THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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 Adviser to the Company

KINGSTON CORPORATE FINANCE

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

INCU Corporate Finance Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular. A letter from the Board is set out on pages 6 to 32 of this circular. A notice convening the SGM to be held at 11:00 a.m. on Wednesday, 5 August 2020 at Room 204, 2/F, Valley Centre, 80-82 Morrison Hill Road, Causeway Bay, Hong Kong set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use by the Shareholders at the SGM or any adjourned meeting is also enclosed.

Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

21 July 2020

CONTENT

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

"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 year ended 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 and the net profit generated from the non-principal business activities) of the Target Company for the year 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"	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"	has the meaning ascribed thereto under the Listing Rules

"Debt Settlement Deed"	a debt settlement deed dated 16 June 2020 entered into among the Vendor, the Target Company, NSSW, NSSZ, New Spring Label, Huge Grand, Fook Hing and Mr. Ng in relation to settle the loans and amounts due from and/or to each other
"Director"	director of the Company
"Enlarged Group"	the Group as enlarged by the Target Group upon Completion
"First Supplemental Agreement"	the supplemental agreement dated 27 May 2020 entered into among the Purchaser, the Vendor and Mr. Ng to extend the Long Stop Date under the Sale and Purchase Agreement
"Fook Hing"	Fook Hing Logistic Company Limited 復興迷你倉有限公司, a company incorporated in Hong Kong with limited liability, which is owed as to 50% by Mr. Ng and 50% by his spouse
"Group"	the Company and its subsidiaries
"Guaranteed Profits"	collectively, the 2020 Guaranteed Profit and the 2021 Guaranteed Profit
"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
"Huge Grand"	Huge Grand Investment Limited 浩泰投資有限公司, a company incorporated in Hong Kong with limited liability, which is wholly-owned by the son of Mr. Ng
"Independent Board Committee"	an independent committee of the Board, established for the purpose of advising the Independent Shareholders in relation to the Acquisition
"Independent Financial Adviser" or "INCU"	INCU Corporate Finance Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

"Independent Shareholders"	Shareholders who are not interested in the Sale and Purchase Agreement and the transaction contemplated thereunder
"Initial Consideration"	HK$35 million
"Latest Practicable Date"	16 July 2020, being the latest practicable date of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	14 August 2020 or such other date as the Purchaser may otherwise agree in writing
"Mr. Ng" or "Guarantor"	Mr. Ng Man Chan 吳文燦
"New Spring Label"	New Spring Label and Packaging Limited 新高準商標包裝有限公司, a company incorporated in Hong Kong with limited liability, which is owed as to 20% by Mr. Ng
"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 Target Company
"NSSZ"	New Spring Offset Printing (Shenzhen) Limited* (新高準柯式印刷(深圳)有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Target Company
"Other Income Items"	loan interest income, management income and rental income from non-principal business activities of the Target Group, details of which are set out under the paragraph headed "Profit guarantees and compensation" in the letter from the Board of this circular
"PRC"	the People's Republic of China and for the purposes of this circular, 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 of the Acquisition, the principal terms of which are set out under the paragraph headed "Promissory Note" in the letter from the Board of this circular
"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"
"Revised Consideration"	HK$30 million as agreed on the Second Supplemental Agreement
"Sale and Purchase Agreement"	the sale and purchase agreement dated 23 March 2020 (as supplemented by the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) 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
"Second Supplemental Agreement"	the second supplemental agreement dated 24 June 2020 entered into among the Purchaser, the Vendor and Mr. Ng to lower the Initial Consideration to the Revised Consideration and exclude the net profits deriving from the non-principal business activities of the Target Group for calculating the 2021 Guaranteed Profit
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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
"Shares"	ordinary shares 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
"Third Supplemental Agreement"	the supplemental agreement dated 16 July 2020 entered into among the Purchaser, the Vendor and Mr. Ng to further extend the Long Stop Date under the Sale and Purchase Agreement
"US"	the United States of America
"US$"	United States dollar(s), the lawful currency of the US
"Vendor"	Sky Will Printing & Packing (Holdings) Limited 天安印刷包裝(集團)有限公司, a company incorporated in the British Virgin Islands with limited liability, which is indirectly owned as to 51% by Mr. Ng and 49% by his spouse
"%"	per cent.

* *for identification purpose only*

DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

Executive Directors:
Ms. CHEUNG Lai Ming *(Chairman)*
Mr. LEE Man Kwong

Independent Non-Executive Directors:
Mr. LEUNG King Fai
Mr. CHOU Yuk Yan
Dr. CHAN Yau Ching, Bob

Registered office:
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

Principal place of business in Hong Kong:
Unit A, 10/F
Fook Hing Industrial Building
33 Lee Chung Street
Chai Wan, Hong Kong

21 July 2020

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

References are made to the announcements of the Company dated 23 March, 8 May, 27 May, 15 June, 24 June and 16 July 2020 in relation to, amongst other things, the Acquisition.

The purpose of this circular is to provide you with, 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.

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 purchase and the Vendor conditionally agreed to sell the Sale Shares at the Initial Consideration of HK$35 million.

On 24 June 2020, based on the audited accounts of the Target Group for the year ended 31 March 2020, the parties to the Sale and Purchase Agreement further negotiated and entered into the Second Supplemental Agreement to (i) lower the Initial Consideration to the Revised Consideration of HK$30 million and (ii) exclude the net profit deriving from the non-principal business activities of the Target Group for calculating the 2021 Guaranteed Profit.

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

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.

Initial Consideration and Revised Consideration

Pursuant to the Second Supplemental Agreement, the Initial Consideration was lowered to the Revised Consideration of HK$30 million by reducing the second installment of the Initial Consideration from HK$23 million to HK$18 million (the "**Second Installment**"), which would be settled in the following manners:

(i) HK$12 million was paid to the Vendor (or its nominee) in cash as the refundable deposit (the "**Deposit**") within three (3) Business Days after the date of the Sale and Purchase Agreement; and

(ii) subject to Completion, the Second Installment of HK$18 million would 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.

As at the Latest Practicable Date, the Deposit was paid by the Purchaser and the Purchaser elected to settle the Second Installment by issue of the Promissory Note with the principal amount of HK$18 million upon Completion.

Promissory Note

Issuer	:	the Purchaser
Principal amount	:	up to HK$18 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 of the Acquisition was determined after arm's length negotiations among the Purchaser, the Vendor and the Guarantor with reference to the profit guarantees given by the Vendor, the price-to-earnings ratio ("**P/E Ratio**") of the companies in the same industry as the Target Group (the "**Comparable Companies**" and each of them "**Comparable Company**"), the current development and prospects of the Target Group and the audited net asset value of the Target Group as at 31 March 2020 of approximately HK$25 million.

Immediately before entering into the Sale and Purchase Agreement, the Board considered and made a comparison of the P/E Ratios of the Comparable Companies based on the public available information as at 23 March 2020. Based on the Board's assessment, it was noted that the P/E Ratios of the Comparable Companies range from approximately 4.2 times to approximately 11.1 times, with an average P/E Ratio of approximately 7.6 times as at 23 March 2020.

The Board selected the Comparable Companies based on the comparability of the overall industry sector. The selection criteria of the Comparable Companies (the "**Selection Criteria**") are as follows:

(i) the Comparable Companies are principally engaged in the printing and packaging products businesses (the "**Relevant Business**");

(ii) the Comparable Companies derive most, if not all, of their revenues from the Relevant Business according to their respective latest financial statements as at the date of the Sale and Purchase Agreement (the "**Agreement Date**"), all of which are publicly available; and

(iii) the Comparable Companies are listed on the Stock Exchange.

Based on the Selection Criteria, the Directors, on a best effort basis, selected 12 Comparable Companies listed below as reference to the P/E Ratio. Details of the Comparable Companies, which are extracted from the latest financial statements and gathered from the Stock Exchange's website as at 23 March 2020, are as follows:

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
1.	55.HK	Neway Group Holdings Limited	Distribution of gaming machines, money lending, manufacturing and sales of printing products, artistes management, production and distribution of music albums and movies, property development and investment, securities trading and trading of printing products	592,626	94.42%	Hong Kong, PRC, US and Europe	(38,225)	927,282	47,633	N/A *(Note 5)*
2.	403.HK	Starlite Holdings Limited	Printing and manufacturing of packaging materials, labels and paper products	1,430,998	97.85%	Europe, Hong Kong, PRC, US and South East Asia	(37,925)	468,611	223,708	N/A *(Note 5)*
3.	450.HK	Hung Hing Printing Group Limited	The book and package printing, the consumer product packaging, the corrugated box and the trading of paper	3,276,800	91.28%	PRC, Hong Kong, US and Europe	(72,144)	3,397,915	911,496	N/A *(Note 5)*

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
4.	468.HK *(Note 3)*	Greatview Aseptic Packaging Company Limited	Manufacturing, distribution and selling of paper packaging and filling machines to dairy and noncarbonated soft drink producers	2,717,040	100.00%	PRC	392,464	2,658,901	3,144,669	8.0
5.	1127.HK	Lion Rock Group Limited	Provision of printing services including printing agency, graphic design and production and distribution of production	1,665,369	100.00%	US, Australia and United Kingdom (“**UK**”)	184,244	1,162,068	774,620	4.2
6.	1172.HK	Magnus Concordia Group Limited	Manufacturing and trading of printed products, property investment, development and sale businesses and securities investment and trading business	214,380	92.66%	US, PRC, UK and Hong Kong	2,541	626,633	468,115	184.2 *(Note 4)*

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
7.	1412.HK	Q P Group Holdings Limited	Manufacturing paper product and providing printing services including value-adding and customised product engineering services and printing solutions product engineering services and printing solutions to our customers for a wide spectrum of products	1,162,979	100.00%	US, Europe, PRC and Hong Kong	50,991	469,466	479,864	9.4
8.	1975.HK	Sun Hing Printing Holdings Limited	The sale and manufacture of printing products, and the internet and technology business	282,037	100.00%	Hong Kong and US	32,252	299,214	159,360	4.9
9.	3626.HK	Hang Sang Siu Po International Holding Company Limited	Manufacturing and sale of apparel labels and packaging printing products	82,170	100.00%	Hong Kong, South Korea and Vietnam	1,665	93,426	109,664	65.9 *(Note 4)*

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
10.	8385.HK	Prosperous Printing Company Limited	Providing printing products to Hong Kong-based print brokers and to international publishers	432,538	100.00%	Hong Kong, US, PRC and UK	24,335	285,732	200,000	8.2
11.	8448.HK	Universe Printshop Holdings Limited	Providing printing services to customers in Hong Kong. The printing services of the Group included offset printing, ink-jet printing and toner-based digital printing name-cards, printed eco-bags and printed plastic folders.	152,725	100.00%	Hong Kong	(5,335)	52,316	112,680	N/A *(Note 5)*
12.	8485.HK	Smart Globe Holdings Limited	Production, distribution and printing of books, novelty and packaging products	123,812	100.00%	Hong Kong, UK, Netherlands, US and Australia	17,838	97,266	197,400	11.1

Notes:

1. The market capitalisation of each Comparable Company is calculated based on the average closing price as quoted on the Stock Exchange of last five trading days up to and including the Agreement Date multiplied by the then issued shares of the corresponding Comparable Company.

2. The P/E Ratio is calculated based on the market capitalisation divided by the net profits extracted from the latest financial statements of the Comparable Companies as at 23 March 2020.

3. Greatview Aseptic Packaging Company Limited's reporting currency is Renminbi ("**RMB**") and its financial figures are converted into HK$ at the exchange rate of HK$1.09 to RMB1.00.

4. The P/E Ratios of these Comparable Companies are considered as extreme and were excluded when calculating the average P/E Ratio.

5. The P/E Ratios are not calculated for the Comparable Companies that recorded net loss as stated in their latest financial statements as at 23 March 2020.

6. The data above might be subject to rounding error.

Taking into account of the Selection Criteria, the above list is the exhaustive list of the Comparable Companies identified by the Directors. Since the information of the Comparable Companies is publicly available and thus more reliable, the Directors are of the view that the Comparable Companies are fair and representative and comparable to the Target Group.

In light of the 2020 Guaranteed Profit and the 2021 Guaranteed Profit being agreed by the parties to the Sale and Purchase Agreement, the Initial Consideration for the Target Group represents a P/E Ratio of 7 times based on the 2020 Guaranteed Profit and an implied future P/E Ratio of 5 times based on the 2021 Guaranteed Profit.

During the audit process of the Target Group, the Board noted that the Other Income Items for the year ended 31 March 2020 recorded a net profit of approximately HK$926,000, which were not derived from the principal business activities of the Target Group. As such, the parties to the Sales and Purchase Agreement further negotiated and entered into the Second Supplemental Agreement, among others, to lower the Initial Consideration of HK$35 million to the Revised Consideration of HK$30 million.

Immediately before entering into the Second Supplemental Agreement, the Board further made a comparison of the P/E Ratios of the Comparable Companies based on the public available information as at 24 June 2020. Based on the Board's assessment, it was noted that the P/E Ratios of the Comparable Companies range from approximately 3.8 times to approximately 13.2 times, with an average P/E Ratio of approximately 8.2 times as at 24 June 2020. Details of the Comparable Companies, which are extracted from the latest financial statements and gathered from the Stock Exchange's website as at 24 June 2020, are as follows:

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
1.	55.HK	Neway Group Holdings Limited	Money lending, manufacturing and sales of printing products, artistes management, production and distribution of music albums and movies, property development and investment, securities trading and trading of printing products	560,585	95.06%	PRC, Hong Kong, US and Europe	(30,973)	886,218	56,967	N/A *(Note 5)*
2.	403.HK	Starlite Holdings	Printing and manufacturing of packaging materials, labels and paper products	1,430,998	97.85%	Europe, Hong Kong, PRC, US and South East Asia	(37,925)	468,611	227,384	N/A *(Note 5)*

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
3.	450.HK	Hung Hing Printing Group Limited	The book and package printing, the consumer product packaging, the corrugated box and the trading of paper	3,083,904	90.98%	PRC, Hong Kong, US and Europe	68,283	3,327,681	898,786	13.2
4.	468.HK *(Note 3)*	Greatview Aseptic Packaging Company Limited	Manufacturing, distribution and selling of paper packaging and filling machines to dairy and noncarbonated soft drink producers	2,950,474	100.00%	PRC	367,678	2,673,955	3,625,996	9.9
5.	1127.HK	Lion Rock Group Limited	Provision of printing services including printing agency, graphic design and production and distribution of production	1,606,969	100.00%	US, Australia and UK	153,801	1,176,930	586,740	3.8

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
6.	1172.HK	Magnus Concordia Group Limited	Manufacturing and trading of printed products, property investment, development and sale businesses and securities investment and trading business	214,380	92.66%	US, PRC, UK and Hong Kong	2,541	626,633	509,725	200.6 *(Note 4)*
7.	1412.HK	Q P Group Holdings Limited	Manufacturing paper product and providing printing services including value-adding and customised product engineering services and printing solutions product engineering services and printing solutions to our customers for a wide spectrum of product	1,193,641	100.00%	US, Europe, PRC and Hong Kong	84,288	534,497	487,312	5.8

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000) (Note 1)*	P/E Ratio *(approximate) (Note 2)*
8.	1975.HK	Sun Hing Printing Holdings Limited	The sale and manufacture of printing products, and the internet and technology business	282,037	100.00%	Hong Kong and US	32,252	299,214	177,120	5.5
9.	3626.HK	Hang Sang Siu Po International Holding Company Limited	Manufacturing and sale of apparel labels and packaging printing products	82,170	100.00%	Hong Kong, South Korea and Vietnam	1,665	93,426	114,080	68.5 *(Note 4)*
10.	8385.HK	Prosperous Printing Company Limited	Providing printing products to Hong Kong-based print brokers and to international publishers	461,561	100.00%	Hong Kong, US, PRC and UK	18,199	299,692	192,960	10.6

No.	Stock code	Company name	Principal business activities	Revenue *(approximate HK$'000)*	Revenue contributed by the Relevant Business *(approximate)*	Major geographic location of its customers	Net profit/(net loss) *(approximate HK$'000)*	Net asset value *(approximate HK$'000)*	Market capitalisation *(approximate HK$'000)* *(Note 1)*	P/E Ratio *(approximate)* *(Note 2)*
11.	8448.HK	Universe Printshop Holdings Limited	Providing printing services to customers in Hong Kong. The printing services of the Group included offset printing, ink-jet printing and toner-based digital printing name-cards, printed eco-bags and printed plastic folders	152,725	100.00%	Hong Kong	(5,335)	52,316	79,200	N/A *(Note 5)*
12.	8485.HK	Smart Globe Holdings Limited	Production, distribution and printing of books, novelty and packaging products	132,194	100.00%	Hong Kong, US, UK, Netherlands and PRC	23,142	119,322	202,000	8.7

Notes:

1. The market capitalisation of each Comparable Company is calculated based on the average closing price as quoted on the Stock Exchange of last five trading days up to and including 24 June 2020 multiplied by the then issued shares of the corresponding Comparable Company.

2. The P/E Ratio is calculated based on the market capitalisation divided by the net profits extracted from the latest financial statements of the Comparable Companies as at 24 June 2020.

3. Greatview Aseptic Packaging Company Limited's reporting currency is RMB and its financial figures are converted into HK$ at the exchange rate of HK$1.09 to RMB1.00.

4. The P/E Ratios of these Comparable Companies are considered as extreme and were excluded when calculating the average P/E Ratio.

5. The P/E Ratios are not calculated for the Comparable Companies that recorded net loss as stated in their latest financial statements as at 24 June 2020.

6. The data above might be subject to rounding error.

The Revised Consideration represents a P/E ratio of 6 times based on the 2020 Guaranteed Profit and an implied future P/E Ratio of approximately 4.29 times based on 2021 Guaranteed Profit.

Given that (i) the P/E Ratios applied to each of the 2020 Guaranteed Profit and the 2021 Guaranteed Profit calculated based on the Initial Consideration and the Revised Consideration are comparable to the average P/E Ratios of the Comparable Companies; (ii) there is a potential growth of the Target Group backed by the 2021 Guaranteed Profit, which the Board considers is realistic and achievable for the reasons as set out in the paragraph headed "Profit guarantees and compensation" below; (iii) the audited net asset value of the Target Group as at 31 March 2020 was approximately HK$25 million, which is close to the Revised Consideration; and (iv) the compensation mechanism of the Guaranteed Profits is in place, the Board considers that the consideration of the Acquisition is fair and reasonable.

Profit guarantees and compensation

The Vendor irrevocably and unconditionally guarantees to the Purchaser that the 2020 Net Profit and the 2021 Net Profit shall be no less than the 2020 Guaranteed Profit and the 2021 Guaranteed Profit, which are HK$5 million and HK$7 million, respectively. In the event that the audited net profit of any Relevant Period is less than the corresponding guaranteed amount, the Vendor shall compensate the Purchaser the difference (the "**Shortfall**") on a dollar for dollar basis within three (3) Business Days after the issuance of the audit report of the Target Company for the Relevant Period.

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 fulfillment of the 2020 Guaranteed Profit and the 2021 Guaranteed Profit.

The 2020 Guaranteed Profit was arrived and agreed by the parties with reference to:

(a) the actual net profit of the Target Group for the eight months ended 30 November 2019 from the Target Group's management accounts in the amount of approximately HK$5.2 million; and

(b) the amount of confirmed purchase orders on hand of the Target Group, which provides an estimated amount of revenue that the Target Group may account for by the end of March 2020.

The Target Group recorded an audited net profit of approximately HK$5.1 million for the year ended 31 March 2020 consisting of the net profit generating from the Other Income Items in the amount of approximately HK$0.9 million and the net profit generated from the principal business activities of the Target Group in the amount of approximately HK$4.1 million.

The followings illustrate the nature of revenue from each of the Other Income Items for the year ended 31 March 2020 and the corresponding expenses in relation thereto:

Other Income Items for the year ended 31 March 2020	**Income**	**Corresponding expense**	**Nature**
	(HK$'000) *(audited)*	*(HK$'000)* *(audited)*	
Loan interest income	1,327	1,327	The Target Group borrowed from the bank on behalf of its related companies and charged the related companies the same interest rate as the bank. The amounts due from the related companies would be fully settled under the Debt Settlement Deed. Accordingly, the loan interest income from related companies will not recur for the year ending 31 March 2021 and thereafter.
Management income	1,319	1,319	The Target Group provided management services to its related companies and charged the related companies the same amount as the cost incurred by the Target Group (i.e. staff cost, travel expenses, maintenance expenses, etc.). The management services provided to the related companies were terminated on 1 April 2020. Accordingly, the management income from related companies will not recur for the year ending 31 March 2021 and thereafter.
Rental income	1,850	924	The Target Group sub-leased the spare space of its manufacturing base to an independent third party.

Given that the Other Income Items are not "extraordinary or exceptional items" under the HKFRS, the 2020 Guaranteed Profit was regarded as being fulfilled. The details of the accountants' report of the Target Group are set out in Appendix II of this circular.

As the 2020 Net Profit includes the net profit of the Other Income Items, after arm's length negotiation, the Purchaser, the Vendor and the Guarantor entered into the Second Supplemental Agreement, among others, to exclude the net profits deriving from non-principal business activities of the Target Group for calculating the 2021 Guaranteed Profit.

The 2021 Guaranteed Profit was arrived and agreed by the parties with reference to:

(a) the 2020 Guaranteed Profit;

(b) the development of the Target Group; and

(c) the net profit of the Other Income Items for the year ended 31 March 2020.

In the event that the 2021 Net Profit is less than the 2021 Guaranteed Profit, the Vendor shall compensate the Purchaser the Shortfall on a dollar for dollar basis 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 for the year ended 31 March 2021, the compensation is calculated based on the sum of the 2021 Guaranteed Profit and the absolute amount of the net loss of the Relevant Period.

If the Target Company fails to meet the 2021 Guaranteed Profit and the Promissory Note has been issued and not redeemed and the Shortfall 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.

The Target Group has implemented and devised various development initiatives, including:

(a) continuing to focus on sales orders for high-quality printing and packaging products with higher profit margin (the "**Operational Strategy**"), a strategy which the Target Group has implemented since 2018;

(b) acquiring new local customers who are looking for printing and packaging businesses that have production facilities based in Guangdong-Hong Kong-Macao Greater Bay Area due to the disruptions in delivering goods caused by the recent ongoing coronavirus pandemic; and

(c) cooperating with external sales agent to generate more purchase orders to diversify its revenue stream instead of working exclusively with the in-house sales team to fully utilise its production capacity.

The aforesaid development initiatives were implemented with an objective to further increase the profitability of the Target Group, on the assumption that there will be no material change in the business environment and/or industry outlook in relation to the Target Group's principal activity for the year ending 31 March 2021.

With the implementation of Operational Strategy and the other development initiatives above, despite the trade war between the PRC and the US, the political unrest in Hong Kong and the outbreak of coronavirus, the net profit for the financial year ended 31 March 2020 remained stable.

Accordingly, after taking into consideration of the financial performance of the Target Group in the past two years after implementing the Operational Strategy and the proposed development initiatives of the Target Group, the Board is of the view that the 2021 Guaranteed Profit is realistic and achievable.

Based on the accountants' report of the Target Group as set out in Appendix II of this circular, the audited net asset value of the Target Group was approximately HK$25 million as at 31 March 2020, which is close to the Revised Consideration of HK$30 million. In the event where the Target Group records nil for the 2021 Net Profit, the consideration of the Acquisition paid and/or payable by the Company would be HK$23 million in aggregate, a figure lower than the audited net asset value of the Target Group as at 31 March 2020. Accordingly, the Board considers that the compensation mechanism is fair and reasonable and is able to safeguard the Company's interests to a reasonable extent.

The Company will comply with the disclosure requirements under the Listing Rules in the event that the Target Group fails to meet the 2021 Guaranteed Profit.

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 advisers) 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 the 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 may terminate the Sale and Purchase Agreement by written notice to the Vendor 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, which shall be calculated as 2% per annum for the period from the payment date to the date of receipt of the Deposit by the Purchaser, to the Purchaser or its designated party within one (1) Business Day after the termination of the Sale and Purchase Agreement.

As at the Latest Practicable Date, save for condition (b) above, the other conditions above have been satisfied.

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.

DEBT SETTLEMENT DEED

On 16 June 2020, the Vendor, the Target Company, NSSW, NSSZ, New Spring Label, Huge Grand, Fook Hing and Mr. Ng entered into the Debt Settlement Deed, pursuant to which subject to the Completion, each party of the Debt Settlement Deed agreed to settle the loans and amounts due from and/or to each other and the net amount of the outstanding loans and amounts would be payable by Mr. Ng to NSSW (the "**Debt Settlement**"). Upon completion of the Debt Settlement, the estimated amount payable by Mr. Ng to NSSW is approximately HK$8 million, which is calculated based on the audited accounts of the Target Group as at 31 March 2020. Mr. Ng shall repay the outstanding amount, which will be determined based on the final audit results of the Target Company as at the date of Completion, to NSSW within 30 days after the completion date of the Acquisition. Each of New Spring Label, Huge Grand and Fook Hing agreed to provide guarantee in favour of the Target Group if Mr. Ng fails to perform his obligation under the Debt Settlement Deed.

Set out below are the audited balances of the outstanding loans and amounts due from and/or to each other as at 31 March 2020 under the Debt Settlement Deed:

No.	Parties' names	Target Company (HK$'000) (audited)	NSSW (HK$'000) (audited)	NSSZ (HK$'000) (audited)
1	Mr. Ng *(Note 1)*	924	(17,165)	4,383
2	the Vendor *(Note 2)*	(13,907)	2,008	Nil
3	New Spring Label *(Note 3)*	19,416	16	Nil
4	Huge Grand *(Note 4)*	7,387	Nil	Nil
5	Fook Hing *(Note 5)*	Nil	3,670	974

Balance upon completion of the Debt Settlement: approximately HK$8 million payable by Mr. Ng to NSSW.

Notes:

1. As at 31 March 2020, approximately HK$924,000 was due from Mr. Ng to the Target Company and approximately HK$4,383,000 was due from Mr. Ng to NSSZ and approximately HK$17,165,000 was due from NSSW to Mr. Ng.

2. As at 31 March 2020, approximately HK$13,907,000 was due from the Target Company to the Vendor and approximately HK$2,008,000 was due from the Vendor to NSSW.

3. As at 31 March 2020, approximately HK$19,416,000 was due from New Spring Label to the Target Company and approximately HK$16,000 was due from New Spring Label to NSSW.

4. As at 31 March 2020, approximately HK$7,387,000 was due from Huge Grand to the Target Company.

5. As at 31 March 2020, approximately HK$3,670,000 was due from Fook Hing to NSSW and approximately HK$974,000 was due from Fook Hing to NSSZ.

INFORMATION OF THE VENDOR AND THE TARGET GROUP

The Vendor is an investment holding company and the beneficial owner of 100% of the issued share capital of the Target Company.

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 leased by NSSW, 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, which are owned by NSSZ, 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-impress 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 each of the financial years ended 31 March 2019 and 2020 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.

As at the Latest Practicable Date, the Target Group has 28 active customers. The two largest customers of the Target Group (the "**Largest Customers**") are principally engaged in manufacturing of dolls, doll parts and doll clothing and manufacturing and trading of pharmaceutical cosmetics products (e.g. gift and souvenir sets). Each of them has a history longer than 25 years. The Largest Customers have a long-term and stable business relationship with the Target Group for at least seven years and contributed more than approximately 59% and 73% of revenue to the Target Group for the years ended 31 March 2019 and 2020, respectively. The other major customers are having business relationship with the Target Group for at least five years.

The Target Group has more than 50 suppliers of different materials (including paper, ink, fabric, crayon and other materials) and subcontractors, most of which are located in Guangdong-Hong Kong-Macao Greater Bay Area, for the year ended 31 March 2020. Approximately 20 suppliers have been cooperating with the Target Group since 2011.

The Target Group has not entered into any long-term contracts with its customers and suppliers. Given that the business relationship between the current customers and suppliers and the Target Group has been maintained for years, the Board believes that the operation and profitability of the Target Group will not be affected after Completion as the business of the Target Group will continue to be operated and managed by the same management team, which consists 12 persons with no less than 10 years experience in their roles.

The Target Group source customers through both its in-house and external sales agents and procure the necessary raw materials and services from the existing panel of suppliers and service providers based on the customers' orders.

Set out below is the summary of the key financial information of the Target Group extracted from the accountants' report of the Target Group, the full text of which is set out in Appendix II of this circular, for the two years ended 31 March 2019 and 2020:

	Year ended 31 March	
	2019	**2020**
	(HK$'000)	*(HK$'000)*
	(audited)	*(audited)*
Revenue	64,818	62,108
Net profit before taxation and extraordinary items	6,508	5,528
Net profit after taxation and extraordinary items	6,367	5,063

The audited net asset value of the Target Group as at 31 March 2020 was approximately HK$25 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 business (the "**Vessel Chartering Business**").

For the Printed Circuit Boards Business, the key product is printed circuit boards ("**PCB**") for automotive electronics used in automobiles and for artificial intelligent building equipments, which the Group deals with the customers directly and/or through agents and traders. The Printed Circuit Boards Business has an experienced technical team and quality control team with almost 20 years of work experience in the electronic components industry. In the Printed Circuit Boards Business, the Group has 30 employees, approximately 20 active customers and five core suppliers. The Group continues to focus on PCB for automotive electronic markets and proposes to expand into the consumer electronics market.

For the Petroleum and Energy Business, the competitive advantage of the Group is its integrated services in the supply chain, which starts from originating of goods to transportation of goods by its own fleet. However, due to (i) the recent global coronavirus outbreak having a significant impact on the oil demand; (ii) the adverse market conditions in Singapore, which is one of the main markets of the Petroleum and Energy Business; (iii) the withdrawal of credit facilities by financial institutions, arising from default of other industry players; and (iv) the outstanding legal proceedings of the Group with Societe Generale, the details of which are disclosed under the section "8. Claims and litigation" in Appendix V of the circular, the Petroleum and Energy Business is under great pressure.

Taking into account the aforesaid factors, the Company has streamlined its staff force from five employees for the year of 2019 to two employees recently, for cost saving. The Group originally focused on the Singapore market and is looking into diversifying the sales market beyond Singapore, like the PRC, and suppliers located in the Middle East and the Europe. As at the Latest Practicable Date, the Petroleum and Energy Business is still temporarily suspended.

For the Vessel Chartering Business, the Group's fleet has two oil tankers, which are managed by a wholly-owned ship management subsidiary of the Group in Singapore. The tankers are relatively new (all under 10 years) and can be operated within the Singapore Waters. In addition, the tankers were converted into low sulphur fuel carriers. The availability of this type of tankers are limited in supply, and are in good demand. The two tankers are recently run by 32 staff of the Group (the "**Vessel Management Staff**"), who are well trained and qualified under the requirements of Singapore Manpower Ministry, with approximately 10 years of experience within their role. The tankers are currently time chartered to a bunkering company, which has businesses in Singapore and Malaysia. The tankers are chartered out and the charter is being renewed for a further fixed period. The Vessel Management Staff has sufficient capacity to manage two to three more vessels. Subject to the demand and the market condition, the tankers may be chartered to other trades, e.g. palm oil, and/or for self use to support oil trading business. As the Group has an existing Vessel Chartering Business, it 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 Vessel Chartering Business into the sea freight and cargo services.

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 Group is able to act as an one stop services provider for the Printed Circuit Boards Business, from the manufacturing of the PCB products to the packaging and label printing of these products to the arrangements of the logistic services, by taking advantage of the existing logistic system of the Group, for these products. Notwithstanding that the Group did not previously engage any external service provider to provide packaging and label printing services for its manufactured PCB products, the Board believes that the Acquisition will give rise to the business opportunity for the sales and marketing team to promote the packaging and label printing of the PCB products. The Group may also offer the Printed Circuit Boards Business customers the additional service of providing packaging and label printing services for their final products.

The Group is shifting the markets of the Printed Circuit Boards Business to the PRC to minimise the negative impact brought about by the ongoing trade tension between the PRC and the US and to tap into the PRC market for its end products. With the printing and packaging business of the Target Group, the Group would be able to provide a more comprehensive service to its existing and potential customers, which would strengthen the Group's competitiveness to participate in the PRC market. Also, the Group will leverage on the Target Group's expertise in printing and packaging business to the Printed Circuit Boards Business and the successful marketing strategy and experience to the Group's further development. The Company has no intention to downsize, cease or dispose of any of the Printed Circuit Boards Business, the Petroleum and Energy Business and the Vessel Chartering Business.

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 Company proposes to appoint Mr. Ng, being an indirect shareholder of the Target Company and a substantial Shareholder of the Company, to be a full-time consultant to assist the Company in managing the Target Group's business upon Completion. Mr. Ng has more than 40 years of experience in the printing and packaging products business. The appointment of Mr. Ng will assist the Company with overseeing the business of the Target Group. In addition, it is the Company's intention to retain the existing management team of the Target Group after Completion, and the existing management team of the Target Group has also indicated their willingness to stay with the

Target Group upon Completion. Further, upon Completion, the Board will continue to perform periodical review on its management efficiency on the business of Target Group and, if appropriate, consider appointing suitable candidates to the management team or the Board with relevant experience and expertise to further enhance its supervision over the business of the Target Group. Accordingly, the Board is confident that the Company together with its management team is capable of supervising the business of the Target Company.

The remaining consideration, which the Second Installment would be 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 Sale and Purchase Agreement and the Acquisition (including the consideration of the Acquisition, the Guaranteed Profits and the compensation mechanism) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the Group's consolidated financial statements.

Earnings

As set out in Appendix II to this circular, the audited net profit after taxation of the Target Group for the year ended 31 March 2020 was approximately HK$5.1 million. Given that the financial results of Target Group will be consolidated with those of the Group after Completion, the earnings of the Group will be enhanced by the performance of Target Group in the future.

Assets and liabilities

As at 31 March 2020, the unaudited consolidated total assets and liabilities of the Group, as set out in the annual results of the Company for the year ended 31 March 2020, amounted to approximately HK$257,616,000 and HK$124,530,000, respectively. Assuming Completion took place on 31 March 2020, the unaudited pro forma consolidated total assets and liabilities of the Enlarged Group would have increased to approximately HK$315,778,000 and HK$182,276,000, respectively, as a result of the Acquisition.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising LEUNG King Fai, CHOU Yuk Yan and CHAN Yau Ching, Bob, being all the independent non-executive Directors, has been established to give a recommendation to the Independent Shareholders in respect of the Acquisition as to whether the terms of the Sale and Purchase Agreement and the Acquisition, although not in the ordinary and usual course of business of the Group, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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 Latest Practicable Date, the Vendor was a company indirectly owned as to 51% by Mr. Ng and 49% by his spouse. Mr. Ng is a substantial Shareholder interested in approximately 10.34% of the total number of Shares in issue. 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 Latest Practicable Date, save for Mr. Ng, who is interested in 59,576,000 Shares (representing 10.34% of the total number of Shares in issue of the Company), no other Shareholders had any material interest in the Acquisition and was required to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transaction contemplated thereunder at the SGM.

SGM

A notice of the SGM to be held at 11:00 a.m., on Wednesday, 5 August 2020 is set out on pages SGM-1 to SGM-2 to this circular for the purpose of considering and, if thought fit, to approve by the Independent Shareholders, amongst other things, the Sale and Purchase Agreement and, the transaction contemplated thereunder, the Acquisition.

A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so desire and, in such event, the instrument appointing a proxy will be deemed to be revoked.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 33 of this circular and the letter from the Independent Financial Adviser set out on pages 34 to 62 of this circular, which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and the Acquisition and the principal factors considered by it in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Sale and Purchase Agreement and the Acquisition, although not in the ordinary and usual course of business of the Group, are fair and reasonable, on normal commercial terms so far as the Company and the Independent Shareholders are concerned and 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 all resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and, the transaction contemplate thereunder, the Acquisition.

The Board (including the independent non-executive Directors) considers that the Sale and Purchase Agreement and the Acquisition (including the consideration of the Acquisition, the Guaranteed Profits and the compensation mechanism), although not in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of all the resolutions as set out in the notice of the SGM.

FURTHER INFORMATION

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

Yours faithfully,
By order of the Board
Daisho Microline Holdings Limited
Cheung Lai Ming
Chairman

DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

21 July 2020

To the Independent Shareholders

Dear Sir or Madam,

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

INTRODUCTION

We refer to the circular of the Company dated 21 July 2020 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Sale and Purchase Agreement and the Acquisition. INCU has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving their advice, are set out on pages 34 to 62 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

RECOMMENDATION

Having considered the terms of the Sale and Purchase Agreement, the Acquisition and taking into account the independent advice of INCU set out in its letter on pages 34 to 62 of the Circular and the relevant information contained in the letter from the Board, we consider that the Sale and Purchase Agreement and the Acquisition, although not in the ordinary and usual course of business of the Group, are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and, the transaction contemplated thereunder, the Acquisition.

Yours faithfully,
Independent Board Committee

LEUNG King Fai	**CHOU Yuk Yan**	**CHAN Yau Ching, Bob**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the text of a letter of advice from INCU Corporate Finance Limited, which has been prepared for the purpose of incorporation into this circular, setting out its opinion to the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder.

INCU Corporate Finance Limited
Unit 1604A, 16/F., Tower 1, Silvercord
30 Canton Road,
Tsim Sha Tsui, Hong Kong

21 July 2020

*To: The Independent Board Committee and
the Independent Shareholders of
Daisho Microline Holdings Limited*

Dear Sirs or Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Details of the Acquisition are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular of the Company dated 21 July 2020, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in this circular unless the context requires otherwise.

On 23 March 2020, the Purchaser, the Vendor and the Guarantor entered into the Sale and Purchase Agreement (as supplemented and amended by the supplemental agreements dated 27 May 2020, 24 June 2020 and 16 July 2020 to amend the long stop date, the consideration and exclusion of the net profit deriving from the non-principal business activities of the Target Group from the calculation of the 2021 Guaranteed Profit respectively), pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares at a consideration of HK$30 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.

As at the Latest Practicable Date, the Vendor is a company indirectly owned as to 51% by Mr. Ng and 49% by his spouse. Mr. Ng is a substantial Shareholder interested in approximately 10.34% of the total number of Shares in issue. Each of the Vendor and Mr. Ng is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company and is subject to the reporting, announcement, circular 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 Latest Practicable Date, save for Mr. Ng, who is interested in 59,576,000 Shares (representing 10.34% of the total number of Shares in issue of the Company), 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.

During the last two years, there was no previous engagement between us and the Group or any of their respective subsidiaries or associates, prior to our engagement as the Independent Financial Adviser in relation to the Acquisition and the transactions contemplated thereunder. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Sale and Purchase Agreement and the transactions contemplated thereunder, and accordingly, are eligible to give independent advice and recommendations on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Sale and Purchase Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chou Yuk Yan, Mr. Leung King Fai and Dr. Chan Yau Ching, Bob, has been formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder and as to whether the Acquisition, although not in the ordinary and usual course of business of the Group, is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, taking into account our recommendations.

As the Independent Financial Adviser, our role is to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, although not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the statements, information, opinions and representations relating to the operations, financial condition and prospects of the Group contained or referred to in this circular and/or provided to us by the Company and the management of the Group. We have assumed that such information and any representation made to us were true, accurate and complete in all material respects as at the Latest Practicable Date and considered that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. The Directors jointly and severally 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, opinions expressed by them in this circular have been arrived at after due and careful consideration and there are no other material facts not contained in this circular, the omission of which would make any such statement made by them that contained in this circular misleading in all material respects. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

Our review and analyses were based upon, among others, the information provided by the Group including this circular, the Sale and Purchase Agreement and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 31 March 2019 (the "**2018/19 Annual Report**"), and the annual results announcement of the Company for the year ended 31 March 2020 (the "**2019/20 Annual Results Announcement**"). We have also discussed with the Directors and the management of the Group with respect to the terms of and the reasons for entering into of the Sale and Purchase Agreement, the businesses and outlook of the Group. We have not, however, for the purpose of this exercise, conducted any in-depth independent investigation into the businesses or affairs and future prospects of the Group, the Vendor, the Purchaser, the Guarantor and the Target Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions and recommendations in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, we have taken into consideration of the following principal factors and reasons:

1. Background and financial information of the Group

1.1 Background of the Group

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 (the "**Vessel Chartering Business**").

1.2 Historical financial information of the Group

Set out below is the financial information of the Group for each of the three financial years ended 31 March 2018, 2019 and 2020 ("**FY2018**", "**FY2019**" and "**FY2020**" respectively) as extracted from 2018/19 Annual Report and 2019/20 Annual Results Announcement:

Consolidated financial performance of the Group

	FY2018 *HK$'000* (Audited) *(Note)*	**FY2019** *HK$'000* (Audited)	**FY2020** *HK$'000* (Audited)
Revenue			
Printed Circuit Boards Business	199,876	136,060	37,009
Petroleum and Energy Business	211,983	1,369,848	1,148,398
Vessel Chartering Business	–	10,915	20,403
Sub-total of revenue	411,859	1,516,823	1,205,810
Profit/(loss) for the year	(80,077)	100,466	(87,248)

Note: Key financial figures for FY2018 are shown in the table above for comparative purpose.

(i) FY2020 vs FY2019

As set out in the table above, the revenue of the Group in FY2020 decreased by approximately HK$311.01 million or 20.5% to approximately HK$1,205.81 million, as compared with approximately HK$1,516.82 million in FY2019. Such decrease in revenue was mainly attributable to the combined effects of (a) the significant drop in revenue generated from the Printed Circuit Boards Business from approximately HK$136.06 million in FY2019 to approximately HK$37.01 million in FY2020 (details of reasons are discussed in the section headed "1.3 Analysis" below); (b) the decrease in revenue generated from the Petroleum and Energy Business from approximately HK$1,369.85 million in FY2019 to approximately HK$1,148.40 million in FY2020; and (c) the increase in revenue generated from the Vessel Chartering Business from approximately HK$10.92 million in FY2019 to approximately HK$20.40 million in FY2020, due to the lease of an extra vessel.

The Group recorded a consolidated net loss of approximately HK$87.25 million in FY2020 and a consolidated net profit of approximately HK$100.47 million in FY2019. As disclosed in the 2019/20 Annual Results Announcement, such change from net profit to net loss was mainly due to (a) the absence of gain on disposal of a subsidiary of approximately HK$170.29 million; (b) the impairment loss on trade receivables, property, plant and equipment and deposits paid for acquisition of vessels of approximately HK$39.46 million in total recorded in FY2020; and (c) the decrease in the fair value gain on derivative financial instruments from approximately HK$25.74 million in FY2019 to approximately HK$1.54 million in FY2020.

(ii) FY2019 vs FY2018

As set out in the table above, the revenue of the Group in FY2019 increased by approximately HK$1,104.96 million or 268.29% to approximately HK$1,516.82 million, as compared with approximately HK$411.86 million in FY2018. Such increase in revenue was mainly attributable to the offsetting effects of (a) the growth in the Petroleum and Energy Business supported by newly secured bank facilities in the third quarter of 2018; and (b) the decrease in revenue of the Printed Circuit Boards Business due to the relocation of the Group's production plant and the loss of customer orders in the third quarter of 2018 and the raft of negative sentiment triggered by the escalating trade disputes between the PRC and the US, as disclosed in the 2018/19 Annual Report. The Group also entered into the Vessel Chartering Business, which contributed HK$10.92 million to the Group's revenue in FY2019.

The Group recorded a consolidated net profit of approximately HK$100.47 million in FY2019 and a consolidated net loss of approximately HK$80.08 million in FY2018. As disclosed in the 2018/19 Annual Report, such turnaround from net loss to net profit was mainly due to the combined effects of (a) the gain of approximately HK$170.29 million on the disposal of the entire interest in Da Feng Hua Microline Technology (Huizhou) Company Limited; (b) fair value gain on derivative financial instruments of approximately HK$25.74 million; and (c) loss on early redemption of promissory notes of approximately HK$10.91 million.

Consolidated financial position of the Group

	As at 31 March 2019 *HK$'000* (Audited) *(Note)*	As at 31 March 2020 *HK$'000* (Audited)
Non-current assets	135,019	125,672
Current assets	657,796	131,944
Total assets	792,815	257,616
Current liabilities	488,244	122,532
Non-current liabilities	75,361	1,998
Total liabilities	563,605	124,530
Net assets	229,210	133,086
Gearing ratio	75.04%	61.51%

Note: Key financial figures as at 31 March 2019 are shown in the table above for comparative purpose.

Non-current assets of the Group as at 31 March 2019 and as at 31 March 2020 comprised (i) property, plant and equipment, (ii) refundable deposit paid for acquisition of subsidiaries, and (iii) deposits paid for acquisition of property, plant and equipment. Balance of total non-current assets decreased from approximately HK$135.02 million as at 31 March 2019 to approximately HK$125.67 million as at 31 March 2020, representing a decrease of approximately HK$9.35 million or 6.92%. Such decrease was mainly attributable to the combined effects of (a) the impairment on the refundable deposit of approximately HK$15.89 million as a result of termination of the sale and purchase agreement dated 29 September 2017 and the financial difficulties of the vendor to refund the deposit (the details of which had been disclosed in the Company's announcement dated 4 September 2019); and (b) the refundable deposit paid for the Acquisition.

Current assets of the Group as at 31 March 2019 and 31 March 2020 mainly comprised, among other things, (i) trade and bill receivables, (ii) pledged bank deposits and (iii) cash and cash equivalents. Balance of total current assets decreased from approximately HK$657.80 million as at 31 March 2019 to approximately HK$131.94 million as at 31 March 2020, representing a decrease of approximately HK$525.86 million or 79.94%. Such decrease was mainly attributable to (a) the drop in trade and bill receivables by approximately HK$363.40 million; (b) the absence of pledged bank deposits of the Group by approximately HK$117.72 million; and (c) the drop in cash and cash equivalents of the Group by approximately HK$31.89 million, which were mainly due to the deterioration of the performance of the Printed Circuit Boards Business, settlement of trade payables and repayment of borrowings.

Current liabilities of the Group as at 31 March 2019 and 31 March 2020 mainly comprised, among other things, (i) trade payables, (ii) interest-bearing borrowings and (iii) convertible bonds. Balance of total current liabilities decreased from approximately HK$488.24 million as at 31 March 2019 to approximately HK$122.53 million as at 31 March 2020, representing a decrease of approximately HK$365.71 million or 74.90%. Such decrease was mainly attributable to the combined effects of (a) the drop in trade payables by approximately HK$349.74 million due to the deterioration of the performance of the Printed Circuit Boards Business; (b) the absence of interest-bearing borrowings by approximately HK$98.46 million due to the repayment of borrowings; and (c) convertible bonds of approximately HK$78.36 million, of which the maturity date will be on 21 September 2020, having been classified as current liability.

The non-current portion of the convertible bonds, representing majority of the total non-current liabilities, decreased from approximately HK$73.55 million as at 31 March 2019 to nil as at 31 March 2020 due to the presentation of the convertible bonds as a current liability.

The gearing ratio of the Group, which was measured by debt (i.e. interest-bearing borrowings, lease liabilities and liability component of convertible bonds) over the total equity, decreased slightly from approximately 75.04% as at 31 March 2019 to approximately 61.51% as at 31 March 2020.

Based on the total number of issued Shares of 576,243,785 as at 31 March 2020, the net asset value per Share as at 31 March 2020 amounted to approximately HK$0.23.

1.3 Analysis

Performance of the Group's existing business

According to the 2019/20 Annual Results Announcement, the Printed Circuit Boards Business was adversely impacted by (i) the raft of negative sentiment triggered by the recent escalating trade disputes between the US and the PRC which made its existing clients hold back on placing orders; and (ii) the dampened business environments in domestic and overseas markets, especially those in Europe and Japan, deteriorated sharply as the COVID-19 epidemic had reduced people and cargo flows and caused disruption to a wide range of economic activities. As mentioned in the historical financial performance of the Group above, the revenue generated by the Printed Circuit Boards Business recorded a significant drop from approximately HK$136.06

million in FY2019 to approximately HK$37.01 million in FY2020. As advised by the management of the Group, due to the global economic slowdown resulting from the trade disputes between the US and the PRC, revenue generated by customers from the US decreased from approximately HK$23.72 million in FY2019 to approximately HK$13.48 million in FY2020, representing an approximately 43.17% drop. Due to the COVID-19 pandemic, (a) revenue generated by customers from the PRC decreased from approximately HK$81.37 million in FY2019 to approximately HK$17.26 million in FY2020, representing an approximately 78.79% drop; (b) revenue generated by customers from Japan decreased from approximately HK$15.77 million in FY2019 to approximately HK$2.47 million in FY2020, representing an approximately 84.34% drop; and (c) revenue generated by customers from Europe decreased from approximately HK$1.86 million in FY2019 to approximately HK$1.49 million in FY2020, representing an approximately 19.89% drop.

We also noted that the Petroleum and Energy Business is facing challenges. As disclosed in the 2019/20 Annual Results Announcement, such business was temporarily suspended due to the litigation with Societe Generale, Singapore Branch in August 2019. Two subsidiaries of the Company would not be able to place purchase orders to suppliers or take new orders from customers as restricted by the injunction order obtained by the bank, which caused a substantial business loss to the Company during this period. According to the decision of High Court of Hong Kong dated 10 July 2020, the aggregate amount injuncted against Pacific Dragon and DML should be reduced to HK$10,228,906.30 and the injunction is permitted to be discharged if the same amount injuncted is paid into court. Pacific Dragon and DML were also awarded costs to be paid by the Plaintiff. As at the Latest Practicable Date, the Petroleum and Energy Business was still temporarily suspended.

Having considered the above factors, we noted that the Group is currently facing difficulties (i) from the business environment in performing the Printed Circuit Boards Business and (ii) from the litigation issue with the bank which brought uncertainty to the Petroleum and Energy Business, despite the considerable growth such segment previously demonstrated, and we concur with the Board's view that the Printed Circuit Boards Business and the Petroleum and Energy Business are subject to the above uncertainties which limit the performance of the Group.

2. Background and financial information of the Target Group and information of the Vendor

2.1 Background 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, leased by NSSW, 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, which are owned by NSSZ, 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 each of the financial years ended 31 March 2019 and 2020 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.

2.2 *Historical financial information of the Target Group*

Consolidated financial performance of the Target Group

Set out below is the summary of the audited consolidated financial information of the Target Group for FY2018, FY2019 and financial year ended 31 March 2020 ("**FY2020**") prepared in accordance with Hong Kong Financial Reporting Standards, the full text of which is set out in Appendix II of this circular:

	FY2018 *HK$'000* (Audited) *(Note)*	**FY2019** *HK$'000* (Audited)	**FY2020** *HK$'000* (Audited)
Revenue	52,694	64,818	62,108
Net profit/(loss) before taxation and extraordinary items	(481)	6,508	5,528
Net profit/(loss) after taxation and extraordinary items	(477)	6,367	5,063

Note: Key financial figures for FY2018 is shown in the table above for comparative purpose.

(i) FY2020 vs FY2019

The revenue of the Target Group in FY2020 amounted to approximately HK$62.11 million, representing a decrease of approximately HK$2.71 million or 4.18% as compared to FY2019. Such decrease was mainly due to orders received from customers in United States of America and United Kingdom reduced by approximately HK$8.84 million while it was partially offset by the increased orders received from customers in Hong Kong by approximately HK$6.72 million.

We also noted that the Target Group recorded net profit of approximately HK$5.06 million in FY2020, representing a decrease of approximately HK$1.31 million or 20.57% as compared to FY2019, which was in line with the decrease of revenue. Such decrease was due to a turnaround from exchange gain of approximately HK$0.76 million to exchange loss of approximately HK$0.58 million.

(ii) FY2019 vs FY2018

The revenue of the Target Group in FY2019 amounted to approximately HK$64.82 million, representing an increase of approximately HK$12.13 million 23.02% as compared to FY2018. Such increase was mainly due to increase in orders received from customers in United States of America and the PRC by approximately HK$15.55 million while it was partially offset by the decrease in orders received from United Kingdom of approximately HK$2.37 million.

We also noted that the Target Group recorded net profit of approximately HK$6.37 million in FY2019, representing a turnaround from net loss of approximately HK$0.48 million in FY2018, which was in line with the increase of revenue in FY2019. As stated in Appendix III "management discussions and analysis of the Target Group", the Target Group successfully achieved a turnaround in FY2019 due to the 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.

Consolidated financial position of the Target Group

Set out below is the summary of the key financial information of the Target Group based on the audited management accounts of the Target Group as at the three financial years ended 31 March 2018, 31 March 2019 and 31 March 2020:

	As at 31 March 2018 *HK$'000* (Audited) *(Note 1)*	**As at 31 March 2019** *HK$'000* (Audited)	**As at 31 March 2020** *HK$'000* (Audited)
Non-current assets	48,464	43,174	36,696
Current assets	54,800	51,671	57,054
Total assets	103,264	94,845	93,750
Current liabilities	89,842	75,134	68,929
Non-current liabilities	101	12	271
Total liabilities	89,943	75,146	69,200
Net assets	13,321	19,699	24,550
Gearing ratio (%) *(Note 2)*	4.11	2.36	1.80

Note 1: Key financial figures as at 31 March 2018 are shown in the table above for comparative purpose.

Note 2: Gearing ratio was calculated by dividing the total borrowings minus bank balances and cash by the total equity.

(i) As at 31 March 2020

As at 31 March 2020, the non-current assets of the Target Group amounted to approximately HK$36.70 million, which mainly consisted of plant and equipment. It recorded a decrease of approximately HK$6.48 million or 15.01% as compared to 31 March 2019 which is mainly attributed to annual depreciation of plant and equipment. The current assets of the Target Group amounted to approximately HK$57.05 million, which mainly consisted of loans to related companies and trade and other receivables. It represented an increase of approximately HK$5.38 million or 10.42% as compared to 31 March 2019. It is mainly attributable to (i) an increase in bank and cash balance by approximately HK$1.75 million due to continuous inflow from operation; (ii) an increase in loans to related companies by approximately HK$7.00 million; and (iii) a reduction in inventory level by approximately HK$5.55 million.

We also noted that the Target Group kept a minimal level of non-current liabilities of the Target Group for both 31 March 2020 and 31 March 2019, which mainly consisted of lease liabilities and deferred tax liabilities. The current liabilities as at 31 March 2020 amounted to approximately HK$68.93 million, which mainly consisted of bank borrowings and trade and other payables. It represented a decrease of approximately HK$6.21 million or 8.26% as compared to 31 March 2019 which was mainly attributable to reduction of the balance of trade and other payables due to partial settlement to suppliers was made during FY2020.

The net asset value of the Target Group as at 31 March 2020 increased by approximately HK$4.85 million or 24.63% as compared with 31 March 2019, which was due to profit recorded during FY2020.

(ii) As at 31 March 2019

As at 31 March 2019, the non-current assets of the Target Group amounted to approximately HK$43.17 million, which mainly consisted of plant and equipment. It recorded a decrease of approximately HK$5.29 million or 10.92% as compared to 31 March 2018 which is mainly attributed to annual depreciation of plant and equipment. The current assets of the Target Group as at 31 March 2019 amounted to approximately HK$51.67 million, which mainly consisted of loans to related companies, trade and other receivables and inventories. It recorded a decrease of approximately HK$3.13 million or 5.71% as compared to 31 March 2018. It is mainly attributable to cash paid for partial repayment of amount due to ultimate controlling party.

We also noted that the current liabilities of the Target Group as at 31 March 2019 amounted to approximately HK$75.13 million, which mainly consisted of bank borrowings and trade and other payables. It recorded a decrease of approximately HK$14.71 million or 16.37% as compared to 31

March 2018, which mainly attributed to the partial repayment of the amount due to ultimate controlling party. We noted that the Target Group recorded a minimal level of non-current liabilities which consisted of deferred tax liabilities only.

The net asset value of the Target Group as at 31 March 2019 increased by approximately HK$6.38 million or 47.88% as compared with 31 March 2018, which was due to profit recorded during FY2019.

2.3 Information of the Vendor

The Vendor is an investment holding company and the beneficial owner of 100% of the issued share capital of the Target Company.

3. Reasons for and benefits of the Acquisition

As disclosed in the Letter from the Board, in view of the ongoing trade war between the PRC and the US and the recent global coronavirus outbreak, the Group has been facing a tough environment for the Group's existing businesses. Having considered the uncertainties arising from (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, the Board expected that the Petroleum and Energy Business would be further affected and it is the Group's strategy to diversify its business and mitigate the risks and uncertainties through the expansion of business.

The abovementioned uncertainties have been the main limiting factors for the performance of the Printed Circuit Board Business and the Petroleum and Energy Business of the Group and have adversely impacted both businesses to different extent as discussed in the section headed "1.2 Historical financial information of the Group" above. Moreover, as enquired with the Board, the Group currently focuses on trading of industrial products, while the Target Group will carry out packaging for various consumer products, including but not limited to jewelry, stationery, wine and toys, which are considered to have a stable demand. Based on the above, we are of the view that it is a reasonable and active approach for the Group to explore other viable ways for further development and expansion of the Group's existing business and mitigate the risks arising from the external environment and the Acquisition is in line with the Group's strategy.

The Target Group, acquired by Mr. Ng and his spouse in 2016, is principally engaged in the manufacturing and trading of printing and packaging products based in Guangdong-Hong Kong-Macao Greater Bay Area. According to the analyst reports, of which the data was extracted from the "Report of Market Prospective and Investment Strategy Planning on China Packaging and Printing of Paper Products (2020-2025)" published by Forward Business Information Co. Ltd. Shenzhen in 2019 (the "**Analyst**

Reports"[1]), the value of total output of the packaging and printing of paper products increased from approximately RMB277 billion in 2013 to approximately RMB363 billion in 2018, representing a CAGR of approximately 5.56%. The total profits generated in the packaging and printing of paper products increased from approximately RMB17 billion in 2013 to approximately RMB22 billion in 2018, representing a CAGR of approximately 5.29%, which demonstrated that the market of packaging and printing services in the PRC are at its maturity stage and the demand is under steady growth during the years.

To better understand the latest market development of the Target Group, we have conducted further desktop research on the business of (i) the printing industry and (ii) the packaging industry during the period between 2018 and 2019. According to the National Bureau of Statistics of China[2], the revenue of the printing industry amounted to approximately RMB664.94 billion in 2019, representing an increase of approximately 2.76% from approximately RMB647.11 billion in 2018. The total profits amounted to approximately RMB43.76 billion in 2019, representing an increase of approximately 2.82% from approximately RMB42.56 billion in 2018. Moreover, according to the news article containing the data which was extracted from the "2019 Annual Operation Report of Packaging Business in the PRC*" (《中國包裝行業年度運行報告2019》) published by China Packaging Federation in 2020 (the "**News Article**"[3]) , the revenue generated by the packaging industry increased from approximately RMB970.32 billion in 2018 to approximately RMB1,003.25 billion in 2019, representing an increase of approximately 3.39%. The total profits amounted to approximately RMB52.68 billion in 2019, representing an increase of 2.15% from approximately RMB51.57 billion in 2018. We noted that there was a steady growth in both (i) the printing industry and (ii) the packaging industry during the period between 2018 and 2019. Taking into account the historical trend and performance of the printing and packaging industry from (a) the Analyst Reports, (b) the National Bureau of Statistics of China and (c) the News Article, it is expected that the growth in demand for printing and packaging services in the PRC will continue.

As discussed in the section headed "2.2 Historical financial information of the Target Group" above, the revenue and profits of the Target Group remained stable in FY2019 and FY2020. Considering the historical financial performance of the Target Group and the overall performance of the printing and packaging industries, we are of the view that the Acquisition will enable the Group to benefit from positive cash flow generated from the Target Group.

1 Details of the Analyst Reports were published on the websites of the Forward Business Information Co. Ltd. Shenzhen (https://www.qianzhan.com/analyst/detail/220/200228-fc622a6a.html and https://bg.qianzhan.com/trends/detail/506/200227-08a5f7f8.html)

2 Details of the data were published on the websites of the National Bureau of Statistics (http://www.stats.gov.cn/tjsj/zxfb/201901/t20190128_1647074.html and https://www.stats.gov.cn/tjsj/zxfb/202002/t20200203_1724853.html)

3 Details of the News Article were published on the websites of Askci Corporation (https://www.askci.com/news/chanye/20200612/1741231161882.shtml)

* *For identification purpose only*

As discussed in the Letter from the Board, the Group believes that Target Group's printing and packaging business will bring synergy effects to the Group's current business. The Company aims to provide one-stop solution services to its existing and potential customers of the Printed Circuit Boards Business, including manufacturing of the PCB products, packaging and label printing and arrangements of logistics services, by taking advantage of the existing logistic system of the Group, for these products. As enquired with the Board, we noted that the customers of the Printed Circuit Boards Business are mostly retailers and it is expected that the provision of packaging and label printing services for the PCB products would give rise to a business opportunity.

In addition, as enquired with the management of the Company, since the Group is shifting the markets of the Printed Circuit Boards Business to the PRC, it is expected that the negative impacts brought by the ongoing trade disputes between the PRC and the US will be alleviated. As mentioned in the section headed "1.3 Analysis" above, revenue generated by customers from the US in the Printed Circuit Boards Business recorded a drop of approximately 43.17% in FY2020 when compared to FY2019. However, with the synergy from the Acquisition, the Group would be able to leverage on the Target Group's expertise in the printing and packaging business, provide a comprehensive coverage of services to the Printed Circuit Boards Business, and eventually strengthen the Group's competitiveness in the PRC market. Therefore, we are of the view that the Acquisition stands for an opportunity for the Group to strengthen its current business which is expected to give a positive impact to the operation and financial results of the Group.

Apart from the opportunity for the Group to diversify its business and mitigate the risks arising from the international trade, the Acquisition is also supported by Guaranteed Profits given by the Vendor, in which the details are set out in the section headed "4.3 Profit guarantees and compensation" below. The Guaranteed Profits will provide a safeguard for the performance of the Target Group.

To ensure the Group has relevant experience and expertise to handle the newly acquired business, the Company proposes to appoint Mr. Ng, being an ultimate beneficial owner of the Target Company and a substantial Shareholder of the Company, to be a full-time consultant to assist the Company in managing the Target Group's business upon Completion. Having more than 40 years of experience in the printing and packaging products business, Mr. Ng will be capable of assisting the Company with overseeing the business of the Target Group. As advised by the management of the Company, it is also the Company's intention to retain the existing management team of the Target Group after Completion and the Group will conduct periodical review on the Group's management efficiency on the business of Target Group.

Having considered that (i) the Acquisition will diversify the business and mitigate risks of the Group; (ii) the Acquisition will enable the Group to benefit from positive cash flow generated from the Target Group; (iii) the Target Group's business will create synergy effects to the Group's existing business; (iv) the Guaranteed Profits will provide a safeguard for the performance of the Target Group; and (v) the appointment of Mr. Ng to be a consultant will ensure the Group have relevant experience, expertise and measures to supervise the newly acquired business, we are of the view that, the Acquisition is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

4.1 The Sale and Purchase Agreement

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

Date:	23 March 2020 (as supplemented by the First Supplemental Agreement dated 27 May 2020, the Second Supplemental Agreement dated 24 June 2020 and the Third Supplemental Agreement dated 16 July 2020)
Parties	the Purchaser; the Vendor; and the Guarantor.

As at the Latest Practicable Date, the Vendor is a company indirectly-owned as to 51% by Mr. Ng and 49% by his spouse. Mr. Ng was 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.

4.2 The consideration for the Acquisition and payment terms

With reference to the Letter from the Board, pursuant to the Second Supplemental Agreement, the Initial Consideration was lowered to the Revised Consideration of HK$30 million by reducing the second installment of the Initial Consideration from HK$23 million to HK$18 million (the "Second Installment"), which would be settled in the following manners:

(i) HK$12 million was paid 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, the Second Installment of HK$18 million would 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.

As at the Latest Practicable Date, the Deposit was paid by the Purchaser and the Purchaser elected to settle the Second Installment by issue of the Promissory Note with the principal amount of HK$18 million upon Completion.

Principal terms of the Promissory Notes

The principal terms of the Promissory Notes are summarised below:

Issuer:	the Purchaser
Principal amount:	up to HK$18 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

As disclosed in the Letter from the Board, the consideration for the Acquisition was determined after arm's length negotiations among the Purchaser, the Vendor and the Guarantor with reference to the profit guarantees given by the Vendor, the price-to-earnings ratio ("**P/E Ratio**") of the companies in the same industry as the Target Group (the "**Comparable Companies**"), the current development and prospects of the Target Group and the audited net asset value of the Target Group as at 31 March 2020 of approximately HK$24.55 million. Immediately before entering into the Second Supplemental Agreement, the Board considered and made a comparison of the P/E Ratio of the Comparable Companies based on the public available information as at 24 June 2020. Based on the Board's assessment, it was noted that the P/E Ratio of the Comparable Companies ranges from 3.8 times to 13.2 times, with an average P/E Ratio of 8.2 times as at 24 June 2020.

As mentioned in the Letter from the Board, the Board selected the Comparable Companies based on the comparability of the overall industry sector. Details of the selection criteria and the extracts of financial information of the Comparable Companies are discussed under the section headed "Initial Consideration and Revised Consideration" in the Letter from the Board.

The consideration for the Acquisition of HK$30 million represents a P/E Ratio of 6 times based on the 2020 Guaranteed Profit and an implied future P/E Ratio of approximately 4.29 times based on 2021 Guaranteed Profit. Given that (i) the P/E Ratio applied to the 2020 Guaranteed Profit is comparable to the average P/E Ratio of the Comparable Companies; (ii) the potential growth of the Target Group is backed by the 2021 Guaranteed Profit; (iii) the audited net asset value of the Target Group as at 31 March 2020 was approximately HK$24.55 million, which is close to the Revised Consideration; and (iv) the compensation mechanism of the Guaranteed Profits is in place, the Board considers that the consideration for the Acquisition is fair and reasonable.

As disclosed in the Letter from the Board, the remaining consideration for the Acquisition, which the Second Installment would be 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 view of the financial performance of the Group as mentioned in the section headed "1.2 Historical financial information of the Group" above, we concur with the Directors' view that the issue of Promissory Note will (i) enable the Group to defer its cash payment; and (ii) help preserve its cash resources for working capital needs prior to the maturity of the Promissory Note. Therefore, we consider that the payment terms are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

4.3 Profit guarantee and compensation

The Vendor irrevocably and unconditionally guarantees to the Purchaser that the 2020 Net Profit and the 2021 Net Profit shall be no less than the 2020 Guaranteed Profit and the 2021 Guaranteed Profit, which are HK$5 million and HK$7 million, respectively. In the event that the audited net profit of any Relevant Period is less than the corresponding guaranteed amount, the Vendor shall compensate the Purchaser the difference (the "**Shortfall**") on a dollar for dollar basis within three (3) Business Days after the issuance of the audit report of the Target Company for the Relevant Period.

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 fulfillment of the 2020 Guaranteed Profit and the 2021 Guaranteed Profit.

As disclosed in the Letter from the Board, the 2020 Guaranteed Profit was arrived and agreed by the parties with reference to:

(a) the actual net profit of the Target Group for the eight months ended 30 November 2019 from the Target Group's management accounts in the amount of approximately HK$5.2 million; and

(b) the amount of confirmed purchase orders on hand of the Target Group, which provides an estimated amount of revenue that the Target Group may account for by the end of March 2020.

Based on the accountants' report of the Target Group set out in Appendix II of this circular, the Target Group recorded an audited net profit of approximately HK$5.06 million for the year ended 31 March 2020. As such, the 2020 Guaranteed Profit has been fulfilled.

The Target Group recorded an audited net profit of approximately HK$5.06 million for the year ended 31 March 2020 consisting of the net profit generating from the Other Income Items in the amount of approximately HK$0.93 million and the net profit generated from the principal business activities of the Target Group in the amount of approximately HK$4.13 million. Details of the nature of revenue from each of Other Income Items and the corresponding expenses are illustrated in the Letter from the Board.

As disclosed in the Letter from the Board, given that the Other Income Items are not "extraordinary or exceptional items" under the HKFRS, the 2020 Guaranteed Profit was regarded as being fulfilled. The details of the accountants' report of the Target Group are set out in Appendix II of this circular.

On 24 June 2020, the Purchaser, the Vendor and the Guarantor entered into the Second Supplemental Agreement, among others, to exclude the net profits deriving from the non-principal business activities of the Target Group for calculating the 2021 Guaranteed Profit.

The 2021 Guaranteed Profit was arrived and agreed by the parties with reference to: (a) the 2020 Guaranteed Profit, the (b) the development of the Target Group and (c) the net profit of the Other Income Items for the year ended 31 March 2020.

As disclosed in the Letter from the Board, the Target Group has implemented and devised various development initiatives, including:

(a) continuing to focus on sales orders for high-quality printing and packaging products with higher profit margin (the "**Operational Strategy**"), a strategy which the Target Group has implemented since 2018;

(b) acquiring new local customers who are looking for printing and packaging businesses that have production facilities based in Guangdong-Hong Kong-Macao Greater Bay Area due to the disruptions in delivering goods caused by the recent ongoing coronavirus pandemic; and

(c) cooperating with external sales agent to generate more purchase orders to diversify its revenue stream instead of working exclusively with the in-house sales team to fully utilise its production capacity.

The aforesaid development initiatives were implemented with an objective to further increase the profitability of the Target Group, on the assumption that there will be no material change in the business environment and/or industry outlook in relation to the Target Group's principal activity for the year ending 31 March 2021.

With the implementation of Operational Strategy and the other development initiatives above, despite the trade war between the PRC and the US, the political unrest in Hong Kong and the outbreak of coronavirus, the net profit for the financial year ended 31 March 2020 remained stable.

Accordingly, after taking into consideration of the financial performance of the Target Group in the past two years after implementing the Operational Strategy and the proposed development initiatives of the Target Group, the Board is of the view that the 2021 Guaranteed Profit is realistic and achievable.

As discussed in the section headed "2.2 Historical financial information of the Target Group" above, the Target Group successfully (i) achieved a turnaround in FY2019 when compared to FY2018 due to the implementation of a series of the Operational Strategy and (ii) maintained a stable financial performance in FY2020. We have reviewed the sales orders committed by the customers of the Target Group of the total amount of approximately HK$14.73 million, which is expected to be recognized for the year ending 31 March 2021. As enquired with the management of the Group, the Company is negotiating with a new customer which is expected to place the sales orders in the amount of approximately HK$25.00 million for the year ending 31 March 2021. Taking into account (a) the implementation of the Operational Strategy and the proposed development initiatives of the Target Group; (b) the total amount of sales orders committed as at the Latest Practicable Date; (c) the expected sales orders from existing customers and new customers for the following months; and (d) the stable growth in demand for printing and packaging industry in the PRC as discussed in the section headed "3. Reasons for and benefits of the Acquisition" above, we are of the view that the 2021 Guaranteed Profit is justifiable, assuming that there will be no material change in the business environment and/or industry outlook in relation to the Target Group's principal activity for the year ending 31 March 2021.

The compensation mechanism

In the event that the 2021 Net Profit is less than the 2021 Guaranteed Profit, the Vendor shall compensate the Purchaser the Shortfall on a dollar for dollar basis 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 for the year ended 31 March 2021, the compensation is calculated based on the sum of the 2021 Guaranteed Profit and the absolute amount of the net loss of the Relevant Period.

If the Target Company fails to meet the 2021 Guaranteed Profit and the Promissory Note has been issued and not redeemed and the Shortfall 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.

Based on the accountants' report of the Target Group as set out in Appendix II of this circular, the audited net asset value of the Target Group was approximately HK$24.55 million as at 31 March 2020, which is close to the Revised Consideration of HK$30 million. Accordingly, given that the 2020 Guaranteed Profit has been fulfilled and in the event where the Target Group records nil for the 2021 Net Profit, the consideration for the Acquisition paid and/or payable by the Company would be HK$23 million in aggregate (after a deduction of HK$7 million, being the 2021 Guaranteed Profit, from the Revised Consideration), a figure lower than the audited net asset value of the Target Group as at 31 March 2020. Moreover, in the event that the business prospects and development of the Target Group fail to meet the Company's expectation, the compensation mechanism will provide extra comfort to the Company for the net loss recorded during the Relevant Period. Accordingly, we concur with the Directors' view that the compensation mechanism is fair and reasonable and is able to safeguard the Company's interests to a reasonable extent.

The Company will comply with the disclosure requirements under the Listing Rules in the event that the Target Group fails to meet the 2021 Guaranteed Profit.

Having considered that (i) the 2020 Guaranteed Profit has been fulfilled and the 2021 Guaranteed Profit is provided to the Group irrevocably and unconditionally by the Vendor, (ii) the Guaranteed Profits have indicated the level of confidence of the Vendor in the Target Group's future growth; and (iii) Guaranteed Profits and the compensation mechanism together will provide safeguard to the Group from underperformance or bearing losses of the Target Group within the prescribed period without incurring any extra costs. Therefore, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4.4 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.

4.5 Debt Settlement Deed

On 16 June 2020, the Vendor, the Target Company, NSSW, NSSZ, New Spring Label, Huge Grand, Fook Hing and Mr. Ng entered into the Debt Settlement Deed, pursuant to which subject to the Completion, each party of the Debt Settlement

Deed agreed to settle the loans and amounts due from and/or to each other and the net amount of the outstanding loans and amounts would be payable by Mr. Ng to NSSW (the "**Debt Settlement**"). Upon completion of the Debt Settlement, the estimated amount payable by Mr. Ng to NSSW is approximately HK$8 million, which is calculated based on the audited accounts of the Target Group as at 31 March 2020. Mr. Ng shall repay the outstanding amount, which will be determined based on the final audit results of the Target Company as at the date of Completion, to NSSW within 30 days after the completion date of the Acquisition. Each of New Spring Label, Huge Grand and Fook Hing agreed to provide guarantee in favour of the Target Group if Mr. Ng fails to perform his obligation under the Debt Settlement Deed. For the details of (i) the audited balances of the outstanding loans and amounts due from and/or to each other as at 31 March 2020 under the Debt Settlement Deed and (ii) the balance upon completion of the Debt Settlement, please refer to the Letter from the board.

5. Evaluation of the consideration for the Acquisition and the principal terms of the Promissory Notes

5.1 Comparables analysis on consideration

The consideration for the Acquisition of HK$30 million also represents (a) the price-to-book ratio (the "**P/B Ratio**") (based on the net asset value of HK$24.55 million as at 31 March 2020) of the Target Group of approximately 1.22 times; and (b) the price-to-earnings ratio (the "**P/E Ratio**", as defined above) of the Target Group of approximately 7.26 times based on the net profit generated from the principal business activities of approximately HK$4.13 million.

In order to assess the fairness and reasonableness of the consideration for the Acquisition, we have taken into account the P/E Ratio and the P/B Ratio, which are considered the most widely used and accepted financial valuation methods, of the comparables.

We have conducted a research to identify the companies which (i) are listed in Hong Kong; (ii) are engaged in similar line of business as the Target Group, being manufacturing and trading of printing and packaging products businesses (the "**Relevant Business**"); and (iii) over 90% of the revenue are generated from the Relevant Business. To the best of our knowledge and endeavour, we found 12 companies listed which met our selection criteria (the "**Comparables**"). The Comparables are exhaustive, fair and representative as far as we are aware of.

The following Comparables have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. Set out below is the Comparables analysis:

Stock code	Company name	Principal business	Market capitalization *(Note 1)* *(approximately HK$ million)*	P/E Ratio *(Note 2)*	P/B Ratio *(Note 3)*
55	Neway Group Holdings Limited	(i) Distribution of gaming machines; (ii) money lending; (iii) manufacturing and sales of printing products; (iv) artistes management, production and distribution of music albums and movies; (v) property development and investment; (vi) securities trading; and (vii) trading of printing products	57.58	NA *(Note 4)*	0.06
403	Starlite Holdings Limited	Printing and manufacturing of packaging materials, labels and paper products, including environmentally friendly paper products	228.43	N/A *(Note 4)*	0.49
450	Hung Hing Printing Group Limited	The book and package printing, the consumer product packaging, the corrugated box and the trading of paper	916.94	12.10	0.28
468	Greatview Aseptic Packaging Company Limited	Manufacturing, distribution and selling of paper packaging and filling machines to dairy and noncarbonated soft drink producers	3,676.80	9.60	1.50
1127	Lion Rock Group Limited	Provision of printing services to international book publishers, trade, professional and educational publishing conglomerates and print media companies	577.50	4.16	0.49
1172	Magnus Concordia Group Limited	Manufacturing and trading of printed products, property investment, development and sale businesses and securities investment and trading business	520.13	204.69 *(Note 5)*	0.83

Stock code	Company name	Principal business	Market capitalization *(Note 1)* *(approximately HK$ million)*	P/E Ratio *(Note 2)*	P/B Ratio *(Note 3)*
1412	Q P Group Holdings Limited	Paper product manufacturing and provision of printing services with the capability to offer value-adding and customised product engineering services and printing solutions to our customers for a wide spectrum of products	484.12	5.74	0.91
1975	Sun Hing Printing Holdings Limited	Investment holding, the sale and manufacture of printing products, and the internet and technology business	170.40	5.28	0.57
3626	Hang Sang (Siu Po) International Holding Company Limited	Manufacturing and sale of apparel labels and packaging printing products	114.08	68.52 *(Note 5)*	1.22
8385	Prosperous Printing Company Limited	Provision of printing products to Hong Kong-based print brokers with customers in overseas markets and to international publishers	188.00	10.33	0.63
8448	Universe Printshop Holdings Limited	Provision of general printing services and trading of printing products	79.20	N/A *(Note 4)*	1.51
8485	Smart Globe Holdings Limited	Printing books products and novelty and packaging products	201.00	8.69	1.68
			Maximum:	12.10	1.68
			Minimum:	4.16	0.28
			Average:	7.99	0.89
			The Acquisition	7.26 *(Note 6)*	1.22 *(Note 7)*

Source: *website of the Stock Exchange*

Notes:

1. Market capitalization of the Comparables are based on the respectively closing share prices as at 24 June 2020, being the date of the Second Supplemental Agreement, extracted from the website of the Stock Exchange.

2. P/E Ratio of the Comparables are calculated by dividing the market capitalization as at 24 June 2020, being the date of the Second Supplemental Agreement, by the net profit attributable to the shareholders of the company as extracted from their respective published annual reports.

3. P/B Ratio of the Comparables are calculated by dividing the market capitalization as at 24 June 2020, being the date of the Second Supplemental Agreement, by the equity attributable to the shareholders of the company as extracted from their respective published annual reports.

4. No P/E Ratio is calculated for these companies as net loss was recorded in its latest financial year.

5. These companies (the "**Extremities**") have been excluded from our calculation of maximum, minimum and average for analysis purpose as each of their P/E ratio represents approximately 25.62 times and 8.58 times of the average of the Comparables (i.e. 7.99 times), which we consider is extraordinary and not relevant for comparison.

6. The implied P/E Ratio of the Target Group is calculated by dividing the consideration for the Acquisition of HK$30 million by the consolidated net profit generated from the principal business activities of Target Group for the year ended 31 March 2020 of approximately HK$4.13 million based on the audited consolidated financial statements of the Target Group for the year ended 31 March 2020.

7. The implied P/B Ratio of the Target Group is calculated by dividing the consideration for the Acquisition of HK$30 million by the consolidated net assets of Target Group for the year ended 31 March 2020 of approximately HK$24.55 million based on the audited consolidated financial statements of the Target Company for the year ended 31 March 2020.

We noted from the above table that the P/E Ratio of the Comparables ranged from approximately 4.16 times to approximately 12.10 times, with an average of approximately 7.99 times. The implied P/E Ratio of the Acquisition of 7.26 times, which is within the range and lower than the average of the Comparables.

As illustrated in the table above, P/B Ratio of the Comparables ranged from a minimum of approximately 0.28 times to a maximum of approximately 1.68 times with an average of approximately 0.89 times. The implied P/B Ratio of the Target Group of approximately 1.22 times is fall within the range and higher than the average of the Comparables. However, we have taken into account the following factors as an overall assessment: (i) the implied P/B Ratio of the Target Group is still within the range of the P/B Ratio of the Comparables; (ii) the P/E Ratio of the Target Group is within the range and lower than the average of the P/E Ratio of the Comparables; and (iii) other factors as discussed in the section headed "3. Reasons for and benefits of the Acquisition" above.

Having considered the above, in particular, (i) the implied P/E Ratio and P/B Ratio of the Acquisition fall within range as compared to the Comparables; (ii) the 2020 Guaranteed Profit has been fulfilled; (iii) potential growth of the Target Group will be backed by the implementation of Operational Strategy, the industry growth and the 2021 Guaranteed Profit and (iv) the compensation mechanism is put in place as discussed in the section headed "4.3 Profit guarantee and compensation" above, we concur with the Directors' view that the consideration for the Acquisition is determined based on normal commercial terms, is fair and reasonable as far as the Independent Shareholders are concerned and in interests of the Company and Shareholders as a whole.

5.2 Comparables analysis on the principal terms of the Promissory Notes

To assess the fairness and reasonableness of the principal terms of the Promissory Note, we have conducted a research on the website of the Stock Exchange for relevant transactions of the companies which involved the issue of promissory notes for acquisitions during the six months prior to the publication of the announcement of the Company dated 23 March 2020 (the "**Comparable Period**").

In our assessment, we have attempted to identify comparable companies which (i) are listed on the Stock Exchange; and (ii) the acquisitions involved an issue of promissory notes to connected person(s). Based on these criteria, we have identified one company listed on the Stock Exchange. However, considering the analysis of one comparable is not a representative sample, we have revised the selection criteria to identify comparable companies which are (i) listed on the Stock Exchange; (ii) the acquisitions involved an issue of promissory notes. Based on these criteria and the public information available on the Stock Exchange's website, we have identified an exhaustive list of a total of 5 companies listed on the Stock Exchange (the "**PN Issues Comparables**") during the Comparable Period. Having considered that this analysis is mainly used to demonstrate the reasonableness and fairness of the terms of promissory notes, we are of the view that the list below is sufficient and applicable for us to assess the recent market trend.

We consider that the Comparable Period is appropriate (i) to reflect the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) to provide a general reference of the recent promissory notes transactions being conducted under similar market conditions; and (iii) to generate a reasonable and meaningful number of samples for the purpose of our analysis. Therefore, we consider the Comparable Period sets an appropriate basis for our analysis and that the PN Issues Comparables represent fair and representative samples.

Date of announcement	Stock code	Company name	Term (years)	Interest rate per annum
27 September 2019	1323	Newtree Group Holdings Limited	1 year for part of promissory note; 2 years for part of promissory note; and 3 years for remaining part of promissory note	2%
4 October 2019	8179	Food Idea Holdings Limited	2	5%
8 November 2019	1372	Bisu Technology Group International Limited	Perpetual	10% from 4 Feb 2016 to 4 Feb 2018; 8% from 5 Feb 2018 to 4 Feb 2020; and 5% from 5 Feb 2020 onwards
31 December 2019	2227	Solis Holdings Limited	1	Not disclosed
21 February 2020	8391 *(Note)*	Elegance Commercial and Financial Printing Group Limited	3	5%
		Maximum	Perpetual	10%
		Minimum	1	2%
		Average	2	5.83%
		Promissory Notes	2	2%

Note: This comparable was an acquisition involving an issue of promissory notes to connected person(s).

We noted from the above table that the term of the PN Issues Comparables ranged from 1 year to perpetual, with an average maturity period of approximately 2 years. The term of the Promissory Notes is 2 years, which is within the range and comparable to the average of the PN Issues Comparables.

As illustrated in the table above, the interest rate of the PN Issues Comparables ranged from 2% to 10%, with an average of approximately 5.83%. The interest rate of the Promissory Notes is 2%, which is within the range and below average of the PN Issues Comparables.

Moreover, we noted that the interest of the Promissory Note of 2% per annum which compares favorably against the interest rate of the convertible bonds of 6.0% per annum as explained under note 11 to the financial statements set out in the Group's 2019/20 Annual Results Announcement.

Taking into consideration that (i) the terms of maturity and the interest rate of the Promissory Notes are in line with those of the PN Issues Comparables; and (ii) the interest of Promissory Notes is favorable as compared to the interest rate of the convertible bonds of the Company, we are of the view that the principal terms are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

6. Possible financial effects of the Acquisition

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the Group's consolidated financial statements.

Earnings

As set out in Appendix II to this circular, the audited net profit after taxation of the Target Group for the year ended 31 March 2020 was approximately HK$5.06 million. Given that the financial results of Target Group will be consolidated with those of the Group after Completion, the earnings of the Group will be enhanced by the performance of Target Group in the future.

Assets and liabilities

As at 31 March 2020, the unaudited consolidated total assets and liabilities of the Group, as set out in the 2019/20 Annual Results Announcement, amounted to approximately HK$257.62 million and HK$124.53 million, respectively. Assuming Completion took place on 31 March 2020, the unaudited pro forma consolidated total assets and liabilities of the Enlarged Group would have increased to approximately HK$315.78 million and HK$182.28 million, respectively, as a result of the Acquisition as set out in Appendix IV of this circular.

Working capital

The Group had cash and cash equivalents of approximately HK$30.65 million as at 31 March 2020, as disclosed in the 2019/20 Annual Results Announcement. Assuming Completion took place on 31 March 2020, the unaudited pro forma consolidated cash and cash equivalents of the Enlarged Group were approximately HK$44.65 million as set out in Appendix IV of this circular. We also note from the section headed "4. Working capital" in Appendix I to this circular that the Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Group including the internally generated funds, the currently available banking facilities and the effects of the Acquisition, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

RECOMMENDATION

Taking into consideration (i) the reasons and benefits of the Acquisition; and (ii) the basis of the consideration for the Acquisition and payment terms, including the Guaranteed Profits and compensation mechanism given by the Vendor, we are of the opinion that the terms of the Sale and Purchase Agreement, although not in the ordinary and usual course of business of the Group, are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the upcoming SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
INCU Corporate Finance Limited
Gina Leung
Managing Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCU Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the years ended 31 March 2017, 2018 and 2019 and the unaudited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the six months ended 30 September 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/daisho):

Annual report for the year ended 31 March 2017 (pages 36 to 90):

https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0713/ltn20170713293.pdf

Annual report for the year ended 31 March 2018 (pages 53 to 120):

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0711/ltn20180711501.pdf

Annual report for the year ended 31 March 2019 (pages 64 to 144):

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0730/ltn20190730497.pdf

Interim report for the six months ended 30 September 2019 (pages 1 to 31):

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1224/2019122400690.pdf

The unaudited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the year ended 31 March 2020 are disclosed in the annual results of the Company for the year ended 31 March 2020 (the "**2020 Annual Results**"), which has been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/daisho). Please see below hyperlink to the 2020 Annual Results (pages 1 to 24):

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0629/2020062900047.pdf

2. STATEMENT OF INDEBTEDNESS

THE GROUP

Borrowings

At the close of business on 31 May 2020, being the latest practicable date for the purpose of preparing this indebtedness statement, the Group had unsecured 6% convertible bonds with aggregate principal amount of HK$80,000,000 due on 21 September 2020.

Lease liabilities

As at 31 May 2020, the Group had outstanding lease liabilities (including both current and non-current portions) of approximately HK$3,206,000.

	At 31 May 2020 *(HK$'000)* (unaudited)
Amounts payable	3,350
Less: future finance charges	(144)
	3,206

As at 31 May 2020, the weighted average incremental borrowing rate for lease liabilities of the Group was 5.04% per annum.

Contingent liabilities

At the close of business on 31 May 2020, the Group had neither any guarantee nor any other contingent liabilities in existence.

Details of litigation in which the Group has been engaged and which are considered to be of importance to the Group are set out in the section headed "8. Claims and litigation" in Appendix V to this Circular.

THE TARGET GROUP

Borrowings

As at 31 May 2020, the Target Group had outstanding secured bank borrowings of approximately HK$29,026,000 and are secured and guaranteed by (i) properties owned by related companies which are controlled by Mr. Ng (the "**Ultimate Controlling Party**"); and (ii) joint and several personal guarantees given by Mr. Ng and Ms. Li Mi Lai, the spouse of Mr. Ng and a director of the Target Company.

Amounts due to immediate holding company/the Ultimate Controlling Party

As at 31 May 2020, the Target Group had outstanding amounts due to immediate holding company and the Ultimate Controlling Party of approximately HK$11,899,000 and HK$6,860,000, respectively, which are non-trade related, unsecured, interest-free and repayable on demand.

Lease liabilities

As at 31 May 2020, the Target Group had outstanding lease liabilities (including both current and non-current portions) of approximately HK$395,000.

	At 31 May 2020 *(HK$'000)* (unaudited)
Amounts payable	420
Less: future finance charges	(25)
	395

As at 31 May 2020, the weighted average incremental borrowing rate for lease liabilities of the Target Group was 5.28% per annum.

Contingent liabilities

At the close of business on 31 May 2020, the Target Group had neither any guarantee nor any other contingent liabilities in existence.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 May 2020, the Group and the Target Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

Reference is made to the annual results of the Group dated 26 June 2020 for the year ended 31 March 2020 which stated that the Group recorded a net loss for the period of approximately HK$87.2 million as compared with the net profit of approximately HK$100.5 million for the year ended 31 March 2019, which was mainly attributable to, among other things, (1) impairment loss on the deposit of approximately HK$14.6 million paid for the acquisition of the two of the four vessels pursuant to the sale and purchase agreement dated 29 September 2017, which was terminated subsequently by the deadline. The vendor of the said vessels was known to have financial difficulties and had yet to fulfill its obligation to return the deposit of approximately HK$14.6 million to the Company by the prescribed deadline (the details of which had been disclosed in the Company's announcement dated 4 September 2019); (2) impairment loss of approximately HK$22.5 million on the outstanding trade receivables of the Group; (3) the decrease in the fair value gain on derivative financial instruments from approximately HK$25.7 million for last corresponding period to approximately HK$1.5 million for the current year; (4) impairment loss on property, plant and equipment of approximately HK$2.4 million; (5) legal and professional fee of approximately HK$15.6 million (2019: approximately HK$1.7 million) incurred for professional advice on settlement of withholding tax on capital gain and various outstanding litigations; and (6) the absence of the preceding year's gain of approximately HK$170.3 million on the disposal of the subsidiary in the current financial year.

Save as disclosed above, the Directors were not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 March 2019 (being the date which the latest published audited consolidated financial statements of the Group had been made up) up to the Latest Practicable Date.

4. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Group including the internally generated funds, the currently available banking facilities and the effects of the Acquisition, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

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 business (the "**Vessel Chartering Business**").

For the Printed Circuit Boards Business, the key product is printed circuit boards ("**PCB**") for automotive electronics used in automobiles and for artificial intelligent building equipments, which the Group deals with the customers directly and/or through agents and traders. The Printed Circuit Boards Business has an experienced technical team and quality control team with almost 20 years of work experience in the electronic components industry. In the Printed Circuit Boards Business, the Group has 30 employees, approximately 20 active customers and five core suppliers. The Group continues to focus on PCB for automotive electronic markets and has and proposes to expand into consumer electronics market.

For the Petroleum and Energy Business, the competitive advantage of the Group is its integrated services in the supply chain, which starts from originating of goods to transportation of goods by its own fleet. However, due to (i) the recent global coronavirus outbreak having a significant impact on the oil demand; (ii) the adverse market conditions in Singapore, which is one of the main markets of the Petroleum and Energy Business; (iii) the withdrawal of credit facilities by financial institutions, arising from default of other industry players; and (iv) the outstanding legal proceedings of the Group with Societe Generale, the details of which are disclosed under the section "8. Claims and litigation" in Appendix V of the circular, the Petroleum and Energy Business is under great pressure. Taking into account of the aforesaid factors, the Company has streamlined its staff force from five employees for the year of 2019 to two employees recently, for cost saving. The Group originally focuses on the Singapore market and is looking into diversifying the sales market beyond Singapore, like the PRC, and suppliers located in the Middle East and the Europe. As at the Latest Practicable Date, the Petroleum and Energy Business is still temporarily suspended.

For the Vessel Chartering Business, the Group's fleet has two oil tankers, which are managed by a wholly-owned ship management subsidiary of the Group in Singapore. The tankers are relatively new (all under 10 years) and can be operated within the Singapore Waters. In addition, the tankers were converted into low sulphur fuel carriers. The availability of this type of tankers are limited in supply, and are in good demand. The two tankers are recently run by 32 staff of the Group (the "**Vessel Management Staff**"), who are well trained and qualified under the requirements of Singapore Manpower Ministry, with approximately 10 years of experience within their role. The tankers are currently time chartered to a bunkering company, which has businesses in Singapore and Malaysia. The tankers are chartered out and the charter is being renewed for a further fixed period. The Vessel Management Staff has sufficient capacity to manage two to three more vessels. Subject to the demand and the market condition, the tankers may be chartered to other trades, e.g. palm oil, and/or for self use to support oil trading business. As the Group has an existing Vessel Chartering Business, 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 Vessel Chartering Business into the sea freight and cargo services.

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.

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 Group is able to act as an one stop services provider for the Printed Circuit Boards Business, from the manufacturing of the PCB products to the packaging and label printing of these products to the arrangements of the logistic services, by taking advantage of the existing logistic system of the Group, for these products. Notwithstanding that the Group did not previously engage any external service provider to provide packaging and label printing services for its manufactured PCB products, the Board believes that the Acquisition will give rise to the business opportunity for the sales and marketing team to promote the packaging and label printing of the PCB products. The Group may also offer the Printed Circuit Boards Business customers the additional service of providing packaging and label printing services for their final goods.

The Group is shifting the markets of the Printed Circuit Boards Business to the PRC to minimise the negative impact brought about by the ongoing trade tension between the PRC and the US and to tap into the PRC market for its end products. With the printing and packaging business of the Target Group, the Group would be able to provide a more comprehensive service to its existing and potential customers, which would strengthen the Group's competitiveness to acquire the PRC market share. Also, the Group will leverage on the Target Group's expertise in printing and packaging business to the Printed Circuit Boards Business and the successful marketing strategy and experience to the Group's further development. The Company has no intention to downsize, cease or disposal of any of the Printed Circuit Boards Business, the Petroleum and Energy Business and the Vessel Chartering Business.

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 following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Target Company's reporting accountants, Mazars CPA Limited, Certified Public Accountants, Hong Kong.

MAZARS
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF TARGET GROUP

The Directors
Daisho Microline Holdings Limited

Introduction

We report on the historical financial information of Sky Will Printing & Packaging Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") set out on pages II-1 to II-48, which comprises the consolidated statements of financial position of the Target Group as at 31 March 2018, 2019 and 2020, the statements of financial position of the Target Company as at 31 March 2018, 2019 and 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the three years ended 31 March 2018, 2019 and 2020 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages II-1 to II-48 forms an integral part of this report, which has been prepared for inclusion in the circular of Daisho Microline Holdings Limited (the "Company") dated 21 July 2020 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on our judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the Target Group's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Target Group's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 March 2018, 2019 and 2020, of the Target Company's financial position as at 31 March 2018, 2019 and 2020, and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON OTHER MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which states that no dividend have been paid by the Target Company in respect of the Relevant Periods.

Preparation or audit of financial statements

Note 1 to the Historical Financial Information contains information about whether the financial statements of the members of the Group for the Relevant Periods have been audited and, if applicable, the name of auditors.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 21 July 2020

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were prepared by the directors of the Target Company in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by Mazars CPA Limited, *Certified Public Accountants*, *Hong Kong* in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March		
		2018	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*5*	52,694	64,818	62,108
Cost of sales		(46,084)	(52,790)	(50,136)
Gross profit		6,610	12,028	11,972
Other income	*6*	4,963	6,417	5,097
Selling and distribution costs		(1,819)	(1,679)	(1,441)
Administrative expenses		(9,163)	(8,745)	(8,437)
(Provision for) Reversal of loss of trade receivables		(5)	4	(47)
Finance costs	*7*	(1,067)	(1,517)	(1,616)
(Loss) Profit before tax	*7*	(481)	6,508	5,528
Income tax credit (expense)	*10*	4	(141)	(465)
(Loss) Profit for the year		(477)	6,367	5,063
Other comprehensive (loss) income:				
Item that may be reclassified subsequently to profit or loss				
Exchange difference on translation of functional currency to presentation currency		(22)	11	(212)
Total comprehensive (loss) income for the year		(499)	6,378	4,851

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 March		
		2018	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Plant and equipment	*13*	48,464	43,174	36,475
Deferred tax assets	*23*	–	–	221
		48,464	43,174	36,696
Current assets				
Inventories	*14*	9,970	11,342	5,791
Trade and other receivables	*15*	13,420	11,406	10,905
Loans to related companies	*20*	17,026	17,026	24,026
Amounts due from related companies	*21*	2,402	5,101	7,788
Bank balances and cash	*16*	11,982	6,796	8,544
		54,800	51,671	57,054
Current liabilities				
Trade and other payables	*17*	22,898	21,555	15,608
Bank borrowings	*18*	29,026	29,026	29,026
Lease liabilities	*19*	171	89	162
Amount due to immediate holding company	*22*	11,905	11,905	11,899
Amount due to the Ultimate Controlling Party	*22*	25,842	12,418	11,860
Income tax payable		–	141	374
		89,842	75,134	68,929
Net current liabilities		(35,042)	(23,463)	(11,875)
Total assets less current liabilities		13,422	19,711	24,821
Non-current liabilities				
Lease liabilities	*19*	89	–	259
Deferred tax liabilities	*23*	12	12	12
		101	12	271
NET ASSETS		13,321	19,699	24,550
Capital and reserves				
Share capital	*24(a)*	10	10	10
Reserves	*25*	13,311	19,689	24,540
TOTAL EQUITY		13,321	19,699	24,550

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

		At 31 March		
		2018	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Plant and equipment	*24(b)*	5,088	4,232	1,198
Investments in subsidiaries	*24(c)*	12,010	12,010	12,010
		17,098	16,242	13,208
Current assets				
Other receivables		6	6	6
Loans to related companies	*20*	17,026	17,026	24,026
Amounts due from subsidiaries	*24(d)*	5,681	12,031	6,242
Amounts due from related companies	*24(e)*	638	1,503	2,830
Amount due from the Ultimate Controlling Party	22	1,043	–	924
Bank balances and cash		7,300	3,497	167
		31,694	34,063	34,195
Current liabilities				
Other payables		289	288	269
Bank borrowings	*18*	29,026	29,026	29,026
Amount due to immediate holding company	*24(d)*	13,907	13,907	13,907
Amount due to the Ultimate Controlling Party	22	–	1,816	–
		43,222	45,037	43,202
Net current liabilities		(11,528)	(10,974)	(9,007)
Total assets less current liabilities		5,570	5,268	4,201
NET ASSETS		5,570	5,268	4,201
Capital and reserves				
Share capital	*24(a)*	10	10	10
Reserves	*24(f)*	5,560	5,258	4,191
TOTAL EQUITY		5,570	5,268	4,201

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Reserves					
	Share capital	**Capital reserve**	**Statutory reserve**	**Translation reserve**	**Accumulated profits**	**Sub-total**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 24(a))	*(Note 25(a))*	*(Note 25(b))*	*(Note 25(c))*			
At 1 April 2017	10	566	851	460	11,933	13,810	13,820
Loss for the year	–	–	–	–	(477)	(477)	(477)
Other comprehensive loss:							
Item that may be reclassified subsequently to profit or loss							
Exchange difference on translation of functional currency to presentation currency	–	–	–	(22)	–	(22)	(22)
Total comprehensive loss for the year	–	–	–	(22)	(477)	(499)	(499)
At 31 March 2018	10	566	851	438	11,456	13,311	13,321
At 1 April 2018	10	566	851	438	11,456	13,311	13,321
Profit for the year	–	–	–	–	6,367	6,367	6,367
Other comprehensive income:							
Item that may be reclassified subsequently to profit or loss							
Exchange difference on translation of functional currency to presentation currency	–	–	–	11	–	11	11
Total comprehensive income for the year	–	–	–	11	6,367	6,378	6,378
Transaction with owners:							
Contributions and distributions							
Appropriation of statutory reserve	–	–	201	–	(201)	–	–
At 31 March 2019	10	566	1,052	449	17,622	19,689	19,699

		Reserves					
	Share capital *HK$'000* *(Note 24(a))*	**Capital reserve** *HK$'000* *(Note 25(a))*	**Statutory reserve** *HK$'000* *(Note 25(b))*	**Translation reserve** *HK$'000* *(Note 25(c))*	**Accumulated profits** *HK$'000*	**Sub-total** *HK$'000*	**Total** *HK$'000*
At 1 April 2019	10	566	1,052	449	17,622	19,689	19,699
Profit for the year	–	–	–	–	5,063	5,063	5,063
Other comprehensive loss:							
Item that may be reclassified subsequently to profit or loss							
Exchange difference on translation of functional currency to presentation currency	–	–	–	(212)	–	(212)	(212)
Total comprehensive income for the year	–	–	–	(212)	5,063	4,851	4,851
Transactions with owners:							
Contribution and distributions							
Appropriation of statutory reserve	–	–	109	–	(109)	–	–
At 31 March 2020	10	566	1,161	237	22,576	24,540	24,550

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 March		
		2018	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES				
Cash generated from operations	26	4,875	11,606	10,777
Income tax paid		–	–	(453)
Net cash from operating activities		4,875	11,606	10,324
INVESTING ACTIVITIES				
Interest received		3	4	6
Purchase of plant and equipment		(575)	(505)	(435)
Proceeds from disposal of plant and equipment		41	20	2,388
Loans to related companies		(17,026)	–	(7,000)
Advance to related companies		(1,804)	(1,828)	(1,322)
Net cash used in investing activities		(19,361)	(2,309)	(6,363)
FINANCING ACTIVITIES				
New bank borrowings raised		29,026	6,000	6,000
Repayment of bank borrowings		–	(6,000)	(6,000)
Repayment of lease liabilities		(180)	(180)	(180)
Interest paid		(1,050)	(1,508)	(1,604)
Repayment to immediate holding company, net		(7,307)	–	(6)
Repayment to the Ultimate Controlling Party, net		(1,728)	(13,168)	(206)
Net cash from (used in) financing activities		18,761	(14,856)	(1,996)
Net increase (decrease) in cash and cash equivalents		4,275	(5,559)	1,965
Cash and cash equivalents at the beginning of the reporting period		8,751	11,982	6,796
Effect on exchange rate changes		(1,044)	373	(217)
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash		11,982	6,796	8,544

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Sky Will Printing & Packaging Limited (the "Target Company") is limited liability company incorporated in Hong Kong on 19 March 2004. The registered office and principal place of business of the Target Company are located at 10/F., Fook Hing Factory Building, 33 Lee Chung Street, Chai Wan, Hong Kong.

In the opinion of the directors of the Target Company, the immediate holding company of the Target Company is Sky Will Printing & Packaging (Holdings) Limited which is incorporated in Hong Kong. The ultimate holding company of the Target Company is Glory Wing Investments Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling party is Mr. Ng Man Chan (the "Ultimate Controlling Party").

The principal activity of the Target Company is investment holding. During the Relevant Periods, the Target Group is principally engaged in manufacture and trading of printing and packaging products.

The financial information contained in this circular does not constitute the Target Company's specified financial statements for the Relevant Periods as defined in section 436 of the Hong Kong Companies Ordinance. The Target Company is not required to deliver the specified financial statements for the Relevant Periods to the Registrar of Companies and has not done so.

The statutory audited financial statements of the Target Company have been prepared and were audited by Erik Cheng & Co., *Certified Public Accountants, Hong Kong*, for the years ended 31 March 2018 and 2019. The auditor's reports were not qualified or otherwise modified; did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the reports; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance. The statutory audited financial statements of the Target Company for the year ended 31 March 2020 are not yet due for issuance up to the date of this report.

As at the date of this report, the Target Company had direct and indirect interests in the following principal subsidiaries, all of which are private limited liability companies:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and paid up capital/registered capital	Percentage of equity attributable to the Target Company Direct	Indirect	Principal activities/ place of operation
新高準柯式印刷(深圳)有限公司 New Spring Offset Printing (Shenzhen) Limited* ("NSSZ")	The People's Republic of China (the "PRC"), 1 December 2009	Hong Kong Dollar ("HK$") 12,000,000	100%	–	Manufacture and trading of printing and packaging products/ The PRC
New Spring (SW) Printing & Packaging Limited ("NSSW")	Hong Kong, 3 November 2010	HK$10,000	100%	–	Trading of printing and packaging products/ Hong Kong

* *English name is for identification only.*

The financial statements, as prepared in accordance with respective local financial reporting standards, of the Target Company's principal subsidiaries that fall into the Relevant Periods have been audited as follows:

Subsidiary	Financial period	Auditors
NSSZ	Years ended 31 December 2017 and 2018	深圳潤豐會計師事務所 (Shenzhen Runfeng Certified Public Accountants *)
NSSW	Years ended 31 March 2018 and 2019	Erik Cheng & Co., *Certified Public Accountants, Hong Kong*

Notes:

(i) The statutory audited financial statements of NSSZ for the year ended 31 December 2019 are not yet due for issuance up to the date of this report.

(ii) The statutory audited financial statements of NSSW for the year ended 31 March 2020 are not yet due for issuance up to the date of this report.

* *English name is for identification only.*

2. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conforms with HKFRSs issued by the HKICPA.

The Historical Financial Information have been prepared on a going concern basis notwithstanding that the Target Group had incurred net current liabilities of approximately HK$35,042,000, HK$23,463,000 and HK$11,875,000 as at 31 March 2018, 2019 and 2020 respectively. The Ultimate Controlling Party and immediate holding company of the Target Company have undertaken to provide adequate funds to enable the Target Group to meet in full its financial obligations as and when they fall due in the foreseeable future and not to demand for repayment for balances due from the Target Group until it is in a financial position to do so.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued a number of new/revised HKFRSs during the Relevant Periods. For the purpose of the preparation of the Historical Financial Information, the Target Group has consistently adopted all those new/revised HKFRSs that are relevant to its operations and are effective during the Relevant Periods, including HKFRS 9 "Financial instruments", HKFRS 15 "Revenue from contracts with customers" and HKFRS 16 "Leases".

A summary of the significant accounting policies adopted by the Target Group is preparing the Historical Financial Information is set out below.

Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is historical cost.

Basis of combination

The Historical Financial Information comprises the financial statements of the Target Company and all of its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Target Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries

A subsidiary is an entity that is controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Target Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Target Company's statement of financial position, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Right-of-use assets	Shorter of assets expected useful lives or over the unexpired terms of lease
Leasehold improvements	3 to 10 years
Plant and machinery	5 to 15 years
Furniture, fixtures and equipment	3 to 10 years
Motor vehicles	5 to 10 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Target Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Target Group's contractual rights to future cash flows from the financial asset expire or (ii) the Target Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset.

If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Classification and measurement

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Target Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Target Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Target Group's financial assets at amortised cost include trade and other receivables, amounts due from related companies, loans to related companies and bank balances and cash.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Target Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Target Group's financial liabilities include trade and other payables, bank borrowings, lease liabilities and amounts due to the Ultimate Controlling Party and immediate holding company. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

The Target Group recognises loss allowances for expected credit losses ("ECL") on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Target Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Target Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

(i) nature of financial instruments;

(ii) past-due information;

(iii) nature, size and industry of debtors;

(iv) geographical location of debtors; and

(v) external credit risk ratings where available.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Target Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Target Group may not receive the outstanding contractual amounts in full if the financial asset that meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information to demonstrate otherwise.

Notwithstanding the foregoing, the Target Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Simplified approach of ECL

For trade receivables without a significant financing components or otherwise for which the Target Group applies the practical expedient not to account for the significant financing components, the Target Group applies a simplified approach in calculating ECL. The Target Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix with appropriate groupings, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Target Group writes off a financial asset when the Target Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Target Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Target Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash equivalents

For the purpose of the consolidated statements of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue from contracts with customers within HKFRS 15

The Target Group adopts a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Target Group satisfies a performance obligation

Nature of goods or services

The nature of the goods or services provided by the Target Group is the manufacturing and trading of printing and packaging products.

Identification of performance obligations

At contract inception, the Target Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Target Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Target Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Target Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;

(b) the Target Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Target Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Target Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sales of printing and packaging products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are transferred to customers and the title is passed.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Target Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Target Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Target Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Target Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Target Group's borrowing rates and other relevant creditworthiness information of the customer of the Target Group.

The Target Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Contract assets and contract liabilities

If the Target Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Target Group has a right to an amount of consideration that is unconditional, before the Target Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Target Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Foreign currency translation

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Target Company's functional currency is HK$ and majority of its subsidiaries have HK$ and Renminbi ("RMB") as their functional currency. The Historical Financial Information is presented in the currency of HK$, which is the Target Company's presentation currency, and rounded to the nearest thousands unless otherwise stated.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the Target Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rate;

- all resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Target Group's net investment in a foreign operation are recognised as a separate component of equity;

- on the disposal of a foreign operation, which includes a disposal of the Target Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;

- on the partial disposal of the Target Group's interest in a subsidiary that includes a foreign operation which does not result in the Target Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and

- on all other partial disposals, which includes partial disposal of associates that do not result in the Target Group losing significant influence, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Impairment of non-financial assets

At the end of each reporting period, the Target Group reviews internal and external sources of information to assess whether there is any indication that plant and equipment (including right-of-use assets) and the Target Company's investment in subsidiaries may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as an income in profit or loss immediately.

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Target Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account/recognised as a deduction from the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

The benefit of a government loan received at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest shall be measured as the difference between the initial fair value of the loan and the proceeds received.

Leases

As lessee

Right-of-use assets and corresponding lease liability are recognised with respect to all lease arrangement except for short-term leases and leases of low-value assets. For these leases, lease payment are recognised as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Target Group uses its incremental borrowing rate.

Right-of-use assets

Right-of-use assets, as presented within "plant and equipment", are measured at cost less accumulated depreciation and impairment losses which comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs and an estimate of costs to be incurred by the Target Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying assets to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated over the shorter period of lease term and expected useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Target Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the expected useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Lease liabilities

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The Target Group remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease liability is presented as a separate line in the consolidated statements of financial position.

As lessor

The Target Group classifies each of its leases as either a finance lease or an operating lease at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

When the Target Group is an intermediate lessor, it accounts for the head lease and sublease as two separate contracts. The sublease is classified as an operating lease if the head lease is a short-term lease to which the Group has applied the recognition exemption. Otherwise, the sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

The Target Group accounts for each lease component within a lease contract as a lease separately from non-lease components of the contract. The Target Group allocates the consideration in the contract to each lease component on a relative stand-alone price basis.

As lessor – operating lease

Rental income from leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme in Hong Kong are recognised as expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Target Group's entities established in Hong Kong in an independently administered fund.

In accordance with the rules and regulations in the PRC, the employees of the Target Group's entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to these plans are expensed in profit or loss as incurred and other than these monthly contributions, the Target Group has no further obligation for the payment of retirement benefits to its employees.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A related party is a person or entity that is related to the Target Group.

(a) A person or a close member of that person's family is related to the Target Group if that person:

 (i) has control or joint control over the Target Group;

 (ii) has significant influence over the Target Group; or

 (iii) is a member of the key management personnel of the Target Group or of the holding company of the Target Group.

(b) An entity is related to the Target Group if any of the following conditions applies:

 (i) The entity and the Target Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).

 (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

 (iii) Both entities are joint ventures of the same third party.

 (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

 (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group. If the Target Group is itself such a plan, the sponsoring employers are also related to the Target Group.

 (vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the holding company of the Target Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Target Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Operating segments that meet the quantitative thresholds are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Other operating segments may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the Historical Financial Information. They affect the application of the Target Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty

(i) Useful lives of plant and equipment (including right-of use assets)

The management determines the estimated useful lives of the Target Group's plant and equipment based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

(ii) Impairment of plant and equipment (including right-of use assets)

The management determines whether the Target Group's plant and equipment are impaired when an indication of impairment exists. This requires an estimation of the recoverable amount of the plant and equipment, which is equal to the higher of fair value less cost of disposal or the value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the plant and equipment and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

(iii) Loss allowance for ECL

The management of the Target Group estimates the loss allowance for trade receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Target Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade receivables.

(iv) Allowance for inventories

The management reviews the condition of inventories at the end of each reporting period and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The management carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

(v) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In cases where the actual future profits generated are different from the original estimate, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss in the period in which such estimate is changed.

Future changes in HKFRSs

At the date of approving the Historical Financial Information, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the Relevant Periods, which the Target Group has not early adopted:

Amendments to HKASs 1 and 8	Definition of Material [1]
Amendments to HKAS 39, HKFRSs 7 and 9	Interest Rate Benchmark Reform [1]
Amendments to HKFRS 3	Definition of a Business [2]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions [3]
HKFRS 17	Insurance Contracts [4]
Amendments to HKAS 16	Proceeds before Intended[5]
Amendments to HKAS 37	Cost of Fulfilling a Contract[5]
Amendments to HKFRS 3	Reference to the Conceptual Framework[5]
Annual Improvements to HKFRSs	2018-2020 Cycle[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [6]

(1) Effective for annual periods beginning on or after 1 January 2020

(2) Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020

(3) Effective for annual periods beginning on or after 1 June 2020

(4) Effective for annual periods beginning on or after 1 January 2021

(5) Effective for annual periods beginning on or after 1 January 2022

(6) The effective date to be determined

The management of the Target Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Target Group's consolidated financial information.

4. SEGMENT INFORMATION

The directors of the Target Company have determined that the Target Group has a single operating and reportable segment throughout the Relevant Periods, as the Target Group manages its business as a whole as the manufacture and trading of printing and packaging products and the executive directors of the Target Company, being the chief operating decision makers of the Target Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Target Group. Segment information is not presented accordingly.

Information about geographical areas

The following table sets out information about the geographical location of the Target Group's revenue from external customers. The geographical location of the revenue is presented based on the location of customers. The geographical location of the non-current assets is based on the physical location of the assets.

Non-current assets location

	At 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong	35,160	32,330	27,803
The PRC	13,304	10,844	8,672
	48,464	43,174	36,475

Revenue from external customers

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong (place of domicile)	38,153	37,156	44,362
United States of America	3,898	13,840	7,499
The PRC	1,853	7,459	6,362
United Kingdom	8,757	6,363	3,885
Others	33	–	–
	52,694	64,818	62,108

Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of aggregate revenue of the Target Group during the Relevant Periods are as follows:

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	18,362	29,431	38,298
Customer B	6,299	8,567	7,293
Customer C	9,937	7,311	*Note*

Note: The customer contributed less than 10% of the total revenue of the Target Group for relevant reporting periods.

5. REVENUE

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from contracts with customers within HKFRS 15 – at a point in time			
Sales of printing and packaging products	52,694	64,818	62,108

The amounts of revenue recognised for the years ended 31 March 2018, 2019 and 2020 that were included in the contract liabilities at the beginning of each of the reporting periods are approximately HK$20,000, Nil and HK$9,000, respectively.

6. OTHER INCOME

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	3	4	6
Exchange gain, net	–	760	–
Government grants *(Note)*	–	169	177
Loan interest income from related companies	598	852	1,327
Management income from related companies	1,750	1,799	1,319
Rental income	1,952	1,893	1,850
Sales of scrap	389	693	287
Others	271	247	131
	4,963	6,417	5,097

Note: In the opinion of the management of the Target Group, there was no unfulfilled condition or contingency relating to the governments grants.

7. (LOSS) PROFIT BEFORE TAX

This is stated after charging (crediting):

		Year ended 31 March		
		2018	**2019**	**2020**
		HK$'000	*HK$'000*	*HK$'000*
(a)	**Finance costs**			
	Interest on bank borrowings	1,050	1,508	1,604
	Finance charges on lease liabilities	17	9	12
		1,067	1,517	1,616
(b)	**Staff costs, including directors' remuneration**			
	Salaries, allowances, discretionary bonus and other benefits in kind	20,002	22,560	18,752
	Contributions to defined contribution plans	979	1,038	842
		20,981	23,598	19,594
(c)	**Other items**			
	Auditor's remuneration	115	117	55
	Cost of inventories *(Note)*	46,084	52,790	50,136
	Depreciation of plant and equipment (included in "cost of sales" and "administrative expenses", as appropriate)	4,978	4,760	4,242
	Exchange loss (gain), net	79	(760)	575
	Loss on disposal of plant and equipment	9	234	438

Note: During the years ended 31 March 2018, 2019 and 2020, cost of inventories included approximately HK$17,516,000, HK$20,191,000 and HK$16,839,000 respectively, relating to the aggregate amount of certain staff costs and depreciation, which were included in the respective amounts as disclosed above.

8. DIRECTORS' EMOLUMENTS

The amounts of remuneration received and receivable by the directors of the Target Company during the Relevant Periods are set out below.

Year ended 31 March 2018

	Directors' fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Contributions to defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Chan Fook Kai *(Note 1)*	–	–	–	–	–
Mr. Fung Ming	–	10	–	–	10
Mr. Ng Man Chan	–	480	50	–	530
Mr. Tam Chau Moon *(Note 3)*	–	161	10	9	180
Ms. Tsoi Sum Yuen *(Note 3)*	–	–	–	–	–
	–	651	60	9	720

Year ended 31 March 2019

	Directors' fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Contributions to defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Chan Fook Kai *(Note 1)*	–	–	–	–	–
Mr. Fung Ming	–	–	–	–	–
Ms. Li Mi Lai *(Note 2)*	–	210	–	18	228
Mr. Ng Man Chan	–	300	–	–	300
Mr. Tam Chau Moon *(Note 3)*	–	117	10	7	134
Ms. Tsoi Sum Yuen *(Note 3)*	–	–	–	–	–
	–	627	10	25	662

Year ended 31 March 2020

	Directors' fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Contributions to defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Fung Ming	–	10	–	–	10
Ms. Li Mi Lai *(Note 2)*	–	–	–	–	–
Mr. Ng Man Chan	–	–	–	–	–
Mr. Tam Chau Moon *(Note 3)*	–	104	20	6	130
Ms. Tsoi Sum Yuen *(Note 3)*	–	–	–	–	–
	–	114	20	6	140

Notes:

(1) Mr. Chan Fook Kai resigned as a director of the Target Company on 26 October 2018.

(2) Ms. Li Mi Lai was appointed as a director of the Target Company on 26 October 2018.

(3) Mr. Tam Chau Moon and Ms Tsoi Sum Yuen were appointed as directors of the Target Company on 1 December 2017 and resigned as directors of the Target Company on 30 November 2019.

The directors' emoluments shown above were for their services in connection with the management of the affairs of the Target Group.

During the Relevant Periods, no emoluments were paid by the Target Group to any of these directors as an inducement to join or upon joining the Target Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the Relevant Periods is as follows:

	Number of individuals Year ended 31 March		
	2018	**2019**	**2020**
Director	1	2	1
Non-director	4	3	4
	5	5	5

Details of the remuneration of the above highest paid non-director individuals are as follows:

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances, discretionary bonus and other benefits in kind	1,585	1,300	1,399
Contributions to defined contribution plans	56	40	40
	1,641	1,340	1,439

The number of these non-director individuals whose emoluments fell within the following emoluments band is as follows:

	Number of individuals Year ended 31 March		
	2018	**2019**	**2020**
Nil to HK$1,000,000	4	3	4

During the Relevant Periods, no remuneration were paid by the Target Group to any of these highest paid non-director individuals as an inducement to join or upon joining the Target Group, or as a compensation for loss of office. There was no arrangement under which any of these highest paid non-director individuals waived or has agreed to waive any emoluments during the Relevant Periods.

10. INCOME TAX CREDIT (EXPENSE)

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
Hong Kong Profits Tax – current year	–	141	686
Deferred tax			
Origination and reversal of temporary differences *(Note 23)*	(4)	–	(221)
Income tax (credit) expense for the year	(4)	141	465

Hong Kong Profits Tax has not been provided for the year ended 31 March 2018 as the Target Group's entities in Hong Kong incurred a loss for the taxation purpose.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Target Group's estimated assessable profits arising from Hong Kong during Relevant Periods. For the years ended 31 March 2019 and 2020, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime under which, the first HK$2 million assessable profits arising from Hong Kong of qualifying entity of the Target Group are taxed at 8.25%, and assessable profits arising from Hong Kong above HK$2 million are taxed at 16.5%.

The Target Group's entities established in the PRC are subject to PRC Enterprise Income Tax at a statutory rate of 25% for the Relevant Periods.

Reconciliation of income tax credit (expense)

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
(Loss) Profit before tax	(481)	6,508	5,528
Income tax at statutory tax rate applicable in respective tax jurisdictions	(50)	1,348	1,167
Effect of preferential tax treatments and tax concessionary	–	(185)	(185)
Non-deductible expenses	585	310	620
Tax exempt revenue	(359)	(469)	(481)
Unrecognised tax losses	88	–	131
Utilisation of previously unrecognised tax losses	(268)	(863)	(787)
Income tax (credit) expense for the year	(4)	141	465

11. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

12. DIVIDENDS

No dividend has been paid or declared by the Target Company during the Relevant Periods.

13. PLANT AND EQUIPMENT

	Right-of-use assets HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor Vehicles HK$'000	Total HK$'000
Reconciliation of carrying amount – year ended 31 March 2018						
At 1 April 2017	15,509	3,894	12,377	2,974	475	35,229
Additions	16,409	–	417	158	–	16,984
Disposals	–	–	–	–	(50)	(50)
Depreciation	(1,942)	(502)	(1,886)	(566)	(82)	(4,978)
Exchange realignment	–	367	607	261	44	1,279
At 31 March 2018	29,976	3,759	11,515	2,827	387	48,464
Reconciliation of carrying amount – year ended 31 March 2019						
At 1 April 2018	29,976	3,759	11,515	2,827	387	48,464
Additions	–	290	212	3	–	505
Disposals	–	(2)	(242)	(10)	–	(254)
Depreciation	(1,942)	(498)	(1,831)	(449)	(40)	(4,760)
Exchange realignment	–	(221)	(378)	(160)	(22)	(781)
At 31 March 2019	28,034	3,328	9,276	2,211	325	43,174
Reconciliation of carrying amount – year ended 31 March 2020						
At 1 April 2019	28,034	3,328	9,276	2,211	325	43,174
Additions	500	–	74	40	321	935
Disposals	–	–	(2,758)	(40)	(28)	(2,826)
Depreciation	(1,941)	(518)	(1,397)	(326)	(60)	(4,242)
Exchange realignment	–	(175)	(260)	(114)	(17)	(566)
At 31 March 2020	26,593	2,635	4,935	1,771	541	36,475
At 31 March 2018						
Cost	33,489	5,111	30,395	5,044	1,791	75,830
Accumulated depreciation	(3,513)	(1,352)	(18,880)	(2,217)	(1,404)	(27,366)
	29,976	3,759	11,515	2,827	387	48,464
At 31 March 2019						
Cost	33,489	5,099	28,643	4,719	1,701	73,651
Accumulated depreciation	(5,455)	(1,771)	(19,367)	(2,508)	(1,376)	(30,477)
	28,034	3,328	9,276	2,211	325	43,174
At 31 March 2020						
Cost	33,989	4,821	21,544	4,339	1,661	66,354
Accumulated depreciation	(7,396)	(2,186)	(16,609)	(2,568)	(1,120)	(29,879)
	26,593	2,635	4,935	1,771	541	36,475

14. INVENTORIES

	At 31 March		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	3,885	5,466	4,007
Work-in-progress	3,899	2,423	1,459
Finished goods	2,186	3,453	325
	9,970	11,342	5,791

15. TRADE AND OTHER RECEIVABLES

		At 31 March		
		2018	2019	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables from third parties		9,746	8,519	8,534
Less: Allowance for ECL	*15(b)*	(5)	(1)	(48)
	15(a)	9,741	8,518	8,486
Other receivables				
Deposits and other receivables		813	810	960
Other prepaid expenses		1,798	1,374	940
Value-added tax ("VAT") and other tax recoverable		1,068	704	519
		3,679	2,888	2,419
		13,420	11,406	10,905

15(a) Trade receivables

The Target Group would normally grant credit terms up to 60 days from the date of issuance of invoices to its customers for their processing of billing settlement as approved by the management on a case by case basis.

The ageing analysis of trade receivables (net of allowance for ECL) based on invoice date at the end of each reporting period is as follows:

	At 31 March		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	3,692	2,730	6,074
31 to 60 days	1,223	2,924	1,790
61 to 90 days	2,030	2,225	602
91 to 180 days	2,745	544	17
181 to 365 days	44	95	3
Over 365 days	7	–	–
	9,741	8,518	8,486

At the end of each reporting period, the ageing analysis of the trade receivables (net of allowance for ECL) by due date is as follows:

	At 31 March 2018	2019	2020
	HK$'000	HK$'000	HK$'000
Not yet due	4,559	2,732	7,713
Past due:			
Within 30 days	2,022	2,921	753
31 to 60 days	1,313	2,227	2
61 to 90 days	1,758	501	15
91 to 180 days	39	109	–
181 to 365 days	43	28	3
Over 365 days	7	–	–
	5,182	5,786	773
	9,741	8,518	8,486

The Target Group does not hold any collateral over the trade receivables.

15(b) Allowance for ECL

Trade receivables

The trade receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad and doubtful debts is not significant.

The Target Group applied simplified approach for ECL prescribed by HKFRS 9, which permits to use of lifetime ECL provision for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. The Target Group collects performance and default information about its credit risk exposures analysed by internal credit risk rating as well as by geographical location of customers. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. It considers available reasonable and supportive forwarding-looking information.

The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed using a provision matrix with appropriate groupings based on shared credit risk characteristics of customers at 31 March 2018, 2019 and 2020.

At 31 March 2018

Internal credit rating *(Remarks)*	**Average loss rate**	**Gross carrying amount**	**Impairment loss allowance**
	(%)	*HK$'000*	*HK$'000*
Risk Category 1	0.05%	9,746	5

At 31 March 2019

Internal credit rating *(Remarks)*	**Average loss rate**	**Gross carrying amount**	**Impairment loss allowance**
	(%)	*HK$'000*	*HK$'000*
Risk Category 1	0.01%	8,519	1

At 31 March 2020

Internal credit rating *(Remarks)*	**Average loss rate** *(%)*	**Gross carrying amount** *HK$'000*	**Impairment loss allowance** *HK$'000*
Risk Category 1	0.57%	8,534	48

Remarks:

Risk Category	**Description**
Risk Category 1	The debtor has on-going business relationship with the Target Group with a good credit history. The Target Group expects the debtor to settle the receivable within one year.
Risk Category 2	The debtor has no recent business relationship with the Target Group but a good credit history is proven from various sources. The Target Group expects the debtor to settle the receivable within one year.
Risk Category 3	The debtor failed to settle on time due to a temporary problem, but the Target Group expects the problem could be resolved and the outstanding amount could be settled in a foreseeable future.

The following table shows the movements in allowance for ECL that has been recognised for trade receivables during the Relevant Periods:

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
At the beginning of the year	–	5	1
Increase (decrease) in allowance	5	(4)	47
At the end of the year	5	1	48

The significant changes in the gross carrying amounts of trade receivables contributed to the changes in the loss allowance during the Relevant Periods due to trade receivables originated during the reporting period.

Other receivables, loans to related companies and amounts due from related companies

The management of the Target Group considers that loans to related companies, amounts due from related companies and the financial assets included in other receivables have low credit risk based on its strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. Impairment on loans to related companies, amounts due from related companies and other receivables is measured on 12-month ECL and reflects the short maturities of the exposures.

In estimating the ECL, the management of the Target Group has taken into account the historical actual credit loss experience over the past years and the financial position of the counterparties, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The management of the Target Group considers the ECL of other receivables to be insignificant after taking into account the financial position and credit quality of the counterparties.

There was no change in the estimation techniques or significant assumptions made during the Relevant Periods.

16. BANK BALANCES AND CASH

Cash at banks earn interest at floating rates based on daily bank deposit rates. The carrying amounts of bank balances and cash are denominated in the following currencies:

	At 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
HK$	10,853	4,523	6,491
RMB	1,128	2,111	2,044
US$	1	162	9
	11,982	6,796	8,544

As at 31 March 2018, 2019 and 2020, bank balances that were placed with banks in the PRC amounted to approximately HK$1,128,000, HK$2,111,000 and HK$2,044,000, respectively. Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

17. TRADE AND OTHER PAYABLES

		At 31 March		
		2018	**2019**	**2020**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	*17(a)*	9,824	9,140	4,456
Other payables				
Salaries payable		2,214	1,740	1,405
Contract liabilities – receipts in advance	*17(b)*	3	12	188
Accruals and other payables		10,857	10,663	9,559
		13,074	12,415	11,152
		22,898	21,555	15,608

17(a) Trade payables

The trade payables are non-interest bearing and the Target Group is normally granted with credit term up to 60 days.

At the end of each reporting period, the ageing analysis of the trade payables based on the invoice date is as follows:

	At 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	976	1,538	1,666
31 to 60 days	2,381	877	1,165
61 to 90 days	2,789	3,370	82
91 to 180 days	3,678	3,355	1,543
	9,824	9,140	4,456

17(b) Contract liabilities – receipts in advance

The movements (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities from contracts with customers within HKFRS 15 during the Relevant Periods are as follows:

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
At the beginning of the reporting period	23	3	12
Recognised as revenue	(20)	–	(9)
Receipt of advances	–	9	185
At the end of the reporting period	3	12	188

At 31 March 2018, 2019 and 2020, the contract liabilities that are expected to be settled within 12 months are approximately HK$3,000, HK$12,000 and HK$188,000, respectively.

18. BANK BORROWINGS

At the end of the each reporting period, the details of the bank borrowings of the Target Group are as follows:

	At 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Bank borrowings – secured	29,026	29,026	29,026

The secured bank borrowings are repayable within one year and bear a floating interest rate at 1 month's Hong Kong Inter-bank Offered Rate plus 3.5% per annum. The effective interest rate as at 31 March 2018, 2019 and 2020 are approximately 3.62%, 6.31% and 5.52% per annum respectively.

The bank borrowings are drawn under banking facilities. The banking facilities are secured and guaranteed by (i) properties owned by related companies which are controlled by the Ultimate Controlling Party; and (ii) joint and several personal guarantees given by the Ultimate Controlling Party and Ms. Li Mi Lai, the spouse of the Ultimate Controlling Party and a director of the Target Company.

19. LEASE LIABILITIES

The Target Group as leasee

	At 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Right-of-use assets *(Note 13)*			
Leased properties	29,976	28,034	26,593
Lease liabilities			
Current	171	89	162
Non-current	89	–	259
	260	89	421

In addition to the information disclosed in Notes 7 and 13, the Target Group had the following amounts relating to leases during the Relevant Periods:

	Year ended 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Depreciation charge of right-of-use assets *(Note 13)*			
Leased properties	1,942	1,942	1,941

The Target Group leases various office premises for its daily operations. Leases terms range from 3 to 19.5 years.

Most of the leases impose a restriction that, unless the approval is obtained from the lessor, the right-of-use asset can only be used by the Target Group and the Target Group is prohibited from selling or pledging the underlying assets.

The total cash outflow for leases for the years ended 31 March 2018, 2019 and 2020 were approximately HK$180,000, HK$180,000 and HK$180,000, respectively.

Commitments and present value of lease liabilities:

	At 31 March					
	2018		**2019**		**2020**	
	Lease payments	**Present value of lease payments**	**Lease payments**	**Present value of lease payments**	**Lease payments**	**Present value of lease payments**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:						
Within 1 year	180	171	90	89	180	162
More than 1 year but within 2 years	90	89	–	–	180	171
More than 2 years but within 5 years	–	–	–	–	90	88
	270	260	90	89	450	421
Less: future finance charges	(10)	–	(1)	–	(29)	–
Total lease liabilities	260	260	89	89	421	421

The Target Group as leasor

Operating lease

The Target Group sub-leases certain of its right-of-use assets to independent third parties under operating leases, which had an initial non-cancellable lease term of 5 years. The sub-leases do not include purchase or termination options.

Rental income is included in other income (Note 6) and do not contain any variable lease payments. The risks associated with rights that the Target Group retains to underlying assets are not considered significant, however, the Target Group employs strategies to further minimise these risks by ensuring all sub-lease contracts include clauses requiring the leasees to compensate the Target Group when a leased property has been subject to excess wear-and-tear during the lease term.

Below is a maturity analysis of undiscounted lease payments to be received from the right-of-use assets subject to operating lease.

	At 31 March		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,942	1,827	1,729
In the second year	1,942	1,827	1,729
In the third year	1,942	1,827	–
In the fourth year	1,942	–	–
	7,768	5,481	3,458

20. LOANS TO RELATED COMPANIES

	At 31 March			Greatest outstanding amount Year ended 31 March		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of related companies						
New Spring Label and Packaging Limited ("NSL") *(Note (i))*	17,026	17,026	17,026	17,026	17,026	17,026
Huge Grand Investment Limited ("Huge Grand") *(Note (ii))*	–	–	7,000	–	–	7,000
	17,026	17,026	24,026			

Notes:

(i) Ms. Li Mi Lai, the spouse of the Ultimate Controlling Party and a director of the Target Company, has significant influence over this company.

(ii) The related company is controlled by a close family member of the Ultimate Controlling Party.

These loans are unsecured, interest bearing at 1-month Hong Kong Interbank Offered Rate plus 3.5% per annum and repayable on demand.

21. AMOUNTS DUE FROM RELATED COMPANIES

		At 31 March			Greatest outstanding amount Year ended 31 March		
		2018	2019	2020	2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fook Hing Logistics Company Limited ("Fook Hing")	*(i)*	1,584	3,366	4,644	1,584	3,366	4,644
NSL		598	1,450	2,406	598	1,450	2,406
Huge Grand		–	–	387	–	–	387
Xin Bo Packaging (Huizhou) Company Limited	*(ii)*	–	63	91	–	63	91
Glory Motion Company Limited ("Glory Motion")	*(i)*	78	78	78	78	78	78
Beautiking Investments Limited ("Beautiking")	*(i)*	60	60	77	60	60	77
Beaumax Company Limited ("Beaumax")	*(i)*	77	66	66	77	77	66
Sky Will Printing & Packaging (BVI) Limited ("SW BVI")	*(iii)*	5	18	26	5	18	26
New Spring Group Company Limited	*(iv)*	–	–	13	–	–	13
		2,402	5,101	7,788			

Notes:

(i) These companies are controlled by Mr. Ng Man Chan, the Ultimate Controlling Party and a director of the Target Company, and Ms. Li Mi Lai, the spouse of the Ultimate Controlling Party and a director of the Target Company.

(ii) Mr. Ng Man Chan, the Ultimate Controlling Party and a director of the Target Company, has significant influence over this company.

(iii) Mr. Ng Man Chan, the Ultimate Controlling Party and a director of the Target Company, and Mr. Fung Ming, a director of the Target company, have significant influence over this company.

(iv) Mr. Ng Man Chan, the Ultimate Controlling Party and a director of the Target Company, and Ms. Li Mi Lai, the spouse of the Ultimate Controlling Party and a director of the Target Company, have significant influence over this company.

The amounts are non-trade nature, unsecured, interest-free and repayment on demand.

22. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/THE ULTIMATE CONTROLLING PARTY

The amounts due are non-trade nature, unsecured, interest-free and repayable on demand.

23. DEFERRED TAXATION

The movements in the Target Group's deferred tax assets and (liabilities) for the Relevant Periods were as follows:

	Assets	Liabilities
	Tax loss	Depreciation allowance
	HK$'000	*HK$'000*
At 1 April 2017	–	(16)
Credit to profit or loss	–	4
At 31 March 2018 and 2019	–	(12)
At 31 April 2019		
Credit to profit or loss	221	–
At 31 March 2020	221	(12)

The amounts are expected to be settled after 12 months.

Unrecognised deferred tax assets arising from

		At 31 March	
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Before multiplied by the applicable tax rates:			
Tax losses	7,638	3,456	959

The Target Group had unused tax losses of approximately HK$849,000, HK$167,000 and HK$959,000 arising in Hong Kong at 31 March 2018, 2019 and 2020, respectively. The unused tax losses have no expiry date.

Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the Target Group can utilise the benefits therefrom.

At the end of the Relevant Periods, the Target Group has the following tax losses arising in the PRC that can be offset against future taxable profits of the respective subsidiaries for a maximum of 5 years from the year in which the tax loss was incurred:

		At 31 March	
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Year of expiry			
2020	6,789	3,289	–

24. SHARE CAPITAL AND FINANCIAL INFORMATION OF THE TARGET COMPANY

24(a) Share capital

	2018		2019		2020	
	No. of shares	*HK$'000*	*No. of shares*	*HK$'000*	*No. of shares*	*HK$'000*
Issued and fully paid						
At beginning of the reporting period and at end of the reporting period	10,000	10	10,000	10	10,000	10

24(b) Plant and equipment

	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
Reconciliation of carrying amount – year ended 31 March 2018				
At 1 April 2017	5,763	1	–	5,764
Depreciation	(675)	(1)	–	(676)
At 31 March 2018	5,088	–	–	5,088
Reconciliation of carrying amount – year ended 31 March 2019				
At 1 April 2018	5,088	–	–	5,088
Disposals	(192)	–	–	(192)
Depreciation	(664)	–	–	(664)
At 31 March 2019	4,232	–	–	4,232
Reconciliation of carrying amount – year ended 31 March 2020				
At 1 April 2019	4,232	–	–	4,232
Disposals	(2,757)	–	–	(2,757)
Depreciation	(277)	–	–	(277)
At 31 March 2020	1,198	–	–	1,198
At 31 March 2018				
Cost	10,222	68	245	10,535
Accumulated depreciation	(5,134)	(68)	(245)	(5,447)
	5,088	–	–	5,088
At 31 March 2019				
Cost	9,624	62	245	9,931
Accumulated depreciation	(5,392)	(62)	(245)	(5,699)
	4,232	–	–	4,232
At 31 March 2020				
Cost	3,497	62	245	3,804
Accumulated depreciation	(2,299)	(62)	(245)	(2,606)
	1,198	–	–	1,198

24(c) Investments in subsidiaries

Investments in subsidiaries represented 100% of the issued capital of NSSZ and NSSW.

24(d) Amounts due from (to) subsidiaries/immediate holding company

The amounts due are unsecured, interest-free and repayable on demand.

24(e) Amounts due from related companies

	At 31 March			Greatest outstanding amount Year ended 31 March		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NSL	598	1,450	2,390	598	1,450	2,390
Huge Grand	–	–	387	–	–	387
Glory Motion	18	18	18	18	18	18
Beaumax	17	17	17	17	17	17
SW BVI	5	18	18	5	18	18
	638	1,503	2,830			

The amounts are non-trade nature, unsecured, interest-free and repayment on demand.

24(f) Reserves of the Target Company

	Accumulated profits
	HK$'000
At 1 April 2017	6,768
Loss for the year and total comprehensive loss for the year	(1,208)
At 31 March 2018	5,560
Loss for the year and total comprehensive loss for the year	(302)
At 31 March 2019	5,258
Loss for the year and total comprehensive loss for the year	(1,067)
At 31 March 2020	4,191

25. RESERVES

25(a) Capital reserve

Capital reserve of the Target Group represents the surplus of the paid-in capital of HK$7,000,000 of NSSZ which was satisfied by the plant and equipment with fair value of HK$7,566,000.

25(b) Statutory reserve

As stipulated by the relevant laws and regulations for enterprises incorporated/established in the PRC, the Target Group's subsidiaries in the PRC are required to maintain certain statutory reserves. The statutory reserve can be used to make up for losses, expand the existing operation and convert to additional capital.

25(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Target Group's entities that have functional currency different from the presentation currency for consolidation.

26. CASH GENERATED FROM OPERATIONS

	Year ended 31 March		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
(Loss) Profit before tax	(481)	6,508	5,528
Adjustments for:			
Depreciation of plant and equipment	4,978	4,760	4,242
Finance costs	1,067	1,517	1,616
Loss on disposal of plant and equipment	9	234	438
Bank interest income	(3)	(4)	(6)
Loan interest income	(598)	(852)	(1,327)
Provision for (Reversal of) impairment loss on trade receivables	5	(4)	47
Changes in working capital			
Trade and other receivables	(1,707)	1,581	141
Inventories	(2,954)	(1,954)	4,932
Trade and other payables	4,559	(180)	(4,834)
	4,875	11,606	10,777

27. RELATED PARTY TRANSACTIONS

(a) Related party transactions

In addition to the transactions/information disclosed elsewhere in the Historical Financial Information, during the Relevant Periods, the Target Group had the following transactions with related parties:

Name of related company	Nature of transaction	Year ended 31 March 2018	2019	2020
		HK$'000	*HK$'000*	*HK$'000*
Fook Hing	Management fee income	1,570	1,799	1,319
NSL	Loan interest income	598	852	940
Huge Grand	Loan interest income	–	–	387
Beautiking	Management fee income	60	–	–
Beaumax	Management fee income	60	–	–
Glory Motion	Management fee income	60	–	–

(b) Remuneration for key management personnel of the Target Group

There was no remuneration to members of key management other than the Target Company's directors as disclosed in Note 8 for the Relevant Periods.

28. ADDITIONAL INFORMATION ON CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 March 2018, the Target Group entered into certain lease arrangements in respect of leased assets with capital value at the inception of leases of approximately HK$16,409,000 were settled by current accounts with the Ultimate Controlling Party. During the year ended 31 March 2020, the Target Group entered into certain lease arrangements in respect of leased assets with capital value at the inception of leases of approximately HK$500,000.

During the years ended 31 March 2018, 2019 and 2020, loan interest income from related companies of approximately HK$598,000, HK$852,000 and HK$1,327,000, respectively, were settled by amounts due from related companies.

(b) Reconciliation of liabilities arising from financing activities

The movements during the Relevant Periods in the Target Group's liabilities arising from financing activities are as follows:

Year ended 31 March 2018

	At 1 April 2017	Cash flows, net	Non-cash changes: Non-cash additions	Non-cash changes: Interest expenses	Non-cash changes: Exchange realignment	At 31 March 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	–	29,026	–	–	–	29,026
Amount due to the Ultimate Controlling Party	11,122	(1,728)	16,409	–	39	25,842
Amount due to immediate holding company	19,212	(7,307)	–	–	–	11,905
Lease liabilities	423	(180)	–	17	–	260
	30,757	19,811	16,409	17	39	67,033

Year ended 31 March 2019

	At 1 April 2018	Cash flows, net	Non-cash changes: Non-cash additions	Non-cash changes: Interest expenses	Non-cash changes: Exchange realignment	At 31 March 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	29,026	–	–	–	–	29,026
Amount due to the Ultimate Controlling Party	25,842	(13,168)	–	–	(256)	12,418
Amount due to immediate holding company	11,905	–	–	–	–	11,905
Lease liabilities	260	(180)	–	9	–	89
	67,033	(13,348)	–	9	(256)	53,438

Year ended 31 March 2020

	At 1 April 2019	Cash flows, net	Non-cash changes: Non-cash additions	Non-cash changes: Interest expenses	Non-cash changes: Exchange realignment	At 31 March 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	29,026	–	–	–	–	29,026
Amount due to the Ultimate Controlling Party	12,418	(206)	–	–	(352)	11,860
Amount due to immediate holding company	11,905	(6)	–	–	–	11,899
Lease liabilities	89	(180)	500	12	–	421
	53,438	(392)	500	12	(352)	53,206

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise of bank balances and cash, bank borrowings, lease liabilities and amounts due from (to) the Ultimate Controlling Party/immediate holding company/related companies and loans to related companies. The main purpose of these financial instruments is to raise and maintain finance for the Target Group's operations. The Target Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its business activities.

The main risks arising from the Target Group's financial instruments are foreign currency risk, credit risk, liquidity risk and interest rate risk. The Target Group does not have any written risk management policies and guidelines. However, the management meet regularly and co-operate closely with key management to identify and evaluate risks and generally adopt conservative strategies on its risk management and limit the Target Group's exposure to these risks to a minimum as follows:

Foreign currency risk

The Target Group's transactions are mainly denominated in HK$, RMB and US$.

During the Relevant Periods, the Target Group had a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the functional currency of the operating subsidiaries of the Target Group, i.e. HK$ and RMB.

As at 31 March 2018, 2019 and 2020, the Target Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Target Group will closely monitor its foreign currency exposure as and when consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Target Group's credit risk is mainly attributable to trade and other receivables, amounts due from related companies, loans to related companies and bank balances and cash. The Target Group limits its exposure to credit risk by selecting the counterparties with reference to their past credit history and/or market reputation. The Target Group's maximum exposure to the credit risk is summarised as follows:

		At 31 March	
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other receivables	10,554	9,328	9,446
Amounts due from related companies	2,402	5,101	7,788
Loans to related companies	17,026	17,026	24,026
Bank balances and cash	11,982	6,796	8,544
	41,964	38,251	49,804

The carrying amount of financial assets recognised on the consolidated statements of financial position, which is net of impairment losses, represents the Target Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

The Target Group trades with recognised and creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit are subject to credit verification procedures.

The management considers the credit risk in respect of bank balances is minimal because the counter-parties are authorised financial institutions with high credit ratings.

The management limits the Target Group's exposure to credit risk by taking timely actions once there is any indication for recoverability problem of each individual debtor.

The management also reviews the recoverable amount of each individual debtor, including related and third parties, at the end of each reporting period to ensure adequate allowance is made for irrecoverable amount.

At 31 March 2018, 2019 and 2020, the Target Group had a concentration of credit risk as approximately 35%, 47% and 62%, respectively, of the total trade receivables was due from the Target Group's largest trade debtor and approximately 78%, 80% and 87%, respectively, of the total trade receivables was due from the Target Group's five largest trade debtors.

Liquidity risk

Management of the Target Group aims at maintaining sufficient level of cash and cash equivalents to finance the Target Group's operations and expected expansion. The Target Group's primary cash requirements include payments for operating expenses and additions or upgrades of plant and equipment. The Target Group finances its working capital requirements mainly by the funds generated from operations.

The Target Group's non-derivative financial liabilities at the end of each reporting period based on contractual undiscounted payments are summarised below:

	Total carrying amount	Total contractual undiscounted cash flow	Less than 1 year or on demand	1 to 2 years	2 to 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2018					
Trade and other payables	20,681	20,681	20,681	–	–
Bank borrowings	29,026	29,026	29,026	–	–
Lease liabilities	260	270	180	90	–
Amount due to immediate holding company	11,905	11,905	11,905	–	–
Amount due to the Ultimate Controlling Party	25,842	25,842	25,842	–	–
	87,714	87,724	87,634	90	–

	Total carrying amount	Total contractual undiscounted cash flow	Less than 1 year or on demand	1 to 2 years	2 to 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2019					
Trade and other payables	19,803	19,803	19,803	–	–
Bank borrowings	29,026	29,026	29,026	–	–
Lease liabilities	89	90	90	–	–
Amount due to immediate holding company	11,905	11,905	11,905	–	–
Amount due to the Ultimate Controlling Party	12,418	12,418	12,418	–	–
	73,241	73,242	73,242	–	–

	Total carrying amount	Total contractual undiscounted cash flow	Less than 1 year or on demand	1 to 2 years	2 to 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2020					
Trade and other payables	14,015	14,015	14,015	–	–
Bank borrowings	29,026	29,026	29,026	–	–
Lease liabilities	421	450	180	180	90
Amount due to immediate holding company	11,899	11,899	11,899	–	–
Amount due to the Ultimate Controlling Party	11,860	11,860	11,860	–	–
	67,221	67,250	66,980	180	90

Interest rate risk

The Target Group's exposure to market risk for changes in interest rates relates primarily to the Target Group's bank borrowings. Interest charged on the Target Group's borrowings are mainly at variable rates and are mainly at the interest rate offered by the Hong Kong Inter-bank Offered Rate. The Target Group does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arises.

At the end of the Relevant Periods. If interest rate had been 100 basis point higher/lower and all other variable were held constant, the Target Group's (loss) profit before tax would (increase/decrease) decrease/increase by approximately HK$290,000, HK$290,000 and HK$290,000 for the years ended 31 March 2018, 2019 and 2020, respectively. The Target Group's sensitivity to interest rates has decreased during the Relevant Periods mainly due to the reduction in variable rate debt instrument.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the each reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at the end of each reporting period. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the Relevant Periods.

30. FAIR VALUE MEASUREMENTS

All financial assets and financial liabilities are carried at amounts not materially different from their fair values at 31 March 2018, 2019 and 2020.

31. CAPITAL MANAGEMENT

The objectives of the Target Group's capital management are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Target Group's stability and growth. The management consider the total equity as disclosed in the consolidated statements of financial position as the Target Group's capital.

The Target Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Target Group. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders. No changes were made in the objectives, policies or processes during the Relevant Periods.

32. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 March 2020, save as disclosed elsewhere in the Historical Financial Information, the Target Group has no any significant subsequent events.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared in accordance with HKFRSs and/or other applicable financial reporting standards for the Target Company or any of its subsidiaries in respect of any period subsequent to 31 March 2020.

Set out below is the management discussion and analysis of the Target Group for each of the financial years ended 31 March 2018, 2019 and 2020. The following discussion and analysis should be read in conjunction with the accountants' report of the Target Company as set out in Appendix II to this circular. Certain numerical figures included in this management discussion and analysis of the Target Group have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

BUSINESS REVIEW

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. 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.

FINANCIAL REVIEW

Revenue

For the financial years ended 31 March 2018, 2019 and 2020, the Target Group generated revenue of approximately HK$52,694,000, HK$64,818,000 and HK$62,108,000.

The directors of the Target Company have determined that the Target Group has a single operating and reportable segment throughout the financial years ended 31 March 2018, 2019 and 2020, as the Target Group manages its business as a whole on the manufacturing and trading of printing and packaging products and the executive directors of the Target Company, being the chief operating decision makers of the Target Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Target Group. Segment information is not presented accordingly.

The following table sets out information about the geographical location of the Target Group's revenue from external customers. The geographical location of the revenue is presented based on the location of customers. The Target Group's all non-current assets are located in the PRC and Hong Kong.

Revenue from external customers

	Year ended 31 March		
	2018	**2019**	**2020**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Hong Kong (place of domicile)	38,153	37,156	44,362
The US	3,898	13,840	7,499
The PRC	1,853	7,459	6,362
United Kingdom	8,757	6,363	3,885
Others	33	–	–
Total	**52,694**	**64,818**	**62,108**

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. Based on the estimated maximum printing capacity of the manufacturing base of the Target Group, the utilisation rate for each of the financial years ended 31 March 2019 and 2020 is approximately 60-70% with potential to further improve the revenue level. The Target Group does not plan for material investments or capital assets in the near future.

Profit & loss for the year

The Target Group recorded net loss of approximately HK$477,000 for the financial year ended 31 March 2018 and net profit of approximately HK$6,367,000 and HK$5,063,000 respectively for the two financial years ended 31 March 2019 and 2020.

The Target Group successfully achieved a turnaround in the financial year ended 31 March 2019 due to the 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 net profit for the financial year ended 31 March 2020 remained stable despite the trade war between the PRC and the US, the political unrest in Hong Kong and the outbreak of coronavirus.

LIQUIDITY, FINANCIAL RESOURCES, GEARING AND CAPITAL STRUCTURE

Liquidity

As at 31 March 2018, current assets and current liabilities of the Target Group amounted to approximately HK$54,800,000 and HK$89,842,000, respectively.

As at 31 March 2019, current assets and current liabilities of the Target Group amounted to approximately HK$51,671,000 and HK$75,134,000, respectively.

As at 31 March 2020, current assets and current liabilities of the Target Group amounted to approximately HK$57,054,000 and HK$68,929,000, respectively.

Financial resources

As at 31 March 2018, the Target Group had total cash and bank balances of approximately HK$11,982,000 and trade and other receivables of approximately HK$13,420,000.

As at 31 March 2019, the Target Group had total cash and bank balances of approximately HK$6,796,000 and trade and other receivables of approximately HK$11,406,000.

As at 31 March 2020, the Target Group had total cash and bank balances of approximately HK$8,544,000 and trade and other receivables of approximately HK$10,905,000.

Gearing

As at 31 March 2018, 31 March 2019 and 31 March 2020, the gearing ratio of the Target Group was approximately 4.11, 2.36 and 1.80 respectively, which is computed as net debt (defined as total borrowings less cash and bank balance) divided by total equity.

Capital structure

As at 31 March 2018, 31 March 2019 and 31 March 2020, the total bank borrowing of the Target Group was approximately HK$29,026,000.

As at 31 March 2018, 31 March 2019 and 31 March 2020, the total equity of the Target Group was approximately HK$13,321,000, HK$19,699,000 and HK$24,550,000 respectively.

SIGNIFICANT INVESTMENTS

As at 31 March 2018, 31 March 2019 and 31 March 2020, there was no significant investment held by the Target Group.

MATERIAL ACQUISITION AND DISPOSALS

For the financial years ended 31 March 2018, 2019 and 2020, the Target Group did not conduct any material acquisition or disposal of subsidiaries.

FOREIGN EXCHANGE EXPOSURE

During the financial years ended 31 March 2018, 2019 and 2020, a vast majority of the business transactions, assets and liabilities of the Target Group were denominated in Hong Kong dollars. Therefore, the Target Group has minimal exposure to currency exchange risk and the Target Group did not hold any financial instruments for hedging purposes.

CHARGES ON ASSETS

As at 31 March 2020, the Target Group did not have any charges on assets.

CONTINGENT LIABILITIES

As at 31 March 2020, the Target Group had no material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2020, the Target Group had 243 employees. The Target Group offered competitive remuneration package, discretionary bonuses and social insurance benefits to its employees. For the financial years ended 31 March 2018, 2019 and 2020, the Target Group's staff costs were approximately HK$20,981,000, HK$23,598,000 and HK$19,594,000 respectively.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. INTRODUCTION

The following is a summary of illustrative unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2020 in connection with the proposed transactions of acquisition of Sky Will Printing & Packaging Limited and its subsidiaries (the "Proposed Acquisition"). The unaudited pro forma financial information presented below is prepared to illustrate the financial position of the Group immediately after completion of the Proposed Acquisition as at 31 March 2020 as if the Proposed Acquisition had been completed on 31 March 2020.

The unaudited pro forma financial information is prepared based on the unaudited consolidated statement of financial position of the Group as at 31 March 2020 as extracted from the published annual results announcement of the Company for the year ended 31 March 2020 and the audited consolidated statement of financial position of the Target Group (as defined in this Circular) as at 31 March 2020 as extracted from the accountants' reports set out in Appendix II to this Circular.

The unaudited pro forma financial information is presented after making pro forma adjustments that are directly attributable to the Proposed Acquisition and not relating to future events or decisions, factually supportable and clearly identified as to those adjustments which are expected to have / have no continuing effect on the Group.

The unaudited pro forma financial information has been prepared by the directors of the Company (the "Directors") in accordance with paragraph 4.29(1) of the Listing Rules, for the purposes of illustrating the effect of the Proposed Acquisition and is based on a number of assumptions, estimates and uncertainties. Accordingly, it may not give a true picture of the financial position of the Group had the Proposed Acquisition been completed as of 31 March 2020, where applicable, or any future date.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group as set out in the annual results announcement of the Company for the year ended 31 March 2020 and other financial information included elsewhere in the Circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 March 2020	The Target Group as at 31 March 2020	Pro forma adjustments		The Enlarged Group as at 31 March 2020
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Unaudited)*		*(Unaudited)*
	(Note 1)	*(Note 2)*			
Non-current assets					
Property, plant and equipment	113,672	36,475	894	*(4)*	151,041
Refundable deposit paid for acquisition of subsidiaries	12,000	–	(12,000)	*(3)*	–
Intangible assets	–	–	1,880	*(4)*	1,880
Deferred tax assets	–	221			221
	125,672	36,696			153,142
Current assets					
Inventories	79	5,791			5,870
Trade and bill receivables	93,008	8,486			101,494
Other receivables, deposits and prepayments	8,208	2,419			10,627
Loans to related companies	–	24,026	(24,026)	*(6)*	–
Amounts due from related companies	–	7,788	(7,788)	*(6)*	–
Cash and cash equivalents	30,649	8,544	(2,603) 8,055	*(5)* *(6)*	44,645
	131,944	57,054			162,636
Current liabilities					
Trade payables	5,873	4,456			10,329
Other payables and accruals	35,915	11,152			47,067
Interest-bearing borrowings	–	29,026			29,026
Derivative financial instruments	101	–			101
Convertible bonds	78,360	–			78,360
Lease liabilities	1,751	162			1,913
Amount due to immediate holding company	–	11,899	(11,899)	*(6)*	–
Amount due to Ultimate Controlling Party	–	11,860	(11,860)	*(6)*	–
Tax payable	532	374			906
	122,532	68,929			167,702
Net current assets (liabilities)	9,412	(11,875)			(5,066)
Total assets less current liabilities	135,084	24,821			148,076
Non-current liabilities					
Lease liabilities	1,751	259			2,010
Promissory note	–	–	11,717	*(3)*	11,717
Deferred tax liabilities	247	12	588	*(4)*	847
	1,998	271			14,574
Net assets	133,086	24,550			133,502
Capital and reserves					
Share capital	57,624	10	(10)	*(4)*	57,624
Reserves	75,462	24,540	(24,540) 3,019 (2,603)	*(4)* *(4)* *(5)*	75,878
Total equity	133,086	24,550			133,502

3. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted, without adjustments, from the unaudited consolidated statement of financial position of the Group as at 31 March 2020 as set out in the published annual results announcement of the Company for the year ended 31 March 2020. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2020 have been agreed by the Group's auditor, Mazars CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 March 2020.

2. The balances are extracted from the audited consolidated statement of financial position of the Target Group as at 31 March 2020 as set out in the accountants' report of the Target Group in Appendix II to this Circular.

3. The adjustments represent considerations paid by the Group with respect to the Proposed Acquisition. Pursuant to the Second Supplemental Agreement (as defined in this Circular), the revised consideration of HK$30,000,000 for the Proposed Acquisition which will be satisfied by:

   (i) HK$12,000,000 will be payable to the Vendor (as defined in this Circular) in cash as the refundable deposit; and

   (ii) subject to Completion (as defined in this Circular), the Second Installment (as defined in this Circular) of HK$18,000,000 will be payable to the Vendor in cash and/or issue of the Promissory Note (as defined in this Circular) or a combination of both as the Purchaser (as defined in this Circular) may decide.

   Pursuant to the Sale and Purchase Agreement (as supplemented by the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement, all those documents are defined in this Circular), the Vendor irrevocably and unconditionally guarantees to the Purchaser that the consolidated net profit (as adjusted for any extraordinary or exceptional items) of the Target Group for the year ended 31 March 2020 not be less than HK$5,000,000 (the "2020 Guaranteed Profit") and the consolidated net profit (as adjusted for any extraordinary or exceptional items and the net profit generated from the non-principal business activities) of the Target Group for the year ending 31 March 2021 not less than HK$7,000,000 (the "2021 Guaranteed Profit"), respectively. The Vendor shall compensate the Purchaser for any shortfall by cash on a dollar for dollar basis.

The Purchaser elected to settle the Second Installment by issue of the Promissory Note with the principal amount of HK$18,000,000 upon Completion. The Promissory Note in the principal amount of HK$18,000,000 bears interest at 2% per annum for a fixed term of two years.

For the purposed of the unaudited pro forma financial information, the following adjustments have been made to reflect the settlement of the consideration:

	Face value	Fair value as at 31 March 2020
	HK$'000	*HK$'000*
Consideration:		
Cash	12,000	12,000
Promissory Note	18,000	11,717
Total consideration *(Note)*	30,000	23,717

Note:

The Directors have engaged an independent valuer, Roma Appraisals Limited ("Roma"), to determine the fair value of the consideration in accordance with the Hong Kong Financial Reporting Standard ("HKFRS") 13 "Fair Value Measurement" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Roma has reviewed the methodologies and the key valuation parameters and business assumptions adopted.

The fair value of the Promissory Note included in the consideration is valued by discounted cash flow method. Key valuation parameters include discount rate of 26.37%. According to the cash payment term, Roma has considered that its carrying value approximates its fair value because of its short term nature.

The 2020 Guaranteed Profit has been fulfilled. Pursuant to the Sale and Purchase Agreement, if the Target Company fails to meet the 2021 Guaranteed Profit and the Promissory Note has been issued and not redeemed and the shortfall is less than the principal amount of the Promissory Note, the Group 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 settled the remaining shortfall by cash.

In the opinion of the Directors, the profit guarantee is for the exchange of control for the Target Group and therefore considered as contingent consideration receivables and measured at fair value. The valuation of the contingent consideration receivables is valued by Roma in accordance with HKFRS 13 and is based on probabilistic approach. The value of contingent receivables is derived from the cash flow compensation as a result of the possibility of failure to meet the 2021 Guaranteed Profit by the Target Group. As such, Roma adopted the probabilistic approach to consider the probability weighted distribution of the possible outcomes. Accordingly, the fair value of the contingent consideration receivables is estimated to be approximately HK$6,000.

The fair value of contingent consideration receivables was netted in the fair value of the Promissory Note as there is an enforceable right for the Group to execute a net settlement upon the maturity of the Promissory Note with the contingent consideration receivables pursuant to the Sale and Purchase Agreement.

The above-mentioned pro forma fair value of the Promissory Note is subject to change as the actual valuation inputs, including but not limited to, the market interest rate, may change at the date of completion of the Proposed Acquisition.

4. Upon completion of the Proposed Acquisition, the Target Company will become an indirectly wholly-owned subsidiary of the Company. Accordingly, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values using the acquisition method in accordance with HKFRS 3 (Revised) "Business Combinations" issued by the HKICPA.

   The Directors have engaged Roma, to determine the fair value of the net tangible assets and intangible assets of the Target Group in accordance with HKFRS 13 issued by the HKICPA. Roma has assessed the methodologies and the key valuation parameters and business assumptions adopted.

   The identifiable intangible assets are customer relationship of the Target Group, and they are valued based on an Income Approach – multi-period excess earnings method. Using this technique, key valuation parameters include discount rate and contributory asset charges, etc. The contributory asset charges include returns on the assets that are used or used up in generating income projection of the customer relationship. Examples of such assets include fixed assets and assembled workforce. Customer relationship is subject to amortisation of 4 years in a straight line basis. Deferred tax liabilities of approximately HK$310,000 are also recognised, representing the related tax liabilities on the fair value adjustment on the intangible assets and are calculated at the applicable tax rate of 16.5%.

   With respect to the net tangible assets (i.e. other than intangible assets), Roma has considered that their fair values as at 31 March 2020 are approximately HK$37,369,000 with fair value increase of plant and equipment held by the Target Group of approximately HK$894,000. The corresponding deferred tax liabilities of approximately HK$278,000 charged at PRC and Hong Kong applicable tax rates of 25% and 16.5%, respectively.

Accordingly, the gain on bargain purchase arising from the Proposed Acquisition is calculated as follow:

	HK$'000
Carrying values of the identifiable net assets of the Target Group	24,550
Fair value adjustments:	
Property, plant and equipment	894
Intangible assets	1,880
Deferred tax liabilities	(588)
Fair value of the identifiable assets and liabilities attributable to the Group	26,736
Gain on bargain purchase arising from the Proposed Acquisition	(3,019)
Consideration *(Note 3)*	23,717

The fair value of net assets acquired is subject to changes upon completion of the Proposed Acquisition because in accordance with HKFRS 3, the fair values of all identifiable assets and liabilities of the Target Group shall be assessed on the date of completion. Accordingly, gain on bargain purchase on acquisition may be materially different from the calculation above.

The adjustments relating to purchase price allocation also included the consolidation entries for the elimination of share capital and reserves of the Target Group and are non-recurring in nature.

5. The adjustment represents the estimated transaction costs of approximately HK$2,603,000, including but not limited to legal and professional fees, directly attributable to the Proposed Acquisition.

6. The adjustment represents the settlement of the loans to related companies, amounts due from related companies, amounts due to immediate holding company and the Ultimate Controlling Party of the Target Group as at 31 March 2020 by the Vendor prior to the completion of the Proposed Acquisition pursuant to the Sale and Purchase Agreement.

7. No adjustment has been made to the unaudited pro forma consolidated statement of financial position of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2020.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

MAZARS
中审众环

MAZARS CPA LIMITED
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21 July 2020

The Board of Directors
Daisho Microline Holdings Limited
Unit A, 10/F., Fook Hing Industrial Building
33 Lee Chung Street
Chai Wan, Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Daisho Microline Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") prepared by the directors of the Company (the "Directors") for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position at 31 March 2020 and related notes as set out on pages IV-2 to IV-6 of the circular in connection with the proposed transactions of acquisition of Sky Will Printing & Packaging Limited and its subsidiaries (the "Proposed Acquisition") dated 21 July 2020 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page IV-1 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position at 31 March 2020 as if the Proposed Acquisition had taken place on 31 March 2020. As part of this process, information about the Group's unaudited consolidated financial position at 31 March 2020 has been extracted by the Directors from the published annual results announcement of the Company for the year ended 31 March 2020.

Directors' responsibility for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting accountant's independence and quality control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 March 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Mazars CPA Limited
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

Save as disclosed below, 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 Issuers as contained in the Listing Rules:

Long position in Shares

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of total issued share capital
Ms. Cheung Lai Ming	Trustee *(Note 1)*	120,068,000	20.84%
	Share options *(Note 2)*	4,800,000	0.83%
Mr. Lee Man Kwong	Share options *(Note 2)*	4,800,000	0.83%
Mr. Law Ping Wah	Share options *(Note 3)*	4,800,000	0.83%

Notes:

1. Ms. Cheung Lai Ming held 120,068,000 Shares in trust for Mr. Cheung Ling Mun, who is a senior management of the Group and the father of Ms. Cheung Lai Ming.

2. Each of Ms. Cheung Lai Ming and Mr. Lee Man Kwong, being the executive Directors, has been granted 4,800,000 share options of the Company. For further details of the said share options granted, please refer to the announcement of the Company dated 1 August 2019.

3. Mr. Law Ping Wah, who used to be an executive Director and resigned on 19 June 2020, has been granted 4,800,000 share options of the Company. For further details of the said share options granted, please refer to the announcement of the Company dated 1 August 2019.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the persons (other than the Directors and chief executives of the Company) 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 were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long position in Shares

Name of substantial Shareholder	Capacity	Number of Shares and underlying Shares held	Approximate percentage of total issued share capital
Mr. Cheung Ling Mun	Beneficial owner	120,068,000	20.84%
Spring Global Enterprises Limited *(Note 1)*	Beneficial owner	59,576,000	10.34%
Mr. Ng *(Note 1)*	Interest in controlled corporation	59,576,000	10.34%
Alexis Consortium Ltd. *(Note 2)*	Beneficial owner	50,000,000	8.68%
BC Management Services Ltd. *(Note 2)*	Interest in controlled corporation	50,000,000	8.68%

Notes:

1. Spring Global Enterprises Limited is wholly-owned by Mr. Ng. Mr. Ng is deemed to be interested in all the shares in which Spring Global Enterprises Limited is interested under Part XV of the SFO.

2. Alexis Consortium Ltd. is wholly-owned by BC Management Services Ltd. BC Management Services Ltd. is deemed to be interested in all the shares in which Alexis Consortium Ltd. is interested under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any person (other than the Directors and chief executives of the Company) 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 were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS AND MATERIAL CONTRACTS

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 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

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.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group which does not expire or is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close 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.

7. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts whose name, opinions and/or reports are contained in this circular:

Name	**Qualification**
Mazars CPA Limited ("**Mazars**")	Certified Public Accountants
INCU Corporate Finance Limited ("**INCU**")	A corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

Each of Mazars and INCU has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter (as the case may be) and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, neither Mazars or INCU had any shareholding interests in the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for any securities in the Company or any member of the Group.

As at the Latest Practicable Date, neither Mazars or INCU had any interest, direct or indirect, in any assets which had been, since 31 March 2019 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. CLAIMS AND LITIGATION

(a) Litigation with Mr. Harry Chan

In January 2017, Mr. Harry Chan, a former executive director, chief executive officer and chairman of the Company who was removed from his duties effective from 23 December 2016, filed a claim for a total sum of approximately HK$4,300,000 in respect of wages in lieu of notice, annual leave pay, rest day pay and long service payment (the "**Claims**") in the Labour Tribunal against the Company which was then transferred to the Court of First Instance as High Court Action No. HCA 1082/2017 (the "**1st Action**").

The Directors consider that the claim from Mr. Harry Chan is without merit and have been advised by the Group's lawyers that the Group is not likely that the High Court would find the Company liable for the 1st Action. The directors of the Company are of the opinion that it is not probable that an outflow of economic benefits will be required and therefore no provision for the Claims is considered necessary.

On 24 May 2017, the Company and Huafeng Microline (Huizhou) Circuits Limited* (華鋒微綫電子(惠州)工業有限公司) ("**Huafeng**"), a wholly-owned subsidiary of the Company, as first and second plaintiffs filed a statement of claim to the High Court in High Court Action No. 818/2018 against Mr. Harry Chan for his breaches (i) under the terms of his service agreement; and/or (ii) of his fiduciary and statutory duties to both the Company and Huafeng as an executive director (the "**2nd Action**"). The ultimate liability or amount is to be assessed. Pursuant to the order made by the High Court on 20 June 2017, the 1st Action was consolidated with the 2nd Action.

The Directors are of the opinion, with reference to the opinion of the Group's lawyer, any damages (or part thereof) may set off against any amounts which may be awarded in Mr. Harry Chan's favour (if any) in the 1st Action. Up to the Latest Practicable Date, there is no further update from the High Court for the above cases.

(b) Litigation with Societe Generale

On 17 September 2019, the Group received an amended writ of summons (the "**Writ**") issued by Societe Generale, Singapore Branch (the "**Plaintiff**") in which, amongst others, Pacific Dragon (Hong Kong) Energy Limited ("**Pacific Dragon**") and Daisho Microline Limited ("**DML**"), two wholly-owned subsidiaries of the Company, have been joined as additional defendants to the proceedings of the High Court of Hong Kong (case number HCA 1617/2019) (the "**Proceedings**") which were originally issued against, among others, (1) Ms. Cheung Lai Na, an ex-director and former chairman of the Company who resigned on 4 September 2019 and an ex-shareholder of the Company holding approximately 20.84% interest in the Company on trust for her family until she ceased to hold any of the interest on trust for her family on 14 August 2019; and (2) Inter-Pacific Petroleum Pte Ltd ("**Inter-Pacific Petroleum**"), a wholly-owned subsidiary of the Vendor. Pursuant to the Writ, the Plaintiff claims, amongst other things, against Inter-Pacific Petroleum for payment for breach of certain trade finance facilities granted to Inter-Pacific Petroleum in the outstanding sum as at 28 August 2019 of approximately US$89,849,000.

In connection with the Writ, the Plaintiff obtained an injunction order against, amongst others, Pacific Dragon and DML, pursuant to which (1) Pacific Dragon was restricted from disposing of or dealing with the sum of approximately US$24,963,000 paid into its bank account during the period from 1 June 2019 to 31 August 2019 and any of its assets whether within or outside Hong Kong up to the same value; and (2) DML was restricted from disposing of or dealing with the sum of approximately US$6,653,000 paid into its bank account during the period from 1 June 2019 to 31 August 2019 and any of its assets whether within or outside Hong Kong up to the same value. According to the decision of High Court of Hong Kong dated 10 July 2020, the aggregate amount injuncted against Pacific Dragon and DML should be reduced to HK$10,228,906.30 and the injunction is permitted to be discharged if the same amount injuncted is paid into court. Pacific Dragon and DML were also awarded costs to be paid by the Plaintiff.

(c) Litigation with the Vessels Vendor

In November 2019, the Company instructed its lawyer to issue a legal letter to the Inter-Pacific Group Pte. Limited (the "**Vessels Vendor**"), demanding the Vessels Vendor to return the deposit of HK$14,574,000 to the Company which had paid the Vessels Vendor for the acquisition of the two of the four vessels pursuant to a sale and purchase agreement dated 29 September 2017 (the "**SPA**"). Pursuant to the SPA, the third consideration would be satisfied by the Company in the following manner: (i) on the date of the SPA, a cash payment of HK$14,574,000 (the "**Third Deposit**"); (ii) at third completion, a cash payment of HK$10,151,000 and the balance of the remaining third consideration, equivalent to HK$72,435,000, will be settled by the Company issuing to the Vessels Vendor (or its designated nominee) the promissory note in the principal amount of HK$72,435,000. In the event that the conditions specified in the Agreement are not fulfilled or waived on or before 30 September 2019, the Third Deposit shall be returned by the Vessels Vendor to the Company (or such persons as it may direct), without interest, in immediately available funds within five business days from the 30 September 2019. As the conditions precedent of the Agreement with respect to the acquisition of Pacific Energy 8 and Pacific Energy 168 have not been fulfilled, in particular, mortgage 8 and mortgage 168 have not been discharged in full by the 30 September 2019 and the Agreement had been terminated accordingly. The Vessels Vendor had to fulfill its obligation to return the Third Deposit to the Company by the prescribed deadline.

Therefore, the Company issued a legal letter to demand the Vessels Vendor to make an immediately repayment of the Third Deposit in the sum of HK$14,574,000 to the Company.

The Vessels Vendor was placed under liquidation by the Singapore Court on 27 March 2020 pursuant to the Order of Court HC/ORC 2247/2020. As at the Latest Practicable Date, the Company is filing the proof of debt to the liquidators.

9. GENERAL

(a) The company secretary of the Company is Mr. Ng Yu Ho, who was graduated from the Hong Kong Polytechnic University with a bachelor's degree in accountancy and is a member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

(c) The principal place of business in Hong Kong is at Unit A, 10/F, Fook Hing Industrial Building, 33 Lee Chung Street, Chai Wan, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency, unless otherwise specified.

10. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, were entered into by members of the Group within the two years immediately preceding the date of this circular and up to the Latest Practicable Date and are or may be material:

(a) the Third Supplemental Agreement;

(b) the Second Supplemental Agreement;

(c) the First Supplemental Agreement;

(d) the Sale and Purchase Agreement; and

(e) the memorandum of understanding and the sale and purchase agreement entered into between the Daisho Microline Limited and Juko Industrial Limited (wholly-owned subsidiaries of the Company) as vendors and Sea Time Investment Limited as purchaser for the disposal of Da Feng Hua Microline Technology (Huizhou) Company Limited* (大鋒華微綫科技(惠州)有限公司) (the "**Disposal**") on 25 May 2018 and 21 August 2018, respectively. The consideration of the Disposal is HK$200 million.

11. 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 Unit A, 10/F, Fook Hing Industrial Building, 33 Lee Chung Street, Chai Wan, Hong Kong during normal business hours up to and including the date of the SGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Group for each of the three years ended 31 March 2017, 2018 and 2019;

(c) the interim report of the Group for the six months ended 30 September 2019;

(d) the material contracts referred to in the section headed "10. Material contracts" in this Appendix;

(e) the letter from the Board, the text of which is set out on pages 6 to 32 of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on page 33 of this circular;

(g) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 34 and 62 of this circular;

(h) the accountants' report from Mazars on the Target Group for the three financial years ended 31 March 2018, 2019 and 2020, the text of which is set out in Appendix II of this circular;

(i) the report from Mazars on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV of this circular;

(j) the written consents referred to in the section headed "7. Qualifications and consent of experts" in this Appendix; and

(k) this circular.

* *for identification purpose only.*

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 11:00 a.m. on Wednesday, 5 August 2020 at Room 204, 2/F, Valley Centre, 80-82 Morrison Hill Road, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the Sale and Purchase Agreement (together with the supplemental agreements) as defined in the circular and despatched to the shareholders of the Company, copies of which have been produced to this meeting marked "A" and initialed by the chairman of the SGM for the purpose of identification, and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his/her opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transaction contemplated under the Sale and Purchase Agreement and in this resolution."

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

Hong Kong, 21 July 2020

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.

3. A proxy form for the meeting is enclosed. 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, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting, or any adjourned meeting thereof (as the case may be).

4. Completion and return of the proxy form shall not preclude members of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall alone be entitled to vote in respect thereof.