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DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

CONTINUING CONNECTED TRANSACTIONS SALES AND PURCHASE AGREEMENT

On 15 February 2016, DML, a wholly-owned subsidiary of the Company, entered into the New Sales Agreement with Daisho Denshi (HK), a wholly-owned subsidiary of Daisho Denshi, whereby the Daisho Denshi Group agreed to purchase and the Group agreed to sell and deliver PCB to Daisho Denshi Group for their use or consumption and/or for sale on a non-exclusive basis for a term of three years commencing from 1 April 2016. The Transactions are also subject to the Proposed Annual Caps of HK\$39 million for each of the three financial years ending 31 March 2017, 2018 and 2019 respectively.

Daisho Denshi is a substantial shareholder of the Company and is therefore a connected person of the Company. As one or more of the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5%, and the Proposed Annual Caps are more than HK\$10 million, the Transactions are subject to the reporting, announcement, annual review, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

The SGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve, among other things, the New Sales Agreement, the Transactions and the Proposed Annual Caps. In view of the interests of Daisho Denshi in the Transactions, Daisho Denshi and its associates will abstain from voting in respect of such resolution.

A circular containing, amongst other things, particulars about the New Sales Agreement, the Transactions and the Proposed Annual Caps, a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders and the recommendations of the Independent Board Committee, together with a notice convening the SGM, is expected to be despatched to the Shareholders on or about 4 March 2016.

BACKGROUND

Reference is made to the announcement of the Company dated 19 February 2013 and the circular of the Company dated 13 March 2013 in relation to the sales transactions of PCB between the Group and Daisho Denshi Group under the Existing Sales Agreement.

The Existing Sales Agreement will expire on 31 March 2016, and the Board wishes to continue to sell PCB to Daisho Denshi Group after the financial year ending 31 March 2016 on an ongoing basis. On 15 February 2016, DML, a wholly-owned subsidiary of the Company, entered into the New 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 PCB to Daisho Denshi Group for their use or consumption and/or for sale on a non-exclusive basis.

THE NEW SALES AGREEMENT

Date

15 February 2016

Parties

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

Term

The term of the New Sales Agreement is three financial years commencing from 1 April 2016 and ending on 31 March 2019.

Condition Precedent

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

Particulars of the New Sales Agreement

The New 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 New 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 New Sales Agreement. Such detailed terms include (but without limitation) the basis on and particular specification for which the PCB will be supplied, the price of the PCB, payment and settlement terms 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) Independent Third Parties.

Because each model of PCB sold by the Group even to the same customer is unique and tailor-made according to the customer's requirements and specifications, the selling price of each model of PCB is determined after considering the complexity and associated costs of the customer's requirements and specifications, the market rates of the same or similar type of PCB and also the volume of each model of PCB. Hence, there is no uniform selling price even for similar category of PCB sold by the Group to the Independent Third Parties.

The market rates of PCB is determined based on the market information obtained through the negotiation and quotation results with the Group's existing and potential customers. Periodically, the Group reviews and analyses the gross profit margins for each model of PCB and for each customer in order to further help assess and monitor whether the selling prices are comparable with the market rates.

PROPOSED ANNUAL CAPS

The Transactions are subject to the proposed maximum aggregate annual value of HK\$39 million for each of the three financial years ending 31 March 2017, 2018 and 2019 respectively.

The Proposed Annual Caps are determined based on:

1. Historical figures of the sales transactions amount with Daisho Denshi Group under the Existing Sales Agreement:

Financial year ended 31 March 2014	Approximately HK\$38 million
Financial year ended 31 March 2015	Approximately HK\$40 million
2. The purchase forecast of Daisho Denshi (HK) for each of the three financial years ending 31 March 2017, 2018 and 2019 respectively.

INFORMATION ON THE GROUP

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

INFORMATION ON DAISHO DENSHI GROUP

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

Daisho Denshi (HK) is a wholly-owned subsidiary of Daisho Denshi, and is principally engaged in trading of PCB.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW SALES AGREEMENT

As mentioned above, the Board wishes to continue to sell PCB to Daisho Denshi Group after the financial year ending 31 March 2016 on an ongoing basis.

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

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

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

LISTING RULES REQUIREMENTS

Daisho Denshi is a substantial shareholder of the Company and is therefore a connected person of the Company. As one or more of the applicable percentage ratios in respect of the Proposed Annual Caps exceed 5%, and the Proposed Annual Caps are more than HK\$10 million, the Transactions are subject to the reporting, announcement, annual review, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

The SGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve, among other things, the New Sales Agreement, the Transactions and the Proposed Annual Caps. In view of the interests of Daisho Denshi in the Transactions, Daisho Denshi and its associates will abstain from voting in respect of such resolution.

A circular containing, amongst other things, particulars about the New Sales Agreement, the Transactions and the Proposed Annual Caps, a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders and the recommendations of the Independent Board Committee, together with a notice convening the SGM, is expected to be despatched to the Shareholders on or about 4 March 2016.

DEFINITIONS

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

“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
“connected person”	as defined under the Listing Rules
“Daisho Denshi”	Daisho Denshi Co., Ltd., a company incorporated in Japan with limited liability, which is a substantial shareholder of the Company holding approximately 10.41% of the issued share capital of the Company, and a company in which the Group had approximately 7.46% equity interest, as at the date of this announcement

“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”	the directors of the Company
“DML”	Daisho Microline Limited, a company incorporated in Hong Kong, and a wholly-owned subsidiary of the Company
“Existing Sales Agreement”	the sales and purchase agreement dated 19 February 2013 entered into between Daisho Denshi (HK) as purchaser and DML as supplier in relation to the sales transactions of PCB between the Group and Daisho Denshi Group, which will expire on 31 March 2016
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Dr. Li Chi Kwong, Mr. Yeung Chi Shing, Bret, Mr. Chong Chi Wah and Mr. Leung King Fai, established to advise the Independent Shareholders in relation to the terms of the New Sales Agreement, the Transactions and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than Daisho Denshi and its associates
“Independent Third Parties”	persons or companies which are independent of any member of the Group, the directors, the chief executives, the controlling shareholders, the substantial shareholders of the Company or its subsidiaries, and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Sales Agreement”	the sales and purchase agreement dated 15 February 2016 entered into between Daisho Denshi (HK) as purchaser and DML as supplier in relation to the sales transactions of PCB between the Group and Daisho Denshi Group, details of which are set out under the section headed “The New Sales Agreement” in this announcement
“PCB”	printed circuit boards

“Proposed Annual Caps”	the proposed maximum aggregate annual value of the Transactions for each of the three financial years ending 31 March 2017, 2018 and 2019 respectively
“SGM”	the special general meeting of the Company to be convened and held to consider, and if thought fit, to approve the New Sales Agreement, the Transactions and the Proposed Annual Caps
“Shareholder(s)”	holder(s) of the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	as defined under the Listing Rules
“Transactions”	the transactions as contemplated under the New Sales Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board
CHAN Sik Ming, Harry
Chairman

Hong Kong, 15 February 2016

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

Executive directors:

CHAN Sik Ming, Harry (*Chairman & CEO*)
 AU-YEUNG Wai Hung
 CHEUNG Lai Na

Independent non-executive directors:

LI Chi Kwong
 YEUNG Chi Shing, Bret
 CHONG Chi Wah
 LEUNG King Fai