

DAIWA

DAIWA ASSOCIATE HOLDINGS LIMITED

台 和 商 事 控 股 有 限 公 司

(Stock Code 股份代號: 1037)

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ON Semiconductor



KYOCERA

On-Bright

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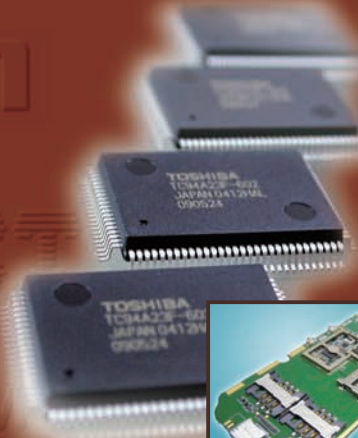
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DIODES

CET

中期業績報告
Interim Report
2008-09

ISOCOM
COMPONENTS



TP
TP COMPONENTS

KEYSTONE

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Stock Code: 1037

INTERIM RESULTS

On behalf of the Board of Directors, I would like to present to shareholders the unaudited Interim Report of Daiwa Associate Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2008. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

RESULTS AND DIVIDEND

For the six months ended 30 September 2008, because of the partial disposal of its shareholding in a subsidiary resulting in ceasing the operation to be a subsidiary of the Group and becoming an associated company so that its turnover was no longer consolidated into Group's accounts, the Group's turnover was HK\$867.9 million (2007: HK\$1,017.6 million), representing a decrease of 14.7%. When excluding this effect, adjusted turnover for the same period in 2007 is HK\$868.4 million, which is close to the turnover for the period in 2008 under review.

EBITDA (earnings before interest, tax, depreciation and amortization) for the period was HK\$18.9 million (2007: HK\$24 million) representing a decrease of 21.2% when compared to the last corresponding period.

Profit attributable to equity holders of the Company for the period was HK\$6.3 million (2007: HK\$9.5 million) which represents a decrease of 33.7% when compared to the last corresponding period. Basic earnings per share was HK2.06 cents (2007: HK3.24 cents).

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK0.3 cent per ordinary share payable to shareholders whose names appear on the Register of Members of the Company on Wednesday, 17 December 2008.

The interim dividend will be payable on Friday, 9 January 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 17 December, 2008 to Tuesday, 23 December 2008, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by relevant share certificates must be lodged with Tricor Abacus Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 16 December 2008.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets amounted to HK\$197.7 million (31 March 2008: HK\$189.1 million) and the shareholders' funds were HK\$391.3 million at 30 September 2008 (31 March 2008: HK\$387.7 million). The total amount of loans and finance lease was HK\$250.8 million (31 March 2008: HK\$218.9 million) and the net gearing ratio, which is defined as the borrowings after netting off of cash and cash equivalents, to shareholders' funds was 0.36. The cash and bank balances were HK\$109.9 million (31 March 2008: HK\$103.4 million).

At 30 September 2008, total available banking facilities of the Group were approximately HK\$328.5 million, of which HK\$47 million was available for use. Finance lease obligations outstanding on the same date amounted to HK\$1.8 million.

The Group's assets were mostly financed by shareholders' funds, trade payables and bank borrowings. Trade payables and short term loans are repayable within one year. Long term borrowings are repayable between two to five years. The borrowings, cash and cash equivalents were mainly denominated in Hong Kong dollars, US dollars, Canadian dollars, Renminbi or Japanese Yen. The Group had entered into foreign currency forward contracts with banks to hedge certain future foreign currency trade liabilities. The Group's borrowings were bearing interest at floating rates.

President's Statement

BUSINESS REVIEW AND PROSPECT

The Group is mainly engaged in four major businesses, namely:

- Electronic Components Distribution and Manufacturing;
- EMS (Contract Electronic Manufacturing Services);
- Consumer Electronics; and
- Personal Computer Distribution.

Due to the preparation to cope with the adverse effect caused by the financial tsunami, the Management decided to reserve more financial resources by cutting down inventory levels, eliminating low margin business, investing less in the future 18 months of developments and eliminating the bad debt risk by cutting down the long outstanding habit customers, turnover of this reported period has been fairly trimmed down.

Even under the contingency planning, the Management is happy to see that business in the segment of EMS and Distribution of Electronic Components kept growing.

ELECTRONIC COMPONENTS — DISTRIBUTION AND MANUFACTURING

For the half year ended 30 September 2008, despite the adverse marketing environment, turnover of this business segment was risen to HK\$501.9 million, representing a growth of 19% when compared with the same period of last year (2007: HK\$422.9 million).

As the result of successful penetration in the second tier brand mobile phone solutions in China, together with the steady market in the core electronic components distribution, the Group successfully ranked as Toshiba's biggest distributor in the reported period. Turnover in Freescale, Onsemi, and Silicon Lab maintained fairly growth.

Beijing, Shanghai and Shenzhen sales divisions kept on playing an important role. The Group prepared to open a new sales office in Chengdu, PRC.

EMS (CONTRACT ELECTRONIC MANUFACTURING SERVICE)

Coping with the financial crisis, the Group started to consolidate the low profit making investments to reduce the Group's management involvement and funding. Prior to the period under review, the Group had disposed part of its shareholding interest in a Japan subsidiary of loudspeaker manufacturing resulting in ceasing the operation to be a subsidiary of the Group and becoming an associated company. Accordingly the said company was no longer consolidated in the Group's accounts, giving rise to the substantial reduction in turnover in this segment.

The EMS business so recorded reflected a turnover of HK\$119.7 million (2007: HK\$272.5 million), representing a decrease of 56%.

Exclude the above stated effect, turnover of the core EMS business grew steadily by 6%. The engineering investment in this segment in previous years started gaining recognition from renowned customers. The Group was approved as one of the few manufacturers in Wide-Band Combiners, crucial parts in mobile phone base stations. The Management believed that this production would bring in reasonable contribution in the coming year.

CONSUMER ELECTRONICS MANUFACTURING

In the reported period, although there were substantial opportunities of gaining new orders, the Group was cautious on the continuous escalating material cost and labor cost. The Group therefore had continued its strategy of eliminating low profit margin products and keeping the Group from the risk of big losses.

Turnover of this segment was HK\$73.7 million (2007: HK\$110.5 million), representing a decrease of 33% when comparing with last reported period.

Even facing the negative contribution of this segment of business, the Group had successfully developed new models of higher profit margin products such as internet radio, iPod docking boom boxes, multi-interface mini compo hi-fi as well as projection clocks. The Group had also developed solutions to enter into the new market of cordless DECT phones.

PERSONAL COMPUTER DISTRIBUTION

Business in this segment mainly comes from the distribution of personal computer system and parts in Canada. As a result of the economic decline in North America, turnover of this business segment was HK\$172.6 million in the reporting period, representing a decrease of 19% when compared with the same period of last year (2007: HK\$211.7 million).

To compensate the slow business in this segment, Canada office had successful launched into the market of memory devices and memory cards. Together with the support from Microsoft in distribution of software, the impact of finance tsunami would be lessened.

FUTURE PROSPECT

The recent financial tsunami has caused an adverse ripple effect across the financial markets and the global economy. Economic downturn and credit crunch have dampened consumer purchases and business outlook. Drawing experience in dealing with challenges in the past, the Group has exercised extra prudence on managing its trade receivables, inventory and liquidity. Tied up funding across the operation level of the Group has been well planned to reduce month by month and keeps adequate cash on hand to prepare for the adverse situation of finance resources.

The distribution segment of electronic components of the Group is in the upper stream of electronic products which can have an earlier sensitivity to the slowdown of market. Before the beginning of the finance tsunami, the Group has already had a contingency plan to shrink down the size of capital investment and new product development.

To eliminate the negative impact of profit contribution in the segment of consumer electronics, the size of operation will be shrunk. Yet, the Group keeps on fetching the harvest of R&D in previous years. Together with the excitement of positive feedback from customers on the newly developed new models with better profit margins, this operation is expected to be small but healthy.

To keep the Group safe from potential bad-debts in the present situations, most of the account receivables of big customers are secured by credit insurances as well as by standby L/C.

As a conclusion, the Management is confident that the Group will maintain a fair profit and good cash flow status.

EMPLOYEES

At 30 September 2008, the Group employed a total of approximately 4,500 employees (2007: 6,000 employees) located in Hong Kong, Canada and PRC. Sales personnel are remunerated by salaries and incentives scheme. General staff are offered year-end discretionary bonus. The Group also provides ORSO Scheme or Mandatory Provident Fund Scheme and medical benefits to all Hong Kong employees.

Pursuant to the terms and conditions of share option scheme adopted by the Company on 18 August 2005, the Group may grant share options to Directors and eligible employees. Up to 30 September 2008, no share options had been granted to employees.

Condensed Consolidated Income Statement

For the six months ended 30 September 2008

		Unaudited	
		Six months ended	
		30 September	
		2008	2007
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	867,903	1,017,599
Cost of sales		(780,510)	(916,937)
Gross profit		87,393	100,662
Other income		381	2,384
Selling and distribution expenses		(10,984)	(14,865)
General and administrative expenses		(66,392)	(71,489)
Operating profit	3	10,398	16,692
Finance costs		(3,363)	(4,520)
Profit before income tax		7,035	12,172
Income tax expense	4	(1,490)	(2,897)
Profit for the period		5,545	9,275
Attributable to:			
Equity holders of the Company		6,250	9,520
Minority interests		(705)	(245)
		5,545	9,275
Dividends	6	911	3,038
Earnings per share for profit attributable to equity holders of the Company			
— Basic	7	HK 2.06 cents	HK 3.24 cents
— Diluted	7	HK 1.98 cents	HK 3.16 cents

The notes are integral part of these financial statements.

Condensed Consolidated Balance Sheet

As at 30 September 2008

		30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Non-current assets			
Goodwill	8	27,042	28,199
Property, plant and equipment	8	189,424	194,544
Leasehold land and land use rights		24,914	25,208
Interest in a jointly controlled entity		1	1
Deferred income tax assets	5	381	1,386
Available-for-sale financial assets		214	319
Other assets		710	710
		242,686	250,367
Current assets			
Inventories		252,438	238,574
Trade and notes receivables	9	225,648	185,589
Amount due from an associated company		18,956	17,637
Prepayments, deposits and other receivables		14,621	15,347
Cash and cash equivalents		109,927	103,388
		621,590	560,535
Total assets		864,276	810,902
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	30,379	30,423
Reserves		360,943	357,340
		391,322	387,763
Minority interests		176	881
Total equity		391,498	388,644
Non-current liabilities			
Borrowings	11	44,406	45,346
Deferred income tax liabilities	5	4,467	5,480
		48,873	50,826
Current liabilities			
Borrowings	11	206,366	173,567
Trade payables	10	193,598	161,071
Accruals and other payables		21,403	28,272
Taxation payable		664	2,243
Derivative financial instruments		1,874	6,279
		423,905	371,432
Total liabilities		472,778	422,258
Total equity and liabilities		864,276	810,902
Net current assets		197,685	189,103
Total assets less current liabilities		440,371	439,470

The notes are integral part of these financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2008

	Unaudited	
	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	<u>(15,855)</u>	<u>8,806</u>
Net cash (outflow) from investing activities	<u>(8,719)</u>	<u>(14,022)</u>
Net cash inflow from financing activities	<u>30,911</u>	<u>21,462</u>
Net increase in cash and cash equivalents	6,337	16,246
Cash and cash equivalents at 1 April	103,388	93,432
Effect of foreign exchange rate changes	<u>202</u>	<u>2,151</u>
Cash and cash equivalents at 30 September	<u>109,927</u>	<u>111,829</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>109,927</u>	<u>111,829</u>

The notes are integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2008

	Unaudited										
	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves	Share redemption reserve	Cumulative translation adjustments	Statutory reserves	Available- for-sale financial assets revaluation reserve	Retained earnings	Total	Minority interest	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	27,814	206,080	41,201	1,050	2,684	90	1,046	90,284	370,249	1,187	371,436
Currency translation differences	—	—	—	—	6,144	—	—	—	6,144	—	6,144
Profit for the period	—	—	—	—	—	—	—	9,520	9,520	(245)	9,275
Issue of new shares	2,586	8,975	—	—	—	—	—	—	11,561	—	11,561
Gain on revaluation of available-for-sale financial assets	—	—	—	—	—	—	467	—	467	—	467
Purchase of own shares	(18)	(95)	—	113	—	—	—	(113)	(113)	—	(113)
Final dividend paid for 2007	—	—	—	—	—	—	—	(4,557)	(4,557)	—	(4,557)
At 30 September 2007	<u>30,382</u>	<u>214,960</u>	<u>41,201</u>	<u>1,163</u>	<u>8,828</u>	<u>90</u>	<u>1,513</u>	<u>95,134</u>	<u>393,271</u>	<u>942</u>	<u>394,213</u>
At 1 April 2008	30,423	215,121	41,201	1,164	9,790	90	508	89,466	387,763	881	388,644
Currency translation differences	—	—	—	—	(1,638)	—	—	—	(1,638)	—	(1,638)
Profit for the period	—	—	—	—	—	—	—	6,250	6,250	(705)	5,545
Loss on revaluation of available-for-sale financial assets	—	—	—	—	—	—	(105)	—	(105)	—	(105)
Purchase of own shares	(44)	(143)	—	187	—	—	—	(187)	(187)	—	(187)
Final dividend paid for 2008	—	—	—	—	—	—	—	(761)	(761)	—	(761)
At 30 September 2008	<u>30,379</u>	<u>214,978</u>	<u>41,201</u>	<u>1,351</u>	<u>8,152</u>	<u>90</u>	<u>403</u>	<u>94,768</u>	<u>391,322</u>	<u>176</u>	<u>391,498</u>

The notes are integral part of these financial statements.

Notes to condensed interim accounts

1. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information 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.

This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2008.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 31 March 2008, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively referred to as the "New HKFRSs"), which have become effective for accounting periods beginning on or after 1 April 2008. The applicable New HKFRSs adopted in this interim financial report are set out below.

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new standard, amendment and interpretations has no material impact on the condensed consolidated interim financial information of the Group.

The following new standards and interpretations have been issued by the HKICPA but are not effective for financial year ending 31 March 2009 and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 32 (Amendment)	Financial Instruments: Presentation
HKFRS 2 (Amendment)	Share Based Payment
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HKAS 23 (Revised)	Borrowing Costs

2. Turnover and segment information

The Group is principally engaged in the design, development, manufacturing and distribution of electronic components, contract electronic manufacturing service and consumer electronics, and the distribution of personal computers.

An analysis of the Group's turnover and contribution to operating profit by business segments and geographical segments for the period is as follows:

(a) Primary reporting format — business segments:

	Manufacturing and distribution of electronic components		Contract electronic manufacturing service and consumer electronics		Distribution of personal computer		Eliminations		Group	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover										
External sales	501,927	422,932	193,364	382,978	172,612	211,689				
Inter-segment sales	405	160	—	—	—	—	(405)	(160)		
	<u>502,332</u>	<u>423,092</u>	<u>193,364</u>	<u>382,978</u>	<u>172,612</u>	<u>211,689</u>	<u>(405)</u>	<u>(160)</u>	<u>867,903</u>	<u>1,017,599</u>
Segments results	15,722	11,176	1,056	7,194	1,710	5,182			18,488	23,552
Unallocated income									381	1,086
Unallocated expenses									(8,471)	(7,946)
Finance costs									(3,363)	(4,520)
Profit before income tax									7,035	12,172
Income tax expense									(1,490)	(2,897)
Profit for the period									<u>5,545</u>	<u>9,275</u>
Profit attributable to equity holders									6,250	9,520
Minority interests									(705)	(245)
									<u>5,545</u>	<u>9,275</u>

(b) Secondary reporting format — geographical segments:

	Turnover	
	Six months ended 30 September 2008 HK\$'000	2007 HK\$'000
Hong Kong and Mainland China	489,405	412,549
North America	237,809	320,558
Europe	117,821	105,553
Japan	10,346	166,916
Other Asian countries	12,522	12,023
	<u>867,903</u>	<u>1,017,599</u>

3. Operating profit

Operating profit is stated after charging and crediting the following:

	Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Charging:		
Depreciation and amortisation of non-current assets	8,597	8,045
Provision for bad and doubtful debts	1,190	321
Crediting:		
Interest income	132	740
	<u>132</u>	<u>740</u>

Notes to condensed interim accounts

4. Income tax expense

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operate in Mainland China are subject to Mainland China enterprise income tax at the rate of 25% to 33% (2007: 15% to 33%). Companies established and operate in Canada are subject to Canadian income tax at the rate of 35% (2007: 36%).

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 30 September 2008 HK\$'000	2007 HK\$'000
Current taxation:		
— Hong Kong profits tax	232	630
— Mainland China enterprise income tax	1,038	1,052
— Canadian income tax	228	1,221
	<u>1,498</u>	<u>2,903</u>
Deferred tax relating to the origination and reversal of temporary differences	(8)	(6)
	<u>1,490</u>	<u>2,897</u>

5. Deferred income tax

Deferred income tax are calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2007: 17.5%).

The movement on the Group's deferred income tax assets and liabilities are as follows:

	Six months ended 30 September 2008 HK\$'000	Year ended 31 March 2008 HK\$'000
Deferred income tax assets		
Opening balance	1,541	1,150
(Charged)/credited to income statement (Note 4)	(430)	391
Closing balance	<u>1,111</u>	<u>1,541</u>
Deferred income tax liabilities		
Opening balance	5,635	5,464
(Credited)/charged to income statement (Note 4)	(438)	769
Disposal of subsidiaries	—	(598)
Closing balance	<u>5,197</u>	<u>5,635</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet.

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
Deferred income tax assets	381	1,386
Deferred income tax liabilities	(4,467)	(5,480)
Net deferred income tax liabilities	<u>(4,086)</u>	<u>(4,094)</u>

6. Dividends

	Six months ended 30 September 2008 HK\$'000	2007 HK\$'000
2007/2008 Final dividend, paid, of HK\$0.0025 (2006/2007 final paid: HK\$0.015) per ordinary share (Note (i))	761	4,557
2008/2009 Interim dividend of HK\$0.003 (2007/2008: HK\$0.01) per ordinary share, declared on 27 November 2008 (Note (ii))	911	3,038
	<u>1,672</u>	<u>7,595</u>

6. **Dividends** (continued)

Note (i): At a meeting held on 30 July 2008 the directors proposed a final dividend of HK\$0.0025 per ordinary share for the year ended 31 March 2008, which was paid on 10 September 2008.

Note (ii): At a meeting held on 27 November 2008 the directors resolved to declare an interim dividend of HK\$0.003 per ordinary share for the six months ended 30 September 2008. The interim dividend has been reflected as an appropriation of retained earnings for the six months ended 30 September 2008.

7. **Earnings per share**

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$6,250,000 (2007: HK\$9,520,000).

The basic earnings per share is based on the weighted average of 304,104,835 (2007: 294,180,669) ordinary shares in issue during the period. The diluted earnings per share is based on 314,618,474 (2007: 301,239,333) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of ordinary shares deemed to be issued at fair value as exercise of all outstanding share warrants.

8. **Capital expenditure**

For six months ended 30 September 2008

	Goodwill <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>
Opening net book value	28,199	194,544
Exchange difference	(1,157)	302
Additions	—	2,983
Disposals	—	(102)
Depreciation/amortisation charge	—	(8,303)
	<u>27,042</u>	<u>189,424</u>

9. **Trade and notes receivables**

Trade receivables and their ageing analysis is as follows:

	30 September 2008 <i>HK\$'000</i>	31 March 2008 <i>HK\$'000</i>
Less than 60 days	148,242	107,794
60 to 119 days	56,815	40,041
120 days or more	14,495	14,514
	<u>219,552</u>	162,349
Less: provision for impairment	1,213	1,973
	<u>218,339</u>	160,376
Notes receivable	7,309	25,213
	<u>225,648</u>	<u>185,589</u>

Majority of the Group's sales are made on open account, with credit terms generally ranging from 30 days to 60 days.

10. **Trade payables**

Trade payables and their ageing analysis is as follows:

	30 September 2008 <i>HK\$'000</i>	31 March 2008 <i>HK\$'000</i>
Less than 60 days	164,708	141,349
60 to 119 days	25,596	14,631
120 days or more	3,294	5,091
	<u>193,598</u>	<u>161,071</u>

Notes to condensed interim accounts

11. Borrowings

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
Obligations under finance leases	1,782	2,474
Bank borrowings	92,908	79,668
Trust receipts bank loans	156,082	136,771
	<u>250,772</u>	<u>218,913</u>
Total amounts payable	250,772	218,913
Less: Current portion	206,366	173,567
	<u>44,406</u>	<u>45,346</u>
Long-term portion	44,406	45,346

12. Share capital

	Number of Ordinary Shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2008 and 30 September 2008	1,000,000,000	100,000
	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2008	304,231,373	30,423
Purchase of own shares	(438,000)	(44)
	<u>303,793,373</u>	<u>30,379</u>
At 30 September 2008	303,793,373	30,379

13. Commitments

Operating lease commitments

At 30 September 2008, the Group had total future aggregate minimum lease payments under operating leases as follows:

	30 September 2008 HK\$'000	31 March 2008 HK\$'000
Within one year	9,937	6,095
In the second to fifth year inclusive	12,583	5,899
	<u>22,520</u>	<u>11,994</u>

14. **Financial Risk Management**

14.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk, and cash flow and fair value interest-rate risk.

Management regularly monitors the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(a) *Foreign exchange risk*

The Group are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar, Canadian dollars, Chinese Renminbi and Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group uses certain foreign exchange contracts to manage foreign exchange exposure.

(b) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets and carry at fair value. The Group is not exposed to commodity price risk.

(c) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial assets.

(d) *Liquidity risk*

The Group maintains sufficient cash and credit lines to meet its liquidity requirements.

(e) *Cash flow and fair value interest-rate risk*

The Group's interest rate risk mainly arises from bank balances and bank borrowings. This risk is managed through the maintenance of a proper portfolio of deposit and debt.

14.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of derivative financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Supplementary Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 September 2008, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under 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 Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:—

(a) Long position in shares and warrants of the Company

Name of directors	Unlisted Warrants		Number of issued ordinary shares/underlying shares attached to derivatives						
	Corporate interests	Notes	Ordinary shares in issued						
			Personal interests	Notes	Corporate interests	Notes	Other interests	Total interests	Percentage
Mr. LAU Tak Wan	7,862,388	2	6,537,141	1	147,706,499	2 & 3 & 4	1,142,854	155,386,494	51.15%
Ms. CHAN Yuen Mei, Pinky	7,862,388	2	4,022,854	1	147,706,499	2 & 3 & 4	3,657,141	155,386,494	51.15%
Mr. WAN Chor Fai	—		50,000		—		—	50,000	0.02%
Mr. Barry John BUTTIFANT	—		500,000		—		—	500,000	0.16%

Notes:

- 2,880,000 shares in the Company were jointly held by Mr. Lau Tak Wan ("Mr. Lau") and Ms. Chan Yuen Mei, Pinky ("Ms. Chan"), the spouse of Mr. Lau.
- 7,862,388 warrants and 74,431,436 shares in the Company were beneficially owned by China Capital Holdings Investment Ltd ("China Capital"). The issued share capital of China Capital is 60% owned by Mr. Lau, and 40% owned by Ms. Chan.
- 60,918,396 shares in the Company were beneficially owned by Leading Trade Ltd ("Leading Trade"). The issue share capital of Leading Trade is 50% owned by Mr. Lau and 50% owned by Ms. Chan.
- 12,356,667 shares in the Company were beneficially owned by Cyber Concept Limited ("Cyber Concept"). The issued share capital of Cyber Concept is 50% owned by Mr. Lau and 50% owned by Ms. Chan.

(b) Long position in shares of associated corporations of the Company

Dominion International Limited, which is 50% owned by Mr. Lau Tak Wan, and 50% owned by Ms. Chan Yuen Mei, Pinky:

	Number of non-voting deferred shares held
Cosmos Wires and Connectors Manufacturing Limited	50,000
Westpac Digital Limited	1
Vastpoint Industrial Limited	455,000
Daiwa Associate (H.K.) Limited	1,500,000

In addition, each of Mr. Lau and Ms. Chan beneficially owns 140,000 and 10,000 non-voting deferred shares respectively in Cosmotec Precision Industrial Limited.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (continued)

Save as disclosed above, as at 30 September 2008, none of the directors, chief executives of the Company or their associates 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) as recorded in the register required to be kept 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 in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION" above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares, underlying shares or debentures in the Company or its associated corporations.

SHARE OPTION SCHEMES

On 18 August 2005, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules, which replaced the old share option scheme (the "Old Scheme") in force previously. As at 30 September 2008, the Company did not grant any options under the New Scheme and no share options were outstanding under the Old Scheme.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, to the best knowledge of the directors, the following parties (other than a director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital and warrants of the Company.

Interests in the shares and warrants of the Company

	Note	Number of ordinary shares held	Interest in underlying shares — unlisted warrants	% of the total issued shares
Leading Trade Limited	1	60,918,396	—	20.05%
China Capital Holdings Investment Ltd	2	74,431,436	7,862,388	27.09%
South China Holdings Limited		36,502,198	—	12.02%

Notes:

1. Leading Trade Limited is 50% owned by Mr. Lau Tak Wan and 50% owned by Ms. Chan Yuen Mei, Pinky. Accordingly, Leading Trade Limited, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 60,918,396, 163,248,882 and 163,248,882 shares of the Company.
2. China Capital Holdings Investment Limited is 60% owned by Mr. Lau Tak Wan and 40% owned by Ms. Chan Yuen Mei, Pinky. Accordingly, China Capital Holdings Investment Limited, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 74,431,436, 163,248,882 and 163,248,882 shares of the Company respectively.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more of the issued share capital of the Company and recorded in the register of Substantial Shareholders maintained under Section 336 of the SFO as at 30 September 2008.

Supplementary Information

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2008, save for the following deviations:

Code Provision A.2.1

Under this code provision, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Lau Tak Wan is the Chairman of the Board and the president of the Company. In the opinion of the Board, the role of the president and the chief executive officer is the same. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. Lau Tak Wan will continue to assume the roles of the Chairman of the Board and the president of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company is appointed for a specific term. However, relevant amendments to the Company's bye-laws were proposed and approved by the shareholders at the annual general meeting of the Company held on 1 September 2006, that all directors of the Company (whether appointed for specific terms or not) shall retire from office by rotation at least once every three years. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2008.

AUDIT COMMITTEE

The Audit Committee 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 condensed accounts for the six months ended 30 September 2008 with the directors.

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

During the six months ended 30 September 2008, the Company purchased a total of 438,000 shares of HK\$0.10 each of the Company in the range from HK\$0.375 to HK\$0.450 for a total consideration of HK\$186,260 on The Stock Exchange of Hong Kong Limited, all of which shares were subsequently cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities during the six months ended 30 September 2008.

By Order of the Board
LAU Tak Wan
President

Hong Kong, 27 November 2008

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