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DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

ANNOUNCEMENT IN RELATION TO INTERNAL CONTROL REVIEW

References are made to the Statement of Disciplinary Action published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 11 November 2021 (the “**Statement**”) and the announcement of Daisho Microline Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) dated 26 November 2021 in relation to, amongst other things, the appointment of Internal Control Advisers to conduct a thorough review of and make recommendations to improve the Company’s internal controls for procuring compliance with Rule 2.13, 3.08, 3.16, 13.04 and Appendix 16 of the Listing Rules and for management and avoidance of potential and actual conflict of interests (the “**Announcement**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcement.

Pursuant to the directions (the “**Directions**”) of the Listing Committee of the Stock Exchange, the Company has to, *inter alia*, submit a written report (the “**Report**”) of the Internal Control Advisers containing their recommendations to the Listing Division of the Stock Exchange (the “**Listing Division**”) within two months from the date of the Statement.

The Company hereby confirms that the Company submitted the aforementioned Report of the Internal Control Advisers to the Listing Division on 31 December 2021 in compliance with the Directions (i.e. within two months from the date of the Statement) and agreed to implement all recommendations of the Internal Control Advisers.

The findings are further summarized below.

1. Corporate Governance

Connected transactions and Conflict of interest

The Internal Control Advisers acknowledged that, in order to avoid future potential and actual conflict of interest, the Company strengthened its “Conflict of Interest Policy” and established a “Code of Conduct Policy”. The Internal Control Advisers further acknowledged that the Group established internal control mechanisms to identify connected transactions including a “Connected Transactions Policy”, imposition of disciplinary actions on persons who fail to timely disclose any actual or possible conflict of interest and annual review of cash compensation, performance, and overall compensation package of the directors.

Finding 1

The Internal Control Advisers noted that, the directors are not requested to state detailed information and specify the relationship if they have engaged in any business outside the Company. Accordingly, it would be difficult for the Company to identify and avoid potential and actual conflict of interest arising out of any transactions.

Recommendation

The Internal Control Advisers recommended that all the members of the Board should submit a detailed declaration and disclose their relationship with listed companies and external directorships or business interests annually.

The Company agrees to implement this recommendation.

Finding 2

The Internal Control Advisers also noted that, the definitions of “connected subsidiaries” and “deemed connected person” in accordance with Rules 14A.07, 14A.16, 14A.20(2), 14A.21(2) of the Listing Rules were not included in the “Conflict of Interest Policy” and the declaration forms in regard to connected parties.

Recommendation

The Internal Control Advisers recommended that the Company should ensure that the “Conflict of Interest Policy” covers the definitions and announcement requirements of notifiable transactions under Chapter 14A of the Listing Rules, so as to identify and disclose notifiable transactions. Should a member of the Board discover the necessity to amend his/her connected person list, he/she shall promptly report to the Board through the finance manager of the Company in writing and such finance manager should update the “Connected Party and Related Party Information List”. Such list shall be regularly reviewed by the Board for confirmation on completeness and distributed to relevant departments for identifying, reporting and disclosing connected transactions.

The Company agrees to implement this recommendation.

Competence of Directors

The Internal Control Advisers noted that, the Company stated in the 2018 Interim Result and Annual Report that the acquisition of vessels had been completed, whilst Ms. Cheung Lai Na, the then Executive Director and Chairman of the Company, was aware that the mortgages for the relevant vessels had not been discharged.

The Internal Control Advisers acknowledged that, in order to ensure the competence of its directors, the Company requires its directors to participate in development courses, seminars, workshops and programs each year to ensure compliance with standards of sound business practices and regulatory requirements. The Nomination Committee of the Company also reviews the structure, size and composition (including the skills, knowledge and experience) of the board annually and make recommendations on any proposed changes thereto to complement the Company's corporate strategy. Notably, two of the board members are certified public accountants, who can strengthen the Group's compliance with requirements in relation to financial disclosure.

The Internal Control Advisers did not identify any material error or irregularity in relation to the training and selection of directors.

2. Financial Reporting

Accurate and complete disclosure in corporate communication

The Internal Control Advisers acknowledged that the Company established a written financial reporting policy, which included detailed month end reporting procedures. The Internal Control Advisers further noted that the member of the finance department and the senior management would follow the reporting procedure of monthly financial statements. The Internal Control Advisers also did not identify any material error or irregularity in the endorsement records of consolidated financial statements and projected cash flow statements.

Bank reconciliation

The Internal Control Advisers noted that the Company provided training to accounting staff in regard to guidance for the bank reconciliation procedures and required the finance department to perform bank reconciliation to all existing bank accounts.

The Internal Control Advisers noted that the accounting personnel was properly endorsed and confirmed that they would follow the Company's bank reconciliation policy. The Internal Control Advisers also conducted sample checking and noted that monthly bank reconciliation was properly conducted and approved.

Finding 3

Since the accounting training provided by the Company is orally presented, the Internal Control Advisers cannot find any documentation of the training records to ensure the understanding of bank reconciliation procedure of the account staff after training.

Recommendation

The Internal Control Advisers recommended that the Company should provide relevant quiz to the accounting staff to evaluate the understanding of the training materials and keep the attendance records for documentation.

The Company agrees to implement this recommendation.

3. Acquisition/Disposal of Assets

Timeliness and accuracy of the recognition of asset acquisition

The Internal Control Advisers acknowledged that the Company has implemented a series of financial measures reforms measures to improve the timeliness and accuracy of accounting records, including the hiring of a new finance manager, appointment of a new director with professional accounting qualification, establishment of unified and comprehensive accounting procedure for asset acquisition and disposal, provision of regular training on accounting entries and recognition standards to accounting staff.

The Internal Control Advisers conducted sample checking on transactions in the years of 2020/21 and 2021/22 for their test of controls and noted that those transactions were timely and accurately recorded. Accordingly, no material error or irregularity was identified.

Management participation in asset acquisition

The Internal Control Advisers acknowledged that the Company has implemented a series of monitoring and communication measures to improve the management participation of assets acquisition, including without limitation:

- (i) Establishing financial reporting policy to strengthen the monthly reporting schedule;
- (ii) Establishing a written assets acquisition/disposal policy to stipulate and emphasize the roles and responsibilities of directors and senior management during the process of assets acquisition/disposal; and
- (iii) Conducting a review on approval procedures in regard to assets acquisition/disposal.

Finding 4

The Internal Control Advisers conducted sample checking and reviewed feasibility plans, budget plans, background information, board minutes and settlement records. The Internal Control Advisers noted that these documents were properly approved by the directors and senior management.

The Internal Control Advisers concluded that the acquisitions were closely monitored and approved by the directors and senior management and that no material error or irregularity was identified.

The Internal Control Advisers further noted that the Company regulated the participation of directors and senior management during the approval process of asset acquisition/disposal. However, the Company did not establish a written approval matrix.

Recommendation

The Internal Control Advisers therefore recommended that the Company should establish a comprehensive written approval matrix to regulate the amount and the nature of the transactions that should be reviewed and approved by the directors and senior management.

The Company agrees to implement this recommendation.

It is expected that the Internal Control Advisers will issue a further report that would review the Company's implementation of their recommendations within two months of the Report.

By order of the Board
Daisho Microline Holdings Limited
LEE Man Kwong
Chairman

Hong Kong, 13 January 2022

As at the date of this announcement, the Board consists of two executive Directors, namely, LEE Man Kwong and WONG Siu Hung, Patrick, one non-executive Director, namely, YAU Pak Yue and three independent non-executive Directors, namely, LEUNG King Fai, CHAN Yau Ching, Bob and LEUNG Hoi Ming.