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DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

INTERIM RESULTS ANNOUNCEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

UNAUDITED INTERIM RESULTS

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 2016 together with the comparative figures for the corresponding period in 2015 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

		(Unaudited)	
		Six months ended	
		30 September	
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	90,108	111,171
Cost of sales		<u>(92,486)</u>	<u>(121,751)</u>
Gross loss		(2,378)	(10,580)
Other income	4	4,874	6,668
Selling and distribution expenses		(4,608)	(3,812)
Administrative expenses		(22,246)	(20,581)
Other operating expenses		(1,465)	(1,245)
Fair value gains (losses) on financial assets at fair value through profit or loss, net		<u>212</u>	<u>(744)</u>
Loss from operations		(25,611)	(30,294)
Finance costs	5	<u>(1,878)</u>	<u>(2,070)</u>
Loss before taxation	5	(27,489)	(32,364)
Income tax expense	6	<u>–</u>	<u>–</u>
Loss for the period		<u>(27,489)</u>	<u>(32,364)</u>
Loss for the period attributable to:			
Owners of the Company		<u>(27,489)</u>	<u>(32,364)</u>
Loss per share			
– Basic and diluted	8	<u>HK(5.72) cents</u>	<u>HK(6.74) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	(Unaudited)	
	Six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(27,489)	(32,364)
Other comprehensive loss:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translation of functional currency to presentation currency	<u>(10,598)</u>	<u>(15,661)</u>
Other comprehensive loss for the period	<u>(10,598)</u>	<u>(15,661)</u>
Total comprehensive loss for the period	<u>(38,087)</u>	<u>(48,025)</u>
Total comprehensive loss attributable to:		
Owners of the Company	<u>(38,087)</u>	<u>(48,025)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 September 2016 <i>HK\$'000</i>	(Audited) 31 March 2016 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	9	92,986	98,957
Prepaid lease payments		12,532	13,005
Deposits paid for acquisition of property, plant and equipment		6,776	3,621
Available-for-sale financial assets		9,281	9,281
		121,575	124,864
CURRENT ASSETS			
Financial assets at fair value through profit or loss		1,471	4,066
Inventories		18,864	22,880
Trade receivables	10	28,843	19,327
Other receivables, deposits and prepayments	11	24,521	40,713
Pledged bank deposits	12	185,339	243,703
Cash and cash equivalents		51,693	74,199
		310,731	404,888
CURRENT LIABILITIES			
Trade payables	13	38,991	32,410
Other payables and accruals		17,745	26,509
Interest-bearing borrowings	14	183,373	240,549
		240,109	299,468
NET CURRENT ASSETS		70,622	105,420
NET ASSETS		192,197	230,284
CAPITAL AND RESERVES			
Share capital		48,024	48,024
Reserves		144,173	182,260
TOTAL EQUITY		192,197	230,284

NOTES

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2016 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 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.

1.2 PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss, which are measured at fair value.

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 2016, 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.

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 HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKASs 16 and 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Various HKFRSs	<i>Annual Improvements Project – 2012-2014 Cycle</i>

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

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.

3. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	(Unaudited)	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
North America	37,374	40,867
The People's Republic of China (the "PRC")	16,159	26,728
Japan	13,695	15,232
Hong Kong	13,332	20,063
Europe	8,825	7,320
Other countries	723	961
	90,108	111,171

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

(b) Non-current assets

	(Unaudited)	(Audited)
	30 September	31 March
	2016	2016
	HK\$'000	HK\$'000
Hong Kong	871	496
The PRC	111,423	115,087
	112,294	115,583

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	
	2016	2015
	HK\$'000	HK\$'000
Bank interest income	2,627	4,173
Dividend income from listed equity investments	200	193
Exchange gain, net	333	–
Gain on disposal of scrap materials	1,565	1,586
Gain on disposal of property, plant and equipment	–	541
Others	149	175
	4,874	6,668

5. LOSS BEFORE TAXATION

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

	(Unaudited)	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on bank borrowings	1,878	2,070
(b) Other items:		
Amortisation of prepaid lease payments	151	160
Cost of inventories (<i>Note (i)</i>)	91,849	121,885
Depreciation	7,055	7,005
Exchange (gain) loss, net	(333)	153
Loss (Gain) on disposal of property, plant and equipment	306	(541)
Reversal of write down of inventories	(41)	(134)
Write down of inventories	678	–
Staff costs (including directors' emoluments)	24,715	27,073

Note:

- (i) Cost of inventories includes HK\$19,420,000 (*six months ended 30 September 2015: HK\$23,639,000*) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

6. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group has no assessable profits arising in Hong Kong during both periods.

PRC Enterprise Income Tax has not been provided as the Group has no assessable profits arising in the PRC during both periods.

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 ending 31 March 2017 to the shareholders (*year ended 31 March 2016: Nil*).

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss 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	
	2016	2015
Loss attributable to owners of the Company (HK\$'000)	<u>(27,489)</u>	<u>(32,364)</u>
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>480,243,785</u>	<u>480,243,785</u>
Basic loss per share (HK cents)	<u>(5.72)</u>	<u>(6.74)</u>

(b) Diluted loss per share

There were no dilutive potential ordinary shares in issue during both periods. The diluted loss per share is the same as the basic loss per share during six months ended 30 September 2016 and 2015.

9. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)	
	Six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Purchase of property, plant and equipment	<u>3,760</u>	<u>17,341</u>

10. TRADE RECEIVABLES

	(Unaudited) 30 September 2016 HK\$'000	(Audited) 31 March 2016 HK\$'000
Trade receivables	29,053	19,557
Allowance for doubtful debts	(210)	(230)
	<u>28,843</u>	<u>19,327</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 2016 HK\$'000	(Audited) 31 March 2016 HK\$'000
Less than 1 month	17,434	14,522
1 to 2 months	9,298	2,694
2 to 3 months	1,559	1,960
Over 3 months	762	381
	<u>29,053</u>	<u>19,557</u>

11. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	(Unaudited) 30 September 2016 HK\$'000	(Audited) 31 March 2016 HK\$'000
Deposits and other receivables	17,490	26,588
Prepayments	1,660	6,035
Bank interest receivable on time deposits	2,076	3,949
Value-added tax recoverable	3,295	4,141
	<u>24,521</u>	<u>40,713</u>

12. PLEDGED BANK DEPOSITS

The bank deposits amounting to approximately HK\$185,339,000 (31 March 2016: HK\$243,703,000) were placed with banks in the PRC to secure short-term bank loans of the Group. Therefore, those pledged bank deposits were classified as current assets.

The interest rates on the pledged bank deposits range from 1.50% to 2.25% (31 March 2016: 1.75% to 3.75%) per annum.

13. 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 2016 <i>HK\$'000</i>	(Audited) 31 March 2016 <i>HK\$'000</i>
Less than 1 month	9,629	9,218
1 to 2 months	7,440	4,455
2 to 3 months	5,997	7,019
Over 3 months	15,925	11,718
	38,991	32,410

14. INTEREST-BEARING BORROWINGS

	(Unaudited) 30 September 2016 <i>HK\$'000</i>	(Audited) 31 March 2016 <i>HK\$'000</i>
Secured bank loans repayable within one year	183,373	240,549

At the end of the reporting period, bank loans equivalent to HK\$183,373,000 (31 March 2016: HK\$240,549,000) 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\$93,373,000 (31 March 2016: HK\$112,049,000), all the bank loans were denominated in Hong Kong dollars.

As at 30 September 2016, all bank loans of HK\$183,373,000 are secured by the Group's pledged bank deposits amounting to HK\$185,339,000.

As at 31 March 2016, all bank loans of HK\$240,549,000 were secured by the Group's bank deposits amounting to HK\$243,703,000 and all of the Group's Hong Kong listed equity investments amounting to HK\$4,066,000.

15. CAPITAL COMMITMENTS

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

	(Unaudited) 30 September 2016 <i>HK\$'000</i>	(Audited) 31 March 2016 <i>HK\$'000</i>
Contracted but not provided for net of deposit paid in respect of – property, plant and equipment	<u>4,256</u>	<u>1,815</u>

16. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	(Unaudited) Six months ended 30 September 2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sale of printed circuit boards to a related party	<u>13,677</u>	<u>15,112</u>

Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd (“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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group's revenue for the current period was approximately HK\$90 million, down approximately 19% from last corresponding period mainly due to the slow-down of the global economy. The Group's net loss after tax for the current period was approximately HK\$27 million while the net loss after tax for last corresponding period was approximately HK\$32 million. The operating performance was improved mainly due to the implementation of the various cost-savings and quality improvement measures by the Group during the current period.

The Group's gross loss margin for the current period was approximately 2.6% while the gross loss margin for last corresponding period was approximately 9.5%. The Group's gross loss margin was improved as a result of the implementation of the various cost-savings and quality improvement measures by the Group during the current period. Examples of such measures included strengthening the maintenance arrangement for production machinery, replacing obsolete production machinery, concentrating the production time and re-designing the production layout or size of production panel etc. so as to reduce the production cost and scrap cost and to increase production efficiency.

The Group's gearing ratio (defined as interest-bearing borrowings divided by total equity) as at 30 September 2016 was 95% (*31 March 2016: 104%*). The Group's current ratio at 30 September 2016 and 31 March 2016 was 1.29 times and 1.35 times respectively. The Group's printed circuit board ("PCB") operations had a net cash outflow of approximately HK\$13 million during the six months ended 30 September 2016 (*six months ended 30 September 2015: HK\$14 million*).

The interest rate structure, maturity profile, currency structure and underlying security of the Group's interest-bearing bank borrowings as at 30 September 2016 and 31 March 2016 are detailed in note 14 of this announcement.

As at 30 September 2016, the Group's total cash and bank balances were approximately HK\$237 million (*31 March 2016: HK\$318 million*) and the Group's total interest-bearing bank borrowings amounting to approximately HK\$183 million (*31 March 2016: HK\$241 million*). Therefore, the Group had a net cash balance of approximately HK\$54 million (*31 March 2016: HK\$77 million*) which should be sufficient alone to finance its PCB operation within a year.

As at 30 September 2016, the Group's assets and liabilities were mostly denominated in either HK\$, US\$ or RMB. Because HK\$ is pegged to US\$, the Group has not adopted any hedging tool against its assets or liabilities denominated in US\$. The Group's subsidiary in Mainland China had net assets as at 30 September 2016. In light of the possible depreciation of RMB against HK\$, the Group will consider any appropriate measures to mitigate the effect of exchange risk against its assets or liabilities denominated in RMB although 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 2016, the Group did not have any material contingent liability. The Company has provided certain banks with corporate guarantees of HK\$236 million (*31 March 2016: HK\$238 million*) to secure banking facilities granted to its subsidiaries. As at 30 September 2016, the facilities were utilised to the extent of HK\$183 million (*31 March 2016: HK\$237 million*).

Employee Benefits

As at 30 September 2016, the Group had 507 (*31 March 2016: 557*) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2016, the Group's total staff costs including directors' remuneration were about HK\$25 million (*six months ended 30 September 2015: HK\$27 million*).

Outlook

In light of the persistently sluggish global economy, the Group has taken various measures to confront the challenge. As a result of the implementation of the various cost-savings and quality improvement measures by the Group, the gross loss of the Group for the current period has been significantly reduced. The Group is confident that the favourable effects resulting from the implementation of the various cost-savings and quality improvement measures will continue. If the operating environment surroundings the Group does not deteriorate further, it is expected that the Group will soon return to gross profit.

Besides, the Group has adopted strategic pricing policy and proactive marketing approach so as to canvass for new sales orders from both existing and potential customers. The Group has a competitive edge as gained from its past experience in the manufacturing of printed circuit boards for automobile components for which more emphasis will be put on this market in the near future.

The principal business of the Group at present consists of the manufacturing and trading of printed circuit boards only. In order to realise business diversification which should be in the interest of the shareholders of the Company, the Group has just commenced to undertake the business of indent trading of petrochemical products as well as petroleum and energy products by itself with the help of newly recruited experts in this field so as to provide stable income source and cash inflow for the Group gradually. As at the date of this announcement, the indent trading business of the Group has not yet generated any revenue for the Group.

The Group is well aware that its existing capital base may not be strong enough either to support the continuous investment in advanced machinery as required by its existing PCB business or to seize any golden business opportunity it comes across with promising return. Accordingly, the Group will engage a financial advisor for the purpose of exploring the way and the time of broadening the capital base of the Group in due course.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the applicable code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2016, except for the following deviations:

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the Code, 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 of the Code, 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 appointment, but is subject to retirement by rotation and re-election in accordance with the relevant provisions of the Bye-laws of the Company.

Re-election of directors

Under the code provision A.4.2 of the Code, 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 22 November 2016.

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 2016.

By Order of the Board
Chan Sik Ming, Harry
Chairman

Hong Kong, 22 November 2016

As at the date of this announcement and before the close of the annual general meeting for 2015 and 2016 of the Company, the Board comprises the following members:

Executive directors:

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

Independent non-executive directors:

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

As at the date of this announcement and after the close of the annual general meeting for 2015 and 2016 of the Company, the Board comprises the following members:

Executive directors:

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

Independent non-executive directors:

YEUNG Chi Shing, Bret
LEUNG King Fai
CHOU Yuk Yan