



DAISHO MICROLINE HOLDINGS LIMITED

大昌微綫集團有限公司

Stock Code : 0567

INTERIM REPORT

2015-2016



UNAUDITED INTERIM REPORT

The Board of Directors (the "Board") of Daisho Microline Holdings Limited (the "Company") presents the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2015 together with the comparative figures for the corresponding period in 2014 as follows. The interim results have not been audited by the external auditors but they have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	(Unaudited)	
		Six months ended 30 September	
		2015	2014
		HK\$'000	HK\$'000
			(Restated)
Revenue	3	111,171	123,223
Cost of sales		<u>(121,751)</u>	<u>(114,651)</u>
Gross (loss) profit		(10,580)	8,572
Other income	4	6,668	6,416
Selling and distribution expenses		(3,812)	(3,650)
Administrative expenses		(20,581)	(15,544)
Other operating expenses		(1,245)	(13,811)
Fair value (losses) gains on financial assets			
at fair value through profit or loss, net		(744)	454
Insurance compensation	13	–	73,289
Gain on disposal of non-current asset classified as held for sale	16	<u>–</u>	<u>4,102</u>
(Loss) Profit from operations		(30,294)	59,828
Finance costs	5	<u>(2,070)</u>	<u>(2,494)</u>
(Loss) Profit before taxation	5	(32,364)	57,334
Income tax expenses	6	<u>–</u>	<u>(3,411)</u>
(Loss) Profit for the period		<u>(32,364)</u>	<u>53,923</u>
(Loss) Profit for the period attributable to:			
Owners of the Company		<u>(32,364)</u>	<u>53,923</u>
(Loss) Earnings per share			
– Basic and diluted	8	<u>HK(6.74) cents</u>	<u>HK11.23 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000 (Restated)
(Loss) Profit for the period	(32,364)	53,923
Other comprehensive (loss) income:		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Reclassification adjustment for exchange difference realised upon the disposal of non-current asset classified as held for sale	–	(3,243)
Exchange difference on translation of functional currency to presentation currency	<u>(15,661)</u>	<u>854</u>
Other comprehensive loss for the period	<u>(15,661)</u>	<u>(2,389)</u>
Total comprehensive (loss) income for the period	<u>(48,025)</u>	<u>51,534</u>
Total comprehensive (loss) income attributable to:		
Owners of the Company	<u>(48,025)</u>	<u>51,534</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	96,660	91,444
Prepaid lease payments		13,406	13,956
Deposits paid for acquisition of property, plant and equipment		2,718	989
Available-for-sale financial assets		9,281	9,281
		<u>122,065</u>	<u>115,670</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	10	4,828	5,572
Inventories		28,300	29,418
Trade receivables	11	33,492	32,069
Other receivables, deposits and prepayments	12	42,352	56,962
Pledged bank deposits	14	248,283	280,490
Cash and cash equivalents	15	90,682	91,083
		<u>447,937</u>	<u>495,594</u>
CURRENT LIABILITIES			
Trade payables	17	43,980	34,861
Other payables and accruals		20,468	20,062
Interest-bearing borrowings	19	241,233	241,782
Provision	18	–	2,213
		<u>305,681</u>	<u>298,918</u>
NET CURRENT ASSETS		<u>142,256</u>	<u>196,676</u>
NET ASSETS		<u>264,321</u>	<u>312,346</u>
CAPITAL AND RESERVES			
Share capital		48,024	48,024
Reserves		<u>216,297</u>	<u>264,322</u>
TOTAL EQUITY		<u>264,321</u>	<u>312,346</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2015 (Unaudited)

	Reserves						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	
At 1 April 2015	48,024	91,483	9,379	126,902	36,558	264,322	312,346
Loss for the period	-	-	-	-	(32,364)	(32,364)	(32,364)
Other comprehensive loss							
<i>Exchange difference on translation of functional currency to presentation currency</i>	-	-	-	(15,661)	-	(15,661)	(15,661)
Total comprehensive loss for the period	-	-	-	(15,661)	(32,364)	(48,025)	(48,025)
At 30 September 2015	48,024	91,483	9,379	111,241	4,194	216,297	264,321
At 1 April 2014	48,024	91,483	9,379	135,594	22,266	258,722	306,746
Profit for the period							
- as previously reported	-	-	-	-	50,680	50,680	50,680
- correction of prior period error (Note 1)	-	-	-	-	3,243	3,243	3,243
- as restated	-	-	-	-	53,923	53,923	53,923
Other comprehensive income (loss)							
<i>Exchange difference on translation of functional currency to presentation currency</i>	-	-	-	854	-	854	854
<i>Reclassification adjustment for exchange difference realised upon the disposal of non-current asset classified as held for sale</i>							
- as previously reported	-	-	-	-	-	-	-
- correction of prior period error (Note 1)	-	-	-	(3,243)	-	(3,243)	(3,243)
- as restated	-	-	-	(2,389)	-	(2,389)	(2,389)
Total comprehensive income (loss) for the period	-	-	-	(2,389)	53,923	51,534	51,534
At 30 September 2014	48,024	91,483	9,379	133,205	76,189	310,256	358,280

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
		(Restated)
OPERATING ACTIVITIES		
(Loss) Profit before taxation	(32,364)	57,334
Adjustments for:		
Interest income	(4,173)	(4,520)
Dividend income from listed equity investments	(193)	(197)
(Gain) Loss on disposal of property, plant and equipment	(541)	850
Fair value losses (gains) on financial assets at fair value through profit or loss, net	744	(454)
Depreciation	7,005	6,520
Impairment on trade receivables, net	–	214
Amortisation of prepaid lease payments	160	161
Reversal of write down of inventories	(134)	(280)
Impairment loss on available-for-sale financial assets	–	4,500
Finance costs	2,070	2,494
Gain on disposal of non-current asset classified as held for sale	–	(4,102)
Operating cash flow before changes in working capital	(27,426)	62,520
Changes in working capital:		
Financial assets at fair value through profit or loss	–	42
Inventories	384	(1,688)
Trade receivables	(1,390)	(3,233)
Other receivables, deposits and prepayment	6,046	11,529
Insurance compensation receivable	–	(60,653)
Trade payables	9,961	(7,353)
Other payables and accruals	653	(6,547)
Provision	(2,213)	–
Cash used in operations	(13,985)	(5,383)
Interest received	10,569	4,520
Net cash used in operating activities	(3,416)	(863)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
		(Restated)
INVESTING ACTIVITIES		
Dividend income from listed equity investments	193	197
Payment for the purchase of property, plant and equipment	(19,070)	(25,557)
Proceeds from disposal of property, plant and equipment	1,394	–
Proceeds from disposal of non-current asset classified as held for sale	–	5,054
Decrease (Increase) in pledged bank balances	24,282	(9,635)
	<u>6,799</u>	<u>(29,941)</u>
Net cash generated from (used in) investing activities		
FINANCING ACTIVITIES		
New bank loans raised	69,951	52,428
Repayment of bank loans	(70,500)	(46,600)
Interest paid	(2,070)	(2,494)
	<u>(2,619)</u>	<u>3,334</u>
Net cash (used in) generated from financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	764	(27,470)
Cash and cash equivalents at beginning of period	91,083	70,786
Effect of foreign exchange rate changes, net	(1,165)	35
	<u>90,682</u>	<u>43,351</u>
Cash and cash equivalents at end of period, represented by bank balances and cash	90,682	43,351

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2015 have 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 the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies adopted and basis of preparation used in the preparation of these unaudited condensed consolidated financial statements are the same as those adopted in preparing the annual audited consolidated financial statements for the year ended 31 March 2015, 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/revised HKFRSs”) which are effective for current interim period.

The preparation of these unaudited condensed consolidated financial statements in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

Certain figures for the six months ended 30 September 2014 have been reclassified and restated to conform with the current period’s presentation.

Correction of prior period error

The prior period adjustment represents the correction of an error in respect of reclassification adjustment for exchange difference realised upon disposal of non-current asset classified as held for sale which was not accounted for during the six months ended 30 September 2014. This resulted in understatement of profit and overstatement of other comprehensive income of HK\$3,243,000 for the six months ended 30 September 2014 respectively.

2. ADOPTION OF NEW/REVISED HKFRSs

In the current interim period, the Group has adopted the following new/revised HKFRSs that are relevant to the Group and effective from the current interim period.

Amendments to HKAS19 (2011)	Employee Benefits: Defined Benefit Plans – Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of these new/revised HKFRSs had no significant impact on the results or financial position of the Group for the current or prior accounting periods.

3. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are investment holding and manufacturing and trading of printed circuit boards. There was no change in the nature of the Group's principal activities during the period.

Revenue represents the net invoiced value of goods sold after allowances for returns, trade discounts and value-added tax.

The Company's management considers that 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.

Geographical information

(a) Revenue from external customers

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
North America	40,867	28,271
The People's Republic of China (the "PRC")	26,728	29,459
Hong Kong	20,063	29,215
Japan	15,232	21,924
Europe	7,320	11,728
Other countries	961	2,626
	<u>111,171</u>	<u>123,223</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	(Unaudited)	(Audited)
	30 September	31 March
	2015	2015
	HK\$'000	HK\$'000
Hong Kong	164	241
The PRC	<u>112,620</u>	<u>106,148</u>
	<u>112,784</u>	<u>106,389</u>

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

4. OTHER INCOME

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
		(Restated)
Bank interest income	4,173	4,520
Dividend income from listed equity investments	193	197
Gain on disposal of scrap materials	1,586	1,256
Gain on disposal of property, plant and equipment	541	–
Others	175	443
	<u>6,668</u>	<u>6,416</u>

5. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation is arrived at after charging (crediting):

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on bank borrowings	<u>2,070</u>	<u>2,494</u>
(b) Other items:		
Amortisation of prepaid lease payments	160	161
Cost of inventories	121,885	114,931
Depreciation	7,005	6,520
Exchange loss, net	153	1
Impairment loss on available-for-sale financial assets	–	4,500
Reversal of write down of inventories*	(134)	(280)
Staff costs (including directors' emoluments)	<u>27,073</u>	<u>25,786</u>

* Included in "cost of sales" in the condensed consolidated statement of profit or loss.

6. INCOME TAX EXPENSES

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
Current tax		
PRC Enterprise Income Tax:		
Current period	–	3,200
Hong Kong Profits Tax:		
Under-provision in prior periods	–	211
Total tax charge for the period	<u>–</u>	<u>3,411</u>

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during both periods.

In the prior period, PRC Enterprise Income Tax has been provided at the rate of 25% on the estimated assessable profits arising in PRC. No provision for PRC Enterprise Income Tax was made as the Group did not generate any assessable profits arising in the PRC during the current period.

Deferred tax assets have not been recognised for certain deductible temporary differences and certain tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the deductible temporary differences and tax losses can be utilised.

7. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the year ended 31 March 2016 to the shareholders (2015: Nil).

8. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the (loss) profit attributable to the owners of the Company and the weighted average number of ordinary shares in issue during the period as follows:

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
(Loss) Profit attributable to owners of the Company	<u>(32,364)</u>	<u>53,923</u>

8. (LOSS) EARNINGS PER SHARE (continued)

(a) Basic (loss) earnings per share (continued)

	Number of Shares	
	2015	2014
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<u>480,243,785</u>	<u>480,243,785</u>
	(Unaudited)	
	Six months ended 30 September	
	2015	2014
		(Restated)
Basic (loss) earnings per share	<u>HK(6.74) cents</u>	<u>HK11.23 cents</u>

(b) Diluted (loss) earnings per share

There were no dilutive potential ordinary shares in issue during both periods. The diluted (loss) earnings per share is the same as the basic (loss) earnings per share during the periods ended 30 September 2015 and 2014.

9. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
Purchase of property, plant and equipment	<u>17,341</u>	<u>17,655</u>

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	(Unaudited)	(Audited)
	30 September	31 March
	2015	2015
	HK\$'000	HK\$'000
Equity securities, listed in Hong Kong	<u>4,828</u>	<u>5,572</u>

The above investments as at 30 September 2015 and 31 March 2015 were classified as held for trading.

As at 30 September 2015 and 31 March 2015, all of the above equity securities listed in Hong Kong have been pledged to secure certain bank borrowings of the Group (Note 19).

11. TRADE RECEIVABLES

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Trade receivables	33,706	32,289
Allowance for doubtful debts	<u>(214)</u>	<u>(220)</u>
	<u><u>33,492</u></u>	<u><u>32,069</u></u>

The Group's business with its trade debtors are mainly on credit basis and, the credit period is generally two months. At the end of the reporting period, the ageing analysis of the trade receivables (before allowance for doubtful debts) by invoice date is as follows:

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Less than 1 month	15,959	17,985
1 to 2 months	14,058	10,598
2 to 3 months	2,087	3,418
Over 3 months	<u>1,602</u>	<u>288</u>
	<u><u>33,706</u></u>	<u><u>32,289</u></u>

At the end of the reporting period, the ageing analysis of trade receivables (net of allowance for doubtful debts) which are past due but not impaired is as follows:

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Not past due	32,548	28,887
Less than 1 month past due	860	3,024
1 to 2 months past due	–	91
2 to 3 months past due	<u>84</u>	<u>67</u>
	<u><u>33,492</u></u>	<u><u>32,069</u></u>

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Deposits and other receivables	18,928	37,528
Prepayments	3,774	4,130
Bank interest receivable on time deposits	4,289	10,685
Value-added tax recoverable	15,361	4,619
	<u>42,352</u>	<u>56,962</u>

13. INSURANCE COMPENSATION

The relevant insurance company has finally issued a formal insurance compensation notice on 5 November 2014 after a lengthy negotiation with the insurance brokers as appointed by the Group to settle the Group's insurance claims for both the loss of assets and the loss of profits due to business interruption relating to the fire accident occurred in the principal production base of the Group in Huizhou, the PRC on 24 January 2013.

The total insurance compensation as stated in the compensation notice of approximately RMB58 million (equivalent to approximately HK\$73,289,000) was recognised in the condensed consolidated statement of profit or loss for the six months ended 30 September 2014.

14. PLEDGED BANK DEPOSITS

The bank deposits amounting to approximately HK\$248,283,000 (31 March 2015: HK\$280,490,000) have been pledged in the PRC to secure short-term bank loans and are therefore classified as current assets.

The interest rates on the pledged bank deposits range from 1.75% to 3.75% (31 March 2015: 1.75% to 3.75%) per annum.

15. CASH AND CASH EQUIVALENTS

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Cash and cash equivalents	<u>90,682</u>	<u>91,083</u>

Bank balances carry interest at market rates ranging from 0.35% to 1% (31 March 2015: 0.52% to 1.31%) per annum.

As at 30 September 2015, the balances that were placed with banks in the PRC amounted to HK\$41,520,000 (31 March 2015: HK\$67,244,000).

Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

16. GAIN ON DISPOSAL OF NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

As at 31 March 2014, the investment in a joint venture with carrying amount of HK\$54,634,000 had been classified as held for sale. In July 2014, the Group disposed of the entire interests in the joint venture to a third party and to obtain the repayment of the shareholder's loan as previously injected by the Group to the joint venture at a total consideration of RMB44,000,000 (equivalent to approximately HK\$55,493,000). Upon the disposal, the cumulative exchange reserve previously recognised in equity of HK\$3,243,000 was realised. The total gain on disposal of HK\$4,102,000 was recognised in the condensed consolidated statement of profit or loss during the six months ended 30 September 2014.

17. TRADE PAYABLES

The trade payables are non interest-bearing and the Group is normally granted with a credit terms of 90 days.

The ageing analysis of the trade payables, at the end of the reporting period based on the invoice date, is as follows:

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Less than 1 month	11,543	10,658
1 to 2 months	11,415	5,890
2 to 3 months	9,487	9,138
Over 3 months	<u>11,535</u>	<u>9,175</u>
	<u>43,980</u>	<u>34,861</u>

18. PROVISION

Provision for tax payable in respect of tax evasion of customs duty and import value-added tax in total of RMB1,771,000 (equivalent to approximately HK\$2,213,000) was made as at 31 March 2015. The final assessment of the tax evasion in total of RMB1,771,000 (equivalent to approximately HK\$2,213,000) was issued in April 2015 and was settled in May 2015.

19. INTEREST-BEARING BORROWINGS

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Secured bank loans repayable within one year	<u>241,233</u>	<u>241,782</u>

At the end of the reporting period, bank loans equivalent to HK\$241,233,000 (31 March 2015: HK\$171,782,000) were subjected to floating interest rates.

At the end of the reporting period, except for certain bank loans denominated in United States dollars equivalent to HK\$87,733,000 (31 March 2015: HK\$87,782,000), all the bank loans were denominated in Hong Kong dollars.

At the end of the reporting period, all bank loans are secured by:

- (i) the Group's pledged bank deposits amounting to HK\$248,283,000 (31 March 2015: HK\$280,490,000); and
- (ii) all the Group's Hong Kong listed equity investments amounting to HK\$4,828,000 (31 March 2015: HK\$5,572,000).

20. CAPITAL COMMITMENTS

At the end of the reporting period, capital commitments not provided for in the consolidated financial statements were as follows:

	(Unaudited) 30 September 2015 HK\$'000	(Audited) 31 March 2015 HK\$'000
Contracted but not provided for net of deposit paid in respect of – property, plant and equipment	<u>1,567</u>	<u>612</u>

21. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
Sale of printed circuit boards to a related party	<u>15,112</u>	<u>21,850</u>

Printed circuit boards were sold to a subsidiary of Daisho Denshi, a substantial shareholder of the Company which has 10.41% equity interests in the Company and the Group has 7.46% equity interests in Daisho Denshi. The products sold were unique and tailor-made according to the customer's requirements and specifications. The selling price of the printed circuit boards was determined based on the complexity of the specifications and was agreed between the respective parties.

(b) Key management personnel remuneration

Remuneration for the key management personnel of the Group representing amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	(Unaudited)	
	Six months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
Salaries and other emoluments	4,426	3,883
Retirement scheme contributions	<u>193</u>	<u>178</u>
	<u>4,619</u>	<u>4,061</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group's revenue for the current period was approximately HK\$111 million, down 9.8% from last corresponding period mainly due to the slow-down of the global economy. Contrary to the net profit of approximately HK\$54 million for last corresponding period, the Group's net loss for the current period was approximately HK\$32 million, mainly due to the recognition of the total insurance compensation of approximately HK\$73 million in profit or loss for the last corresponding period relating to the fire accident occurred in the principal production base of the Group in Huizhou, PRC on 24 January 2013. If all one-off events (namely the total insurance compensation and income tax) had been excluded, the Group would have recorded a net loss of approximately HK\$16 million for the last corresponding period instead. The increase in net loss for the current period was mainly because of the reduction in variable contribution resulting from both the abovementioned decrease in the Group's revenue and the worsening of the general operating environment especially in Mainland China.

Contrary to the Group's gross profit margin of approximately 7% for the last corresponding period, the Group's gross loss margin for the current period was approximately 9.5%. The increase in the Group's operating costs for the current period was mainly due to the increase in the minimum wages level in the Mainland China by approximately 20% as well as the ageing of certain production machinery, which resulted in the increase in repair and maintenance expenses along with the increase in scrap cost.

The Group's gearing ratios (defined as interest-bearing borrowings divided by total equity) at 30 September 2015 was 91% (31 March 2015: 77%). The Group's current ratio at 30 September 2015 and 31 March 2015 was 1.47 times and 1.66 times respectively. The Group's printed circuit board operations had a net cash outflow of approximately HK\$14 million during the current period ended 30 September 2015 (2014: HK\$5 million).

The interest rate structure, maturity profile, currency structure and underlying security of the Group's interest-bearing borrowings as at 30 September 2015 and 31 March 2015 are detailed in note 19 of this report.

As at 30 September 2015, the Group's total cash and bank balances were approximately HK\$339 million (31 March 2015: HK\$372 million) and the Group's total interest-bearing borrowings amounting to approximately HK\$241 million (31 March 2015: HK\$242 million). Therefore, the Group had a net cash balance of approximately HK\$98 million (31 March 2015: HK\$130 million). Besides, the total credit facilities available to the Group were approximately HK\$246 million (31 March 2015: HK\$341 million) and, therefore, the unutilized credit facilities were approximately HK\$5 million (31 March 2015: HK\$99 million). The decrease in the total credit facilities was caused by the granting of credit facilities to the Group by a bank before 31 March 2015, which were utilized after 31 March 2015 to repay the borrowings from another bank.

As at 30 September 2015, 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\$. Because the Group's subsidiary in Mainland China had net assets as at 30 September 2015 and the Group considers that the extent of any depreciation of RMB against HK\$ should not be substantial in light of the current circumstance, the Group has not adopted any hedging tool against its assets or liabilities denominated in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Contingent Liabilities

As at 30 September 2015, the Group did not have any material contingent liability.

The Company has provided certain banks with corporate guarantees of HK\$241 million (31 March 2015: HK\$314 million) to secure banking facilities granted to subsidiaries. At 30 September 2015, the facilities were utilised to the extent of HK\$238 million (31 March 2015: HK\$238 million). The decrease in the total corporate guarantees was caused by the granting of credit facilities to the Group by a bank before 31 March 2015, which required the provision of corporate guarantee by the Company and such credit facilities were utilized after 31 March 2015 to repay the borrowings from another bank, which also required the provision of corporate guarantee by the Company previously.

Employee Benefits

As at 30 September 2015, the Group had 583 (31 March 2015: 602) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2015, the Group's total staff costs including directors' remuneration were approximately HK\$27 million (2014: HK\$26 million). The increase in the staff costs during the current period was mainly due to the increase in the minimum wages level in the Mainland China by approximately 20%.

Outlook

Although the operating environment surrounding the Group has not changed much during the second half of the financial year ended 31 March 2016, the Group has taken various cost-savings and quality improvement measures to confront the challenge. The Group is dedicated to the business of manufacturing high-end printed circuit boards as demonstrated by its continuous acquisition of new and automated production machinery amounting to approximately HK\$26 million during the year ended 31 March 2016. The Group will further make use of its competitive edge to develop its business.

It should be noted that the previous largest shareholder of the Company (Mr. Chan Sik Ming, Harry) had disposed of most of his shareholdings interests in the Company on 9 June 2015 to Mr. Cheung Ling Mun who has become the current largest shareholder holding 25% shareholding interests in the Company. Although there has been no change in the business direction for the Group, new management styles have been introduced to the Group since then. In particular, a new chief operating officer who is a veteran management with proven track record in building business operations on both strategic and operation levels and also in turning around loss-making companies has been recruited in August 2015. Besides, various measures have been taken by the Group to canvass for new sales orders from both existing and potential customers, to review the areas with potential for further cost savings as well as to enhance the internal control system. It is expected that the introduction of the new management styles to the Group can stimulate not only the vitality of the Group's staff but also the determination to further improve the operating results of the Group.

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 six months ended 30 September 2015, 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.

CORPORATE GOVERNANCE (continued)

Non-executive directors

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

Dr. Li Chi Kwong does not have a specific term of service, 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.

According to the Company's private act known as "The Juko Laboratories Holdings Limited Company Act 1990" which is an Act of the Company established when the Company was first established under the former name of Juko Laboratories Holdings Limited, 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, Mr. Chan Sik Ming, Harry has agreed to retire on a voluntary basis at least once every three years. The last time Mr. Chan Sik Ming, Harry retired on a voluntary basis and stood for re-election was in the annual general meeting held on 26 August 2013. He will also retire on a voluntary basis and, being eligible, will offer himself for re-election at the forthcoming annual general meeting in 2016.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2015, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of directors	Trustee	Directly beneficially owned	Beneficiary of a trust	Total number of shares held	Percentage of the Company's issued share capital
Cheung Lai Na	120,068,000 (note i)	–	–	120,068,000	25.00%
Chan Sik Ming, Harry	–	23,412,001	292,415 (note ii)	23,704,416	4.94%
Au-Yeung Wai Hung	–	1,300,000	–	1,300,000	0.27%

Notes:

- (i) Cheung Lai Na holds 120,068,000 shares of the Company in trust for Cheung Ling Mun.
- (ii) 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 2015, Earnwell (PTC) Limited held 292,415 shares representing approximately 0.06% of the issued share capital of the Company.

Save as disclosed above, as at 30 September 2015, 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 pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

At 30 September 2015, the following interests and short positions 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
Cheung Ling Mun	Beneficially owned	120,068,000	25.00%
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.41%

Save as disclosed above, as at 30 September 2015, 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2015.

By Order of the Board
Chan Sik Ming, Harry
Chairman

Hong Kong, 7 October 2016

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

Executive directors:

CHAN Sik Ming, Harry (*Chairman & CEO*)
AU-YEUNG Wai Hung
CHEUNG Lai Na

Independent non-executive directors:

LI Chi Kwong
YEUNG Chi Shing, Bret
LEUNG King Fai
CHOU Yuk Yan