

2007-2008  
Interim Report



DAISHO MICROLINE HOLDINGS LIMITED

大昌微綫集團有限公司

Stock Code: 0567

## FINANCIAL HIGHLIGHTS

RESULTS	6 months ended 30 September		
	2007	2006	% Change
Revenue ( <i>HK\$'000</i> )	335,913	458,944	-27%
Profit attributable to equity holders ( <i>HK\$'000</i> )	73,631	97,687	-25%
Gross profit ratio (%)	38	47	-9%
Basic earnings per share ( <i>HK cents</i> )	15.32	20.52	-25%
Interim dividend per share ( <i>HK cents</i> )	4.0	4.0	-
FINANCIAL POSITION	30 September		
	2007	31 March 2007	% Change
Net assets ( <i>HK\$'000</i> )	442,624	373,588	+18%
Gearing ratio ( <i>times</i> )	0.12	0.20	-40%
Current ratio ( <i>times</i> )	1.66	1.54	+8%

## UNAUDITED INTERIM REPORT

The Board of Directors (the "Board") of Daisho Microline Holdings Limited (the "Company") is pleased to present the unaudited interim report of the Company and its subsidiaries (the "Group") for the 6 months ended 30 September 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited)	
		6 months ended 30 September	
		2007	2006
		HK\$'000	HK\$'000
REVENUE	3	335,913	458,944
Cost of sales		<u>(209,338)</u>	<u>(241,506)</u>
Gross profit		126,575	217,438
Other income and gains		5,254	2,237
Selling and distribution costs		(25,359)	(81,963)
Administrative expenses		(19,656)	(19,576)
Other expenses		(89)	(755)
Finance costs	4	<u>(2,128)</u>	<u>(2,899)</u>
PROFIT BEFORE TAX	4	84,597	114,482
Tax	5	<u>(10,966)</u>	<u>(16,795)</u>
PROFIT FOR THE PERIOD		<u>73,631</u>	<u>97,687</u>
Attributable to equity holders of the Company		<u>73,631</u>	<u>97,687</u>
INTERIM DIVIDEND	6	<u>19,225</u>	<u>19,225</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		<u>HK15.32 cents</u>	<u>HK20.52 cents</u>
– Diluted		<u>HK15.27 cents</u>	<u>HK20.33 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	321,947	316,886
Prepaid land lease payments		4,197	4,171
Deposits paid for acquisition of items of property, plant and equipment		<u>8,073</u>	<u>4,007</u>
Total non-current assets		<u>334,217</u>	<u>325,064</u>
<b>CURRENT ASSETS</b>			
Inventories		54,496	40,569
Trade debtors	9	114,389	85,078
Available-for-sale investment	10	63,052	15,625
Sundry debtors, prepayments & deposits		14,545	11,440
Cash and cash equivalents	11	<u>70,760</u>	<u>85,562</u>
Total current assets		<u>317,242</u>	<u>238,274</u>
<b>CURRENT LIABILITIES</b>			
Trade creditors	12	99,879	62,344
Other creditors and accruals		31,245	35,322
Interest-bearing bank and other borrowings	13	36,869	41,293
Tax payable		<u>22,832</u>	<u>16,105</u>
Total current liabilities		<u>190,825</u>	<u>155,064</u>
NET CURRENT ASSETS		<u>126,417</u>	<u>83,210</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		460,634	408,274
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	13	17,810	34,486
Deferred tax liabilities		<u>200</u>	<u>200</u>
Total non-current liabilities		<u>18,010</u>	<u>34,686</u>
Net assets		<u>442,624</u>	<u>373,588</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued share capital		48,061	48,061
Reserves		394,563	311,109
Proposed final dividend		<u>-</u>	<u>14,418</u>
Total equity		<u>442,624</u>	<u>373,588</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

6 months ended 30 September 2007

	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total equity HK\$'000
At 1 April 2007	48,061	92,031*	9,379*	9,820*	199,879*	14,418	373,588
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	9,823	-	-	9,823
Profit for the period	-	-	-	-	73,631	-	73,631
Payment of final dividend for 2006/07	-	-	-	-	-	(14,418)	(14,418)
<b>At 30 September 2007</b>	<b>48,061</b>	<b>92,031*</b>	<b>9,379*</b>	<b>19,643*</b>	<b>273,510*</b>	<b>-</b>	<b>442,624</b>

(Unaudited)

6 months ended 30 September 2006

	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total equity HK\$'000
At 1 April 2006	47,176	90,613	9,379	(15,155)	91,076	14,252	237,341
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	10,684	-	-	10,684
Profit for the period	-	-	-	-	97,687	-	97,687
Issue of ordinary shares from exercise of share options	885	1,417	-	-	-	-	2,302
Payment of final dividend for 2005/06	-	-	-	-	(166)	(14,252)	(14,418)
<b>At 30 September 2006</b>	<b>48,061</b>	<b>92,030</b>	<b>9,379</b>	<b>(4,471)</b>	<b>188,597</b>	<b>-</b>	<b>333,596</b>

\* These reserve accounts comprise the consolidated reserves of HK\$394,563,000 (31 March 2007: HK\$311,109,000) in the consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	84,597	114,482
Net adjustments for non-cashflow items	<u>17,978</u>	<u>40,968</u>
Operating profit before working capital changes	102,575	155,450
Net increase in working capital	<u>(9,741)</u>	<u>(76,163)</u>
Cash generated from operations	92,834	79,287
Net interest payment	(380)	(2,033)
Net tax payment	<u>(4,240)</u>	<u>(6,788)</u>
Net cash inflow from operating activities	88,214	70,466
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash outflow from investing activities	(68,781)	(50,912)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash outflow from financing activities	<u>(35,518)</u>	<u>(30,921)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,085)	(11,367)
Cash and cash equivalents at beginning of the period	85,562	53,355
Effect of foreign exchange rate changes, net	<u>1,283</u>	<u>427</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>70,760</u></u>	<u><u>42,415</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	61,608	22,921
Non-pledged time deposits with original maturity of less than three months when acquired	<u>9,152</u>	<u>19,494</u>
Cash and cash equivalents	<u><u>70,760</u></u>	<u><u>42,415</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

This interim report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

Except for the changes mentioned below, the accounting policies and methods of computation used in the preparation of this interim report are the same as those adopted in preparing the annual audited financial statements for the year ended 31 March 2007.

#### Change in accounting policies

The Group has changed certain of its accounting policies following its adoption of the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 April 2007.

HKAS 1 Amendment	Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The application of these new HKFRSs did not have any material impact on the results or the financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustments are required.

#### Change in estimated useful life of machinery and equipment

Prior to 31 March 2007, the estimated useful life of the Group’s machinery and equipment was 5 years. After reviewing the depreciation policy of comparable companies and the expected duration during which the Group’s machinery and equipment can be utilized, the Board is of the opinion that the estimated useful life of the Group’s machinery and equipment should be changed from 5 years to 10 years with effect from 1 April 2007 in order to reflect the real performance of the Group and help provide a clear financial comparison with other comparable companies. This constitutes a change in accounting estimate and will be applied prospectively. If the Group adopts 5 years as the estimated useful life of its machinery and equipment, the depreciation charge for the current period and the current financial year will increase by about HK\$23 million and HK\$43 million respectively.

## 2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in this interim report.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

The Group anticipates that the applications of these new or revised standard, amendment and interpretations would not have significant impact on the result and financial position of the Group.

## 3. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are the manufacture and trading of printed circuit boards. There was no change in the nature of the Group's principal activities during the current period.

Revenue represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts.

### (a) Business segment

The Group has only one business segment, which is the manufacture and trading of printed circuit boards. Therefore, no business segment analysis is presented.

### (b) Geographical segments

In presenting information by geographical segment, segment revenue is based on the location of the customers.

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$ '000	HK\$ '000
Segment revenue:		
Sales to external customers		
Mainland China	172,091	196,008
Europe	61,252	169,407
Japan	36,236	26,705
Hong Kong	34,666	31,940
Others	31,668	34,884
	<u>335,913</u>	<u>458,944</u>

#### 4. PROFIT BEFORE TAX

Profit before tax is arrived at after crediting and (charging):

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
(a) <b>Finance costs:</b>		
Interest on:		
Bank loans and other loans wholly repayable within five years	(240)	(645)
Finance leases and hire purchase contracts	<u>(1,888)</u>	<u>(2,254)</u>
	<u>(2,128)</u>	<u>(2,899)</u>
(b) <b>Other items:</b>		
Depreciation	(17,615)*	(34,058)
Amortization of land lease payments	(63)	(59)
Staff costs (including directors' remuneration)	(23,990)	(21,077)
Bank interest income	<u>1,827</u>	<u>724</u>

\* As mentioned in note 1 under the sub-paragraph of "Change in estimated useful life of machinery and equipment", the Group has changed the estimated useful life of its machinery and equipment from 5 years in the past to 10 years with effect from 1 April 2007. If the Group adopts 5 years as the estimated useful life of its machinery and equipment, the depreciation charge for the current period will increase by about HK\$23 million.

#### 5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the current period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Deferred tax has been provided on temporary differences using the current applicable rate.

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the period	3,757	6,450
Current – Elsewhere		
Charge for the period	7,209	8,575
Deferred	<u>–</u>	<u>1,770</u>
Total tax charge for the period	<u>10,966</u>	<u>16,795</u>

## 6. INTERIM DIVIDEND

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Proposed interim dividend of HK4.0 cents (2006: HK4.0 cents) per ordinary share	<u>19,225</u>	<u>19,225</u>

At the Board meeting held on 11 December 2007, the Board has resolved to declare an interim dividend of HK4.0 cents per ordinary share for the year ending 31 March 2008. This proposed interim dividend is not reflected as a dividend payable in the condensed consolidated financial statements for the 6 months ended 30 September 2007, but will be reflected as an appropriation of retained profits for the year ending 31 March 2008.

The amount of the proposed interim dividend is based on 480,613,785 shares in issue at 11 December 2007.

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$73,631,000 (2006: HK\$97,687,000) and the weighted average number of 480,613,785 (2006: 476,103,402) ordinary shares in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$73,631,000 (2006: HK\$97,687,000) and the weighted average number of 482,081,630 (2006: 480,616,527) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

### (c) Reconciliation

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	480,613,785	476,103,402
Deemed issue of ordinary shares for no consideration arising from share options	<u>1,467,845</u>	<u>4,513,125</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>482,081,630</u>	<u>480,616,527</u>

## 8. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Purchase of property, plant and equipment	<u>16,047</u>	<u>108,327</u>

## 9. TRADE DEBTORS

The Group has a policy which allows an average credit period of 60 days to its customers. An aged analysis of the trade debtors as at the period end, based on the payment due date and net of provisions, is as follows:

	(Unaudited)	(Audited)
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Current to 1 month	112,804	83,897
1 to 2 months	595	423
2 to 3 months	147	35
Over 3 months	<u>843</u>	<u>723</u>
	<u>114,389</u>	<u>85,078</u>

## 10. AVAILABLE-FOR-SALE INVESTMENT

	(Unaudited)	(Audited)
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Structured deposits	41,324	15,625
Corporate bonds	7,401	–
Equity linked notes	<u>14,327</u>	<u>–</u>
	<u>63,052</u>	<u>15,625</u>

## 11. CASH AND CASH EQUIVALENTS

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Cash and bank balances	61,608	33,708
Time deposits	<u>9,152</u>	<u>51,854</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u><u>70,760</u></u>	<u><u>85,562</u></u>

## 12. TRADE CREDITORS

An aged analysis of the trade creditors as at the period end, based on the payment due date, is as follows:

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Current to 1 month	91,963	56,481
1 to 2 months	3,556	4,611
2 to 3 months	3,028	666
Over 3 months	<u>1,332</u>	<u>586</u>
	<u><u>99,879</u></u>	<u><u>62,344</u></u>

## 13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Current liabilities		
Bank loans – unsecured	4,722	5,000
Finance lease and hire purchase contract payables	<u>32,147</u>	<u>36,293</u>
	<u>36,869</u>	<u>41,293</u>
Non-current liabilities		
Bank loans – unsecured	1,111	3,333
Finance lease and hire purchase contract payables	<u>16,699</u>	<u>31,153</u>
	<u>17,810</u>	<u>34,486</u>
Total	<u><u>54,679</u></u>	<u><u>75,779</u></u>

## 14. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the period end:

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Capital commitments, Contracted but not provided for, in respect of acquisition of items of property, plant and equipment	<u>23,947</u>	<u>4,688</u>

## 15. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of encouraging the eligible participants to perform their best in achieving the goals of the Company and at the same time allows the eligible participants to enjoy the results of the Company attained through their effort and contribution. Eligible participants of the share option scheme include any full-time employees, directors or professional advisers of the Company or any of its subsidiaries or associated companies. The share option scheme became effective on 28 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The share options previously granted by the Company were vested at the date of grant and will be settled by shares.

As at 30 September 2007, 1,650,000 share options which were granted on 15 June 2004 remained unexercised. These share options are exercisable during the period from 15 June 2004 to 14 June 2009 at an exercise price of HK\$0.20 per share. If these outstanding share options are fully exercised, they shall represent approximately 0.34% of the existing issued share capital of the Company.

The movement of the share options under the Scheme during the period is as follows:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	Price of Company's Shares	
	At 1 April 2007	Granted during the period	Exercised during the period	At 30 September 2007			*Exercise price of share options HK\$	**At grant date of options HK\$
Director: Hiroto Sasaki	<u>1,650,000</u>	<u>-</u>	<u>-</u>	<u>1,650,000</u>	15-6-04	15-6-04 to 14-6-09	0.20	0.192

### Notes

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date of grant of the options.

## 16. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

	Notes	(Unaudited)	
		6 months ended 30 September	
		2007	2006
		HK\$'000	HK\$'000
Sale of printed circuit boards to a related party	(i)	36,236	26,705
Technical support fees paid to a related party	(ii)	<u>–</u>	<u>794</u>

Notes:

- (i) Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company who has significant influence over the Group, and the products sold were unique and tailor-made to the customer's requirements and specifications. The selling prices of the printed circuit boards were determined based on the complexity of the specifications and were agreed between the respective parties.
- (ii) Technical support fees were paid to Daisho Denshi Co., Ltd. for the provision of technical support services for the Group's manufacturing of printed circuit boards. The technical support fees were determined on bases agreed between the respective parties.

(b) Compensation of key management personnel of the Group:

	(Unaudited)	
	6 months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Short term employee benefits	2,949	2,728
Post-employment benefits	<u>129</u>	<u>119</u>
Total compensation paid to key management personnel	<u>3,078</u>	<u>2,847</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group's revenue for the current period fell short of that in the last corresponding period by 27% mainly due to the gradual shift in the technological requirement of HDI PCB for mobile phone towards a more advance level by some of the Group's world-renowned telecommunication product customers since the second half of last financial year as mentioned in the last Annual Report of the Company. Although the Group is now capable of producing the more advance level of HDI PCB, the formal approval of the Group in the supply of such HDI PCB to these customers is expected until after the end of the current financial year.

In spite of the challenge mentioned above, the Group's revenue for the current period increased by 15% as compared to the second half of last financial year because the Group has developed some potential original design manufacturers of mobile phone in the Mainland China consuming HDI PCB with requirements no less inferior to those required by the Group's existing world-renowned telecommunication product customers during the current period and the result is encouraging. The sales value of PCB from the original design manufacturers of mobile phone in the Mainland China as a proportion of the Group's revenue increased from about 6% in the second half of last financial year to about 20% in the current period.

The Group's PCB average selling price for the current period decreased by about 10% as compared to the last corresponding period and this was consistent with the drop in the percentage of the Group's selling and distribution costs on revenue from about 18% in last corresponding period to about 8% in current period. Because the initial cost for establishing business relationship with new customers is always high, the Group usually builds in such cost in the PCB selling price for new models by practice. This accounts for the high percentage of the Group's selling and distribution costs on revenue in last corresponding period. Once the cost required to maintain the business relationship diminishes, the Group will consider reducing the PCB selling price and share the benefit with the customers. This accounts for the drop in the Group's PCB average selling price along with the selling and distribution costs in current period.

The Group's gross profit margin decreased from about 47% in last corresponding period to about 38% in the current period. Apart from the decrease in the Group's PCB average selling price as mentioned above, the increase in the Group's average purchase price of certain major raw material items such as laminate and precious metal during the current period by about 20% as compared to the last corresponding period eroded the gross profit margin during the current period.

### Financial Review

The Group's gearing ratio (defined as the ratio of interest-bearing bank and other borrowings to total equity) at 30 September 2007 and 31 March 2007 was 0.12 times and 0.20 times respectively while the Group's current ratio at 30 September 2007 and 31 March 2007 was 1.66 times and 1.54 times respectively. These financial ratios improved substantially because the Group's PCB operations generated net cash inflow of about HK\$88 million during the current period.

As at 30 September 2007, the Group's interest-bearing bank and other borrowings amounting to HK\$54,679,000 (31 March 2007: HK\$75,779,000) out of which HK\$36,869,000 (31 March 2007: HK\$41,293,000) were repayable within the next 12 months. These borrowings were all denominated in Hong Kong dollars ("HK\$"), originally repayable monthly over 3 years and subjected to floating interest rates for about 94% (31 March 2007: 91%) of them. The Group has not adopted any interest rate hedging tool for these borrowings. Certain machinery and equipment of the Group with a net book value at 30 September 2007 of HK\$106,324,000 (31 March 2007: HK\$109,420,000) were pledged to secured these borrowings.

As at 30 September 2007, the Group's assets and liabilities were mostly denominated in either HK\$, US\$ or Renminbi ("RMB"). Because the exchange rate for US\$ against HK\$ is relatively stable in Hong Kong for the moment, the Group has not adopted any hedging tool against its assets or liabilities denominated in US\$. Also because the Group's subsidiary

in Mainland China has net assets as at 30 September 2007 and RMB is expected to appreciate gradually, there is only a remote possibility that the Group will suffer exchange loss on the translation of these net assets and so the Group has not adopted any hedging tool against these net assets denominated in RMB. However, the Group has made use of foreign exchange forward contracts during the current period to hedge against all its operating expenses to be paid in RMB in light of the expected appreciation of RMB.

### **Employee Benefits**

As at 30 September 2007, the Group had 1,733 (31 March 2007: 1,505) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2007, the Group's total staff costs including directors' remuneration were HK\$23,990,000 (2006: HK\$21,077,000).

According to the Group's staff remuneration policy, the remuneration of an employee and the Company's director is determined by the Board and the Company's Remuneration Committee respectively from time to time with reference to his performance and duties, the performance and profitability of his employer and the prevailing market conditions.

### **Outlook**

It is generally expected that the Chinese government will soon issue the third generation ("3G") telecommunication licences to the service operators before the Olympic Games in Beijing in August 2008. The provision of 3G telecommunication services in the Mainland China will boost the huge demand for 3G mobile phones there and will stimulate the demand for high density interconnect ("HDI") PCB indirectly. Besides the existing world-renowned telecommunication products customers, the Group has begun to develop business with the original design manufacturers for mobile phone in the Mainland China and the result is encouraging. The Group will definitely benefit from the forthcoming huge demand for 3G mobile phones in the Mainland China.

Furthermore, the product applications of HDI PCB are not merely restricted to mobile phone. The Group has succeeded in dealing with a famous Japanese digital camera manufacturer who commences to place sales orders for HDI PCB with the Group from December 2007 onwards and the future monthly sales orders coming from this customer is expected to reach several millions of Hong Kong dollars. The Group is negotiating with other potential non-telecommunication product customers so as to broaden its customer base.

Although the year ahead looks promising, the Board is well aware of the following challenging factors that could adversely affect the Group.

It is noteworthy that the Group's purchase prices of copper and precious metal have once reached their historically high level during 2007 and they are expected to remain at high level for a while. However, the Group is trying various means such as increase in PCB selling price and increase in production capacity utilization rate etc. so as to counteract the impact of the high raw material cost.

Although some recent significant economic events such as sub-prime mortgage crisis in the United States of America and the upsurge in global petroleum price may not increase the operating costs of the Group to a great extent, they may hinder the growth of the world economy and the business of the Group may be adversely affected accordingly.

In spite of the above concern, the Board is optimistic about the results of the Group for the current financial year barring any unforeseen circumstances.

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK4.0 cents per ordinary share for the year ending 31 March 2008 (2007: HK4.0 cents). The interim dividend will be paid on 30 January 2008 to shareholders whose names are registered in the register of members of the Company on 16 January 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 14 January 2008 to 16 January 2008, both days inclusive during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 11 January 2008.

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the 6 months ended 30 September 2007, except for the following deviations:

### **Chairman and Chief Executive Officer**

According to the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company does not have a separate Chairman and CEO, and Mr. Chan Sik Ming, Harry currently holds both positions. The Board believes that vesting the roles of both Chairman and CEO in the same person ensures consistent leadership within the Group and enables more effective and efficient planning of long-term strategies and implementation of business plans. The Board believes that the balance of power and authority will not be impaired and is adequately ensured by an effective Board which comprises experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.

### **Non-executive directors**

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term subject to re-election.

The independent non-executive directors of the Company do not have a specific term of appointment, but are subject to retirement by rotation and re-election in accordance with the relevant provisions of the Company's bye-laws.

### **Re-election of directors**

Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company is subject to a private act known as "The Juko Laboratories Holdings Limited Company Act 1990" which is an Act of the Company's former name of Juko Laboratories Holdings Limited when it was first established. The Chairman of the Company is not required to be subject to rotation in accordance with the Bye-Laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company has agreed to retire on a voluntary basis at least once every three years at the annual general meeting of the Company.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2007, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers", were as follows:

### Long positions in ordinary shares of the Company:

Name of director	Directly beneficially owned	Beneficiary of a trust	Total	Percentage of the Company's issued share capital
Chan Sik Ming, Harry	39,680,000	103,621,417*	143,301,417	29.82
Au-Yeung Wai Hung	4,200,000	N/A	4,200,000	0.87
Hiroto Sasaki	2,950,000	N/A	2,950,000	0.61

\* Chan Sik Ming, Harry and his family are the objects of a discretionary trust, which has appointed Earnwell Limited as its trustee. At 30 September 2007, Earnwell Limited held 103,621,417 shares representing approximately 21.56% of the issued share capital of the Company.

### Long positions in underlying shares of the Company:

Name of director	Number of share options #	Percentage of the Company's existing issued share capital if fully exercised
Hiroto Sasaki	1,650,000	0.34

# These share options were granted by the Company on 15 June 2004 and are exercisable during the period from 15 June 2004 to 14 June 2009 at an exercise price of HK\$0.20 per share.

Details of the options are stated under Note 15 of this Interim Report.

Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers".

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Earnwell Limited	Trustee	103,621,417	21.56
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.40

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the current period, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## **AUDIT COMMITTEE**

The Audit Committee of the Company comprises the three independent non-executive directors of the Company. It was established in compliance with the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the 6 months ended 30 September 2007.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code during the 6 months ended 30 September 2007.

By Order of the Board  
**Chan Sik Ming, Harry**  
*Chairman*

Hong Kong, 11 December 2007

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

***Executive directors:***

CHAN Sik Ming, Harry (*Chairman & CEO*)  
Motofumi TSUMURA  
Hiroto SASAKI  
Hiroyuki KIKUCHI  
AU-YEUNG Wai Hung

***Independent non-executive directors:***

Kohu KASHIWAGI  
CHAN Yuk Tong  
LI Chi Kwong