



DAISHO MICROLINE HOLDINGS LIMITED
大昌微綫集團有限公司



Interim Report
2006

Stock Code: 0567

FINANCIAL HIGHLIGHTS

RESULTS	6 months ended 30 September		
	2006	2005	% Change
Revenue (<i>HK\$'000</i>)	458,944	251,507	+82%
Profit attributable to equity holders (<i>HK\$'000</i>)	97,687	25,775	+279%
Gross profit ratio (%)	47	36	+11%
Basic earnings per share (<i>HK cents</i>)	20.52	5.53	+271%
Interim dividend per share (<i>HK cents</i>)	4.0	–	N/A
FINANCIAL POSITION	30 September		% Change
	2006	31 March 2006	
Net assets (<i>HK\$'000</i>)	333,596	237,341	+41%
Gearing ratio (<i>times</i>)	0.29	0.28	+4%
Current ratio (<i>times</i>)	1.28	1.05	+22%

UNAUDITED INTERIM REPORT

The Board of Directors (the “Board”) of Daisho Microline Holdings Limited (the “Company”) is pleased to present the unaudited interim report of the Company and its subsidiaries (the “Group”) for the 6 months ended 30 September 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		6 months ended 30 September	
		2006	2005
	Notes	HK\$'000	HK\$'000
REVENUE	3	458,944	251,507
Cost of sales		(241,506)	(160,361)
Gross profit		217,438	91,146
Other income and gains		2,237	841
Selling and distribution costs		(81,963)	(44,968)
Administrative expenses		(19,576)	(14,079)
Other expenses		(755)	(2,535)
Finance costs	4	(2,899)	(1,136)
PROFIT BEFORE TAX	4	114,482	29,269
Tax	5	(16,795)	(3,494)
PROFIT FOR THE PERIOD		97,687	25,775
Attributable to equity holders of the Company		97,687	25,775
INTERIM DIVIDEND	6	19,225	–
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
– Basic		HK20.52 cents	HK5.53 cents
– Diluted		HK20.33 cents	HK5.51 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	8	326,384	242,873
Prepaid land lease payments		4,131	4,069
Deposits paid for acquisition of items of property, plant and equipment		1,518	19,270
Total non-current assets		332,033	266,212
CURRENT ASSETS			
Inventories		52,195	38,762
Trade debtors	9	161,421	135,751
Sundry debtors, prepayments & deposits		11,675	8,862
Cash and bank balances	10	65,815	53,355
Total current assets		291,106	236,730
CURRENT LIABILITIES			
Trade creditors	11	98,355	89,427
Other creditors and accruals		68,123	94,062
Interest-bearing bank and other borrowings	12	42,641	32,208
Tax payable		17,424	9,187
Total current liabilities		226,543	224,884
NET CURRENT ASSETS		64,563	11,846
TOTAL ASSETS LESS CURRENT LIABILITIES		396,596	278,058
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	54,730	34,217
Deferred tax liabilities		8,270	6,500
Total non-current liabilities		63,000	40,717
Net assets		333,596	237,341
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		48,061	47,176
Reserves		285,535	175,913
Proposed final dividend		–	14,252
Total equity		333,596	237,341

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

6 months ended 30 September 2006

	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total equity HK\$'000
At 1 April 2006	47,176	90,613*	9,379*	(15,155)*	91,076*	14,252	237,341
Exchange realignment and total income and expense for the period recognised directly in equity	–	–	–	10,684	–	–	10,684
Profit for the period	–	–	–	–	97,687	–	97,687
Issue of ordinary shares from exercise of share options	885	1,417	–	–	–	–	2,302
Payment of final dividend for 2005/06	–	–	–	–	(166)	(14,252)	(14,418)
At 30 September 2006	48,061	92,030*	9,379*	(4,471)*	188,597*	–	333,596

(Unaudited)

6 months ended 30 September 2005

(Accumulated)

	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	losses)/ retained profits HK\$'000	Proposed final dividend HK\$'000	Total equity HK\$'000
At 1 April 2005	46,601	90,038	9,379	(17,742)	(3,726)	–	124,550
Exchange realignment and total income and expense for the period recognised directly in equity	–	–	–	3,920	–	–	3,920
Profit for the period	–	–	–	–	25,775	–	25,775
At 30 September 2005	46,601	90,038	9,379	(13,822)	22,049	–	154,245

* These reserve accounts comprise the consolidated reserves of HK\$285,535,000 (31 March 2006: HK\$175,913,000) in the consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	6 months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	114,482	29,269
Net adjustments for non-cashflow items	40,968	19,295
Operating profit before working capital changes	155,450	48,564
Net decrease/(increase) in working capital	(76,163)	1,048
Cash generated from operations	79,287	49,612
Net interest payment	(2,033)	(1,042)
Net tax payment	(6,788)	(656)
Net cash inflow from operating activities	70,466	47,914
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash outflow from investing activities	(50,912)	(18,544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash outflow from financing activities	(30,921)	(21,506)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(11,367)	7,864
Cash and cash equivalents at beginning of the period	53,355	7,169
Effect of foreign exchange rate changes, net	427	1,679
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	42,415	16,712
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	22,921	16,712
Bank deposits maturing within 3 months when placed	19,494	–
Cash and cash equivalents	42,415	16,712

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of this interim report are the same as those adopted in preparing the annual audited financial statements for the year ended 31 March 2006, except that the Group has changed certain of its accounting policies following its adoption of the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 April 2006.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The application of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period. Accordingly, no prior period adjustments are required.

2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in this interim report.

HKAS 1 Amendment	Capital disclosure ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – Int 8	Scope of HKFRS 2 ²
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ³
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

The Group anticipates that the applications of these new or revised standard, amendment and interpretations would not have significant impact on the result and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

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

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

(a) Business segment

The Group has only one business segment, which is the manufacture and trading of printed circuit boards. Therefore, no business segment analysis is presented.

(b) Geographical segments

In presenting information by geographical segment, segment revenue is based on the location of the customers.

		(Unaudited)	
		6 months ended 30 September	
		2006	2005
		HK\$'000	HK\$'000
			(restated)
Segment revenue:			
Sales to external customers			
Mainland China	196,008	120,360	
Europe	169,407	75,495	
Hong Kong	31,940	22,529	
Japan	26,705	18,312	
Others	34,884	14,811	
	<u>458,944</u>	<u>251,507</u>	

4. PROFIT BEFORE TAX

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

	(Unaudited)	
	6 months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
(a) Finance costs:		
Interest on:		
Bank loans and other loans wholly repayable within five years	(645)	(618)
Finance leases and hire purchase contracts	(2,254)	(518)
	<u>(2,899)</u>	<u>(1,136)</u>
(b) Other items:		
Depreciation	(34,058)	(18,153)
Amortization of land lease payments	(59)	(58)
Staff costs (including directors' remuneration)	(21,077)	(14,880)
Bank interest income	<u>724</u>	<u>51</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the current period. No provision for Hong Kong profits tax has been made for the prior period as the Company and its subsidiaries either had no assessable profits for that period or had utilised tax losses brought forward from prior years to offset the assessable profits arising during that period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Deferred tax has been provided on temporary differences using the current applicable rate.

	(Unaudited)	
	6 months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the period	6,450	–
Current – Elsewhere		
Charge for the period	8,575	3,014
Deferred	<u>1,770</u>	<u>480</u>
Total tax charge for the period	<u>16,795</u>	<u>3,494</u>

6. INTERIM DIVIDEND

	(Unaudited)	
	6 months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Proposed interim dividend of HK4.0 cents (2006: nil) per share	<u>19,225</u>	<u>–</u>

At the Board meeting held on 30 November 2006, the Board has resolved to declare an interim dividend of HK4.0 cents per share for the year ending 31 March 2007. This proposed dividend is not reflected as a dividend payable in the condensed consolidated financial statements for the 6 months ended 30 September 2006, but will be reflected as an appropriation of retained profits for the year ending 31 March 2007.

The amount of the proposed interim dividend is based on 480,613,785 shares in issue at 30 November 2006.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$97,687,000 (2005: HK\$25,775,000) and the weighted average number of 476,103,402 (2005: 466,013,785) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$97,687,000 (2005: HK\$25,775,000) and the weighted average number of 480,616,527 (2005: 467,888,459) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliation

	(Unaudited)	
	6 months ended 30 September	
	2006	2005
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares used in calculating basic earnings per share	476,103,402	466,013,785
Deemed issue of ordinary shares for no consideration arising from share options	<u>4,513,125</u>	<u>1,874,674</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>480,616,527</u>	<u>467,888,459</u>

8. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)	
	6 months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Purchase of property, plant and equipment	<u>108,327</u>	<u>43,354</u>

9. TRADE DEBTORS

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

	(Unaudited)	(Audited)
	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
Current to 1 month	157,754	133,721
1 to 2 months	2,006	1,344
2 to 3 months	957	46
Over 3 months	<u>704</u>	<u>640</u>
	<u>161,421</u>	<u>135,751</u>

10. CASH AND BANK BALANCES

	(Unaudited)	(Audited)
	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
Cash at bank and in hand	22,921	51,618
Bank deposits maturing within 3 months when placed	<u>19,494</u>	<u>1,737</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	42,415	53,355
Bank deposits maturing after 3 months but within 1 year when placed	<u>23,400</u>	<u>–</u>
	<u>65,815</u>	<u>53,355</u>

11. TRADE CREDITORS

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

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Current to 1 month	86,909	74,937
1 to 2 months	3,746	12,150
2 to 3 months	5,949	1,373
Over 3 months	1,751	967
	<u>98,355</u>	<u>89,427</u>

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Current liabilities		
Trust receipt loans	–	4,501
Bank loans – unsecured	5,548	5,549
Bank loans – secured	183	1,278
Finance lease and hire purchase contract payable	36,910	20,880
	<u>42,641</u>	<u>32,208</u>
Non-current liabilities		
Bank loans – unsecured	5,833	4,722
Finance lease and hire purchase contract payable	48,897	29,495
	<u>54,730</u>	<u>34,217</u>
Total	<u>97,371</u>	<u>66,425</u>

13. MAJOR NON-CASH TRANSACTIONS

During the period, the Group entered into finance lease arrangements in respect of the property, plant and equipment with a total capital value at the inception of the leases of HK\$49,750,000 (2005: HK\$22,683,000).

14. CAPITAL COMMITMENTS

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

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Capital commitments, Contracted but not provided for, in respect of acquisition of items of property, plant and equipment	<u>4,326</u>	<u>59,641</u>

15. SHARE OPTION SCHEME

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

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

As at 30 September 2006, 1,650,000 share options which were granted on 15 June 2004 remained unexercised. These share options are exercisable during the period from 15 June 2004 to 14 June 2009 at an exercise price of HK\$0.20 per share. If these outstanding share options are fully exercised, they shall represent approximately 0.34% of the existing issued share capital of the Company.

15. SHARE OPTION SCHEME *(Continued)*

The movement of the share options under the Scheme during the period is as follows:

								Price of	
								Company's shares	
Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options	*Exercise price of share options HK\$	**At	***At
	At	Granted	Exercised	At				grant	exercise
	1 April	during	during	30 Sep				date of	date of
	2006	the period	the period	2006				options	options
Directors:									
Hiroto Sasaki	3,650,000	–	(2,000,000)	1,650,000	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.83
Au-Yeung									
Wai Hung	4,600,000	–	(4,600,000)	–	15-6-04	15-6-04 to 14-6-09	0.20	0.192	1.35
	<u>8,250,000</u>	<u>–</u>	<u>(6,600,000)</u>	<u>1,650,000</u>					
Other employees:									
In aggregate	1,300,000	–	(1,300,000)	–	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.81
	150,000	–	(150,000)	–	14-11-05	14-11-05 to 14-6-09	0.31	0.310	2.23
	–	600,000	(600,000)	–	19-5-06	19-5-06 to 14-6-09	0.85	0.820	2.11
	–	200,000	(200,000)	–	5-6-06	5-6-06 to 14-6-09	0.83	0.830	2.05
	<u>1,450,000</u>	<u>800,000</u>	<u>(2,250,000)</u>	<u>–</u>					
	<u>9,700,000</u>	<u>800,000</u>	<u>(8,850,000)</u>	<u>1,650,000</u>					

Notes:

- * The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- ** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the date of grant of the options.
- *** The price of the Company's shares disclosed at the exercise date of share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line for the respective director and other employees.

The Group has not recognised in the current period's income statement the cost of 800,000 share options granted by the Company during the period since in the opinion of the directors, the values of such share options did not have a significant impact on the Group's results for the current period.

16. RELATED PARTY TRANSACTIONS

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

	Notes	(Unaudited)	
		6 months ended 30 September	
		2006 HK\$'000	2005 HK\$'000
Sale of printed circuit boards to a related party	(i)	26,705	18,265
Technical support fees paid to a related party	(ii)	794	682

Notes:

- (i) Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company, and the products sold were unique and tailor-made to the customer's requirements and specifications. The selling prices of the printed circuit boards were determined based on the complexity of the specifications and were agreed between the respective parties.
- (ii) Technical support fees were paid to Daisho Denshi Co., Ltd. for the provision of technical support services for the Group's manufacturing of printed circuit boards. The technical support fees were determined on bases agreed between the respective parties.

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

	(Unaudited)	
	6 months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Short term employee benefits	2,728	2,325
Post-employment benefits	119	101
Total compensation paid to key management personnel	2,847	2,426

17. COMPARATIVE FIGURES

The Group has changed its identification of reportable geographical segment revenue for the 6 months ended 30 September 2006. The Group reclassified its six geographical segments in the corresponding period, namely "Mainland China", "Estonia", "Europe (excluding Estonia)", "Hong Kong", "Japan" and "Others" into the current five geographical segments, namely "Mainland China", "Europe", "Hong Kong", "Japan" and "Others". In the opinion of the directors, the revised basis of segment identification provides a more appropriate presentation of the segment revenue information.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group made remarkable achievement for the current period. Revenue was about HK\$459 million which represented a year on year growth of 82%. Profit attributable to equity holders was about HK\$98 million which represented a year on year growth of 279%. The outstanding operating performance was mainly attributable to the strong global demand for mobile phones during the current period and the Group's timely addition of highly sophisticated production equipment since the second half of last year so as to cope with the foreseeable huge demand for High Density Inter-connect ("HDI") printed circuit boards ("PCB").

During the current period, the sales orders coming from the telecommunication product customers were enormous and their profit margin was on average far greater than those from other electronic products customers. In order to obtain the highest economic benefit out of existing resources, most of the Group's PCB production capacity was devoted to meet the demand from the telecommunication product customers as much as possible. Accordingly, the sales value of PCB sold to the telecommunication product customers increased to about 85% of the Group's revenue for the current period.

Because the sales of different categories of PCB increased almost at the same pace during the current period, there was no significant change in the sales mix as compared to the last corresponding period. About two-third of the Group's revenue comprised HDI PCB and about one-third of the Group's revenue comprised two-layer and multi-layer PCB.

The Group's PCB average selling price for the current period increased by about 13% as compared to the last corresponding period. Resulting from the increase in production volume during the current period, the Group further obtained benefits from the economy of scale like bulk purchase discount and lower average fixed overhead cost per unit etc. However, the Group's gross profit ratio for the current period increased by about 11% only because of the substantial increment in the purchase prices of certain models of essential raw material items such as laminate and copper foil etc. of which the purchase prices have increased by as much as 40% during the current period as a result of the continuous mismatch of global demand and supply for copper and glass fibre.

Financial Review

The total capital expenditure incurred by the Group during the current period amounted to about HK\$108 million which consisted mainly of highly sophisticated production equipment acquired to cope with the foreseeable huge demand for HDI PCB. External finance lease facilities amounting to about HK\$50 million had been arranged in last year to finance part of these capital expenditure during the current period while the balance had been or would be financed by the Group's internal resources.

The Group's gearing ratio (defined as the ratio of interest-bearing bank and other borrowings to total equity) at 30 September 2006 and 31 March 2006 was 0.29 times and 0.28 times respectively while the Group's current ratio at 30 September 2006 and 31 March 2006 was 1.28 times and 1.05 times respectively. Although the Group's PCB operation generated net cash inflow of about HK\$70 million during the current period, the gearing ratio had slightly increased instead because of the finance of the capital expenditure by external finance lease facilities amounting to about HK\$50 million during the current period as mentioned above.

As at 30 September 2006, the Group's interest-bearing bank and other borrowings amounting to HK\$97,371,000 (31 March 2006: HK\$66,425,000) out of which HK\$42,641,000 (31 March 2006: HK\$32,208,000) were repayable within the next 12 months. These borrowings were all denominated in Hong Kong dollars ("HK\$"), originally repayable monthly over 3 years (except for the bank borrowings as at 31 March 2006 totaling HK\$4,501,000 which were originally repayable within 3 months) and subjected to floating interest rates for about 88% (31 March 2006: 79%) of them. The Group has not adopted any interest rate hedging tool for these borrowings. Certain machinery and equipment of the Group with a net book value at 30 September 2006 of HK\$113,464,000 (31 March 2006: HK\$70,089,000) were pledged to secured these borrowings.

As at 30 September 2006, the Group's assets and liabilities were mostly denominated in either HK\$, US\$ or Renminbi ("RMB"). Because the exchange rate for US\$ against HK\$ is relatively stable in Hong Kong for the moment, the Group has not adopted any hedging tool against its assets or liabilities denominated in US\$. Also because the Group's subsidiary in Mainland China has net assets as at 30 September 2006 and RMB is expected to appreciate gradually, there is only a remote possibility that the Group will suffer exchange loss on the translation of these net assets and so the Group has not adopted any hedging tool against these net assets denominated in RMB. However, the Group began to make use of foreign exchange forward contracts during the current period to hedge against about one-third of its operating expenses to be paid in RMB in light of the likely appreciation of RMB.

Employee Benefits

As at 30 September 2006, the Group had 1,842 (31 March 2006: 2,001) employees, including directors, working mainly in Mainland China. For the period ended 30 September 2006, the Group's total staff costs including directors' remuneration were HK\$ HK\$21,077,000 (2006: HK\$14,880,000).

According to the Group's staff remuneration policy, the remuneration of an employee and the Company's director is determined by the Board and the Company's Remuneration Committee respectively from time to time with reference to his performance and duties, the performance and profitability of his employer and the prevailing market conditions.

Outlook

It is estimated by some industry analysts that the global sales of mobile phones in the year 2006 will reach about 1 billion units. Certainly, it is hard to find a single electronic product with such a great demand like that of mobile phone for the moment. The Group's strategic alliance with Daisho Denshi Co. Ltd. (one of the top PCB manufacturers in Japan and one of the Company's substantial shareholders) in the provision of highly delicate PCB for the telecommunication product customers has been proven to be the right move. The Group is progressing to the manufacture of next hierarchy of HDI PCB which requires more advance technology in order to stand out further from the majority of competitors and the Group's existing customer base comprising many world-renowned customers will become the springboard for the Group to advance further.

The Group has begun to develop business with more non-telecommunication products customers and the result is encouraging. Some famous customers manufacturing such electronic products as digital camera, laser printer and photocopier etc. have promised to place more sales orders with the Group from the year 2007 onwards. The Group will gradually broaden its customer base and achieve a more balanced growth.

The Group is well aware of the keen competition within the telecommunication product industry. Resulting from the rapid launch of different new models of mobile phone in the past, most telecommunication product customers have suffered from the reduction in the average selling price for their products. In order to avoid the early erosion in the average selling price, the Group's telecommunication product customers have begun to re-schedule the launch of some new models of mobile phone since August 2006. The re-schedule will definitely decelerate the growth of the Group but the extent of the impact cannot be assessed for the moment because it will depend on the duration of the re-schedule and the number of new models of mobile phone re-scheduled for launching.

The road ahead for the Group will be full of business opportunities and challenge. Equipped with sound financial position and ample experience in the manufacture of highly delicate PCB, the Group is ready to catch the business opportunities and confront the challenge.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.0 cents per ordinary share for the year ending 31 March 2007 (2006: Nil). The interim dividend will be paid on 7 February 2007 to shareholders whose names are registered in the register of members of the Company on 26 January 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 24 January 2007 to 26 January 2007, both days inclusive during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 January 2007.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the 6 months ended 30 September 2006, except for the following deviations:

Chairman and Chief Executive Officer

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

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

Non-executive directors

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

The independent non-executive directors of the Company do not have a specific term of appointment, but are subject to retirement by rotation and re-election in accordance with the relevant provisions of the Company's bye-laws.

Re-election of directors

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

The Company is subject to a private act known as "The Juko Laboratories Holdings Limited Company Act 1990" which does not require the Chairman of the Company to be subject to retirement by rotation in accordance with the Bye-Laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company has agreed to retire on a voluntary basis at least once every three years at the annual general meeting of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2006, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers", were as follows:

Long positions in ordinary shares of the Company

Name of director	Directly beneficially owned	Beneficiary of a trust	Total	Percentage of the Company's issued share capital
Chan Sik Ming, Harry	39,080,000	103,321,417*	142,401,417	29.63
Hiroto Sasaki	2,950,000	N/A	2,950,000	0.61
Au-Yeung Wai Hung	4,600,000	N/A	4,600,000	0.96

* Chan Sik Ming, Harry and his family are the objects of a discretionary trust, which has appointed Earnwell Limited as its trustee. At 30 September 2006, Earnwell Limited held 103,321,417 shares representing approximately 21.50% of the issued share capital of the Company.

Long positions in underlying shares of the Company

Name of director	Number of share options [#]	Percentage of the Company's existing issued share capital if fully exercised
Hiroto Sasaki	1,650,000	0.34

[#] These share options were granted by the Company on 15 June 2004 and are exercisable during the period from 15 June 2004 to 14 June 2009 at an exercise price of HK\$0.20 per share.

Details of the share options are stated under Note 15 of this Interim Report.

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

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

At 30 September 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Earnwell Limited	Trustee	103,321,417	21.50
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.40
Easy Gain Limited	Trustee	28,718,416	5.98
Lau Wing Hung	Directly beneficially owned	27,200,000	5.66

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares and 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.

AUDIT COMMITTEE

The Audit Committee of the Company comprises the three independent non-executive directors of the Company. It was established in compliance with the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the 6 months ended 30 September 2006.

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 6 months ended 30 September 2006.

By Order of the Board
Chan Sik Ming, Harry
Chairman

Hong Kong, 30 November 2006

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

Executive directors:

CHAN Sik Ming, Harry (*Chairman & CEO*)
Motofumi TSUMURA
Hiroto SASAKI
Hiroyuki KIKUCHI
AU-YEUNG Wai Hung

Independent non-executive directors:

Kohu KASHIWAGI
CHAN Yuk Tong
LI Chi Kwong