



DAIWA ASSOCIATE HOLDINGS LIMITED

台和商事控股有限公司

(Stock Code 股份代號: 1037)

中期業績報告
Interim Report

2009-10

DAIWA ASSOCIATE HOLDINGS LIMITED

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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 2009. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

RESULTS AND DIVIDEND

For the six months ended 30 September 2009, the Group's turnover was HK\$798.4 million (2008: HK\$867.9 million), representing a decrease of 8% amid the global economic slowdown.

EBITDA (earnings before interest, tax, depreciation and amortization) for the period was HK\$16 million (2008: HK\$18.9 million) representing a decrease of 15% when compared to the last corresponding period.

Profit attributable to equity holders of the Company for the period was HK\$4.5 million (2008: HK\$6.3 million) which represents a decrease of 27% when compared to the last corresponding period. Basic earnings per share was HK1.49 cents (2008: HK2.06 cents).

Total comprehensive income attributable to equity holders of the Company was HK\$9.8 million (2008: HK\$4.5 million) which represents an increase of 118% when compared to the last corresponding period. The increase was mainly a result of revaluation surplus of property reclassified from leasehold property to investment property and favorable currency translation difference.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK0.3 cent, in the form of cash, per ordinary share payable to shareholders whose names appear on the Register of Members of the Company on Wednesday, 16 December 2009.

The interim dividend will be payable on Friday, 8 January 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 16 December 2009 to Tuesday, 22 December 2009, 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, 15 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets amounted to HK\$203.6 million (31 March 2009: HK\$178.1 million) and the shareholders' funds were HK\$392.3 million at 30 September 2009 (31 March 2009: HK\$384.1 million). The total amount of loans and finance lease was HK\$183.7 million (31 March 2009: HK\$195.8 million) and the net gearing ratio, which is defined as total borrowings after netting off cash and cash equivalents, to shareholders' funds was 0.20. The cash and bank balances were HK\$105.6 million (31 March 2009: HK\$124.6 million).

At 30 September 2009, total available banking facilities of the Group were approximately HK\$323 million, of which HK\$101 million was unutilized. Finance lease obligations outstanding on the same date amounted to less than HK\$1 million (2008: HK\$1.8 million).

The Group's assets are 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 are mainly denominated in Hong Kong dollars, US dollars, Canadian dollars and Renminbi. The Group has entered into foreign currency forward contracts with banks to hedge certain future foreign currency trade liabilities. The Group's borrowings are interest bearing at floating rates.

BUSINESS REVIEW AND PROSPECT

The Group is mainly engaged in the following major businesses, namely:

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

In the reported period, the negative impact of the global financial crisis to the Group was strong. Orders from customers in manufacturing segments were silent. In order to keep the Group away from financial risks, the Group has tightened the credit control of customers and reserved adequate resources to meet the challenges brought forward from the adverse effects. Although turnover for this reported period in major business sectors were scaled down, the Group was delighted to have considerable growth in the Electronics Component Distribution and Manufacturing segment.

Electronic Components — Distribution and Manufacturing

For the half year ended 30 September 2009, despite the adverse marketing environment, turnover of this business segment rose to HK\$570.4 million, representing a growth of 14% when compared with the same period of last year (2008: HK\$501.9 million).

As a result of successful penetration in the mobile phone solutions in China, together with the strong distribution sales networks of core electronic components, the Group achieved record-high turnover in this segment during the reporting period. The Group has maintained an array of authorized distributorships with renowned suppliers such as Toshiba, Panasonic, On-Semiconductor, Freescale, Lite-on, Arnold Magnetics, CET, On-Bright, Diodes, Magnetics and Rohm.

Beijing, Shanghai and Shenzhen sales offices continue to play an important role in exploring new customers.

EMS (Contract Electronics Manufacturing Services)

Business climate in North America and Western Europe rapidly deteriorated in the reported period. Sales orders from these major markets of our EMS business slowed down. The Group's EMS business inevitably contracted to a turnover of HK\$66.7 million (2008: HK\$119.7 million), representing a decrease of 44%.

The Group kept on continuous engineering investments in R&D, manufacturing process and quality assurance. The Group successfully earned recognition from renowned mobile phone infrastructure customers and has been awarded as one of the few manufacturers in Wide-Band Combiners, a crucial module in mobile phone base stations.

In view of the drop in orders, partnership customers had already concentrated the orders to the Group instead of to the Group's competitors, which will lessen the negative turnover pressure in this segment.

Consumer Electronics Manufacturing

The Group keeps on eliminating low margin consumer electronics manufacturing and concentrates the efforts in products with higher entry barrier. Together with the negative market sentiments in the retail sector, turnover of this segment was HK\$40.4 million (2008: HK\$73.7 million), representing a decrease of 45% when compared with the last reported period.

In the reported period, the Group has developed more new models of higher profit margin products such as internet radio, iPod docking boom boxes and multi-interface mini compo hi-fi. In the arena of telecommunication products, the Group has started to enter the new market of Two Way Radio and Cordless DECT phones and has drawn substantial interest from potential customers.

Personal Computer Distribution

Business in this segment mainly comprises the distribution of personal computer system and parts in Canada. As a result of the economic recession in North America, turnover of this business segment was HK\$120.9 million in the reporting period, representing a decrease of 30% when compared with the same period of last year (2008: HK\$172.6 million).

The increasing popularity of netbook computers at affordable price and the recent launch of Windows 7 has enabled our Canada office to seize business opportunities emerging from new IT products.

FUTURE PROSPECT

One year has lapsed since the commencement of the financial tsunami last year. Apart from the continuous support from our bankers, the Group has adopted a conservative approach in managing its trade receivables, inventory and liquidity so that the Group could weather through business environment during this difficult period. The Management will exercise on-going caution in assessing new investment and capital expenditure.

The Group is expected to have a continuous growth in the segment of distribution of electronic components. The setting up of new sales offices in Xiamen and Chengdu will surely spur growth in this segment. The Group is also trying to penetrate into giant China house appliances as well as automobile manufactures. Other than the continuous negotiations to gain new distributorships, the Group will also try to acquire some well established, but under developed distribution houses to supplement the un-touched sector of this segment.

In the past half year, in the segment of Consumer Electronics Manufacturing, the Group has already successfully walked away from the segment of major unprofitable products and spear-headed to the telecommunication products with higher entry barriers. The recent close down of competing factories has also reduced the cut-throat price competitions.

In the segment of EMS, the Group's reputation has attracted a new sizeable USA customer to build strategic production partnership with the Group. After passing the stringent quality requirements during the pre-production stage, sales orders in commercial scale from this new customer are forthcoming to serve as a driver of future growth.

There are signs of easing of the global economic recession while the Mainland market has strong domestic demand. Although Management believes that the impact of the financial tsunami will become less significant in the coming year, the Group remains alert to the economic uncertainties. By all means, the Group will pursue developing new products and enlarging its domestic sales in the Mainland to maintain its competitive advantage.

EMPLOYEES

At 30 September 2009, the Group employed a total of approximately 3,300 employees (2008: 4,500 employees) located in Hong Kong, Canada and China. Sales personnel are remunerated by salaries and incentives scheme. General staff are offered year-end discretionary bonuses. The Group also provides the ORSO Scheme, Mandatory Provident Fund Scheme and medical benefits to all Hong Kong employees.

Pursuant to the terms and conditions of the 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 2009, no share options had been granted to employees.

Condensed Consolidated Income Statement

For the six months ended 30 September 2009

		Unaudited	
		Six months ended	
		30 September	
		2009	2008
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	798,397	867,903
Cost of sales		(727,649)	(780,510)
Gross profit		70,748	87,393
Other income		131	381
Selling and distribution expenses		(9,470)	(10,984)
General and administrative expenses		(53,705)	(66,392)
Operating profit	3	7,704	10,398
Finance costs — net		(1,737)	(3,363)
Profit before income tax		5,967	7,035
Income tax expense	4	(1,414)	(1,490)
Profit for the period		4,553	5,545
Attributable to:			
Equity holders of the Company		4,536	6,250
Minority interests		17	(705)
		4,553	5,545
Dividends	5	911	911
Earnings per share for profit attributable to equity holders of the Company			
— Basic	6	HK1.49 cents	HK 2.06 cents
— Diluted	6	HK1.49 cents	HK 1.98 cents

The notes are integral part of these financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2009

	Unaudited	
	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
Profit for the period	4,553	5,545
Other comprehensive income:		
— Fair value gain/(loss) on available-for-sale financial assets, net of tax	152	(105)
— Currency translation differences	2,098	(1,638)
— Revaluation surplus of property reclassified from leasehold property to investment property	2,973	—
Total comprehensive income for the period	9,776	3,802
Total comprehensive income attributable to:		
— Equity holders of the Company	9,759	4,507
— Minority interest	17	(705)
	9,776	3,802

The notes are integral part of these financial statements.

Condensed Consolidated Balance Sheet

As at 30 September 2009

	Note	Unaudited 30 September 2009 HK\$'000	Audited 31 March 2009 HK\$'000
Non-current assets			
Goodwill	7	22,704	22,704
Property, plant and equipment	7	188,318	198,784
Leasehold land and land use rights		20,678	21,312
Investment Property		11,413	—
Interest in a jointly controlled entity		1	1
Deferred income tax assets		172	172
Available-for-sale financial assets		320	168
Other assets		710	710
		<u>244,316</u>	<u>243,851</u>
Current assets			
Inventories		197,880	205,304
Trade and notes receivables	8	203,987	139,632
Amount due from an associated company		13,725	14,855
Prepayments, deposits and other receivables		17,542	16,885
Derivative financial instruments		—	235
Cash and cash equivalents		105,627	124,556
		<u>538,761</u>	<u>501,467</u>
Total assets		<u>783,077</u>	<u>745,318</u>
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	11	30,362	30,364
Reserves		361,968	353,732
		<u>392,330</u>	<u>384,096</u>
Minority interests		<u>102</u>	<u>475</u>
Total equity		<u>392,432</u>	<u>384,571</u>
Non-current liabilities			
Borrowings	10	52,540	34,053
Deferred income tax liabilities		2,916	3,347
		<u>55,456</u>	<u>37,400</u>
Current liabilities			
Borrowings	10	131,202	161,788
Trade payables	9	181,907	138,826
Accruals and other payables		19,179	20,083
Current income tax liabilities		2,901	2,616
Derivative financial instruments		—	34
		<u>335,189</u>	<u>323,347</u>
Total liabilities		<u>390,645</u>	<u>360,747</u>
Total equity and liabilities		<u>783,077</u>	<u>745,318</u>
Net current assets		<u>203,572</u>	<u>178,120</u>
Total assets less current liabilities		<u>447,888</u>	<u>421,971</u>

The notes are integral part of these financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2009

	Unaudited	
	Six months ended	
	30 September	
	2009	2008
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	<u>862</u>	<u>(15,855)</u>
Net cash used in investing activities	<u>(5,822)</u>	<u>(8,719)</u>
Net cash (used in)/generated from financing activities	<u>(14,007)</u>	<u>30,911</u>
Net (decrease)/increase in cash and cash equivalents	(18,967)	6,337
Cash and cash equivalents at 1 April	124,556	103,388
Effect on foreign exchange	<u>38</u>	<u>202</u>
Cash and cash equivalents at 30 September	<u>105,627</u>	<u>109,927</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>105,627</u>	<u>109,927</u>

The notes are integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2009

	Unaudited											
	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserves	Share redemption reserve	Cumulative translation adjustments	Statutory reserves	Available-for-sale financial assets revaluation reserve	Property revaluation reserve	Retained earnings	Total	Minority interests	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	HK\$'000
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/(loss) for the period	—	—	—	—	—	—	—	—	6,250	6,250	(705)	5,545
Revaluation deficits on available-for-sale financial assets	—	—	—	—	—	—	(105)	—	—	(105)	—	(105)
Purchase of own shares	(44)	(143)	—	187	—	—	—	—	(187)	(187)	—	(187)
Final dividend paid for 2009	—	—	—	—	—	—	—	—	(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>—</u>	<u>94,768</u>	<u>391,322</u>	<u>176</u>	<u>391,498</u>
At 1 April 2009	30,364	214,950	41,201	1,394	1,061	90	26	—	95,010	384,096	475	384,571
Currency translation differences	—	—	—	—	2,098	—	—	—	—	2,098	—	2,098
Profit for the period	—	—	—	—	—	—	—	—	4,536	4,536	17	4,553
Revaluation surplus on available-for-sale financial assets	—	—	—	—	—	—	152	—	—	152	—	152
Revaluation surplus of property reclassified from leasehold property to investment property	—	—	—	—	—	—	—	2,973	—	2,973	—	2,973
Purchase of own shares	(2)	(5)	—	7	—	—	—	—	(7)	(7)	—	(7)
Interim dividend	—	—	—	—	—	—	—	—	—	—	(390)	(390)
Final dividend paid for 2009	—	—	—	—	—	—	—	—	(1,518)	(1,518)	—	(1,518)
At 30 September 2009	<u>30,362</u>	<u>214,945</u>	<u>41,201</u>	<u>1,401</u>	<u>3,159</u>	<u>90</u>	<u>178</u>	<u>2,973</u>	<u>98,021</u>	<u>392,330</u>	<u>102</u>	<u>392,432</u>

The notes are integral part of these financial statements.

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 2009.

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 2009, 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 2009. The applicable New HKFRSs adopted in this interim financial report are set out below.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of Investments in a Subsidiary, Jointly Controlled Entities or Associates
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

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 2010 and have not been early adopted:

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfers of Assets from Customers

Notes to condensed interim accounts

2. Turnover and segment information

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

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

Business segments:

	Manufacturing and distribution of electronic components		Contract electronic manufacturing services and consumer electronics		Distribution of personal computer products		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	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
External sales	570,429	501,927	107,117	193,364	120,851	172,612				
Inter-segment sales	230	405	1,586	—	—	—	(1,816)	(405)		
	<u>570,659</u>	<u>502,332</u>	<u>108,703</u>	<u>193,364</u>	<u>120,851</u>	<u>172,612</u>	<u>(1,816)</u>	<u>(405)</u>	<u>798,397</u>	<u>867,903</u>
Segments results	16,680	15,722	(4,147)	1,056	935	1,710			13,468	18,488
Unallocated income									195	381
Unallocated expenses									(5,959)	(8,471)
Finance costs									(1,737)	(3,363)
Profit before income tax									<u>5,967</u>	7,035
Income tax expense									(1,414)	(1,490)
Profit for the period									<u>4,553</u>	<u>5,545</u>
Profit attributable to equity holders									4,536	6,250
Minority interests									17	(705)
									<u>4,553</u>	<u>5,545</u>

3. **Operating profit**

Operating profit is stated after charging and crediting the following:

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	<i>HK\$'000</i>
Charging:		
Depreciation and amortisation of non-current assets	8,315	8,597
Provision for bad and doubtful debts	282	1,190
Crediting:		
Interest income	55	132
	_____	_____

4. **Income tax expenses**

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operate in Mainland China are subject to PRC Corporate income tax at the rate of 25% (2008: 25% to 33%). Companies established and operated in Canada are subject to Canadian income tax at the rate of 35% (2008: 35%).

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

	Six months ended	
	30 September	
	2009	2008
	HK\$'000	<i>HK\$'000</i>
Current taxation:		
— Hong Kong profits tax	256	232
— PRC Corporate income tax	931	1,038
— Canadian income tax	314	228
	1,501	1,498
Deferred taxation — relating to the origination and reversal of temporary differences	(87)	(8)
	1,414	1,490
	_____	_____

Notes to condensed interim accounts

5. Dividends

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
2008/2009 Final dividend, paid, of HK0.5 cent (2007/2008 final paid: HK0.25 cent) per ordinary share (Note (i))	1,518	761
2009/2010 Interim dividend of HK0.3 cent (2008/2009: HK0.3 cent) per ordinary share, declared on 27 November 2009 (Note (ii))	911	911
	<u>2,429</u>	<u>1,672</u>

Note (i): At a meeting held on 21 July 2009, the directors proposed a final dividend of HK0.5 cent per ordinary share for the year ended 31 March 2009, which was paid on 29 September 2009.

Note (ii): At a meeting held on 27 November 2009, the directors resolved to declare an interim dividend of HK0.3 cent per ordinary share for the six months ended 30 September 2009. The interim dividend has been reflected as an appropriation of retained earnings for the six months ended 30 September 2009.

6. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$4,536,000 (2008: HK\$6,250,000).

The basic earnings per share is based on the weighted average of 303,622,087 (2008: 304,104,835) ordinary shares in issue during the period. The diluted earnings per share is based on 303,622,087 (2008: 314,618,474) 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. Diluted earnings per share for the six months ended 30 September 2009 is the same as the basic earnings per share as the exercise of the outstanding warrants would be anti-dilutive.

7. Capital expenditure

For six months ended 30 September 2009

	Goodwill HK\$'000	Property, plant and equipment HK\$'000
Opening net book amount	22,704	198,784
Exchange differences	—	142
Additions	—	5,039
Disposals	—	(121)
Re-classification of leasehold property to investment property	—	(7,462)
Depreciation/amortisation charge	—	(8,064)
	<u>22,704</u>	<u>188,318</u>
Closing net book amount	<u>22,704</u>	<u>188,318</u>

8. **Trade and notes receivables**

Trade receivables and their ageing analysis is as follows:

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Less than 60 days	138,200	100,969
60 to 120 days	44,090	18,043
Over 120 days	12,947	11,702
	<u>195,237</u>	<u>130,714</u>
Less: provision for impairment	(1,732)	(2,745)
	<u>193,505</u>	<u>127,969</u>
Notes receivable	10,482	11,663
	<u>203,987</u>	<u>139,632</u>

Majority of the Group's sales are made on open account, with credit terms generally ranging from 30 days to 90 days.

9. **Trade payables**

Trade payables and their ageing analysis is as follows:

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Less than 60 days	159,582	130,830
60 to 120 days	12,485	6,084
Over 120 days	9,840	1,912
	<u>181,907</u>	<u>138,826</u>

10. **Borrowings**

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Non-current		
Bank borrowings	75,416	69,541
Less: current portion of non-current bank borrowings	(22,876)	(35,488)
Finance lease liabilities	—	—
	<u>52,540</u>	<u>34,053</u>
Current		
Short-term bank borrowings	13,000	16,000
Current portion of non-current bank borrowings	22,876	35,488
Trust receipts bank loans	95,087	109,222
Finance lease liabilities	239	1,078
	<u>131,202</u>	<u>161,788</u>
Total borrowings	<u>183,742</u>	<u>195,841</u>

Notes to condensed interim accounts

11. Share capital

	Number of Ordinary Shares	Nominal Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2009 and 30 September 2009	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2009	303,644	30,364
Purchase of own shares	(26)	(2)
At 30 September 2009	303,618	30,362

12. Commitments

Operating lease commitments

At 30 September 2009, the Group had total future aggregate minimum lease payments under operating leases as follows:

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Not later than one year	5,716	5,073
Later than one year and not later than five years	10,714	12,011
	16,430	17,084

13. Financial Risk Management

13.1 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 and Chinese Renminbi. 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.

13.2 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 2009, 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 the Company's shares of HK\$0.10 each

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	6,557,141	1	147,706,499	2 & 3	1,142,854	155,406,494	51.18%
Ms. CHAN Yuen Mei, Pinky	7,862,388	2	4,042,854	1	147,706,499	2 & 3	3,657,141	155,406,494	51.18%
Mr. WAN Chor Fai	—	—	50,000	—	—	—	—	50,000	0.02%
Mr. Barry John BUTTIFANT	—	—	500,000	—	—	—	—	500,000	0.16%

Notes:

- 2,900,000 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 86,788,103 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.

(b) 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 2009, 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 2009, 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 2009, 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	—	20.06%
China Capital Holdings Investment Ltd	2	86,788,103	7,862,388	31.17%
South China Holdings Limited		42,842,198	—	14.11%

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, 163,268,882 and 163,268,882 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 86,788,103, 163,268,882 and 163,268,882 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 2009.

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 2009, 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 2009.

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 2009 with the directors.

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

During the six months ended 30 September 2009, the Company purchased a total of 26,000 shares of HK\$0.10 each of the Company in the range from HK\$0.280 to HK\$0.300 for a total consideration of HK\$7,600 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 2009.

By Order of the Board
LAU Tak Wan
President

Hong Kong, 27 November 2009

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