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DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF SALE SHARES IN THE TARGET COMPANY

Financial Advisor to the Company



KINGSTON CORPORATE FINANCE

THE ACQUISITION

On 23 March 2020, the Purchaser, the Vendor and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares at a consideration of HK\$35 million and the Guarantor agreed to guarantee the performance of the obligations of the Vendor under the Sale and Purchase Agreement.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and accordingly the financial results of the Target Group will be consolidated into the accounts of the Group.

LISTING RULES IMPLICATIONS

Chapter 14

As one or more applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 25% and all of them are less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Chapter 14A

As at the date of this announcement, the Vendor is a company wholly-owned by Mr. Ng. Mr. Ng is a substantial Shareholder interested in approximately 10.34% of the total number of Shares in issue of the Company. Each of the Vendor and Mr. Ng is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries as at the date of this announcement, save for Mr. Ng and his associates, no other Shareholders has any material interest in the Acquisition and is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the Acquisition at the SGM.

GENERAL

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, amongst other things, the Sale and Purchase Agreement and the Acquisition. The Independent Board Committee comprising all the independent non-executive Directors, has been established to give recommendations to the Independent Shareholders in respect of the Acquisition. INCU Corporate Finance Limited (a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)) has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

A circular containing, amongst other things, (i) further details of the Sale and Purchase Agreement and the Acquisition; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) a notice of the SGM; and (v) other information as required under the Listing Rules, will be despatched by the Company to the Shareholders in accordance with the requirements of the Listing Rules. The circular is expected to be despatched by the Company to the Shareholders on or before 8 May 2020, which is more than 15 Business Days after the date of this announcement as additional time is required to prepare and finalise the information to be included in the circular.

Completion of the Acquisition is conditional upon the fulfilment of the conditions set out under the paragraph headed "Conditions precedent" in this announcement, which may or may not be fulfilled. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

INTRODUCTION

On 23 March 2020, the Purchaser, the Vendor and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares at a consideration of HK\$35 million and the Guarantor agreed to guarantee the performance of the obligations of the Vendor under the Sale and Purchase Agreement.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out below:

Date : 23 March 2020

Parties : the Purchaser;
the Vendor; and
the Guarantor

As at the date of this announcement, the Vendor is a company wholly-owned by Mr. Ng. Mr. Ng is a substantial Shareholder interested in approximately 10.34% of the total number of Shares in issue of the Company. Each of the Vendor and Mr. Ng is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

Subject matter

The Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares, representing 100% of the issued share capital of the Target Company.

Consideration

The Consideration for the Acquisition is HK\$35 million, which shall be settled in the following manners:

- (i) HK\$12 million will be payable to the Vendor (or its nominee) in cash as refundable deposit (the “**Deposit**”) within three (3) Business Days after the date of the Sale and Purchase Agreement; and
- (ii) subject to Completion, HK\$23 million will be payable to the Vendor in cash and/or by issue of the Promissory Note or a combination of both as the Purchaser may decide.

Promissory Note

Issuer:	the Purchaser
Principal amount:	up to HK\$23 million
Maturity date:	two (2) years from the date of issue of the Promissory Note (the “ Maturity Date ”)
Interest:	2% per annum for a fixed term of two years, being payable at the Maturity Date
Early redemption:	the Purchaser may at its discretion pay to the Vendor prior to the Maturity Date any outstanding principal amount (together with the outstanding accrued interests) of the Promissory Note
Transferability:	freely transferable

The Consideration payable in cash will be funded by the Group’s internal resources.

The Consideration was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to, amongst other things, the profit guarantees given by the Vendor and the current development and prospects of the Target Group.

Profit guarantees and compensation

The Vendor irrevocably and unconditionally guarantees to the Purchaser that the 2020 Net Profit and 2021 Net Profit shall be no less than 2020 Guaranteed Profit and 2021 Guaranteed Profit, which are HK\$5 million and HK\$7 million, respectively.

The Purchaser is entitled to appoint an auditor to conduct an audit of the Target Company for the Relevant Periods. The audit report of the Target Company shall be prepared based on HKFRS and shall be final and conclusive for determining the 2020 Guaranteed Profit and 2021 Guaranteed Profit.

In the event that the 2020 Net Profit is less than the 2020 Guaranteed Profit, the Vendor shall compensate the Purchaser the difference between the 2020 Guaranteed Profit and the 2020 Net Profit within three (3) Business Days after the issuance of the audit report of the Target Company for the Relevant Period. In the event that the Target Company incurs a net loss in the Relevant Period, the compensation is calculated based on the sum of the 2020 Guaranteed Profit and the amount of the net loss of the Relevant Period.

In the event that the 2021 Net Profit is less than the 2021 Guaranteed Profit, the Vendor shall compensate the Purchaser the difference between the 2021 Guaranteed Profit and the 2021 Net Profit within three (3) Business Days after the issuance of the audit report of the Target Company for the Relevant Period. In the event that the Target Company incurs a net loss in the Relevant Period, the compensation is calculated based on the sum of the 2021 Guaranteed Profit and the amount of the net loss of the Relevant Period.

If the Target Company fails to meet the 2020 Guaranteed Profit and/or 2021 Guaranteed Profit and the Promissory Note has been issued and not redeemed and the shortfall (the “**Shortfall**”) of the guaranteed profit is less than the principal amount of the Promissory Note, the Purchaser is entitled to set off the Shortfall against the principal amount of the Promissory Note and issue a new Promissory Note for the remaining principal amount of the Promissory Note. If the Shortfall is more than the principal amount of the Promissory Note, the Promissory Note will be cancelled and the Vendor shall settle the remaining Shortfall by cash.

Conditions precedent

Completion is subject to the following conditions precedent being fulfilled or waived (as the case may be) on or before the Long Stop Date:

- (a) the Purchaser (including its agents and/or professional advisors) having completed the due diligence of Target Group, including but not limited to its financial, legal and other due diligence as the Purchaser may think fit, and being satisfied with the due diligence results;
- (b) all necessary consent and approval in relation to the Acquisition having been obtained by the Purchaser, including but not limited to the Independent Shareholder’s approval pursuant to the Listing Rules and relevant contract parties’ consents to carry out the Acquisition;
- (c) each of representations, warranties and undertakings given by the Vendor under the Sale and Purchase Agreement having remained true, accurate and not misleading in all respects;
- (d) the Vendor having complied with and fulfilled its obligations under the Sale and Purchase Agreement upon or prior to the Completion; and
- (e) no government agency having suggested or enacted any regulations, rules or decisions or taken any measures or actions that would prohibit, restrict or substantially delay the Acquisition or having material adverse effect on the business operation of the Target Group.

Save for condition (b) above, the Purchaser may at its absolute discretion waive other conditions precedent under the Sale and Purchase Agreement.

In the event that any of the above conditions precedent is not fulfilled or waived on or before the Long Stop Date, the Purchaser by written notice to the Vendor may terminate the Sale and Purchase Agreement whereupon the Sale and Purchase Agreement shall terminate with no further effect, except for certain surviving provisions and any liability in respect of any antecedent breach. The Vendor shall refund the Deposit and its accrued interest to the Purchaser or its designated party within one (1) Business Day after the termination of the Sale and Purchase Agreement.

Completion

Completion shall take place on the fifth Business Day upon all the conditions precedent as set out in the section headed “Conditions precedent” above are fulfilled or waived by the Purchaser (as the case may be) or such other date as the Purchaser may otherwise agree.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and accordingly the financial results of the Target Group will be consolidated into the accounts of the Group.

Guarantor’s guarantee

Pursuant to the Sale and Purchase Agreement, the Guarantor undertakes to provide an unconditional and irrevocable guarantee in favour of the Purchaser if the Vendor fails to perform its obligations under the Sale and Purchase Agreement.

INFORMATION OF THE TARGET GROUP

The Target Group mainly consists of the Target Company and two operating subsidiaries, namely NSSW and NSSZ. The Target Company is an investment holding company incorporated in Hong Kong on 19 March 2004 and holds the entire shareholding interest in each of NSSW and NSSZ. The Target Group was acquired by Mr. Ng and his spouse at a total consideration of HK\$31 million in 2016.

NSSW was incorporated in Hong Kong on 3 November 2010 and is principally engaged in the trading of printing and packaging products businesses. NSSZ was established in Shenzhen on 1 December 2009 and is principally engaged in the manufacture and trading of printing and packaging products businesses.

The manufacturing base of the Target Group, which is owned by NSSZ, is located in Shenzhen, with an aggregate gross floor area of approximately 18,100 sq.m. The manufacturing base is equipped with major automated manufacturing machines, including offset 5 and 6 colours printers and full rotary label press machine, hot stamping foil machine, paper bag forming machine, silk screening machine, die cutting/slotting machine, paper surface line-inpress machine, etc. The estimated maximum printing capacity of the manufacturing base is over 25,000 sheets of paper per-hour and the utilisation rate for the financial year ended 31 March 2019 is approximately 60-70%.

The Target Group produces and sells various printed products, including paper packaging products (i.e. gift packages and container boxes with logo, brands and graphics), paper gift items (i.e. jewelry boxes, carrier bags, letter sets and other stationery and gift accessories), paper promotional materials (i.e. leaflet, manuals, catalogues and other promotional materials) and other various paper printed products.

The Target Group's customers generally provide the product design and/or specifications to the Target Group for quotation. Based on such product design and/or specifications, the Target Group provides product development, product engineering and printing solutions to the customers for consideration and then make prototypes or mock-up samples for customers' review and confirmation. Upon the confirmation of sales orders by the customers, the Target Group sources raw materials and proceeds to manufacture the products for the customers. The Target Group implements stringent quality control measures to ensure the procurement and production process. The Target Group arranges third party logistics operators to collect raw materials, if not delivered by suppliers, and deliver the finished products to the customers.

Set out below is the summary of the key financial information of the Target Group based on the unaudited management accounts of the Target Group for the two years ended 31 March 2018 and 31 March 2019:

	For the years ended 31 March	
	2018	2019
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>Approximate</i>	<i>Approximate</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	51,423	63,965
Net profit/(loss) before taxation and extraordinary items	(1,264)	1,474
Net profit/(loss) after taxation and extraordinary items	(1,260)	1,333

The unaudited net asset value of the Target Group as at 31 March 2019 was approximately HK\$20.9 million.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal activities of the Group are investment holding, manufacturing and trading of printed circuit boards (the "**Printed Circuit Boards Business**"), trading of petroleum and energy products and related business (the "**Petroleum and Energy Business**"), and vessel chartering.

In view of the ongoing trade war between the PRC and the US and the recent global coronavirus outbreak, there have been adverse impacts on the Printed Circuit Boards Business and the Petroleum and Energy Business. The Board expects that the Petroleum and Energy Business may be further affected due to (i) the increase of volatility of the oil price; (ii) the intensified competition in the oil trading business arising from slowing down of the international trade and the demand for oil and oil products; (iii) tightening of bank credits available to the Group; and (iv) ongoing legal proceedings against the Company. Therefore, the Group considers to diversify its business into other business sectors. The Acquisition is a good opportunity for the Group to diversify its business stream and mitigate the risks arising from the international trade.

The Target Group's business in the manufacturing and trading of printing and packaging products is based in Guangdong-Hong Kong-Macao Greater Bay Area and its clients are mainly from Hong Kong and the PRC. Over the years, with implementation of a series of operational strategies, including focusing more on sales orders for high-quality printing and packaging products with higher profit margin, stringent cost control measures and upgrading the manufacturing base by investing in new and advanced printing and packaging equipment, the Target Group has established its own brand and a long-term loyalty client base, which contributes to more than 50% of the Target Group's revenue.

Furthermore, in negotiating the Acquisition, the Vendor agreed to provide profit guarantees to the Purchaser as set out in the section headed "Profit guarantees and compensation" above, which provides a safeguard for the Company to closely monitor the development of the Target Group.

The management of the Company believes that the printing and packaging business of the Target Group will have a synergy effect on the Group's current business. With the new business sector, the Company would be able to provide printing and packaging, brand labelling and other logistics services to its existing customers. As the Group has an existing vessel chartering business, the management of the Company will further explore the possibility of transforming the existing vessels or hiring vessels to shipping cargoes such that the Group could further use its own resources to extend its business into logistics services.

With the view to strengthen the Group's long-term competitiveness and value, the Group plans to combine the high-quality printing business with intellectual property marketing to achieve a total marketing solution model to provide creative solution to its clients. In this way, the printing and packaging business is able to create a vertically integrated business to include selecting/designing intellectual property products which fit brand image, licensing from intellectual property holder and providing printed marketing materials and packages, etc. Currently, the Group is in the process of hiring staff who are experienced in marketing intellectual property products such as cartoon and movie images.

The Consideration, which would be partially settled by the issue of Promissory Note, will not require substantial immediate cash outflow of the Group, therefore easing the financial burden of the Company.

In the view of all above, the Board (including the independent non-executive Directors) considers that the Acquisition is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

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Chapter 14A

As at the date of this announcement, the Vendor is a company wholly-owned by Mr. Ng. Mr. Ng is a substantial Shareholder interested in approximately 10.34% of the total number of Shares in issue of the Company. Each of the Vendor and Mr. Ng is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries as at the date of this announcement, save for Mr. Ng and his associates, no other Shareholders has any material interest in the Acquisition and is required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the Acquisition at the SGM.

GENERAL

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, amongst other things, the Sale and Purchase Agreement and the Acquisition. The Independent Board Committee comprising all the independent non-executive Directors, has been established to give recommendations to the Independent Shareholders in respect of the Acquisition. INCU Corporate Finance Limited (a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)) has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

A circular containing, amongst other things, (i) further details of the Sale and Purchase Agreement and the Acquisition; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) a notice of the SGM; and (v) other information as required under the Listing Rules, will be despatched by the Company to the Shareholders in accordance with the requirements of the

Listing Rules. The circular is expected to be despatched by the Company to the Shareholders on or before 8 May 2020, which is more than 15 Business Days after the date of this announcement as additional time is required to prepare and finalise the information to be included in the circular.

Completion of the Acquisition is conditional upon the fulfilment of the conditions set out under the paragraph headed “Conditions precedent” in this announcement, which may or may not be fulfilled. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“2020 Guaranteed Profit”	the guarantee amount of the 2020 Net Profit, which shall be no less than HK\$5 million
“2020 Net Profit”	the audited consolidated net profit after tax (excluding extraordinary or exceptional items according to HKFRS) of the Target Company for the years ending 31 March 2020
“2021 Guaranteed Profit”	the guarantee amount of the 2021 Net Profit, which shall be no less than HK\$7 million
“2021 Net Profit”	the audited consolidated net profit after tax (excluding extraordinary or exceptional items according to HKFRS) of the Target Company for the years ending 31 March 2021
“Acquisition”	the acquisition of the Sale Shares pursuant to the terms and conditions of the Sale and Purchase Agreement
“Board”	the board of Directors
“Business Day(s)”	means a day on which licensed banks in Hong Kong are generally open for business (other than a Saturday or Sunday or public holiday in Hong Kong or any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“Company”	Daisho Microline Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 0567)

“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	HK\$35 million
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, established for the purpose of advising the Independent Shareholders in relation to the Acquisition
“Independent Shareholder(s)”	Shareholders who are not interested in or involved in the Sale and Purchase Agreement and the transaction contemplated thereunder
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 May 2020 or such other date as the Purchaser may otherwise agree in writing
“Mr. Ng” or “Guarantor”	Mr. Ng Man Chan 吳文燦
“NSSW”	New Spring (SW) Printing & Packaging Limited 新高準（天安）印刷包裝有限公司, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor
“NSSZ”	新高準柯式印刷（深圳）有限公司 (New Spring Offset Printing (Shenzhen) Limited*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Vendor
“PRC”	the People’s Republic of China and for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Promissory Note”	the promissory note to be issued by the Purchaser as part of the Consideration, the principal terms of which are set out under the paragraph headed “Promissory Note” in the section headed “Consideration”

“Purchaser”	Perfect Design Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Relevant Periods”	collectively, the period from 1 April 2019 to 31 March 2020 and the period from 1 April 2020 to 31 March 2021 and each of them “Relevant Period”
“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 March 2020 entered into among the Purchaser, the Vendor and Mr. Ng in respect of the Acquisition
“Sale Shares”	10,000 ordinary shares of the Target Company representing 100% of the issued share capital of the Target Company
“SGM”	the special general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving, amongst other things, the Sale and Purchase Agreement and the transaction contemplated thereunder
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Sky Will Printing & Packaging Limited 天安印刷包裝有限公司, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor
“Target Group”	the Target Company and its subsidiaries
“Vendor”	Sky Will Printing & Packing (Holdings) Limited 天安印刷包裝(集團)有限公司, a company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Ng
“%”	per cent.

By Order of the Board
Daisho Microline Holdings Limited
Cheung Lai Ming
Chairman

Hong Kong, 23 March 2020

As at the date of this announcement, the Board consists of three executive directors, namely, CHEUNG Lai Ming, LEE Man Kwong and LAW Ping Wah, and three independent non-executive directors, namely, LEUNG King Fai, CHOU Yuk Yan and CHAN Yau Ching, Bob.

* *for identification purpose only*