

DAISHO MICROLINE HOLDINGS LIMITED

大昌微綫集團有限公司

Stock Code : 0567



**Interim Report
2013 - 14**

UNAUDITED INTERIM REPORT

The Board of Directors (the "Board") of Daisho Microline Holdings Limited (the "Company") presents the unaudited interim report of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2013 (the "Interim Report") as follows. The Interim Report has not been reviewed by the external auditors but it has been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2013

	Notes	(Unaudited)	
		Six months ended 30 September	
		2013	2012
		HK\$'000	HK\$'000
REVENUE	3	128,793	179,000
Cost of sales		<u>(122,970)</u>	<u>(163,852)</u>
Gross profit		5,823	15,148
Other income and gains	3	5,847	7,170
Selling and distribution costs		(5,291)	(3,186)
Administrative expenses		(13,323)	(14,288)
Other expenses		(2,045)	(1,750)
Fair value gains/(losses), net on:			
Other financial assets at fair value through profit or loss		13	2,396
Derivative financial instruments		95	(112)
Finance costs	4	(2,538)	(2,315)
Share of profit of a jointly-controlled entity		<u>225</u>	<u>117</u>
PROFIT/(LOSS) BEFORE TAX	4	(11,194)	3,180
Income tax expense	5	<u>-</u>	<u>-</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(11,194)	3,180
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		<u>7,842</u>	<u>(4,618)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>(3,352)</u>	<u>(1,438)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	7	<u>HK(2.33) cent</u>	<u>HK0.66 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2013

		(Unaudited) 30 September 2013 HK\$'000	(Audited) 31 March 2013 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	8	91,776	92,614
Prepaid land lease payments		14,567	14,465
Deposits paid for acquisition of items of property, plant and equipment		9,282	4,207
Investment in a jointly-controlled entity		54,557	53,316
Available-for-sale investment		19,281	19,281
Total non-current assets		<u>189,463</u>	<u>183,883</u>
CURRENT ASSETS			
Inventories		26,988	29,331
Trade debtors and bills receivable	9	45,142	29,929
Other financial assets at fair value through profit or loss	10	12,047	20,046
Derivative financial instruments	11	–	71
Sundry debtors, prepayments and deposits		37,514	15,277
Tax recoverable		211	211
Pledged bank balance	12	246,601	169,319
Cash and cash equivalents	12	58,610	109,482
Total current assets		<u>427,113</u>	<u>373,666</u>
CURRENT LIABILITIES			
Trade creditors	13	47,288	33,926
Other creditors and accruals		31,626	22,281
Derivative financial instruments	11	45	210
Interest-bearing bank and other borrowings	14	204,663	161,745
Total current liabilities		<u>283,622</u>	<u>218,162</u>
NET CURRENT ASSETS		<u>143,491</u>	<u>155,504</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>332,954</u>	<u>339,387</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	–	3,081
Total non-current liabilities		–	3,081
Net assets		<u>332,954</u>	<u>336,306</u>
EQUITY			
Equity attributable to owners of the Company			
Issued share capital		48,024	48,024
Reserves		284,930	288,282
Total equity		<u>332,954</u>	<u>336,306</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2013

	(Unaudited)					Total equity HK\$'000
	Attributable to owners of the Company					
	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	
At 1 April 2013	48,024	91,483*	9,379*	127,609*	59,811*	336,306
Loss for the period	-	-	-	-	(11,194)	(11,194)
Other comprehensive income for the period:						
Exchange differences on translation of foreign operations	-	-	-	7,842	-	7,842
Total comprehensive loss for the period	-	-	-	7,842	(11,194)	(3,352)
At 30 September 2013	48,024	91,483*	9,379*	135,451*	48,617*	332,954
At 1 April 2012	48,024	91,483	9,379	125,345	128,329	402,560
Profit for the period	-	-	-	-	3,180	3,180
Other comprehensive income for the period:						
Exchange differences on translation of foreign operations	-	-	-	(4,618)	-	(4,618)
Total comprehensive loss for the period	-	-	-	(4,618)	3,180	(1,438)
At 30 September 2012	48,024	91,483	9,379	120,727	131,509	401,122

* These reserve accounts comprise the consolidated reserves of HK\$284,930,000 (31 March 2013: HK\$288,282,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2013

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	(11,194)	3,180
Adjustments for:		
Bank interest income	(3,494)	(2,648)
Dividend income from listed equity investments	(416)	(554)
Loss on disposal of items of property, plant & equipment	538	-
Fair value losses/(gains), net on:		
Other financial assets at fair value through profit or loss	(13)	(2,396)
Derivative financial instruments – transactions not qualifying as hedges	(95)	112
Depreciation	7,943	14,148
Provision/(Reversal of provision) against obsolete inventories	1,700	(1,313)
Recognition of prepaid land lease payments	167	157
Finance costs	2,538	2,315
Share of profit of a jointly-controlled entity	(225)	(117)
	<u>(2,551)</u>	<u>12,884</u>
Decrease in inventories	506	4,345
Increase in trade debtors & bills receivable	(15,607)	(5,425)
Decrease in other financial assets at fair value through profit or loss	8,012	1,261
Increase in sundry debtors, prepayment & deposits	(21,988)	(1,730)
Increase/(decrease) in trade creditors	13,902	(15,885)
Increase/(decrease) in other creditors & accruals	9,345	(6,428)
	<u>(8,381)</u>	<u>(10,978)</u>
Cash used in operations	(8,381)	(10,978)
Interest received	3,494	820
	<u>(4,887)</u>	<u>(10,158)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend income from listed equity investments	416	554
Acquisition of items of property, plant & equipment	(11,274)	(610)
Increase in pledged bank balances	(77,282)	(121,500)
	<u>(88,140)</u>	<u>(121,556)</u>
Net cash flows used in investing activities	(88,140)	(121,556)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 September 2013

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in trust receipt loans	(3,845)	2,536
New bank & other loans, net	43,681	74,842
Interest paid	(2,538)	(2,315)
	<hr/>	<hr/>
Net cash flows from financing activities	37,298	75,063
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(55,729)	(56,651)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of year	109,482	160,157
Effect of foreign exchange rate changes, net	4,857	(2,066)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>58,610</u>	<u>101,440</u>
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH & CASH EQUIVALENTS		
Cash and bank balances	<u>58,610</u>	<u>101,440</u>
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Interim Report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and methods of computation used in the preparation of the Interim Report are the same as those adopted in preparing the annual audited financial statements for the year ended 31 March 2013, except for the adoption of the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations relevant to the Group as detailed in note 2 below (hereinafter collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 April 2013.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new HKFRSs for the first time for the Interim Report.

HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures</i> – <i>Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statement</i> – <i>Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statement
HKAS 28 (2011)	Investments in Associates and Joint Ventures
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new HKFRSs did not have significant impact on the result or financial position of the Group for the current or prior accounting period but they may affect presentation of the financial statements of the Group.

3. REVENUE AND SEGMENT INFORMATION, AND OTHER INCOME AND GAINS

For management purposes, the Group has only one reportable segment, which is the manufacturing and trading of printed circuit boards. Revenue and operating results are the two key indicators provided to the Group's chief operating decision maker to make decisions about resources allocation and performance assessment. Revenue represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts.

Geographical information

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
(a) Revenue from external customers		
Mainland China	43,934	73,347
Hong Kong (place of domicile)	25,379	56,873
United States of America	21,567	6,460
Japan	19,598	22,232
Europe	13,974	10,511
Other countries	4,341	9,577
	<u>128,793</u>	<u>179,000</u>
	<u>128,793</u>	<u>179,000</u>
	(Unaudited)	(Audited)
	30 September	31 March
	2013	2013
	HK\$'000	HK\$'000
(b) Non-current assets:		
Hong Kong (place of domicile)	411	2,516
Mainland China	169,771	162,086
	<u>170,182</u>	<u>164,602</u>
	<u>170,182</u>	<u>164,602</u>

The non-current assets information above is based on the location of assets and excludes financial instruments.

3. REVENUE AND SEGMENT INFORMATION, AND OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Other income and gains:		
Bank interest income	3,494	2,648
Dividend income from listed equity investments	416	554
Gain on disposal of scrap materials	1,785	3,788
Others	152	180
	<u>5,847</u>	<u>7,170</u>

4. PROFIT/(LOSS) BEFORE TAX

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

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on:		
Bank loans and other loans wholly repayable within five years	<u>2,538</u>	<u>2,315</u>
(b) Other items:		
Depreciation	7,943	14,148
Cost of inventories sold	121,270	165,162
Provision/(Reversal of provision) against obsolete inventories	1,700	(1,313)
Staff costs (including directors' remuneration)	22,703	23,185
Foreign exchange differences, net	<u>2,295</u>	<u>447</u>

5. INCOME TAX

No provision for Hong Kong and PRC profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong and Mainland China during both periods.

Deferred tax has been provided on temporary differences using the current applicable rate. Deferred tax assets have not been recognised in respect of certain tax losses as they have arisen in subsidiaries that have been loss-making for some time or it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

6. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the year ending 31 March 2014 to the shareholders (2013: Nil).

7. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$11,194,000 (2012: profit of HK\$3,180,000) and the weighted average number of 480,243,785 (2012: 480,243,785) ordinary shares in issue during the period.

(b) No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 September 2013 and 2012 in respect of a dilution as the Group has no potentially dilutive ordinary shares in issue during both periods.

8. PROPERTY, PLANT AND EQUIPMENT

Purchase of property, plant and equipment

(Unaudited)	
Six months ended 30 September	
2013	2012
HK\$'000	HK\$'000
<u>6,199</u>	<u>1,289</u>

9. TRADE DEBTORS AND BILLS RECEIVABLE

	(Unaudited) 30 September 2013 HK\$'000	(Audited) 31 March 2013 HK\$'000
Trade debtors	46,001	30,898
Impairment	<u>(1,200)</u>	<u>(1,278)</u>
	44,801	29,620
Bills receivable	<u>341</u>	<u>309</u>
	<u><u>45,142</u></u>	<u><u>29,929</u></u>

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

	(Unaudited) 30 September 2013 HK\$'000	(Audited) 31 March 2013 HK\$'000
Current to 1 month	44,235	25,746
1 to 2 months	186	1,149
2 to 3 months	50	879
Over 3 months	<u>1,530</u>	<u>3,124</u>
	<u><u>46,001</u></u>	<u><u>30,898</u></u>

10. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	(Unaudited) 30 September 2013 HK\$'000	(Audited) 31 March 2013 HK\$'000
Hong Kong listed equity investments, at market value	9,912	17,430
Equity investments listed elsewhere, at market value	<u>2,135</u>	<u>2,616</u>
	<u><u>12,047</u></u>	<u><u>20,046</u></u>

At 30 September 2013, all of the Hong Kong listed equity investments amounting to HKD9,912,000 (31 March 2013: HK\$17,430,000) were pledged to secure certain of the Group's bank loans.

11. DERIVATIVE FINANCIAL INSTRUMENTS

	(Unaudited)		(Audited)	
	30 September 2013		31 March 2013	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity contracts	–	45	71	210

The carrying amounts of derivative financial instruments are the same as their fair values.

12. CASH AND CASH EQUIVALENTS

	(Unaudited)	(Audited)
	30 September	31 March
	2013	2013
	HK\$'000	HK\$'000
Cash and bank balances	305,211	278,801
Less: Bank balances pledged for bank loans repayable within one year	<u>(246,601)</u>	<u>(169,319)</u>
Cash and cash equivalents	<u>58,610</u>	<u>109,482</u>

At the period end, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$265,110,000 (31 March 2013: HK\$242,131,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

13. TRADE CREDITORS

An aged analysis of the trade creditors as at the period end, based on the payment due date, is as follows:

	(Unaudited)	(Audited)
	30 September	31 March
	2013	2013
	HK\$'000	HK\$'000
Current to 1 month	35,097	20,372
1 to 2 months	1,614	7,349
2 to 3 months	2,350	1,992
Over 3 months	<u>8,227</u>	<u>4,213</u>
	<u>47,288</u>	<u>33,926</u>

The trade creditors are non interest-bearing and are normally settled on 90-day terms.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	(Unaudited) 30 September 2013 HK\$'000	(Audited) 31 March 2013 HK\$'000
Current liabilities		
Trust receipt loans	–	3,845
Bank loans – secured	197,958	150,730
Other loans – secured	6,705	7,170
	<u>204,663</u>	<u>161,745</u>
Non-current liabilities		
Other loans – secured	–	3,081
	<u>–</u>	<u>3,081</u>
Total	<u><u>204,663</u></u>	<u><u>164,826</u></u>
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	204,663	161,745
In the second year	–	3,081
	<u><u>204,663</u></u>	<u><u>164,826</u></u>

The borrowings were all denominated in either Hong Kong dollars or United States dollars and 29% (31 March 2013: 100%) of them were subjected to floating interest rates.

At the period end, except for certain bank and other loans denominated in United States dollars (“US\$”) equivalent to HK\$47,458,000 (31 March 2013: HK\$60,000,000), all the bank and other loans were denominated in Hong Kong dollars.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Certain of the Group's interest-bearing bank and other loans are secured by:

- (i) pledge of certain of the Group's bank balances amounting to HK\$246,601,000 (31 March 2013: HK\$169,319,000);
- (ii) pledge of all the Group's Hong Kong listed equity investments amounting to HK\$9,912,000 (31 March 2013: HK\$17,430,000); and
- (iii) pledge of certain of the Group's machinery and equipment located in the PRC, which had an aggregate carrying value of HK\$4,759,000 (31 March 2013: HK\$5,229,000) at the period end.

15. CAPITAL COMMITMENTS

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

	(Unaudited) 30 September 2013 HK\$'000	(Audited) 31 March 2013 HK\$'000
Capital commitments		
Contracted but not provided for:		
Plant and machinery	1,250	272
Authorised, but not contracted for:		
Plant and machinery	—	4,834
	<u>1,250</u>	<u>5,106</u>

16. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of encouraging the eligible participants to perform their best in achieving the goals of the Company and at the same time allows the eligible participants to enjoy the results of the Company attained through their effort and contribution. Eligible participants of the share option scheme include any full-time employees, directors or professional advisers of the Company or any of its subsidiaries or associated companies. The share option scheme became effective on 28 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The share options previously granted by the Company were vested at the date of grant and will be settled by shares.

No share option was granted or exercised under the Scheme during the period and there was no outstanding share option at 30 September 2013 and 31 March 2013.

17. RELATED PARTY TRANSACTIONS

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

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Sale of printed circuit boards to a related party	<u>19,539</u>	<u>22,175</u>

Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company who has 10.41% equity interest in the Company and also a company in which the Group has 7.46% equity interest. The products sold were unique and tailor-made according to the customer's requirements and specifications. The transactions have been entered into on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

	(Unaudited)	
	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
Short term employee benefits	3,389	3,389
Post-employment benefits	<u>169</u>	<u>169</u>
Total compensation paid to key management personnel	<u>3,558</u>	<u>3,558</u>

18. CONTINGENT LIABILITIES

The Company has provided certain banks with corporate guarantees of HK\$271 million (31 March 2013: HK\$212 million) to secure banking facilities granted to subsidiaries. At 30 September 2013, the facilities were utilised to the extent of HK\$197,958,000 (31 March 2013: HK\$154,575,000). The Company has also provided a financial institution with corporate guarantees of HK\$21 million (31 March 2013: HK\$21 million) to secure credit facilities granted to a subsidiary. At 30 September 2013, the facilities were utilised to the extent of HK\$6,705,000 (31 March 2013: HK\$10,251,000).

Because all production lines in the Group's principal printed circuit board production base had stopped for almost one month since the fire accident on 24 January 2013, all shipments to the Group's customers were inevitably affected. Certain customers have requested the Group to share part of the price differences they suffered after they diverted their purchase of printed circuit boards to other suppliers in order to satisfy their demand. The Group is currently negotiating with these customers on such requests. It is not practicable for the Group's legal advisers to form a view as to the probable outcome of such requests which are still at a preliminary stage, but the directors are of the opinion that the requests are unlikely to succeed based on their merits. The other information usually required under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it could seriously prejudice the position of the Group in the negotiation with these customers on such requests.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group's revenue for the current period was about HK\$129 million, down 28% from last corresponding period. The decrease in the Group's revenue for the current period was mainly caused by the significant reduction in the Group's printed circuit board ("PCB") production capacity resulting from the fire accident occurred in the Group's principal PCB production base in Huizhou, People's Republic of China ("P.R.C.") on 24 January 2013 and the subsequent transfer of some purchase orders for PCB by certain customers of the Group to other PCB suppliers because the Group could not meet their demand.

The Group's gross profit margin decreased from about 8.5% for last corresponding period to about 4.5% for the current period. Apart from the abovementioned reduction in the volume of sales orders, which drove up the average fixed overhead cost per unit, the increase in subcontracting charges resulting from the abovementioned fire accident and the increase in minimum wages level in the P.R.C. during the current period were also the reasons for the decrease in gross profit margin.

The Group's net loss for the current period was about HK\$11 million mainly due to the unfavourable events as mentioned above along with the continuous appreciation of Renminbi currency during the current period. However, it should be noted that no insurance compensation relating to the abovementioned fire accident has been recognised in the Group's results for the current period because the Group is still negotiating with the relevant insurance company on the amount of insurance compensation.

The Group's gearing ratios (defined as interest-bearing bank and other borrowings divided by total equity) at 30 September 2013 was 61% (31 March 2013: 49%). The Group's current ratio at 30 September 2013 and 31 March 2013 was 1.51 times and 1.71 times respectively. The Group's PCB operations had a net cash outflow of about HK\$5 million during the current period ended 30 September 2013 (2012: HK\$10 million).

The interest rate structure, maturity profile, currency structure and underlying security of the Group's interest-bearing bank and other borrowings as at 30 September 2013 and 31 March 2013 are detailed in note 14.

As at 30 September 2013, the Group's total cash and bank balances were approximately HK\$305 million (31 March 2013: HK\$279 million) and the Group's total interest-bearing bank and other borrowings amounting to approximately HK\$205 million (31 March 2013: HK\$165 million). Therefore, the Group had a net cash balance of approximately HK\$100 million (31 March 2013: HK\$114 million). Besides, the total credit facilities available to the Group were approximately HK\$292 million (31 March 2013: HK\$233 million) and, therefore, the unutilized credit facilities were approximately HK\$87 million (31 March 2013: HK\$68 million). Accordingly, the Group is capable of financing its operation by its own internal resources and available banking facilities.

Most of the Group's bank balances were denominated in RMB while all of the Group's borrowings were denominated in either US\$ or HK\$. In order to benefit from the interest rate differential between RMB and US\$ or HK\$, the Group pledged the RMB bank balances with banks in Mainland China as security for the Group's borrowings. Accordingly, the Group's pledged bank balance along with the Group's borrowings increased during the current period.

As at 30 September 2013, the Group's assets and liabilities were mostly denominated in either HK\$, US\$ or RMB. Because the exchange rate for US\$ against HK\$ is relatively stable in Hong Kong for the moment, the Group has not adopted any hedging tool against its assets or liabilities denominated in US\$. Also because the Group's subsidiary in Mainland China had net assets as at 30 September 2013 and RMB is expected to appreciate gradually, there is only a remote possibility that the Group will suffer exchange loss on the translation of these net assets and so the Group has not adopted any hedging tool against these net assets denominated in RMB.

Employee Benefits

As at 30 September 2013, the Group had 758 (31 March 2013: 676) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2013, the Group's total staff costs including directors' remuneration were HK\$22,703,000 (2012: HK\$23,185,000).

Outlook

In light of the sluggish global economic environment at present, the Group expects that the momentum for revenue growth in the second half of the current financial year will remain weak and it may take some time for certain customers of the Group, who have transferred some purchase orders for PCB to other PCB suppliers during the current period since the fire accident on 24 January 2013, to feel comfortable again to place with the Group purchase orders with amount comparable to the level before the fire accident. In order to improve its operating results, the Group is currently canvassing business from new customers and continuing the implementation of new cost savings measures.

The Group is aware that certain significant economic issues such as the Europe's sovereign debt crisis and the continuous appreciation of Renminbi etc. may affect the operating environment of the Group and it has adopted various means to alleviate the impact. Although the road ahead may be full of challenges, the Group as equipped with healthy financial position and ample experience in the manufacture of highly delicate PCB is ready to confront these challenges.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the 6 months ended 30 September 2013, except for the following deviations:

Chairman and Chief Executive Officer

According to the Code Provision A.2.1, the roles of chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company does not have a separate Chairman and CEO, and Mr. Chan Sik Ming, Harry currently holds both positions. The Board believes that vesting the roles of both Chairman and CEO in the same person ensures consistent leadership within the Group and enables more effective and efficient planning of long-term strategies and implementation of business plans. The Board believes that the balance of power and authority will not be impaired and is adequately ensured by an effective Board which comprises experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.

Non-executive directors

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term subject to re-election.

Except for Mr. Yeung Chi Shing Bret and Mr. Chong Chi Wah whose term of service with the Company is three years, Dr. Li Chi Kwong does not have a specific term of appointment, but is subject to retirement by rotation and re-election in accordance with the relevant provisions of the Company’s bye-laws.

Re-election of directors

Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company is subject to a private act known as “The Juko Laboratories Holdings Limited Company Act 1990” which is an Act of the Company’s former name of Juko Laboratories Holdings Limited when it was first established. The Chairman of the Company is not required to be subject to rotation in accordance with the Bye-Laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company has agreed to retire on a voluntary basis at least once every three years at the annual general meeting of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2013, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Directly beneficially owned	Beneficiary of a trust	Total	Percentage of the Company's issued share capital
Chan Sik Ming, Harry	39,680,000	103,921,417*	143,601,417	29.90
Au-Yeung Wai Hung	1,300,000	–	1,300,000	0.27

* Chan Sik Ming, Harry and his family are the objects of a discretionary trust, which has appointed Earnwell (PTC) Limited as its trustee. At 30 September 2013, Earnwell (PTC) Limited held 103,921,417 shares representing approximately 21.64% of the issued share capital of the Company.

Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2013, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Earnwell (PTC) Limited	Trustee	103,921,417	21.64
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.41

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

During the current period, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code during the 6 months ended 30 September 2013.

By Order of the Board
Chan Sik Ming, Harry
Chairman

Hong Kong, 22 November 2013

As at the date of this Interim Report, the Board comprises the following members:

Executive directors:

CHAN Sik Ming, Harry (*Chairman & CEO*)
AU-YEUNG Wai Hung
HANDA Yoshio
SUGAYA Shozo

Independent non-executive directors:

LI Chi Kwong
YEUNG Chi Shing, Bret
CHONG Chi Wah