF THE BOARD**

Taking into account the letter from the Independent Board Committee and all other factors as stated above as a whole, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sales Agreement, the Transactions and the Annual Caps.

### **ADDITIONAL INFORMATION**

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

Yours faithfully,  
By order of the Board  
**DAISHO MICROLINE HOLDINGS LIMITED**  
**CHAN Sik Ming, Harry**  
*Chairman*



**DAISHO MICROLINE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0567)

***The Independent Board Committee:***

Kohu KASHIWAGI

CHAN Yuk Tong

LI Chi Kwong

27 February 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
SALES AGREEMENT**

We refer to the circular of the Company to the Shareholders dated 27 February 2007 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter will have the same meanings as given to them in the section headed “Definitions” of the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Sales Agreement, the Transactions and the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from REXCAPITAL as set out on pages 14 to 22 of the Circular and the letter from the Board as set out on pages 3 to 11 of the Circular.

Having taken into account, amongst other matters, (i) all the other factors and reasons considered by REXCAPITAL as a whole as stated in its letter of advice; and (ii) the fact that the Company has confirmed that the terms of Transactions offered to Daisho Denshi Group will be no less favourable to the Group than those available to or from (as appropriate) Independent Third Parties (being one of the terms in the Sales Agreement), we consider that the terms of the Sales Agreement and the Transactions are entered into in the ordinary and usual course of business of the Group and are made on an arm’s length basis or on terms no less favourable than terms available to or from the Independent Third Parties.

We consider that the Company has always applied the same pricing policies to all its customers including Daisho Denshi Group. One of the pricing policies of the Group is that it may offer volume discount to the Group’s large customers who have placed substantial orders from time to time and have long term relationships with the Group. This pricing policy has led to the slight difference of approximately

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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2.6% between the average gross profit margin of Daisho Denshi Group and that of the Group's other non-telecommunication customers as stated in the letter of advice of REXCAPITAL. In view of the fact that Daisho Denshi Group has given valuable support to the Group, any slight differences in gross profit margin are justifiable and therefore will not affect our overall view that the sales transactions of PCB between the Group and Daisho Denshi Group are conducted on normal commercial terms.

We are aware of the fact that REXCAPITAL considers that the terms of the PCB sale transactions with Daisho Denshi Group in the past had not been on normal commercial terms. However, we consider that in determining whether the sales transactions of PCB between the Group and Daisho Denshi Group are conducted on normal commercial terms, the reasons stated above instead of the fact of the slight differences in gross profit margin should be given heavier weight because the former reflects ordinary business custom while the latter is subject to the availability of limited historical information for meaningful comparison purpose given the uniqueness of each PCB product.

We also consider that the terms of the Sales Agreement and the Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sales Agreement, the Transactions and the Annual Caps.

Yours faithfully,

For and on behalf of

**The Independent Board Committee**

**Kohu KASHIWAGI, CHAN Yuk Tong, LI Chi Kwong**

*Independent non-executive Directors*

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## LETTER OF ADVICE FROM REXCAPITAL

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*The following is the text of a letter of advice from REXCAPITAL to the Independent Board Committee and the Independent Shareholders in respect of the Sales Agreement and pursuant to which, the Transactions and the proposed Annual Caps, and is prepared for inclusion in this circular.*



**REXCAPITAL (Hong Kong) Limited**  
34th Floor, COSCO Tower  
Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

27 February 2007

*The Independent Board Committee and  
the Independent Shareholders*

**Daisho Microline Holdings Limited**

Units B12-16, 3/F., Block B  
Hoplite Industrial Centre  
3-5 Wang Tai Road  
Kowloon Bay, Kowloon  
Hong Kong

Dear Sirs,

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

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Sales Agreement, details of which are set out in this circular, of which this letter forms a part. We have been retained by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sales Agreement and pursuant to which, the Transactions including the proposed Annual Caps, are in the ordinary and usual course of business of the Group, are based on normal commercial terms and are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole, and to advise the Independent Shareholders on how to vote. Unless the context otherwise requires, terms used in this letter shall have the same meaning as those defined in this circular.

At the Company's special general meeting on 31 March 2004, the sales transactions of PCB between the Group and Daisho Denshi Group with the annual monetary limit of HK\$132 million (the "Existing Cap") was duly approved by the then independent Shareholders and was exempted from strict compliance with the relevant requirements of the Listing Rules in respect of the PCB sales transactions for a period of three financial years ending 31 March 2007.



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## LETTER OF ADVICE FROM REXCAPITAL

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The Board wishes to continue to sell PCB to Daisho Denshi Group after the financial year ending 31 March 2007 on an on-going basis. On 29 January 2007, 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 2007.

As at the Latest Practicable Date, Daisho Denshi holds 10.4% interest in the Company. Daisho Denshi is therefore a substantial shareholder of the Company and hence a connected person of the Company under the Listing Rules. The applicable percentage ratios for the Transactions on an annual basis exceed 2.5% and the annual consideration is more than HK\$10.0 million. The entering into of the Sales Agreement and the Transactions between the Group and Daisho Denshi Group contemplated thereunder 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 by way of poll 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.

We are advised by the Directors that, apart from Daisho Denshi and its associates, no other Shareholder is interested in the Sales Agreement and the Transactions, and is required to abstain from voting in the SGM accordingly.

The Independent Board Committee, comprising Mr. Kohu Kashiwagi, Mr. Chan Yuk Tong and Dr. Li Chi Kwong, all being independent non-executive Directors, has been established to consider the terms of the Sales Agreement, the Transactions and the Annual Caps, and to advise the Independent Shareholders accordingly.

### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in this circular and information provided to us by the Company and its Directors, for which they are solely responsible. We have assumed that all statements, information and representations made or referred to in this circular and all information and representations which have been provided by the Company and the Directors, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been confirmed by the Directors that no material facts and representations the omission of which would make any statement in this circular, including this letter, misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company (the "Management"). We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information and representations contained in this circular and to provide a reasonable basis for our recommendation regarding the Sales Agreement.

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## LETTER OF ADVICE FROM REXCAPITAL

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### PRINCIPAL FACTORS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Sales Agreement, we have taken into consideration the following factors and reasons:

### THE SALES AGREEMENT

#### (A) Background and reasons for the entering into of the Sales Agreement

The Group is principally engaged in the manufacturing and trading of PCB. Daisho Denshi is a PCB supplier in Japan manufacturing delicate PCB for numerous electronic and telecommunication products customers.

Given the principal business of the Group being the manufacturing and trading of PCB, the Transactions contemplated under the Sales Agreement fall within the ordinary and usual course of business of the Group.

According to the Directors, it has been a long business relationship between the Group and Daisho Denshi Group given the fact that the Group has started supplying to Daisho Denshi Group various PCB products on a recurring basis since 1995. We are advised that the historical actual transacted annual amount of the sales of PCB to Daisho Denshi Group during the two years ended 31 March 2006 had respectively amounted to approximately HK\$29.0 million and HK\$38.0 million, represented approximately 11.2% and 6.1% of the total turnover of the Group respectively for the two financial years ended 31 March 2006. The sales income generated from the selling of PCB to Daisho Denshi Group has been a considerable part of the Group's overall revenue source. And by entering into the Sales Agreement, the Group intends to continue to supply PCB to the Daisho Denshi Group through which the sales income generated from the Transactions is expected to remain a considerable part of the Group's revenue.

As mentioned in the letter from the Board in this circular, Daisho Denshi is one of the top PCB suppliers in Japan manufacturing delicate PCB for numerous world-renowned electronic and telecommunication products customers. The Directors believe that the business relationship with Daisho Denshi Group, which will continue to enhance the Group's market reputation and open up for the Group more business opportunities in the PCB market, is in the interest of the Company. In addition, the Directors are of the view that Daisho Denshi Group would help to accelerate the Group's expansion in the fields of non-telecommunication products and further broaden the Group's customer base.

We note and understand from the website of Daisho Denshi that Daisho Denshi Group offers PCB parts for the use in, not only telecommunication products such as cellular phones, but also a wide range of electronic products including digital video cameras, DVD video recorders, printers and wide liquid crystal display television, and even in car apparatus and switching system and base station. And as provided by the Directors, in the nine-month period between 1 April 2006 to 31 December 2006, over 99% of the orders of PCB products placed to the Group by Daisho Denshi Group were related to non-telecommunication products. Also, based on the information provided by the Company, we note that Daisho Denshi Group has been the largest customer of the Group in terms of the aggregate PCB purchase

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## LETTER OF ADVICE FROM REXCAPITAL

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amount related to non-telecommunication products during the twelve-month period ended 31 December 2006. As reported in the Company's 2006 annual report and the interim report for the six-month period ended 30 September 2006, the Group has been quite heavily relying on its telecommunication products customers, from whom about 74% and 85% of the Group's revenue was generated respectively for the financial year ended 31 March 2006 and the six-month period ended 30 September 2006. We consider that it could be beneficial to the Group to diversify and broaden its customer base so as to alleviate the impact which may be resulted from heavy reliance on one particular type of customers.

In addition, the Directors also mentioned that pursuant to the acquisition of the advanced machinery and equipment since the second half of 2005 by the Group (including the horizontal plating production line as disclosed in the Company's announcement dated 19 October 2005 and the circular dated 7 November 2005), the production capacity of the Group has been enhanced. The Directors provided that even in the month with the highest production volume during the period from 1 July 2005 to 31 December 2006, the Group had utilised not more than 80% of the Group's existing production capacity, meaning that there is idle capacity available for handling additional orders from its customers. And the continuing purchase orders pursuant to the Sales Agreement will represent a good arrangement to absorb such idle capacity of the Group.

Taking into account of the above reasons, we concur with the view of the Directors that the entering into of the Sales Agreement is considered fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

### **(B) Principal terms of the Sales Agreement**

As stated in the letter from the Board in this circular, 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, Daisho Denshi Group will place separate and definitive purchase orders to relevant members of the Group from time to time to set out detailed terms including, amongst others, the quantity, unit price, specification requirements, payment and settlement terms, for each single transaction in accordance with the principles in the Sales Agreement.

We understand from the Directors that the Group is manufacturing customized and highly delicate PCB specifically designed according to each customer's specific requirements or specifications for a particular electronic or telecommunication product. According to the Directors, there is no two completely identical PCB products being supplied by the Group to two different customers for direct comparison purposes and also, even in the same broad product category, unit cost and price for each PCB product of the Group vary from one PCB product to another due to, amongst others, the different processing needs, technology and materials involved in the manufacturing process. However, we are advised by the Directors and the Management that the Group always applies the same pricing policy to all its customers, including the Daisho Denshi Group. In addition, the Directors have also confirmed that the terms of the PCB sales transactions have been, and the Transactions will be, negotiated and determined by reference to the then prevailing market price of the corresponding broad category of PCB products and on an arm's length basis based on various factors including, amongst others, customers' specifications, technology, processing

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and quality requirements, cost of production and the Group's overall marketing and business development strategies. We are also advised by the Directors and the Management that the terms of the Transactions offered by the Group to Daisho Denshi Group will be, as a whole, no less favourable to the Group than those available to or from (as appropriate) independent third parties for the similar PCB products.

The Directors provided us with the list of average gross profit margins obtained by the Group for the twelve-month period ended 31 December 2006 from (i) the sales of PCB products to Daisho Denshi Group and (ii) the sales of PCB products to its other non-telecommunication customers, and also we have conducted samples check on the relevant purchase orders of some relatively comparable PCB products within certain broad categories of PCB products.

We observe that the average gross profit margin obtained from Daisho Denshi Group was slightly (approximately 2.6%) below the average gross profit margin the Group obtained from its other non-telecommunication customers. According to the Directors, the slight difference between the average gross profit margin of Daisho Denshi Group and that of the Group's other non-telecommunication customers is mainly due to, amongst others, the competitive pricing to its large customers who have placed substantial orders from time to time and have long business relationships with the Group, including Daisho Denshi Group who is currently the largest customer of the Group in terms of the aggregate PCB purchase amount related to non-telecommunication products and is considered helping the Group to broaden its product mix and to tap into new markets.

We also observe that the gross profit margins obtained from Daisho Denshi Group of those sample relatively comparable PCB products within certain broad categories of PCB products are the highest within that respective broad category, however, the sample size of those relatively comparable PCB products available for comparison purposes is too limited for us to draw a meaningful conclusion. The limitation of scope is mainly due to the reason, as represented by the Directors, that the PCB products manufactured by the Group for each customer are so unique and that there are few comparable PCB products ordered by other independent customers (apart from Daisho Denshi Group), which could facilitate a meaningful comparison.

Having regard to the limited information for making direct comparison and the above analysis, we consider that the terms of the PCB sales transactions with Daisho Denshi Group have not been on normal commercial terms.

However, we have considered the followings including that:

- given the principal business of the Group being the manufacturing and trading of PCB, the Transactions contemplated under the Sales Agreement fall within the ordinary and usual course of business of the Group;
- Daisho Denshi Group has been the largest customer of the Group in terms of the aggregate PCB purchase amount related to non-telecommunication products during the twelve-month period ended 31 December 2006;
- the sales income generated from the sales of PCB to Daisho Denshi Group has remained and is expected to remain a considerable part of the Group's current revenue source;

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- the Group can leverage on the Daisho Denshi Group’s strong business connection to enhance the Group’s market standing and reputation, and to open up for the Group more business opportunities in the PCB market;
- through the business relationship with Daisho Denshi Group, the Group can diversify and broaden its products mix in the non-telecommunication products areas;
- as detailed in the section headed “*Background and reasons for the entering into of the Sales Agreement*”, the continuing purchase orders from Daisho Denshi Group pursuant to the Sales Agreement will represent a good arrangement to absorb the current idle capacity of the Group; and
- the Company has confirmed that the terms of the Transactions offered to Daisho Denshi Group will be no less favourable to the Group than those available to or from (as appropriate) independent third parties for the similar PCB products.

Based on the above, we consider that the entering into of the Sales Agreement, which is expected to enhance the revenue base of the Group, (i) are in the ordinary and usual course of the Group’s business, and (ii) are in the interests of the Company and its Shareholders as a whole.

### (C) Historical annual caps and the proposed Annual Caps

As mentioned in the letter from the Board in this circular, the proposed Annual Caps are arrived at based on (i) historical transacted amounts with Daisho Denshi Group; (ii) the improvement in production capability and capacity of the Group; (iii) the indicative projected purchase amount for each of the three years ending 31 March 2010 to be placed by Daisho Denshi Group, and (iv) the Group’s strategy to broaden its customer base.

The following table sets out: (i) the Existing Cap for each of the three financial years ending 31 March 2007, (ii) the audited actual transacted amounts for the two financial years ended 31 March 2006 and the unaudited transacted amounts for the nine-month period ended 31 December 2006 and (iii) the proposed Annual Caps:

	For the year		Nine-month	Proposed Annual Caps for		
	ended 31 March		period ended	the year ending 31 March		
	2005	2006	31 December	2008	2009	2010
	(audited)	(audited)	(unaudited)			
<i>(HK\$’ million)</i>						
<b>Annual caps</b>	<b>132</b>	<b>132</b>	<b>132*</b>	<b>132</b>	<b>158</b>	<b>190</b>
<b>Actual transacted amounts</b>	<b>29</b>	<b>38</b>	<b>44</b>			

\* The amount represents the annual cap for the full financial year ending 31 March 2007

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From the table above, we note that the actual transacted amounts in each of the two financial years ended 31 March 2006 and in the nine-month period ended 31 December 2006 (the “Review Period”) were significantly lower than the Existing Cap of HK\$132 million. The Directors advised us that such discrepancies were mainly resulted from the production capability and capacity constraints of the Group at that time which in turn resulted in that the Group could not meet the substantial orders of highly delicate PCB which Daisho Denshi Group intended to place during the period.

Despite the discrepancies, we, however, note that the actual transacted amounts have shown a fast growing trend during the Review Period. The actual transacted amount in the year ended 31 March 2006 was reported as approximately HK\$38 million, representing an remarkable increase of approximately 31.0% as compared with the amount for the year ended 31 March 2005. Furthermore, the unaudited actual transacted amount for the nine-month period ended 31 December 2006 has reached approximately HK\$44 million and shown a further growth of about 15.8% as compared with the full-year actual transacted amount in the year ended 31 March 2006. Moreover, we were provided by the Management with the relevant internal record of DML in which the sales department of DML had reported to the Management their estimates, which was concluded from the discussions from time to time between the sales department of DML and Daisho Denshi Group, on estimated orders to be placed by Daisho Denshi Group to the Group in the period from January to March 2007. We understand that, based on the unaudited actual transacted amount for the nine-month period ended 31 December 2006 of approximately HK\$44 million and the abovementioned estimated orders to be placed by Daisho Denshi Group to the Group in January to March 2007 as stated in those internal records, the Directors estimated the transaction amount for the year ending 31 March 2007 to reach about HK\$70 million. In particular, we are provided with a list of invoices by the Company listing out the invoices issued to Daisho Denshi Group in the period from 1 January to 12 February 2007. We note that the billed transaction amount in the period from 1 January up to 12 February 2007 have amounted to approximately HK\$7.5 million. In such circumstances, the actual transaction amount for the year ending 31 March 2007 is expected to show a further growth of no less than approximately 35.5% as compared with the annual amount for the year ended 31 March 2006. According to the Directors, the significant growth in orders placed or to be placed by Daisho Denshi Group during the year ending 31 March 2007 is mainly due to the Group’s improved capability and capacity in manufacturing highly delicate PCB products, including but not limited to, the High Density Inter-connect PCB (the “HDI PCB”), pursuant to the acquisition of the advanced machinery and equipment since the second half of 2005 by the Group (including the horizontal plating production line as disclosed in the Company’s announcement dated 19 October 2005 and the circular dated 7 November 2005), and the projected increase in demand for PCB and HDI PCB parts of the Daisho Denshi Group for its own consumption and/ or for sales purposes.

Though we note that the proposed Annual Caps, being HK\$132 million, HK\$158 million and HK\$190 million for each of the financial years ending 31 March 2010, represent a growth rate of approximately 20% annually, we consider it reasonable taking into account that:

- (i) the actual transacted amounts have shown a growing trend during the Review Period;
- (ii) the historical annual growth rate of the actual transacted amounts was above 30% for the financial year ended 31 March 2006 and is estimated to reach at least 35.5% for the financial year ending 31 March 2007;

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- (iii) Daisho Denshi has stated in the Sales Agreement its indicative projected purchase amounts for each of the three years ending 31 March 2010 which are in line with the current proposed Annual Caps of the Company. We have reviewed the Sales Agreement and observed that the indicative projected purchase amounts for each of the three years ending 31 March 2010 have been clearly stated in the Sales Agreement which was agreed and signed by DML and also Daisho Denshi (HK). Given that statement of Daisho Denshi Group's indication of such projected amounts is clearly stated and is one of the provisions under the Sales Agreement, we consider that we have a reasonable ground to believe that the Daisho Denshi Group does have the intention to place orders of the indicative projected amounts as stated therein; and
- (iv) as stated in the letter from the Board and based on the current production capacity utilisation figures provided to us by the Company, the Group is capable of handling the increasing production volume under the proposed Annual Caps. Also, the Group intends to continue to improve its production capability and capacity as and when necessary to meet any increasing volume of orders to be placed by Daisho Denshi Group or its other customers.

Based on the foregoing, we are of the view that the proposed Annual Caps are fair and reasonable in so far as the Shareholders as a whole are concerned.

The Company has confirmed to us that it will conduct an annual review of the Transactions by the independent non-executive Directors and the Company's auditors in accordance with the requirements as set out in Rules 14A.37 to 14A.41 of the Listing Rules.

### RECOMMENDATION

Due to the reasons as detailed and elaborated under the paragraphs headed "*Principal terms of the Sales Agreement*", we consider that the terms of the PCB sales transactions with Daisho Denshi Group have not been on normal commercial terms. However, we have considered the followings including that:

- given the principal business of the Group being the manufacturing and trading of PCB, the Transactions contemplated under the Sales Agreement fall within the ordinary and usual course of business of the Group;
- According to the Directors, Daisho Denshi Group is not merely a customer of the Group but also a strategic partner who is willing to continuously uplift the Group's technological level in the manufacturing of highly delicate PCB by placing orders of such PCB at the time when the Group has not yet fully mastered the requisite technological know-how, and providing the necessary technical support to help the Group to resolve any technical difficulties. The Directors are of the view that such a customer and strategic partner of the Group is hard to be replaced;
- Daisho Denshi Group has been a loyal and the largest customer of the Group in terms of the aggregate PCB purchase amount related to non-telecommunication products during the twelve-month period ended 31 December 2006;

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- the sales income generated from the sales of PCB to Daisho Denshi Group has remained and is expected to remain a considerable part of the Group's current revenue source;
- Daisho Denshi was ranked 31st in the world's top manufacturer of PCB in 2003 with substantial growth in revenue. The Group can leverage on the Daisho Denshi Group's strong business connection to enhance the Group's market standing and reputation, and to open up for the Group more business opportunities in the PCB market, in particular, in the Japan market;
- through the business relationship with Daisho Denshi Group, the Group can diversify and broaden its products mix in the non-telecommunication products areas;
- as detailed in the section headed "*Background and reasons for the entering into of the Sales Agreement*", the continuing purchase orders from Daisho Denshi Group pursuant to the Sales Agreement will represent a good arrangement to absorb the current idle capacity of the Group;
- the Company has confirmed that the terms of the Transactions offered to Daisho Denshi Group will be no less favourable to the Group than those available to or from (as appropriate) independent third parties for the similar PCB products; and
- the proposed Annual Caps are considered fair and reasonable for the reasons we have taken into account and discussed under the section "*Historical annual caps and the proposed Annual Caps*".

Having taken into account the rationale and consideration set out above, we are of the view that the entering into of the Sales Agreement, and pursuant to which the Transactions, are in the ordinary and usual course of the Group's business, and the terms of the Sales Agreement including the proposed Annual Caps, taken as a whole, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

On such basis, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to the extent of approving the entering into of the Sales Agreement, the Transactions contemplated and the Annual Caps thereunder.

Yours faithfully,  
For and on behalf of  
**REXCAPITAL (Hong Kong) Limited**  
**Sam Lum**  
*Director*



## 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. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions held by the Directors and the chief executive 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 (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, were as follows:

### (a) Long position in Shares

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of total issued share capital
Chan Sik Ming, Harry	Personal interests (as beneficial owner)	39,680,000	8.26%
Chan Sik Ming, Harry	Personal interests (as beneficiary of a trust)	103,521,417 <sup>(Note 1)</sup>	21.54% <sup>(Note 1)</sup>
Hiroto Sasaki	Personal interests (as beneficial owner)	2,950,000	0.61%
	Personal interests (as beneficial owner)	1,650,000 <sup>(Note 2)</sup>	0.34% <sup>(Note 2)</sup>
Au-Yeung Wai Hung	Personal interests (as beneficial owner)	4,200,000	0.87%

#### Note:

- Chan Sik Ming, Harry, and his family are the objects of a discretionary trust which has appointed Earnwell Limited as its trustee. As at the Latest Practicable Date, Earnwell Limited held 103,521,417 Shares representing approximately 21.54% of the issued share capital of the Company.
- These represent interests of options granted to Mr. Hiroto Sasaki under the share option scheme of the Company adopted by the Company on 28 August 2003.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company 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 (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules.

### 3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save for the interests of certain Directors disclosed above, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, the following persons or corporations (other than Directors or the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who/which 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 meeting of any member of the Group and the amount of each of such person's/corporation's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

#### The Company

Name	Capacity	Number of Shares held	Approximate percentage of the Company's issued share capital
Earnwell Limited	Trustee	103,521,417	21.54%
Daisho Denshi <sup>(Note)</sup>	Personal interests (as beneficial owner)	50,000,000	10.40%

*Note:* Mr. Hiroto Sasaki, one of the executive Directors, is also a director of Daisho Denshi. Save as disclosed above, no Director is a director or employee of a company which as at the Latest Practicable Date has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors or the chief executive of the Company were not aware of any other persons or corporations (other than a Director or the chief executive of the Company and the respective companies controlled by them whose interests have been disclosed above) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which 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 members of the Group, or in any options in respect of such capital.

#### **4. DIRECTORS' INTERESTS IN ASSETS**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 March 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **5. DIRECTORS' INTERESTS IN MATERIAL CONTRACTS**

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

#### **6. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any members of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

#### **7. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claim of material importance was pending or threatened against any members of the Group.

#### **8. COMPETING INTEREST**

Mr. Hiroto Sasaki is a director of Daisho Denshi, which is also involved in the manufacture and trading of PCB,

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competed or was likely to compete with the business of the Group.

#### **9. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

**10. CONSENT OF EXPERT**

REXCAPITAL is a licensed corporation under the SFO to conduct type 6 regulated activity under the SFO.

The letter and recommendation given by REXCAPITAL are given for incorporation in this circular. REXCAPITAL has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, REXCAPITAL was not interested in any Shares or shares in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, REXCAPITAL did not have any direct or indirect interest in any asset which had been, since 31 March 2006, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

**11. GENERAL**

- (a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and the Company's head office and principal place of business in Hong Kong is Units B12-16, 3rd Floor, Block B, Hoptite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The secretary and qualified accountant of the Company is Au-Yeung Wai Hung. Mr. Au-Yeung is a member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (d) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Units B12-16, 3rd Floor, Block B, Hoptite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong during normal business hours up to and including 16 March 2007:

- (a) the Sales Agreement;
- (b) the letter of advice from REXCAPITAL, the text of which is set out in this circular; and
- (c) the consent letter of REXCAPITAL referred to in the section headed "Consent of Expert" in this Appendix.

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## NOTICE OF SPECIAL GENERAL MEETING

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### DAISHO MICROLINE HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 0567)

#### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of Daisho Microline Holdings Limited (the “Company”) will be held at Units B12-16, 3rd Floor, Block B, Hoplite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong on Friday, 16 March 2007 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution which will be proposed as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**“THAT:**

- (a) an agreement dated 29 January 2007 (the “Sales Agreement”) made between (i) Daisho Denshi (H.K.) Limited as the purchaser and (ii) Daisho Microline Limited as the supplier, in relation to, among other things, the sale and purchase of printed circuit boards, a copy of which marked “A” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder (the “Transactions”) be and are hereby approved, ratified and confirmed;
- (b) the proposed maximum aggregate annual values of the Transactions of HK\$132,000,000, HK\$158,000,000 and HK\$190,000,000 respectively for each of the three financial years ending 31 March 2010 (collectively, the “Annual Caps”) be and are hereby approved; and

any one director of the Company be and is hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary, desirable or expedient to implement and/or to give effect to or otherwise in connection with the Sales Agreement, the Transactions and the Annual Caps.”

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

Hong Kong, 27 February 2007

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## NOTICE OF SPECIAL GENERAL MEETING

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*Principal place of business:*

Units B12-16, 3rd Floor  
Block B, Hoplite Industrial Centre  
3-5 Wang Tai Road  
Kowloon Bay, Hong Kong.

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and, on a poll vote in his stead. A proxy need not be a member of the Company.
2. A proxy form for the meeting is enclosed with the circular of the Company dated 27 February 2007. In order to be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney must be deposited with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting as the case may be.
3. The Ordinary Resolution as set out above will be determined by way of a poll.
4. In accordance with the Listing Rules, Daisho Denshi Co., Ltd. and its associates (as defined in the Listing Rules) are required to abstain from voting in respect of the Ordinary Resolution.