



DAIWA ASSOCIATE HOLDINGS LIMITED

台和商事控股有限公司

(Stock Code 股份代號：1037)



**2011-2012**

Interim Report 中期業績報告

**DAIWA ASSOCIATE HOLDINGS LIMITED**

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Stock Code: 1037

On behalf of the Board of Directors, I would like to present to shareholders the unaudited interim results of Daiwa Associate Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2011. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

### RESULTS AND DIVIDEND

For the six months ended 30 September 2011, the Group's turnover was reported as HK\$801.8 million (2010: HK\$946.0 million), representing a decline of 15.2% when compared with last corresponding period. Gross profit decreased by 5.3% to HK\$74.8 million (2010: HK\$79.0 million).

- The earnings before interest, tax, amortization and depreciation (EBITDA) were HK\$17.6 million (2010: HK\$18.6 million), representing a decrease of HK\$1.0 million when compared to the last corresponding period.
- The operating profit (EBIT) of the Group was HK\$10.3 million (2010: HK\$11.1 million), representing a decrease of HK\$0.8 million when compared to the last corresponding period.
- Profit attributable to equity holders of the Company for the period was HK\$4.0 million (2010: HK\$5.6 million), representing a decline of HK\$1.6 million when compared to the last corresponding period.
- Basic earnings per share was HK1.32 cents (2010: HK1.82 cents).

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

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2011, the Group's net current assets amounted to HK\$174.8 million (31 March 2011: HK\$129.9 million) and total equity were HK\$372.4 million (31 March 2011: HK\$371.0 million). The total amount of bank borrowings and finance leases were HK\$334.6 million (31 March 2011: HK\$280.1 million) and the net gearing ratio, which is defined as total borrowings after netting off cash and cash equivalents, to total equity was 0.65. The cash and bank balances were HK\$94.4 million (31 March 2011: HK\$104.4 million).

The total available banking facilities of the Group were HK\$444.3 million of which HK\$45.1 million was available for use. The Group's assets were mostly financed by shareholders' funds, trade payables and bank borrowings. The borrowings, cash and cash equivalents were mainly denominated in Hong Kong dollars, US dollars, Canadian dollars and Renminbi. The Group's borrowings were interest bearing at floating rates.

### BUSINESS REVIEW AND PROSPECT

During the period under review, the Eurozone debt crisis and fiscal problem in the US had deteriorated the global economy and resulted in an unstable and fragile demand in electronics market. In this unsteady situation, to control the risk in this market sentiment, the Group had eliminated some low contribution distribution lines and resulted in dropped turnover of the Group, but on the positive side, the gross profit margin of the Group increased.

By the mature production forces, committed quality assurance, intelligent engineering input, high performance machineries and well managed workshop in the business segment of contract electronic manufacturing services (EMS), the Group successfully encouraged old customers to launch new projects and continuously brought in new customers.

As at 14 June 2011, after the relevant resolutions passed in a special general meeting of the Company held on 13 June 2011, Daiwa Distribution Holdings Limited (DDHL, an indirect wholly-owned subsidiary of the Company) entered into the conditional Incentive Subscription Agreement with Mr. Mak Hon Kai, Stanly, an executive Director of the Company, to issue and allot 200 DDHL B-Shares to him. The fair value of the respective DDHL B-Shares was approximately HK\$4.9 million. Employee benefit expenses of approximately HK\$0.2 million was recorded in the reported period. According to accounting standards, net profit of the Group decreased by the same amount.

## President's Statement

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

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

### **Electronic Components Distribution**

Electronic components distribution which constitutes the core business of the Group accounted for 58.8% of the Group's turnover in the reported period. During the period under review, the turnover of this segment recorded HK\$471.6 million (2010: HK\$629.1 million) representing a decline of 25.0% when compared to the last corresponding period. Result of this segment decreased by 20.3% to HK\$18.8 million (2010: HK\$23.6 million).

Business in this segment is mainly to act as authorized distributor of various renowned brand names. Major customers are electronics manufacturers in Hong Kong and the PRC. Products of this segment includes diodes, transistors, integrated circuits (IC), power modules, MCU, MCP, CPU, memory chips and display modules etc. Applications of these components are for mobile phones, electronic toys, power supplies, radios, CD players, DVD players, TV, LED illuminations, handheld electronic devices, white goods, amplifiers and automobiles.

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

Beijing, Shanghai and Shenzhen sales divisions deliver delighting contribution to this segment. Sales offices in Zhaoqing, Chengdu and Xiamen performed smoothly.

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

In the reported period, turnover of the segment increased by 39.6% to HK\$120.2 million (2010: HK\$86.1 million). Result of this segment increased by 140.0% to HK\$3.6 million (2010: HK\$1.5 million).

The Group has engaged in the production of telecommunication modules in mobile phone base stations, radar parts, electronic modules in automobiles, PCB assembly for industrial products as well as green power infrastructure products. The facility is equipped with high speed SMT production lines with nitrogen filled reflow furnaces, precise solder paste screen printer, etc. Process reliability can be ensured by the in-house RoHS Scanning Systems and X-Ray Inspection Machine. With the state of the art production plant, the Group has already gained good recognition from old and new customers and had been fully qualified by all customers.

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

Turnover of this segment was HK\$78.9 million (2010: HK\$85.9 million) representing a decline of 8.1%. This segment kept loss of HK\$9.4 million (2010: loss of HK\$9.7 million).

#### **a) Consumer Electronics**

Turnover of Consumer Electronics was HK\$36.7 million (2010: HK\$38.6 million) representing a decrease of 4.9%.

Market of consumer electronics kept slow and fierce competition from local Chinese manufacturers in inner China locations. Together with the continuous increase in labor cost, this segment kept continuous loss. The Group had already given up most of the historical non-profitable products and aimed at refining higher margin products with smaller order size.

**b) Electronic Components and Parts Manufacturing**

Turnover of Electronic Components and Parts Manufacturing was HK\$42.2 million (2010: HK\$47.3 million) representing a decrease of 10.8%.

As the global electronic component market slowdown, turnover of electronic components manufacturing slightly decreased. At the end of the reported period, the production of diodes started to move to Heyuan factory site. The Group expect the operation will benefit from a lower production cost thereon. Business in wire and harnesses had reached new records.

**Personal Computer Products Distribution**

In the reported period, turnover of the segment decreased by 9.5% to HK\$131.1 million (2010: HK\$144.9 million) but result of this segment increased by 52.6% to HK\$2.9 million (2010: HK\$1.9 million).

The Group has started the distribution of personal computer systems and parts in North America since 1989. Products in this segment include motherboards, display cards, hard disk drives, optical storage devices, computer cases, power supplies, software, memories, desk-top computers, notebook computers, net book computers and computer accessories. Business in this segment kept steady.

Despite the regional economic recession in North America induced a drop of turnover in personal computer distribution business, both the gross profit and operating result of this segment increased significantly. The growth in this segment was the outcome of continuous exploration of new products and diversification of distribution network to mass merchants.

**FUTURE PROSPECT**

Following the Eurozone debt crisis and fiscal problem in the US, the global market remains unstable. The business outlook in distribution of electronic components is expected to become more challenging. The Group set up various criteria and control points to monitor the accounts receivable and inventory level to prevent any risk that may arise from the economic problem. The Group will keep locating new global renowned brand products in the distribution segment and exploring the possibility to acquire new business partners for development of different market sectors and sales networks to maintain the Group in leading position. The Group will seek opportunity to further penetrate into PRC electronic component market with careful credit control.

The Group has transferred most of its manufacturing operations to Heyuan production site. The Group expects to have a sizable saving of overheads and can also enjoy lower minimum wages in this inner China geographical region. The Group has already entered into a sales and purchase agreement to dispose of the old Yientien factory. To improve its competitiveness, the Group will make use of part of sale proceed to further invest on the Heyuan site with more advanced equipment and facilities. With extensive production experience, the Group is well prepared for upcoming opportunities and challenges in the unstable global market.

**DISPOSAL OF FACTORY PROPERTY**

As at 26 October 2011, the Group entered into a sales and purchase agreement with the purchasers to dispose the land and buildings of Yientien factory in Dongguan City at a consideration of RMB72.0 million (equivalent to approximately HK\$87.8 million). The completion of the disposal will take place after the satisfaction of all conditions set out under the agreement and the settlement of consideration by the purchasers before the end of March 2012.

It is estimated that, upon completion, the Group will accrue a gain on the disposal of approximately HK\$36.8 million.

**EMPLOYEES**

At 30 September 2011, the Group employed a total of approximately 2,500 employees (30 September 2010: 3,000 employees) located in Hong Kong, Canada and the 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.

## Condensed Consolidated Income Statement

For the six months ended 30 September 2011

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2011</b>	2010
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>801,796</b>	946,025
Cost of sales		<b>(726,990)</b>	(866,977)
<b>Gross profit</b>		<b>74,806</b>	79,048
Other income		<b>1,895</b>	297
Selling and distribution expenses		<b>(11,298)</b>	(11,588)
General and administrative expenses		<b>(55,127)</b>	(56,683)
<b>Operating profit</b>	3	<b>10,276</b>	11,074
Finance costs — net		<b>(2,648)</b>	(2,170)
<b>Profit before income tax</b>		<b>7,628</b>	8,904
Income tax expense	4	<b>(3,549)</b>	(3,371)
<b>Profit for the period</b>		<b>4,079</b>	5,533
Attributable to:			
Equity holders of the Company		<b>4,032</b>	5,557
Non-controlling interests		<b>47</b>	(24)
		<b>4,079</b>	5,533
<b>Dividends</b>	5	—	—
<b>Earnings per share for profit attributable to equity holders of the Company</b>			
— Basic	6	<b>HK1.32 cents</b>	HK1.82 cents
— Diluted	6	<b>HK1.28 cents</b>	HK1.75 cents

The notes are integral part of these financial statements.

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Unaudited	
	Six months ended	
	30 September	
	2011	2010
	HK\$'000	HK\$'000
<b>Profit for the period</b>	<b>4,079</b>	5,533
<b>Other comprehensive (loss)/income:</b>		
— Currency translation differences	<b>(4,166)</b>	(4,364)
— Fair value (loss)/gain on available-for-sale financial assets, net of tax	<b>(124)</b>	44
<b>Total comprehensive (loss)/income for the period</b>	<b>(211)</b>	1,213
<b>Total comprehensive (loss)/income attributable to:</b>		
— Equity holders of the Company	<b>(258)</b>	1,237
— Non-controlling interests	<b>47</b>	(24)
	<b>(211)</b>	1,213

The notes are integral part of these financial statements.

## Condensed Consolidated Balance Sheet

As at 30 September 2011

	Note	Unaudited 30 September 2011 HK\$'000	Audited 31 March 2011 HK\$'000
<b>Non-current assets</b>			
Goodwill	7	27,426	29,615
Property, plant and equipment	7	158,567	192,624
Land use rights		10,612	15,938
Other intangible assets	7	3,521	4,083
Deferred income tax assets		613	1,086
Available-for-sale financial assets		263	387
		<u>201,002</u>	<u>243,733</u>
<b>Current assets</b>			
Inventories		258,004	227,607
Trade and notes receivables	8	262,806	254,746
Amount due from an associated company		—	894
Prepayments, deposits and other receivables		27,304	36,965
Cash and cash equivalents		94,362	104,380
		<u>642,476</u>	<u>624,592</u>
Non-current assets held for sale	13	46,137	—
		<u>688,613</u>	<u>624,592</u>
<b>Total assets</b>		<u><b>889,615</b></u>	<u><b>868,325</b></u>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	11	31,539	30,394
Share premium		218,476	215,042
Reserves		122,392	125,609
		<u>372,407</u>	<u>371,045</u>
<b>Non-controlling interests</b>		21	(26)
<b>Total equity</b>		<u><b>372,428</b></u>	<u><b>371,019</b></u>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		1,557	1,885
Borrowings	10	1,829	684
		<u>3,386</u>	<u>2,569</u>
<b>Current liabilities</b>			
Borrowings	10	332,751	279,423
Trade payables	9	164,160	186,095
Accruals and other payables		15,317	28,113
Tax payable		1,573	1,106
		<u>513,801</u>	<u>494,737</u>
<b>Total liabilities</b>		<u><b>517,187</b></u>	<u><b>497,306</b></u>
<b>Total equity and liabilities</b>		<u><b>889,615</b></u>	<u><b>868,325</b></u>
<b>Net current assets</b>		<u><b>174,812</b></u>	<u><b>129,855</b></u>
<b>Total assets less current liabilities</b>		<u><b>375,814</b></u>	<u><b>373,588</b></u>

The notes are integral part of these financial statements.

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2011

	Unaudited	
	Six months ended	
	30 September	
	2011	2010
	HK\$'000	HK\$'000
Net cash used in operating activities	<u>(51,577)</u>	<u>(111,627)</u>
Net cash used in investing activities	<u>(13,537)</u>	<u>(6,350)</u>
Net cash generated from financing activities	<u>55,898</u>	<u>97,886</u>
Net decrease in cash and cash equivalents	<b>(9,216)</b>	(20,091)
Cash and cash equivalents at 1 April	<b>104,380</b>	166,627
Effect on foreign exchange	<u>(802)</u>	<u>(331)</u>
Cash and cash equivalents at 30 September	<u><b>94,362</b></u>	<u>146,205</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u><b>94,362</b></u>	<u>146,205</u>

The notes are integral part of these financial statements.

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	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	Employee benefit reserves	Retained earnings	Total	Non-controlling 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
<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
Fair value gains 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>—</u>	<u>66,500</u>	<u>361,883</u>	<u>330</u>	<u>362,213</u>
<b>At 1 April 2011</b>	30,394	215,042	41,201	1,402	13,534	90	245	—	69,137	371,045	(26)	371,019
Currency translation differences	—	—	—	—	(4,166)	—	—	—	—	(4,166)	—	(4,166)
Profit for the period	—	—	—	—	—	—	—	—	4,032	4,032	47	4,079
Incentive share scheme	—	—	—	—	—	—	—	195	—	195	—	195
Fair value losses on available-for-sale financial assets	—	—	—	—	—	—	(124)	—	—	(124)	—	(124)
Issue of share upon exercise of warrants	1,145	3,434	—	—	—	—	—	—	—	4,579	—	4,579
Final dividend paid for 2011	—	—	—	—	—	—	—	—	(3,154)	(3,154)	—	(3,154)
<b>At 30 September 2011</b>	<u>31,539</u>	<u>218,476</u>	<u>41,201</u>	<u>1,402</u>	<u>9,368</u>	<u>90</u>	<u>121</u>	<u>195</u>	<u>70,015</u>	<u>372,407</u>	<u>21</u>	<u>372,428</u>

The notes are integral part of these financial statements.

**1. Basis of preparation and accounting policies**

This unaudited condensed consolidated interim financial information for the six months ended 30 September 2011 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 ("HKICPA").

This unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2011.

- (a) The following new amendment to existing standard is mandatory for the accounting period beginning on or after 1 April 2011:

HKAS 34 (Amendment)	Interim Financial Reporting
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Amendment to HKAS 34 "Interim financial reporting" is effective for annual periods beginning on or after 1 April 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

- (b) The following new standards, amendments and interpretations to existing standards are mandatory for the accounting period beginning on or after 1 April 2011, but are currently not relevant to the Group:

HKFRSs (Amendment)	Improvement to HKFRSs 2010, except for the amendment to HKAS 34 "Interim Financial Reporting"
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC) — Int 19	Extinguishing financial liabilities with equity instruments

- (c) The following new standards, amendments and interpretations to existing standards have been issued, but are not effective and have not been early adopted:

HKAS 1 (Amendment)	Presentation of Financial Statements on Other Comprehensive Income (effective for annual period beginning on or after 1 July 2012)
HKAS 12 (Amendment)	Deferred Tax – Recovery of Underlying Assets (effective for annual period beginning on or after 1 January 2012)
HKAS 19 (Revised 2011)	Employee Benefits (effective for annual period beginning on or after 1 January 2013)
HKAS 27 (Revised 2011)	Separate Financial Statements (effective for annual period beginning on or after 1 January 2013)
HKAS 28 (Revised 2011)	Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2013)
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual period beginning on or after 1 July 2011)
HKFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets (effective for annual period beginning on or after 1 July 2011)
HKFRS 9	Financial Instruments (effective for annual period beginning on or after 1 January 2013)
HKFRS 10	Consolidated Financial Statements (effective for annual period beginning on or after 1 January 2013)
HKFRS 11	Joint Arrangements (effective for annual period beginning on or after 1 January 2013)
HKFRS 12	Disclosure of Interests in Other (effective for annual period beginning on or after 1 January 2013)
HKFRS 13	Fair Value Measurement (effective for annual period beginning on or after 1 January 2013)

The adoption of the above new standards, amendments and interpretations to existing standards in future periods is not expected to result in substantial changes to the Group's accounting policies.

The Group will adopt the above new standards, amendments and interpretations when they become effective.

## 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 operating segments for the period is as follows:

	Electronic components distribution		Contract electronic manufacturing services		Consumer electronics and electronic components and parts manufacturing		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	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	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	471,599	629,125	120,193	86,108	78,862	85,904	131,142	144,888	801,796	946,025
<b>Results of reportable segments</b>	18,848	23,569	3,584	1,535	(9,371)	(9,697)	2,937	1,853	15,998	17,260
A reconciliation of results of reportable segments to profit for the period is as follows:										
<b>Results of reportable segments</b>									15,998	17,260
Unallocated incomes									69	73
Unallocated expenses									(5,791)	(6,259)
Operating profit									10,276	11,074
Finance costs — net									(2,648)	(2,170)
Profit before income tax									7,628	8,904
Income tax expense									(3,549)	(3,371)
Profit for the period									4,079	5,533

### 3. Operating profit

Operating profit is stated after charging and crediting the following:

	Six months ended 30 September	
	2011	2010
	HK\$'000	HK\$'000
<b>Charging:</b>		
Depreciation and amortisation of non-current assets	7,360	7,515
Impairment of Accounts Receivable	307	1,082
<b>Crediting:</b>		
Interest income	260	42

4. **Income tax expense**

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operating in Mainland China are subject to PRC Corporate income tax at the rate of 25% (2010: 25%). Companies established and operating in Canada are subject to Canadian income tax at the rate of 35% (2010: 35%).

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

	<b>Six months ended 30 September 2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current taxation:		
— Hong Kong profits tax	682	1,032
— PRC corporate income tax	2,182	1,562
— Canadian income tax	540	614
	<b>3,404</b>	3,208
Deferred taxation — relating to the origination and reversal of temporary differences	145	163
	<b>3,549</b>	3,371

5. **Dividends**

	<b>Six months ended 30 September 2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
2010/2011 Final dividend paid of HK1.0 cent (2009/2010 final: Nil) per ordinary share ( <i>Note (i)</i> )	3,154	—
2011/2012 Interim dividend Nil (2010/2011: Nil) per ordinary share ( <i>Note (ii)</i> )	—	—
	<b>3,154</b>	—

*Note (i):* At a meeting held on 30 June 2011, the Company's directors declared a final dividend of HK1.0 cent per share for the year ended 31 March 2011.

*Note (ii):* At a meeting held on 24 November 2011, no interim dividend is declared by the Company's directors for the six months ended 30 September 2011.

6. **Earnings per share**

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$4,032,000 (2010: HK\$5,557,000).

The basic earnings per share is based on 306,597,321 (2010: 303,945,373) shares which is the weighted average of ordinary shares in issue during the period. The diluted earnings per share is based on 313,596,167 (2010: 313,321,067) shares which is the weighted average number of ordinary shares in issue during the period plus 6,998,846 (2010: 9,375,694) ordinary shares deemed to be issued at fair value (determined as the average daily quoted market share price of the Company's shares) when exercise of all outstanding share warrants.

## Notes to condensed interim accounts

### 7. Capital expenditure For six months ended 30 September 2011

	Goodwill HK\$'000	Property, plant and equipment HK\$'000	Other intangible assets HK\$'000
Opening net book amount	29,615	192,624	4,083
Exchange differences	(2,189)	(767)	—
Additions	—	14,345	—
Disposals	—	(26)	—
Depreciation/amortisation charge	—	(6,433)	(562)
Reclass to non-current assets held for sales	—	(41,176)	—
	<u>27,426</u>	<u>158,567</u>	<u>3,521</u>

For six months ended 30 September 2010

	Goodwill HK\$'000	Property, plant and equipment HK\$'000 (Restated)	Other intangible assets HK\$'000
Opening net book amount	28,121	192,229	710
Exchange differences	(781)	(3)	—
Additions	—	7,913	—
Disposals	—	(1,068)	—
Depreciation/amortisation charge	—	(7,330)	—
	<u>27,340</u>	<u>191,741</u>	<u>710</u>

### 8. Trade and notes receivables

Trade receivables and their ageing analysis is as follows:

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Less than 60 days	162,848	156,768
60 to 120 days	55,593	43,017
Over 120 days	13,614	21,642
	<u>232,055</u>	<u>221,427</u>
Less: provision for impairment	(2,424)	(2,447)
	<u>229,631</u>	<u>218,980</u>
Notes receivable	33,175	35,766
	<u>262,806</u>	<u>254,746</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 2011 HK\$'000	31 March 2011 HK\$'000
Less than 60 days	148,195	156,947
60 to 120 days	11,741	25,851
Over 120 days	4,224	3,297
	<u>164,160</u>	<u>186,095</u>

10. Borrowings

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Current		
Short-term bank borrowings	18,000	18,000
Trust receipts bank loans	247,752	178,372
Portion of bank borrowings repayable within one year	20,777	29,080
Portion of bank borrowings due for repayment after one year which contains a repayment on demand clause	45,098	53,512
Portion of finance lease liabilities repayable within one year	1,124	459
	332,751	279,423
Non-current		
Finance lease liabilities	1,829	684
	334,580	280,107

11. Share capital

	Number of Ordinary Shares	Nominal Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each At 1 April 2011 and 30 September 2011	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each At 1 April 2011	303,944	30,394
Issue of Shares upon exercise of warrants	11,446	1,145
At 30 September 2011	315,390	31,539

12. Commitments

**Operating lease commitments**

At 30 September 2011, the Group had total future aggregate minimum lease payments under operating leases as follows:

	30 September 2011 HK\$'000	31 March 2011 HK\$'000
Not later than one year	5,289	2,293
Later than one year and not later than five years	7,599	4,704
	12,888	6,997

13. Events after the balance sheet date

As at 26 October 2011, the Group entered into a sales and purchase agreement with third party purchasers to dispose of the land and factory buildings in Yientin, Dongguan City at a consideration of RMB72.0 million (equivalent to approximately HK\$87.8 million). The completion of the disposal will take place after the satisfaction of all conditions set out under the agreement and the settlement of consideration by the purchasers before the end of March 2012. It is estimated that, upon completion, the Group is expected to accrue a gain on the disposal of approximately HK\$36.8 million.

### 14. Financial Risk Management

#### 14.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk, and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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. The Group does not use derivative financial instruments for speculative purposes.

(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 when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Since HK\$ is pegged to US\$, management are of the opinion that the exchange rate risk exposure arising from US\$ is insignificant. The Group may use foreign exchange contracts to manage foreign exchange exposure when consider appropriate. At 30 September 2011, the Group did not have any outstanding foreign exchange contract.

(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. As the available-for-sale financial assets are relatively insignificant to the Group, management considers that any reasonable changes in the fair value of the available-for-sale financial assets would not have a significant financial impact to the financial statements. The Group is not exposed to commodity price risk.

(c) *Credit risk*

The Group has no significant concentrations of credit risk. The carrying amounts of cash at banks, trade and notes receivables, deposits and other receivables and amount due from an associated company included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group also has policies in place to ensure that sale of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors.

(d) *Liquidity risk*

The Group mainly finances its working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and adequate amount of committed credit facilities to meet its liquidity requirements in the short and long term.

Taking into account the repayment on demand clauses on bank borrowings, all of the Group's financial liabilities as at 30 September 2011 and 31 March 2011 were due for settlement contractually within 12 months, with their contractual undiscounted cash flows approximate their respective carrying amounts.

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets except for the cash at banks. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Borrowings carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

### 14. Financial Risk Management *(continued)*

#### 14.2 Fair value estimation

As at 30 September 2011 and 31 March 2011, all the resulting fair value estimates on the available-for-sale financial assets are included in level 1 according to the fair value measurement hierarchy under HKFRS 7.

The different levels of fair value measurements are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, trade and notes receivables, amount due from an associated company and deposits and other receivable, and the Group's current financial liabilities including trade payables and accruals and other payables, approximate their fair values due to their short maturities.

#### 14.3 Capital risk management

The Group manages the capital structure and make adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders, issue new shares or to obtain new bank borrowings.

## 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 2011, 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	—	2	6,557,141	1	167,869,229	2 & 3	1,142,854	175,569,224	55.67%
Ms. CHAN Yuen Mei, Pinky	—	2	4,042,854	1	167,869,229	2 & 3	3,657,141	175,569,224	55.67%
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.
- Nil warrants and 106,950,833 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

Dominjon 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 2011, 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.

**INTERESTS OF SUBSTANTIAL SHAREHOLDERS**

As at 30 September 2011, 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**

	<i>Note</i>	Number of ordinary shares held	Interest in underlying shares — unlisted warrants	% of the total issued shares
Leading Trade Limited	1	60,918,396	—	19.32%
China Capital Holdings Investment Ltd	2	106,950,833	—	33.91%
Mr. NG Hung Sang		56,762,198	—	18.00%
Ms. NG Lai King, Pamela (spouse of Mr. NG Hung Sang)		56,762,198	—	18.00%
South China (China) Limited		32,514,000	—	10.31%
South China Industries (BVI) Limited		32,514,000	—	10.31%
South China Strategic (BVI) Limited		32,514,000	—	10.31%
South China Strategic Limited		32,514,000	—	10.31%

*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, 175,569,224 and 175,569,224 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 106,950,833, 175,569,224 and 175,569,224 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 2011.

### **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 2011, 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 2011.

### **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 2011 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 2011.

### **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, 24 November 2011

**台和商事控股有限公司**

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