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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 2017

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 2017 together with the comparative figures for the corresponding period in 2016 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	
		2017	2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	178,787	90,108
Cost of sales		<u>(175,724)</u>	<u>(92,486)</u>
Gross profit/(loss)		3,063	(2,378)
Other income	4	5,137	4,874
Selling and distribution expenses		(2,528)	(4,608)
Administrative expenses		(19,040)	(22,246)
Other operating expenses		(626)	(1,465)
Fair value gains on financial assets at fair value through profit or loss, net		<u>–</u>	<u>212</u>
Loss from operations		(13,994)	(25,611)
Finance costs	5	<u>(1,531)</u>	<u>(1,878)</u>
Loss before taxation	5	(15,525)	(27,489)
Income tax expense	6	<u>–</u>	<u>–</u>
Loss for the period		<u>(15,525)</u>	<u>(27,489)</u>
Loss for the period attributable to:			
Owners of the Company		<u>(15,525)</u>	<u>(27,489)</u>
Loss per share			
– Basic and diluted	8	<u>HK(2.69) cents</u>	<u>HK(5.72) cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	(Unaudited)	
	Six months ended	
	30 September	
	2017	2016
<i>Note</i>	HK\$'000	HK\$'000
Loss for the period	(15,525)	(27,489)
Other comprehensive income/(loss):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translation of functional currency to presentation currency	<u>7,650</u>	<u>(10,598)</u>
Other comprehensive income/(loss) for the period	<u>7,650</u>	<u>(10,598)</u>
Total comprehensive loss for the period	<u>(7,875)</u>	<u>(38,087)</u>
Total comprehensive loss attributable to: Owners of the Company	<u>(7,875)</u>	<u>(38,087)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 September 2017 <i>HK\$'000</i>	(Audited) 31 March 2017 <i>HK\$'000</i>
	<i>Note</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		89,946	87,994
Prepaid lease payments		12,336	12,029
Deposits paid for acquisition of property, plant and equipment		30,706	2,005
Available-for-sale financial assets		9,281	9,281
		142,269	111,309
CURRENT ASSETS			
Financial assets at fair value through profit or loss		–	1,615
Inventories		25,896	26,082
Trade receivables	9	90,320	29,259
Other receivables, deposits and prepayments	10	10,997	14,486
Pledged bank deposits		140,382	123,943
Cash and cash equivalents		53,845	74,453
		321,440	269,838
CURRENT LIABILITIES			
Trade payables	11	36,946	34,391
Other payables and accruals		24,148	24,049
Interest-bearing borrowings	12	124,729	114,342
		185,823	172,782
NET CURRENT ASSETS		135,617	97,056
TOTAL ASSETS LESS CURRENT LIABILITIES		277,886	208,365
NON-CURRENT LIABILITIES			
Derivative financial instruments	14	10,250	–
Convertible bonds	14	67,146	–
		77,396	–
NET ASSETS		200,490	208,365
Share capital		57,624	57,624
Reserves		142,866	150,741
TOTAL EQUITY		200,490	208,365

NOTES

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2017 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.

The unaudited condensed consolidated financial statement have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss and derivative financial instruments, 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 2017, 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 and the adoption of the accounting policy for convertibles bonds and derivative financial instruments as follows.

Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are recognised as hybrid financial instruments consisting of a liability and a derivative component.

At initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently re-measured in accordance with the accounting policies applicable to “Derivative financial instruments” set out below. The liability component is subsequently carried at amortised cost. The interest expenses recognised in profit or loss on the liability component is calculated using the effective interest method.

The value of any derivative features (such as issuer call option) embedded in the convertible bonds which are not considered to be closely related to the host contract are accounted for separately from the liability component and included in the derivative component.

If the convertible bonds are converted, the carrying amounts of the derivative and the liability components, at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued.

If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements to HKFRSs	<i>2014–2016 Cycle</i>
Amendments to HKFRS 12	<i>Disclosure of Interests in Other Entities</i>

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 period.

3. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are investment holding, manufacturing and trading of printed circuit boards and trading of petroleum and energy products and related business.

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

In order to realise business diversification, the Group has commenced the business of trading of petroleum and energy products and related business during the period ended 30 September 2017. The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments. Based on risks and returns and the Group's internal financial reporting, the Directors consider that the operating segments of the Group comprise:

- (i) Manufacturing and trading of printed circuit boards.
- (ii) Trading of petroleum and energy products and related business.

Segment results represent the results before taxation earned by each segment without allocation of other income generated, finance cost, general administrative expense and other operating expense incurred by the corporate office.

All assets are allocated to reportable segments other than unallocated assets which are mainly available-for-sale financial assets, financial assets at fair value through profit or loss, pledged bank deposits, cash and cash equivalents and other corporate assets. All liabilities are allocated to reportable segments other than interest-bearing borrowings, derivative financial instruments, convertible bonds and other corporate liabilities.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location where the goods are delivered, assets and capital expenditure are attributed to the segments based on the location of the assets.

Revenue from customers contributing over 10% of the total revenue of the Group is also reflected within the segment information.

3. REVENUE AND SEGMENT INFORMATION (continued)

(A) By business segments

Six months ended 30 September 2017 (unaudited)

	Manufacturing and trading of printed circuit boards <i>HK\$'000</i>	Trading of petroleum and energy products and related business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue			
Major customer A	–	93,430	93,430
Major customer B	44,466	–	44,466
Major customer C	18,344	–	18,344
Other customers	22,547	–	22,547
	<u>85,357</u>	<u>93,430</u>	<u>178,787</u>
Segment results	<u>(8,048)</u>	<u>331</u>	<u>(7,717)</u>
Unallocated other income			2,225
Unallocated finance costs			(1,531)
Unallocated operating expenses			(8,502)
Loss before taxation			(15,525)
Income tax expense			–
Loss for the period			<u>(15,525)</u>

Six months ended 30 September 2016 (unaudited)

	Manufacturing and trading of printed circuit boards <i>HK\$'000</i>	Trading of petroleum and energy products and related business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue			
Major customer B	40,283	–	40,283
Major customer C	13,677	–	13,677
Major customer D	12,968	–	12,968
Other customers	23,180	–	23,180
	<u>90,108</u>	<u>–</u>	<u>90,108</u>
Segment results	<u>(17,134)</u>	<u>–</u>	<u>(17,134)</u>
Unallocated other income			3,429
Unallocated finance costs			(1,878)
Unallocated operating expenses			(12,118)
Fair value gains on financial assets at fair value through profit or loss, net			212
Loss before taxation			(27,489)
Income tax expense			–
Loss for the period			<u>(27,489)</u>

3. REVENUE AND SEGMENT INFORMATION (continued)

An analysis of the Group's assets and liabilities by operating segments is set out below:

At 30 September 2017 (unaudited)

	Manufacturing and trading of printed circuit boards <i>HK\$'000</i>	Trading of petroleum and energy product and related business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	<u>170,105</u>	<u>86,703</u>	<u>206,901</u>	<u>463,709</u>
Segment liabilities	<u>46,215</u>	<u>7,066</u>	<u>209,938</u>	<u>263,219</u>

At 31 March 2017 (audited)

	Manufacturing and trading of printed circuit boards <i>HK\$'000</i>	Trading of petroleum and energy products and related business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment assets	<u>168,941</u>	<u>–</u>	<u>212,206</u>	<u>381,147</u>
Segment liabilities	<u>49,186</u>	<u>–</u>	<u>123,596</u>	<u>172,782</u>

3. REVENUE AND SEGMENT INFORMATION (continued)

(B) By geographical information

(a) Revenue from external customers

	(Unaudited)	
	Six months ended	
	30 September	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Singapore	93,430	–
North America	47,731	37,374
Japan	18,359	13,695
The People's Republic of China (the "PRC")	9,701	16,159
Hong Kong	6,529	13,332
Europe	1,905	8,825
Other countries	1,132	723
	<u>178,787</u>	<u>90,108</u>

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

(b) Non-current assets

	(Unaudited)	(Audited)
	30 September	31 March
	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	31,983	1,334
The PRC	101,005	100,694
	<u>132,988</u>	<u>102,028</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	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	998	2,627
Dividend income from listed equity investments	80	200
Exchange gain, net	375	333
Gain on disposal of scrap materials	1,629	1,565
Reversal of impairment loss on other receivables	970	–
Others	1,085	149
	<u>5,137</u>	<u>4,874</u>

5. LOSS BEFORE TAXATION

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

	(Unaudited)	
	Six months ended	
	30 September	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance costs		
Interest on convertible bonds	201	–
Interest on bank borrowings	1,330	1,878
	<u>1,531</u>	<u>1,878</u>
Other items		
Amortisation of prepaid lease payments	148	151
Cost of inventories (<i>Note</i>)	175,724	91,849
Depreciation	5,883	7,055
Exchange gain, net	(375)	(333)
Loss on disposal of property, plant and equipment	256	306
Reversal of write down of inventories	–	(41)
Write down of inventories	–	678
Staff costs (including directors' emoluments)	26,311	24,715
	<u>26,311</u>	<u>24,715</u>

Note:

Cost of inventories excludes write down of inventories and related reversal but includes HK\$20,918,000 (*six months ended 30 September 2016: HK\$19,420,000*) 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's entities have no assessable profits arising in Hong Kong during both periods.

PRC Enterprise Income Tax has not been provided as the Group's entities have 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 Group can utilise the benefits therefrom.

7. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2017 to the shareholders (*six months ended 30 September 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	
	2017	2016
Loss attributable to owners of the Company (HK\$'000)	<u>(15,525)</u>	<u>(27,489)</u>
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>576,243,785</u>	<u>480,243,785</u>
Basic loss per share (HK cents)	<u>(2.69)</u>	<u>(5.72)</u>

(b) Diluted loss per share

Diluted losses per share is the same as basic loss per share as the effect of potential ordinary shares had anti-dilutive effects during the six months ended 30 September 2017 and 2016.

9. TRADE RECEIVABLES

	(Unaudited) 30 September 2017 <i>HK\$'000</i>	(Audited) 31 March 2017 <i>HK\$'000</i>
Trade receivables	90,526	29,458
Allowance for doubtful debts	(206)	(199)
	<u>90,320</u>	<u>29,259</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 trade receivables (before allowance for doubtful debts) by invoice date is as follows:

	(Unaudited) 30 September 2017 <i>HK\$'000</i>	(Audited) 31 March 2017 <i>HK\$'000</i>
Less than 1 month	45,605	19,827
1 to 2 months	42,756	8,850
2 to 3 months	1,848	455
Over 3 months	317	326
	<u>90,526</u>	<u>29,458</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 2017 <i>HK\$'000</i>	(Audited) 31 March 2017 <i>HK\$'000</i>
Not past due	87,635	28,775
Less than 1 month past due	2,292	438
1 to 2 months past due	343	–
2 to 3 months past due	2	16
Over 3 months past due	48	30
	<u>90,320</u>	<u>29,259</u>

10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	(Unaudited) 30 September 2017 HK\$'000	(Audited) 31 March 2017 HK\$'000
Deposits and other receivables	6,477	5,323
Prepayments	3,212	3,176
Bank interest receivable on time deposits	278	970
Value-added tax recoverable	1,030	5,017
	<u>10,997</u>	<u>14,486</u>

11. TRADE PAYABLES

The trade payables are non-interest-bearing and the Group is normally granted with credit terms in range of 30 to 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 2017 HK\$'000	(Audited) 31 March 2017 HK\$'000
Less than 1 month	18,729	12,530
1 to 2 months	6,333	5,673
2 to 3 months	7,472	4,824
Over 3 months	4,412	11,364
	<u>36,946</u>	<u>34,391</u>

12. INTEREST-BEARING BORROWINGS

	(Unaudited) 30 September 2017 HK\$'000	(Audited) 31 March 2017 HK\$'000
Secured bank loans repayable within one year	<u>124,729</u>	<u>114,342</u>

At the end of the reporting period, all bank loans 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\$71,729,000 (31 March 2017: HK\$61,342,000), all the bank loans were denominated in Hong Kong dollars.

At the end of the reporting period, all bank loans are secured by the Group's pledged bank deposits amounting to HK\$140,382,000 (31 March 2017: HK\$123,943,000).

13. CAPITAL COMMITMENTS

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

	(Unaudited) 30 September 2017 HK\$'000	(Audited) 31 March 2017 HK\$'000
Contracted but not provided for net of deposits paid in respect of – property, plant and equipment (<i>Note a</i>)	167,985	1,081

Note a: The amount of contractual commitments for the acquisition of property, plant and equipment of HK\$167,985,000 included the remaining capital commitment for acquisition of vessels of HK\$167,008,000 as detailed in note 16 to the unaudited condensed financial statements.

14. CONVERTIBLE BONDS

On 26 May 2017, the Company has entered into the supplemental placing agreement with the placing agent (the “Supplemental Placing Agreement”) to amend certain terms of the conditional placing agreement dated 28 November 2016 entered into between the Company and the placing agent in relation to the placing of the convertible bonds of the Company in the principal amount of up to HK\$130 million on a best effort basis (the “2016 Placing Agreement”).

Pursuant to the Supplemental Placing Agreement, the maximum principal amount of the convertible bonds to be placed, on a best effort basis, by the placing agent pursuant to the 2016 Placing Agreement has been revised from HK\$130 million to HK\$80 million, the conversion price of the convertible bonds has been revised from HK\$0.65 per share (subject to adjustment) to HK\$0.36 per share (subject to adjustment), the interest rate attached to the convertible bonds has been revised from 8% per annum to 6% per annum on the principal amount of the convertible bonds outstanding from time to time, and the default interest rate has been revised from 5% per annum to 6% per annum.

Convertible bonds with coupon interest rate of 6% per annum payable quarterly in arrears in the principal amount of HK\$80 million which will mature on the third anniversary of the issue date.

Details of the placing of the convertible bonds, including the placing agreement, Supplemental Placing Agreement, conditions precedent, revised use of proceeds, change in shareholdings structure of the Company and effect of full conversion of the convertible bonds have been disclosed in the Company’s announcements dated 24 January 2017 and 26 May 2017.

On 22 September 2017, convertible bonds with an aggregate principal amount of HK\$80 million have been successfully placed. The net proceeds were approximately HK\$77.2 million.

Upon issuance, the holder of the convertible bonds could at any time up till 21 September 2020, convert the convertible bonds into the Company’s shares at HK\$0.36 per share, subject to adjustments (i.e. the conversion option). The Company has the right to redeem the convertible bonds in whole or in part at any time before the maturity date at its face value (i.e. the call option). Both the conversion feature and call options are classified as derivative financial instruments.

14. CONVERTIBLE BONDS (continued)

The carrying amounts of the convertible bonds recognised are calculated as follows:

	<i>HK\$'000</i>
Derivative component, classified as financial liabilities at fair value through profit or loss	
At the issue date and at 30 September 2017 (unaudited)	<u>10,250</u>
Liability component, classified as financial liabilities at amortised costs	
Nominal value of the convertible bonds issued	80,000
Derivative component	(10,250)
Transaction costs allocated	<u>(2,805)</u>
At the issue date	66,945
Effective interest expenses	<u>201</u>
At 30 September 2017 (unaudited)	<u>67,146</u>

The fair values of the derivative financial instruments were determined with reference to a professional valuation conducted by an independent professional valuer.

15. FAIR VALUE MEASUREMENT

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in the unaudited condensed consolidated financial statements on a recurring basis at 30 September 2017 across the three levels of the fair value hierarchy defined in HKFRS 13, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value

	Level 1	
	(Unaudited)	(Audited)
	30 September	31 March
	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets measured at fair value		
Financial assets at fair value through profit or loss	<u>–</u>	<u>1,615</u>

15. FAIR VALUE MEASUREMENT (continued)

Assets and liabilities measured at fair value (continued)

	Level 2	
	(Unaudited)	(Audited)
	30 September	31 March
	2017	2017
	HK\$'000	HK\$'000
Financial liabilities measured at fair value		
Derivative financial instruments (<i>Note 14</i>)	10,250	–

During the six months ended 30 September 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

In the opinion of the directors, except for the available-for-sale financial assets, no other financial assets and liabilities of the Group are carried at amount materially different from their fair values as at 30 September 2017 and 31 March 2017.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of derivative financial instruments in Level 2 is calculated using binomial option pricing model. The fair value is determined based on main inputs of the quoted market price, observable dividends yields, volatility of the underlying listed equities investments and discount rates and in consideration of contract terms, including exercise price and maturity date.

16. EVENT AFTER THE INTERIM PERIOD

On 29 September 2017, the Company (the “Purchaser”) and Inter-Pacific Group Pte. Limited (the “Vendor” or “Inter-Pacific”), an associate of a substantial shareholder of the Company, entered into (i) the sale and purchase agreement, pursuant to which, the Purchaser conditionally agreed to acquire, and the Vendor, as beneficial owner of the vessels, conditionally agreed to dispose, the vessels at an aggregate consideration of HK\$196,480,000; and (ii) the master lease agreement (the “Proposed Transactions”).

Details of the Proposed Transactions, including the conditions precedent, consideration, pricing policy, annual caps and basis of determination and the information of Inter-Pacific and the vessels, reasons for and benefits of the agreements, the listing rules implications and the latest development of the proposed transactions have been disclosed in the Company’s announcements dated 29 September 2017 and 31 October 2017.

On 29 September 2017, a re-fundable deposit of HK\$29,472,000 which was paid by the Company in accordance with the sale and purchase agreement for the Proposed Transactions was recognised as deposits paid for acquisition of property, plant and equipment.

At the end of reporting period and up to the date of this announcement, the Proposed Transactions have not been completed and are subject to the fulfillment of conditions.

17. LITIGATION

In January 2017, Mr. Harry Chan, a former executive director, Chief Executive Officer and Chairman of the Company who was removed from his duties effective from 23 December 2016, filed a claim for a total sum of approximately HK\$4.3 million in respect of wages in lieu of notice, annual leave pay, rest day pay and long service payment (the “Claims”) in the Labour Tribunal against the Company (the “Labour Tribunal Claim No. LBTC248/2017”). After a preliminary hearing, the Labour Tribunal transferred the Labour Tribunal Claim No. LBTC248/2017 to the High Court of Hong Kong Special Administrative Region (the “High Court”) in May 2017 (the “High Court Action No. 1082/2017”).

On 24 May 2017, the Company and Huafeng as first and second plaintiffs filed a statement of claim to the High Court against Mr. Harry Chan for his breaches (i) under the terms of his service agreement; and/or (ii) of his fiduciary and statutory duties to both for the Company and Huafeng as an executive director (the “High Court Action No 818/2017”). The ultimate liability or amount is to be assessed. Pursuant to the order made on 20 June 2017, the High Court Action No. 1082/2017 was consolidated with the High Court Action No. 818/2017, and any damage (or part thereof) may be set off against any amounts which may be awarded in Mr. Harry Chan’s favour (if any) in the High Court Action No. 1082/2017.

The directors of the Company consider that the claim from Mr. Harry Chan is without merit and have been advised by the Group’s lawyers that the Group is not likely that the High Court would find the Company liable for the High Court Action No. 1082/2017. The directors of the Company are of the opinion that it is not probable that an outflow of economic benefits will be required and therefore no provision for the Claims is considered necessary.

Pursuant to a consent order made on 9 August 2017, Mr. Harry Chan shall file into the High Court and serve on the Company and Huafeng his defence on or before 15 November 2017. Up to the date of this announcement, no defence has been filed by Mr. Harry Chan into the High Court.

On 10 October 2017, the directors of the Company instructed the Group’s lawyers to propose the without prejudice meeting to be held on the dates between 18 December 2017 to 22 December 2017.

Up to the date of this announcement, there is no further update from the High Court for the above cases.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

During the period ended 30 September 2017, the Group's total revenue was approximately HK\$179 million, representing an increase of 98.41% as compared with approximately HK\$90 million for the corresponding period in 2016. The increase was resulted from the Group engaging in the trading of petroleum and energy products and related business since June 2017. The revenue from printed circuit board ("PCB") segment was approximately HK\$85 million, a slightly decrease of 5.27% as compared with the corresponding period in 2016 and the revenue from trading on petroleum and energy products and related business segment was approximately HK\$93 million.

The Group's gross profit margin was approximately 1.71%, a further improvement as compared with approximately 2.64% of gross loss margin for the corresponding period in 2016. Gross profit margin of the trading of petroleum and energy products and related business segment was approximately 1.06%. Gross profit margin of PCB segment was approximately 2.43%, representing an effective on the manufacturing process improvement measures of the operating performance during the period, as compared with approximately 2.64% of gross loss margin for the corresponding period in 2016. The improvement was the result of success implementation of the cost-savings plans and enhancing the measurement of the product quality control. Selling and distribution expenses decreased by HK\$2 million was mainly due to the decrease in the customer compensation on product quality.

As a result of the aforementioned factors, the Group's operating loss was reduced to approximately HK\$16 million, a significant decrease of 43.52% as compared to the same period last year.

During the period ended 30 September 2017, the Group has current assets of approximately HK\$321 million and current liabilities of approximately HK\$186 million. The current ratio was 1.73 times (*31 March 2017: 1.56 times*).

Bank borrowings were approximately HK\$125 million as at 30 September 2017 (*31 March 2017: approximately HK\$114 million*). Gearing ratio (defined as total interest-bearing bank borrowings and liability component of convertible bonds divided by total equity) was 96% (*31 March 2017: 55%*). The Group maintained a net cash balance of approximately HK\$2.4 million as at 30 September 2017 (*31 March 2017: approximately HK\$84 million*).

Capital Structure

The capital structure of the Group during the six months ended 30 September 2017 is summarised as follows:

Bank Borrowings

The Group's interest-bearing bank borrowings as at 30 September 2017 are detailed in note 12 to the unaudited condensed financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Structure (continued)

Convertible Bonds

As at 30 September 2017, the Company had 6% interest-bearing convertible bonds. Summary of the movement of the convertible bonds is as follow, further details are set in note 14 to the unaudited condensed financial statements.

Date of issue	Principal amount (HK\$)	Maturity date	Conversion price per share (HK\$)	Amount convert into shares during the period (HK\$)	Balance (HK\$)	Number of shares to be issued upon full conversion
22 September 2017	80,000,000	21 September 2020	0.36	–	80,000,000	222,222,222

Use of Proceeds from the Placing of New Shares Under General Mandate

The net proceeds from issue of new shares under the placing agreement (as defined in the Company's announcement dated 28 February 2017) dated 28 February 2017 were approximately HK\$46.6 million and completed on 20 March 2017. Up to 30 September 2017, the use of net proceeds are as follows:

Date of particulars of the placing	Net proceeds raised (approximately) (HK\$)	Intended use of proceeds	Actual use of proceeds (approximately)
Placing of 96,000,000 new shares under general mandate on 20 March 2017 at a placing price of HK\$0.5 per share	46.6 million	(1) Business development	(1) Bank loan repayment of HK\$22 million
		(2) Repayment of bank borrowings	(2) Marketing department establishment of HK\$0.85 million
			(3) Purchase of machineries of HK\$4.5 million
			(4) Factory improvement program of HK\$1.7 million
			(5) Information system improvement of HK\$0.15 million
			(6) Consultants for business development of HK\$0.94 million

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Use of Proceeds from the Placing of Convertible Bonds Under Specific Mandate

The net proceeds from issue of convertible bonds under the supplemental placing agreement dated 26 May 2017 were approximately HK\$77.2 million and completed on 22 September 2017. Up to the date of this announcement, the use of net proceeds are as follows:

Date of particulars of the convertible bonds	Net proceeds raised (approximately) (HK\$)	Intended use of proceeds	Actual use of proceeds (approximately)
222,222,222 new shares to be issued upon full conversion on 21 September 2020 at conversion price of HK\$0.36 per share	77.2 million	(1) Marketing development (2) Purchase of new machineries and equipment of the existing PCB business (3) Purchase on petroleum related products (4) Purchase of vessel (5) Bank facility line secured for petroleum trading (6) Working capital for petroleum trading	(1) Deposit for purchase of vessels of HK\$29.5 million (2) Purchase of petroleum related products of HK\$30 million (3) Purchase of new machineries of existing PCB business of HK\$1.39 million

Foreign Exchange Exposure

The Group's transaction and monetary assets are principally denominated in Renminbi, Hong Kong dollars and United States dollars. The Group has not experienced any difficulties or effects on its operations or liquidity as a result of the fluctuations in currency exchange rates during the six months ended 30 September 2017. The Group did not enter any foreign exchange derivative contract to manage the currency translation risk of Renminbi against United States dollars during the six months ended 30 September 2017, but the Group will continue to review its foreign exchange exposure regularly and might consider using financial instruments to hedge against foreign exchange exposure at appropriate time.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Contingent Liabilities

The Group did not have any material contingent liability as at 30 September 2017. The Group has provided the corporate guarantees of approximately HK\$217 million (*31 March 2017: approximately HK\$210 million*) to its principal bankers for security of the banking facilities of the subsidiaries. As at 30 September 2017, the facilities were utilised to the extent of approximately HK\$125 million (*31 March 2017: approximately HK\$114 million*).

Litigations

Save as disclosed outstanding litigations set out in note 17 to the unaudited condensed financial statements, the Group is not a party to any other significant legal proceedings.

Human Resources

As at 30 September 2017, the Group had approximately 458 employees (*31 March 2017: 468*) including directors, working mainly in Mainland China. For the period ended 30 September 2017, the Group's total staff costs (including directors' emoluments) were about HK\$26 million (*six months ended 30 September 2016: HK\$25 million*).

Outlook

Printed Circuit Board Segment

Operating environment remains challenging during the six months ended 30 September 2017. The Group's sale team will continuously maintain the Group's well-established business relationship with core customers, and seek new customers to increase more market share and reduce the customer dependency on important customers of the Group. The Group is in the progress of further upgrading its production facilities, enhancing the measurement on the products quality control and streamlining the production process and modifying the existing pricing policy in order to optimise product performance, so as to enhance the Group's competitiveness and satisfy customers' demands.

Trading of Petroleum and Energy Products and Related Business Segment

In June 2017, the Group has commenced to operate in the trading of petroleum and energy products and related business, being a new business segment to the Group. The Group will be benefited from diversifying its revenue stream which is expected to increase its shareholders' value and benefit the Company and its shareholders as a whole.

In September 2017, the Group entered into sale and purchase agreement with an associate of a substantial shareholder of the Group to acquire 4 vessels to open up the vessel chartering service subject to the special general meeting and regulatory authority approval, so as to broaden the source of income of the Group and diversify the Group's business portfolio on an on-going basis. After the completion of acquisition of vessels, the management will explore synergy opportunities between the indent trading of petroleum and energy products and owned vessels.

MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTION

On 29 September 2017, the Company (“the Purchaser”) entered into the sale and purchase agreement with Inter-Pacific Group Pte. Limited (the “Vendor” or “Inter-Pacific”), pursuant to which, the Vendor conditionally agreed to dispose, the vessels at an aggregate consideration of HK\$196,480,000; and the master lease agreement (the “Proposed Transactions”).

Inter-Pacific is an associate of an Executive Director who is also a substantial shareholder of the Company, the acquisition of vessels also constitutes a connected transaction under Chapter 14A of the Listing Rules as the acquisition of vessels are more than 25% but less than 100%. On the same basis, the leasing of the vessels under the master lease agreement also constitutes non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules as the highest of the applicable percentage ratios in respect of the master lease agreement is more than 5%. Accordingly, the transactions contemplated under the agreements are subject to reporting, announcement and shareholder’s approval requirements under the Listing Rules.

Detail of transactions have been disclosed in the Company’s announcements dated 29 September 2017 and 31 October 2017. Up to the date of this announcement, the Proposed Transactions have not yet been completed.

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 2017, except for the following deviations:

Chairman and Chief Executive Officer

The Group has not appointed any Chief Executive Officer. The daily operations of the Group are delegated to the executive directors and the senior management. The Board is of the view that the current management structure can effectively facilitate the Company’s operation and business development.

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.

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 2017.

By Order of the Board
Cheung Lai Na
Chairman

Hong Kong, 24 November 2017

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

Executive directors:

CHEUNG Lai Na (*Chairman*)
CHEUNG Lai Ming

Independent non-executive directors:

CHOU Yuk Yan
LEUNG King Fai
LAW Ping Wah

Non-executive director:

LEE Man Kwong