



DAIWA ASSOCIATE HOLDINGS LIMITED

台和商事控股有限公司

(Stock Code 股份代號：1037)

The background of the entire page is a close-up, high-angle photograph of a printed circuit board (PCB). The board is populated with various electronic components, including several integrated circuits (chips) and connectors. The lighting is warm and golden, highlighting the metallic surfaces and the intricate patterns of the board. The image is slightly blurred, creating a sense of depth and focus on the technology.

**2010-2011**

Interim Report 中期業績報告

**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 2010. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

## RESULTS AND DIVIDEND

For the six months ended 30 September 2010, the Group's turnover was HK\$946.0 million (2009: HK\$798.4 million), representing a growth of 19% over the corresponding period last year. The gross profit was HK\$79.0 million (2009: HK\$70.7 million) representing an increase of 12% over the corresponding period last year. The operating profit was HK\$11.1 million (2009: HK\$7.7 million) representing an increase of 44% when compared with the same period last year.

EBITDA (earnings before interest, tax, depreciation and amortization) for the period was HK\$18.6 million (2009: HK\$16.0 million) representing an increase of 16% when compared to the last corresponding period. The increase was mainly contributed from electronic components distribution and personal computer products distribution.

Profit attributable to equity holders of the Company for the period was HK\$5.6 million (2009: HK\$4.5 million) which represents an increase of 23% when compared to the last corresponding period. Basic earnings per share was HK1.82 cents (2009: HK1.49 cents).

## INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets amounted to HK\$195.1 million (31 March 2010: HK\$162.3 million) and the shareholders' funds were HK\$361.9 million at 30 September 2010 (31 March 2010: HK\$360.6 million). The total amount of loans and finance lease was HK\$328.8 million (31 March 2010: HK\$230.9 million) and the net gearing ratio, which is defined as total borrowings after netting off cash and cash equivalents, to shareholders' funds was 0.50. The cash and bank balances were HK\$146.2 million (31 March 2010: HK\$166.6 million).

At 30 September 2010, total available banking facilities of the Group were approximately HK\$427.2 million, of which HK\$30.8 million was unutilized. The Group's assets are mostly financed by shareholders' funds, trade payables and bank borrowings. The borrowings, cash and cash equivalents are mainly denominated in Hong Kong dollars, US dollars, Canadian dollars and Renminbi. The Group's borrowings are interest bearing at floating rates.

## BUSINESS REVIEW AND PROSPECT

It was delighted that the Group had already recovered from the global economic crisis. Turnover of the Group recorded a growth of 19% and each segment of the Group recorded a growth when compared with that of the last reported period.

During the period under review, demand in electronic products fluctuated drastically. Although prices of finished products were mildly increased, orders were small and lead times were rush. The short lead time created a shortage in the supply of electronic components. By the successful strategically planned supply plan, the Group's Component Distribution Segment benefited significantly in the reported period.

The cost of labor increased substantially in PRC in recent years and had handicapped the profit of the manufacturing segment of the Group. The Group had shifted his business concentration from manufacturing to electronic components distribution and the latter constituted 69% of the Group's turnover in the reported period and become the core business of the Group.

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

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

## President's Statement

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### **Electronic Components Distribution**

The Group had considerable sales growth in this segment. As the result of continuous investment in engineering, well established distribution network and effective logistic foundations, the Group achieved aggressive sales target on power management devices and mobile phone solutions during the period.

In the reported period, turnover of the segment increased by 20% to HK\$650.3 million (2009: HK\$543.4 million) and reached the record high of this segment. Result of this segment increased by 37% to HK\$23.6 million (2009: HK\$17.2 million).

The Group has maintained an array of authorized distributorships with renowned suppliers of electronic components such as Toshiba, Panasonic, On Semiconductor, On Bright, Isocom, Johanson, Magnetic, COS, Chino-Excel Technology Corp (CET), Diodes, Rohm, Arnold Magnetics, LiteOn, Everlight, AEM and Abilis Systems.

Other than the sales office in Hong Kong, the Group also established sales offices in Beijing, Shanghai, Shenzhen, Zhaoqing, Chengdu and Xiamen in PRC.

### **EMS (Contract Electronic Manufacturing Service)**

In the reported period, turnover of the segment increased by 18% to HK\$78.9 million (2009: HK\$66.7 million). Result of this segment increased by 31% to HK\$1.5 million (2009: HK\$1.2 million).

The Group focused on continuous advancement in engineering and product development. By the improvement in manufacturing process and quality assurance to consolidate our competitive advantage in the market, the Group earned recognition from major customers and continuously built up business with new customers with elevated profit margin.

The Group had engaged in the production of telecommunication modules in mobile phone base stations, active antennas, radar parts, electronic modules in automobiles as well as PCB assembly for industrial purpose products. The facility was equipped with high speed SMT production lines with nitrogen filled reflow furnaces, precise solder paste screen printer, etc. Process reliability could be ensured by the in-house RoHS Scanning Systems and X-Ray Inspection Machine.

### **Consumer Electronics and Electronic Components Manufacturing**

In the reported period, turnover of the segment increased by 7% to HK\$71.9 million (2009: HK\$67.4 million). This segment recorded a loss of HK\$9.7 million (2009: loss of HK\$5.9 million).

The increase of loss in this segment was mainly due to the continuous increase of labor cost in PRC and the result of material price increase in the low-end consumer electronics products. The Group had already terminated new orders from similar products and shifted to high-end products such as iPhone dockings, active antennas and multi-interface mini-compo hi-fi. The Group also started launching to new production of telecommunication products such as cordless DECT phone, CB radio and two way radios.

### **Personal Computer Products Distribution**

In the reported period, turnover of the segment increased by 20% to HK\$144.9 million (2009: HK\$120.9 million). Result of this segment increased by 98% to HK\$1.9 million (2009: HK\$0.9 million).

The increase in turnover and result in this segment were mainly due to the result from the penetration of personal computer products to mass merchants.

Business in this segment mainly comes from distribution of personal computer products in North America. Products in this segment included motherboards, display cards, hard disk drives, optical storage device, computer cases, power suppliers, software, memory, memory devices, desk-top computers, notebook computers, netbook computers, computer accessories and iPhone accessories.

### **FUTURE PROSPECT**

Following the trend of economy revitalization since the second quarter of 2009, the electronic components industry had a good beginning in 2010. The world economy is in the slow recovery stage. The market still faces uncertainties but the PRC market which the Group served is experiencing a steady growth. Although some short term variations in both PRC market and macro environment are expected, the Group believes that the changing business environment will benefit the Group with new development opportunities.

The Group will focus on the enhancement of sale networks in PRC. Besides, the Group will continuously keep its strong penetration in PRC manufacturing market of mobile phones, handheld electronic devices and automobile by providing value added solutions for electronic components.

In the segment of EMS, the Group will continuously make effective investments in research and development, manufacturing process and quality assurance system so as to further develop the telecommunication infrastructure products. Customers have already started to accept price increases and the Group has already been approved by a number of new customers which will bring in considerable turnover in the coming fiscal year.

In the segment of consumer electronics products and electronic components manufacturing, the Group would keep on developing high-end digital products with valued customer and keep moving away from low-end products. The Group has invested in the development of telecommunication products since 2007 and starts to receive substantial commitment from new customers. The Group believes that the coming business development in this segment will replace the market loss in the low end consumer products. Besides, the management will continuously implement automation measurements to reduce the dependence on labour force in the escalating labour cost environment in the PRC. In addition, the management has started to sub-contract some standard production process to some inland low cost factories which will continue to uphold stringent cost control.

The Group believes that the returns in the distribution segments of Electronic Components and Personal Computer Products keep steady and they maintain as the core businesses of the Group while the turnover in EMS and telecommunication will have a considerable growth in the coming year.

### **EMPLOYEES**

At 30 September 2010, the Group employed a total of approximately 3,000 employees (30 September 2009: 3,300 employees) located in Hong Kong, Canada and PRC.

The Group's remuneration policy is in line with the prevailing market practices and is determined on the basis of performance and experience of the individual. Sales personnel are remunerated by salaries and incentives in accordance with the achievement of their sales target. General staff are offered year-end discretionary bonuses, which are based on the divisional performance and individual appraisals. The Group also provides a Mandatory Provident Fund or ORSO 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 2010, no share options had been granted.

## Condensed Consolidated Income Statement

For the six months ended 30 September 2010

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2010</b>	2009
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>946,025</b>	798,397
Cost of sales		<b>(866,977)</b>	(727,649)
<b>Gross profit</b>		<b>79,048</b>	70,748
Other income		<b>297</b>	131
Selling and distribution expenses		<b>(11,588)</b>	(9,470)
General and administrative expenses		<b>(56,683)</b>	(53,705)
<b>Operating profit</b>	3	<b>11,074</b>	7,704
Finance costs — net		<b>(2,170)</b>	(1,737)
<b>Profit before income tax</b>		<b>8,904</b>	5,967
Income tax expense	4	<b>(3,371)</b>	(1,414)
<b>Profit for the period</b>		<b>5,533</b>	4,553
Attributable to:			
Equity holders of the Company		<b>5,557</b>	4,536
Minority interests		<b>(24)</b>	17
		<b>5,533</b>	4,553
<b>Dividends</b>	5	—	911
<b>Earnings per share for profit attributable to equity holders of the Company</b>			
— Basic	6	<b>HK1.82 cents</b>	HK1.49 cents
— Diluted	6	<b>HK1.75 cents</b>	HK1.49 cents

The notes are integral part of these financial statements.

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2010

	Unaudited	
	Six months ended	
	30 September	
	2010	2009
	HK\$'000	HK\$'000
<b>Profit for the period</b>	<b>5,533</b>	4,553
<b>Other comprehensive income:</b>		
— Fair value gain on available-for-sale financial assets, net of tax	<b>44</b>	152
— Currency translation differences	<b>(4,364)</b>	2,098
	<u>          </u>	<u>          </u>
<b>Total comprehensive income for the period</b>	<b><u>1,213</u></b>	<b><u>6,803</u></b>
<b>Total comprehensive income attributable to:</b>		
— Equity holders of the Company	<b>1,237</b>	6,786
— Minority interests	<b>(24)</b>	17
	<u>          </u>	<u>          </u>
	<b><u>1,213</u></b>	<b><u>6,803</u></b>

The notes are integral part of these financial statements.

## Condensed Consolidated Balance Sheet

As at 30 September 2010

		Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000 (Restated)
<b>Non-current assets</b>			
Goodwill	7	27,340	28,121
Property, plant and equipment	7	191,741	192,229
Leasehold land and land use rights		14,747	14,932
Deferred income tax assets		961	927
Available-for-sale financial assets		349	305
Other assets		710	710
		<u>235,848</u>	<u>237,224</u>
<b>Current assets</b>			
Inventories		235,096	235,927
Trade and notes receivables	8	271,354	208,270
Amount due from an associated company		1,172	4,382
Prepayments, deposits and other receivables		21,861	29,472
Cash and cash equivalents		146,205	166,627
		<u>675,688</u>	<u>644,678</u>
<b>Total assets</b>		<u>911,536</u>	<u>881,902</u>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	11	30,394	30,394
Reserves		331,489	330,252
		<u>361,883</u>	<u>360,646</u>
<b>Minority interests</b>		330	354
<b>Total equity</b>		<u>362,213</u>	<u>361,000</u>
<b>Non-current liabilities</b>			
Borrowings	10	66,650	36,680
Deferred income tax liabilities		2,074	1,877
		<u>68,724</u>	<u>38,557</u>
<b>Current liabilities</b>			
Borrowings	10	262,187	194,271
Trade payables	9	195,045	258,709
Accruals and other payables		20,140	27,769
Current income tax liabilities		3,227	1,596
		<u>480,599</u>	<u>482,345</u>
<b>Total liabilities</b>		<u>549,323</u>	<u>520,902</u>
<b>Total equity and liabilities</b>		<u>911,536</u>	<u>881,902</u>
<b>Net current assets</b>		<u>195,089</u>	<u>162,333</u>
<b>Total assets less current liabilities</b>		<u>430,937</u>	<u>399,557</u>

The notes are integral part of these financial statements.

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2010

	Unaudited	
	Six months ended	
	30 September	
	2010	2009
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	<u>(111,627)</u>	<u>862</u>
Net cash used in investing activities	<u>(6,350)</u>	<u>(5,822)</u>
Net cash generated from/(used in) financing activities	<u>97,886</u>	<u>(14,007)</u>
Net decrease in cash and cash equivalents	<b>(20,091)</b>	(18,967)
Cash and cash equivalents at 1 April	<b>166,627</b>	124,556
Effect on foreign exchange	<u>(331)</u>	<u>38</u>
Cash and cash equivalents at 30 September	<b><u>146,205</u></b>	<b><u>105,627</u></b>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b><u>146,205</u></b>	<b><u>105,627</u></b>

The notes are integral part of these financial statements.

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2010

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserves	Share redemption reserve	Exchange reserve	Statutory reserves	Available-for-sale financial assets 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
<b>At 1 April 2009</b>	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
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)
<b>At 30 September 2009</b>	<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>98,021</u>	<u>389,357</u>	<u>102</u>	<u>389,459</u>
<b>At 1 April 2010</b>	30,394	215,042	41,201	1,402	11,411	90	163	60,943	360,646	354	361,000
Currency translation differences	—	—	—	—	(4,364)	—	—	—	(4,364)	—	(4,364)
Profit/(loss) the period	—	—	—	—	—	—	—	5,557	5,557	(24)	5,533
Revaluation surplus on available-for-sale financial assets	—	—	—	—	—	—	44	—	44	—	44
<b>At 30 September 2010</b>	<u>30,394</u>	<u>215,042</u>	<u>41,201</u>	<u>1,402</u>	<u>7,047</u>	<u>90</u>	<u>207</u>	<u>66,500</u>	<u>361,883</u>	<u>330</u>	<u>362,213</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 2010.

Except as described below, the accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements of the Group for the year ended 31 March 2010. In 2010, the Group adopted HKAS 17 (amendment), "Leases", which is mandatory for accounting periods beginning on or after 1 April 2010.

HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 April 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 April 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong and certain land leases in Mainland China as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land and land use rights from operating lease to finance lease.

All land interest of the Group is attached to property interest held for own use. Consequential to the adoption of HKAS 17 (amendment), the relevant land interest is now accounted for as property, plant and equipment and is depreciated over the shorter of the useful life of the asset and the lease term.

The effect of the adoption of this amendment is as follows:

	<b>30 September 2010 HK\$ '000</b>	31 March 2010 HK\$ '000
Increase in property, plant and equipment	<b>5,779</b>	5,844
Decrease in leasehold land and land use rights	<b>(5,779)</b>	(5,844)

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 April 2010. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRSs (amendments)	Improvements to HKFRSs 2009 (excluding HKAS 17 (amendment) "Leases")
HKFRS 1 (revised)	First-time adoption of HKFRSs
HKFRS 1 (amendment)	Additional exemptions for first-time adopters
HKFRS 2 (amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (revised)	Business combinations
HKFRS 5 (amendment)	Non-current asset held for sale and discontinued operations
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 39 (amendment)	Eligible hedged items
HK(IFRIC) — Int 17	Distributions of non-cash assets to owners

The Group did not early adopt any of the new or revised standards, amendments to standards and interpretations to existing standards that have been issued by the Hong Kong Institute of Certified Public Accountants but are not yet effective. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

## 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 computer products.

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

#### Business segments:

	Electronic components distribution		Contract electronic manufacturing services		Consumer electronics and electronic components manufacturing services		Personal computer products distribution		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	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>										
Sales of goods	<u>650,320</u>	<u>543,455</u>	<u>78,937</u>	<u>66,724</u>	<u>71,880</u>	<u>67,367</u>	<u>144,888</u>	<u>120,851</u>	<u>946,025</u>	<u>798,397</u>
<b>Results of reportable segments</b>	<u>23,569</u>	<u>17,227</u>	<u>1,535</u>	<u>1,173</u>	<u>(9,697)</u>	<u>(5,867)</u>	<u>1,853</u>	<u>935</u>	<u>17,260</u>	<u>13,468</u>
A reconciliation of results of reportable segments to profit for the period is as follows:										
<b>Results of reportable segments</b>									<b>17,260</b>	<b>13,468</b>
Unallocated incomes									<b>73</b>	<b>195</b>
Unallocated expenses									<b>(6,259)</b>	<b>(5,959)</b>
Operating profit									<b>11,074</b>	<b>7,704</b>
Finance costs — net									<b>(2,170)</b>	<b>(1,737)</b>
Profit before income tax									<b>8,904</b>	<b>5,967</b>
Income tax expense									<b>(3,371)</b>	<b>(1,414)</b>
Profit for the period									<b>5,533</b>	<b>4,553</b>

3. **Operating profit**

Operating profit is stated after charging and crediting the following:

	<b>Six months ended 30 September</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	<b>HK\$'000</b>
Charging:		
Depreciation and amortisation of non-current assets	<b>7,515</b>	8,315
Provision for bad and doubtful debts	<b>1,082</b>	282
Crediting:		
Interest income	<b>42</b>	55
	<b>_____</b>	<b>_____</b>

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% (2009: 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% (2009: 25%). Companies established and operated in Canada are subject to Canadian income tax at the rate of 35% (2009: 35%).

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

	<b>Six months ended 30 September</b>	
	<b>2010</b>	2009
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current taxation:		
— Hong Kong profits tax	<b>1,032</b>	256
— PRC Corporate income tax	<b>1,562</b>	931
— Canadian income tax	<b>614</b>	314
	<b>_____</b>	<b>_____</b>
	<b>3,208</b>	1,501
Deferred taxation — relating to the origination and reversal of temporary differences	<b>163</b>	(87)
	<b>_____</b>	<b>_____</b>
	<b>3,371</b>	1,414
	<b>_____</b>	<b>_____</b>

## Notes to condensed interim accounts

### 5. Dividends

	<b>Six months ended 30 September 2010</b>	
	<b>HK\$'000</b>	2009 HK\$'000
2009/2010 Final dividend, paid, of Nil (2008/2009 final paid: HK0.5 cents) per ordinary share ( <i>Note (i)</i> )	—	1,518
2010/2011 Interim dividend, of Nil (2009/2010: HK0.3 cents) per ordinary share ( <i>Note (ii)</i> )	—	911
	<u>—</u>	<u>2,429</u>

*Note (i):* At a meeting held on 28 July 2010, no final dividend is declared by the Company's directors for the year ended 31 March 2010.

*Note (ii):* At a meeting held on 22 November 2010, no interim dividend is declared by the Company's directors for the six months ended 30 September 2010.

### 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\$5,557,000 (2009: HK\$4,536,000).

The basic earnings per share is based on the weighted average of 303,945,373 (2009: 303,622,087) ordinary shares in issue during the period. The diluted earnings per share is based on 313,321,067 (2009: 303,622,087) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 9,375,694 (2009: Nil) ordinary shares deemed to be issued at no consideration as exercise of all outstanding share warrants.

### 7. Capital expenditure

#### For six months ended 30 September 2010

	<b>Goodwill HK\$'000</b>	<b>Property, plant and equipment HK\$'000 (Restated)</b>
Opening net book amount	28,121	192,229
Exchange differences	(781)	(3)
Additions	—	7,913
Disposals	—	(1,068)
Depreciation/amortisation charge	—	(7,330)
	<u>27,340</u>	<u>191,741</u>

8. **Trade and notes receivables**

Trade receivables and their ageing analysis is as follows:

	<b>30 September 2010 HK\$'000</b>	31 March 2010 HK\$'000
Less than 60 days	183,892	140,484
60 to 120 days	65,234	45,144
Over 120 days	519	11,073
	<u>249,645</u>	<u>196,701</u>
Less: provision for impairment	(1,082)	(1,467)
	<u>248,563</u>	<u>195,234</u>
Notes receivable	22,791	13,036
	<u>271,354</u>	<u>208,270</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:

	<b>30 September 2010 HK\$'000</b>	31 March 2010 HK\$'000
Less than 60 days	185,071	237,737
60 to 120 days	8,589	12,504
Over 120 days	1,385	8,468
	<u>195,045</u>	<u>258,709</u>

10. **Borrowings**

	<b>30 September 2010 HK\$'000</b>	31 March 2010 HK\$'000
Non-current		
Bank borrowings	97,730	66,151
Less: current portion of non-current bank borrowings	(31,529)	(29,471)
Financial lease liabilities	449	—
	<u>66,650</u>	<u>36,680</u>
Current		
Short-term bank borrowings	8,000	13,000
Current portion of non-current bank borrowings	31,529	29,471
Trust receipts bank loans	221,884	151,800
Financial lease liabilities	774	—
	<u>262,187</u>	<u>194,271</u>
Total borrowings	<u>328,837</u>	<u>230,951</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 2010 and 30 September 2010	<b>1,000,000</b>	<b>100,000</b>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2010 and 30 September 2010	<b>303,944</b>	<b>30,394</b>

### 12. Commitments

#### **Operating lease commitments**

At 30 September 2010, the Group had total future aggregate minimum lease payments under operating leases as follows:

	30 September 2010 HK\$'000	31 March 2010 HK\$'000
Not later than one year	5,912	5,566
Later than one year and not later than five years	7,887	9,354
	<b>13,799</b>	<b>14,920</b>

**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 may use foreign exchange contracts to manage foreign exchange exposure when consider appropriate.

(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 2010, 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	51.13%
Ms. CHAN Yuen Mei, Pinky	7,862,388	2	4,042,854	1	147,706,499	2 & 3	3,657,141	155,406,494	51.13%
Mr. WAN Chor Fai	—	—	50,000	—	—	—	—	50,000	0.02%
Mr. Barry John BUTTIFANT	—	—	100,000	—	—	—	—	100,000	0.03%

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 2010, 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 2010, 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 2010, 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	—	20.04%
China Capital Holdings Investment Ltd	2	86,788,103	7,862,388	31.14%
South China Financial Holdings Limited		47,162,198	—	15.52%

*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 2010.

## Supplementary Information

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### **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 2010, 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 2010.

### **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 2010 with the directors.

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

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 2010.

### **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

This announcement will be published on the website of the Stock Exchange and the Company. The Interim Report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders and published on the website of the Stock Exchange and the Company in due course.

By Order of the Board  
**LAU Tak Wan**  
*President*

Hong Kong, 22 November 2010

**台和商事控股有限公司**

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