



Interim Report  
**2008-2009**



**DAISHO MICROLINE HOLDINGS LIMITED**

**大昌微綫集團有限公司**

Stock Code : 0567

## UNAUDITED INTERIM REPORT

The Board of Directors (the "Board") of Daisho Microline Holdings Limited (the "Company") presents the unaudited interim report of the Company and its subsidiaries (the "Group") for the 6 months ended 30 September 2008 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited)	
		6 months ended 30 September	
		2008	2007
		HK\$'000	HK\$'000
REVENUE	3	262,221	335,913
Cost of sales		<u>(224,103)</u>	<u>(209,338)</u>
Gross profit		38,118	126,575
Other income and gains		5,758	5,254
Selling and distribution costs		(19,642)	(25,359)
Administrative expenses		(15,907)	(19,656)
Other expenses		(6,020)	(89)
Finance costs	4	<u>(1,273)</u>	<u>(2,128)</u>
PROFIT BEFORE TAX	4	1,034	84,597
Tax	5	<u>2,300</u>	<u>(10,966)</u>
PROFIT FOR THE PERIOD		<u>3,334</u>	<u>73,631</u>
Attributable to equity holders of the Company		<u>3,334</u>	<u>73,631</u>
INTERIM DIVIDEND	6	<u>–</u>	<u>19,225</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE COMPANY	7		
– Basic		<u>HK0.69 cents</u>	<u>HK15.32 cents</u>
– Diluted		<u>HK0.69 cents</u>	<u>HK15.27 cents</u>



## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	371,506	381,507
Prepaid land lease payments		4,475	4,443
Deposits paid for acquisition of items of property, plant and equipment		<u>6,166</u>	<u>6,239</u>
Total non-current assets		<u>382,147</u>	<u>392,189</u>
<b>CURRENT ASSETS</b>			
Inventories		46,137	51,122
Trade and bills receivables	9	77,296	66,503
Available-for-sale investment	10	–	16,644
Other financial assets at fair value through profit or loss	11	16,072	31,112
Derivative financial instruments	12	7,605	1,948
Sundry debtors, prepayments & deposits		14,165	11,442
Tax recoverable		2,054	–
Cash and cash equivalents	13	<u>129,931</u>	<u>82,646</u>
Total current assets		<u>293,260</u>	<u>261,417</u>
<b>CURRENT LIABILITIES</b>			
Trade creditors	14	80,304	76,071
Other creditors and accruals		29,545	35,348
Derivative financial instruments	12	14,517	45,169
Interest-bearing bank and other borrowings	15	38,160	27,150
Tax payable		–	352
Total current liabilities		<u>162,526</u>	<u>184,090</u>
<b>NET CURRENT ASSETS</b>		<u>130,734</u>	<u>77,327</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>512,881</b>	<b>469,516</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	15	34,398	4,190
Deferred tax liabilities		<u>6,779</u>	<u>9,079</u>
Total non-current liabilities		<u>41,177</u>	<u>13,269</u>
<b>Net assets</b>		<u><u>471,704</u></u>	<u><u>456,247</u></u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued share capital		48,024	48,024
Reserves		<u>423,680</u>	<u>408,223</u>
Total equity		<u><u>471,704</u></u>	<u><u>456,247</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)						
	6 months ended 30 September 2008						
	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 2008	48,024	91,483*	9,379*	59,101*	248,260*	-	456,247
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	12,123	-	-	12,123
Profit for the period	-	-	-	-	3,334	-	3,334
<b>At 30 September 2008</b>	<b>48,024</b>	<b>91,483*</b>	<b>9,379*</b>	<b>71,224*</b>	<b>251,594*</b>	<b>-</b>	<b>471,704</b>

	(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>

\* These reserve accounts comprise the consolidated reserves of HK\$423,680,000 (31 March 2008: HK\$408,223,000) in the consolidated balance sheet.



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	6 months ended 30 September	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,034	84,597
Net adjustments for non-cashflow items	<u>24,215</u>	<u>17,978</u>
Operating profit before working capital changes	25,249	102,575
Net increase in working capital	<u>(24,380)</u>	<u>(9,741)</u>
Cash generated from operations	869	92,834
Net interest payment	(632)	(380)
Net tax payment	<u>(2,407)</u>	<u>(4,240)</u>
Net cash (outflow)/inflow from operating activities	(2,170)	88,214
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash inflow/(outflow) from investing activities	7,312	(68,781)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash inflow/(outflow) from financing activities	<u>41,218</u>	<u>(35,518)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	46,360	(16,085)
Cash and cash equivalents at beginning of the period	82,646	85,562
Effect of foreign exchange rate changes, net	<u>925</u>	<u>1,283</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>129,931</u></u>	<u><u>70,760</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	94,905	61,608
Non-pledged time deposits with original maturity of less than three months when acquired	<u>35,026</u>	<u>9,152</u>
Cash and cash equivalents	<u><u>129,931</u></u>	<u><u>70,760</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”).

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 2008, except that 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 2008.

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 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.

### 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 1 (Revised)	Presentation of Financial Instruments <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Instruments <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising in Liquidation <sup>1</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combination <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreement for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</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 July 2009

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

<sup>4</sup> Effective for annual periods beginning on or after 1 October 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	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:		
Sales to external customers		
Mainland China	161,265	172,091
Hong Kong	47,517	34,666
Japan	43,462	36,236
Europe	3,621	61,252
Others	<u>6,356</u>	<u>31,668</u>
	<u>262,221</u>	<u>335,913</u>



#### 4. PROFIT BEFORE TAX

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

	(Unaudited)	
	6 months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
<b>(a) Finance costs:</b>		
Interest on:		
Bank loans and other loans wholly repayable within five years	(834)	(240)
Finance leases and hire purchase contracts	<u>(439)</u>	<u>(1,888)</u>
	<u><u>(1,273)</u></u>	<u><u>(2,128)</u></u>
<b>(b) Other items:</b>		
Depreciation	(23,017)	(17,615)
Amortization of land lease payments	(69)	(63)
Staff costs (including directors' remuneration)	(26,211)	(23,990)
Bank interest income	550	1,827
Reversal of impairments of trade debtors	1,000	–
Fair value losses, net on:		
Derivative financial instruments – transactions not qualifying as hedges	(1,842)	–
Fair value losses, net on:		
Other financial assets at fair value through profit or loss	<u><u>(2,191)</u></u>	<u><u>–</u></u>

## 5. TAX

Hong Kong profits tax has been provided at the rate of 16.5% 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	
	2008	2007
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the period	–	3,757
Current – Elsewhere		
Charge for the period	–	7,209
Deferred	<u>(2,300)</u>	<u>–</u>
Total tax (credit)/charge for the period	<u><u>(2,300)</u></u>	<u><u>10,966</u></u>

## 6. INTERIM DIVIDEND

	(Unaudited)	
	6 months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Proposed interim dividend – Nil (2007: HK4.0 cents per ordinary share)	<u>–</u>	<u>19,225</u>

## 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\$3,334,000 (2007: HK\$73,631,000) and the weighted average number of 480,243,785 (2007: 480,613,785) 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\$3,334,000 (2007: HK\$73,631,000) and the weighted average number of 481,405,887 (2007: 482,081,630) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

### (c) Reconciliation

	(Unaudited)	
	6 months ended 30 September	
	2008	2007
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	480,243,785	480,613,785
Deemed issue of ordinary shares for no consideration arising from share options	<u>1,162,102</u>	<u>1,467,845</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>481,405,887</u></u>	<u><u>482,081,630</u></u>

## 8. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)	
	6 months ended 30 September	
	2008	2007
	HK\$ '000	HK\$ '000
Purchase of property, plant and equipment	<u><u>7,244</u></u>	<u><u>16,047</u></u>



## 9. TRADE AND BILLS RECEIVABLES

	(Unaudited) 30 September 2008 <i>HK\$'000</i>	(Audited) 31 March 2008 <i>HK\$'000</i>
Trade receivables	67,253	69,503
Impairment	<u>(2,000)</u>	<u>(3,000)</u>
	65,253	66,503
Bills receivable	<u>12,043</u>	<u>–</u>
	<u><u>77,296</u></u>	<u><u>66,503</u></u>

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

	(Unaudited) 30 September 2008 <i>HK\$'000</i>	(Audited) 31 March 2008 <i>HK\$'000</i>
Current to 1 month	64,206	52,918
1 to 2 months	428	6,774
2 to 3 months	210	4,260
Over 3 months	<u>409</u>	<u>2,551</u>
	<u><u>65,253</u></u>	<u><u>66,503</u></u>

## 10. AVAILABLE-FOR-SALE INVESTMENT

	(Unaudited) 30 September 2008 <i>HK\$'000</i>	(Audited) 31 March 2008 <i>HK\$'000</i>
Structured time deposit, at fair value	<u>–</u>	<u>16,644</u>

## 11. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	(Unaudited)	(Audited)
	30 September	31 March
	2008	2008
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Hong Kong listed equity investments, at market value	9,526	15,727
Unlisted debt security, at fair value	6,546	7,603
Currency-linked deposit, at fair value	–	7,782
	<u>16,072</u>	<u>31,112</u>

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	(Unaudited)		(Audited)	
	30 September		31 March	
	2008		2008	
	Assets	Liabilities	Assets	Liabilities
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Forward currency contracts	7,605	5,185	1,948	38,519
Equity contracts	–	6,896	–	1,612
Options	–	2,436	–	5,038
	<u>7,605</u>	<u>14,517</u>	<u>1,948</u>	<u>45,169</u>

The carrying amounts of forward currency contracts, equity contracts and options are the same as their fair values.

## 13. CASH AND CASH EQUIVALENTS

	(Unaudited)	(Audited)
	30 September	31 March
	2008	2008
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Cash and bank balances	94,905	75,102
Time deposits	<u>35,026</u>	<u>7,544</u>
Cash and cash equivalents	<u>129,931</u>	<u>82,646</u>

## 14. 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 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Current to 1 month	76,962	67,302
1 to 2 months	916	5,866
2 to 3 months	1,295	1,600
Over 3 months	1,131	1,303
	<u>80,304</u>	<u>76,071</u>

## 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Current liabilities		
Bank loans – unsecured	21,600	–
Finance lease and hire purchase contract payables	16,560	26,082
Trust receipt loans	–	1,068
	<u>38,160</u>	<u>27,150</u>
Non-current liabilities		
Bank loans – unsecured	34,398	–
Finance lease and hire purchase contract payables	–	4,190
	<u>34,398</u>	<u>4,190</u>
Total	<u>72,558</u>	<u>31,340</u>

## 16. CAPITAL COMMITMENTS

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

	(Unaudited) 30 September 2008 HK\$'000	(Audited) 31 March 2008 HK\$'000
Capital commitments, Contracted but not provided for, in respect of acquisition of items of property, plant and equipment	<u>3,868</u>	<u>7,350</u>



## 17. 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 2008, 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	*Exercise price of share options	Price of Company's Shares
	At 1 April 2008	Granted during the period	Exercised during the period	At 30 Sep 2008			**At grant date of options	
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 trading day immediately prior to the date of grant of the options.

## 18. RELATED PARTY TRANSACTIONS

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

	Notes	(Unaudited)	
		6 months ended 30 September	
		2008	2007
		HK\$'000	HK\$'000
Sale of printed circuit boards to a related party	(i)	<u>43,437</u>	<u>36,236</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.

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

	(Unaudited)	
	6 months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Short term employee benefits	3,105	2,949
Post-employment benefits	<u>136</u>	<u>129</u>
Total compensation paid to key management personnel	<u>3,241</u>	<u>3,078</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 22%. The decrease in the Group's revenue was mainly caused by the decrease in the Group's printed circuit boards ("PCB") average selling price due to the strategic reason to broaden the customer base of the Group. The Group's PCB average selling price for non high density inter-connect ("HDI") PCB and HDI PCB for the current period decreased by 22% and increased by 1% respectively as compared to the last corresponding period.

The Group's gross profit margin decreased from about 38% in last corresponding period to about 15% in the current period. Apart from the decrease in the Group's PCB average selling price as mentioned above, the Group's average purchase price of certain major raw material items during the current period significantly increased due to the jump in the prices of non-ferrous metals such as copper and gold. The Group's average purchase prices of gold, tin and certain chemicals during the current period even increased by more than 30% as compared to the last corresponding period.

Furthermore, the increase in the production costs during the current period as driven by the continuous appreciation of Renminbi ("RMB") of about 10% as compared to the last corresponding period also reduced the gross profit margin.

### Financial Review

The Group's gearing ratio (defined as net debt divided by capital plus net debts) at 30 September 2008 and 31 March 2008 was 10% and 12% respectively while the Group's current ratio at 30 September 2008 and 31 March 2008 was 1.80 times and 1.42 times respectively. These financial ratios improved because the Group's PCB operations generated net cash inflow of about HK\$36 million during the current period.

As at 30 September 2008, the Group's interest-bearing bank and other borrowings amounting to HK\$72,558,000 (31 March 2008: HK\$31,340,000) out of which HK\$38,160,000 (31 March 2008: HK\$27,150,000) were repayable within the next 12 months. These borrowings were all denominated in either Hong Kong dollars ("HK\$") or United States dollars ("US\$"), originally repayable monthly over 3 years and subjected to floating interest rates for all (31 March 2008: all) 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 2008 of HK\$57,264,000 (31 March 2008: HK\$79,169,000) were pledged to secure these borrowings.

As at 30 September 2008, the total credit facilities available to the Group were approximately HK\$235 million, of which HK\$73 million were utilized, and the cash and cash equivalents were HK\$130 million. Accordingly, the Group is capable of financing its operation by its own internal resources and available banking facilities.

As at 30 September 2008, 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\$. However, the Group has made use of foreign exchange forward contracts during the current period to hedge against certain of its operating expenses to be paid in RMB in light of the expected appreciation of RMB.



The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and market price risk. Except for the market price risk, the impact of these risks on the Group as disclosed in the Company's last Annual Report has not changed much since 31 March 2008. The Group was exposed to market price risk arising from equity investments and equity contracts as at 30 September 2008. With all other variables held constant, the Group's profit before tax and equity will change by about HK\$0.5 million and about HK\$2.7 million for every 5% change in the market price of the underlying shares for the equity investments and the equity contracts respectively.

### **Employee Benefits**

As at 30 September 2008, the Group had 1,593 (31 March 2008: 1,770) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2008, the Group's total staff costs including directors' remuneration were HK\$26,211,000 (2007: HK\$23,990,000).

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**

The telecommunication service providers in Mainland China have begun to provide the third generation ("3G") telecommunication services in the number of cities. Although the 3G telecommunication services may take some time to become popular, it is generally expected that more 3G mobile phones will be launched soon in Mainland China and the demand for HDI PCB will be stimulated accordingly. The Group will benefit because it has strong track record of selling HDI PCB to not only world-renowned telecommunication products customers but also Mainland China original design manufacturers of mobile phone.

The product applications of HDI PCB are not merely restricted to mobile phone. The Group has succeeded in obtaining sales orders for HDI PCB from a famous Japanese digital camera manufacturer since December 2007. Through the strategic alliance with Daisho Denshi Co., Ltd. (one of the top manufacturers of highly delicate PCB in Japan and one of the Company's substantial shareholders), more Japanese customers requiring quality and highly delicate PCB will be introduced to the Group.

In order to further broaden its customer base, the Group developed market in Germany in last year and begin to bear fruit in 2008. Possessed with proven experience in manufacturing quality PCB for a famous Japanese automobile customer, the Group expects to obtain PCB sales orders from a manufacturer in Germany of parts for world-renowned automobiles from January 2009 onwards.

The Group is aware that the recent financial turmoil triggered by the sub-prime mortgage crisis in the United States of America may affect the operating environment of the Group and it has adopted various means to alleviate the impact. It is noteworthy that, since October 2008, the continuous reduction in the purchase prices of non-ferrous metals and the stability of RMB will enable the Group to reduce the direct costs of sales.

Although the road ahead may be full of challenges, the Group is capable of confronting them in view of its healthy financial position and strong cash inflow from the PCB operations.



## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2008 (2007: HKD4.0 cents per ordinary share for the six months ended 30 September 2007).

## 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 2008, 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 2008, 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	103,921,417 *	143,601,417	29.90
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 PTC Limited as its trustee. At 30 September 2008, Earnwell PTC Limited held 103,921,417 shares representing approximately 21.64% 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 17 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 2008, 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 PTC Limited	Trustee	103,921,417	21.64
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.41

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 2008.



## 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 2008.

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

Hong Kong, 15 December 2008

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