DAISHO MICROLINE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 0567)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

The Board of Directors (the "Board") of Daisho Microline Holdings Limited (the "Company") announces the preliminary consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2018 together with the comparative figures of the previous corresponding year are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 March	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**411,859**	170,245
Cost of sales		**(399,461)**	(170,172)
Gross profit		**12,398**	73
Other income		**11,354**	7,949
Selling and distribution expenses		**(7,176)**	(7,874)
Administrative expenses		**(43,310)**	(45,490)
Other operating expenses		**(844)**	(2,939)
Impairment loss of property, plant and equipment	*11*	**(24,291)**	–
Loss on disposal of available-for-sale financial assets		**(3,357)**	–
Fair value gains on financial assets at fair value through profit or loss, net		**–**	356
Fair value loss on derivative financial instruments	*12*	**(17,136)**	–
Finance costs	*5*	**(7,715)**	(3,084)
Loss before taxation	*5*	**(80,077)**	(51,009)
Income tax expense	*6*	**–**	–
Loss for the year		**(80,077)**	(51,009)
Loss per share			
– Basic and diluted	*7*	**HK(13.90) cents**	HK(10.55)cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(80,077)**	(51,009)
Other comprehensive income (loss):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of functional currency to presentation currency	**22,132**	(17,519)
Other comprehensive income (loss) for the year	**22,132**	(17,519)
Total comprehensive loss for the year	**(57,945)**	(68,528)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March **2018** *HK$'000*	2017 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**104,847**	87,994
Prepaid lease payments		**12,972**	12,029
Deposits paid for acquisition of property, plant and equipment		**23,501**	2,005
Available-for-sale financial assets		**–**	9,281
		141,320	111,309
CURRENT ASSETS			
Financial assets at fair value through profit or loss		**–**	1,615
Inventories		**31,504**	26,082
Trade receivables	*8*	**83,538**	29,259
Other receivables, deposits and prepayments		**13,412**	14,486
Pledged bank deposits		**154,441**	123,943
Cash and cash equivalents		**59,607**	74,453
		342,502	269,838
CURRENT LIABILITIES			
Trade payables	*9*	**77,044**	34,391
Other payables and accruals		**25,846**	24,049
Interest-bearing borrowings	*10*	**105,543**	114,342
		208,433	172,782
NET CURRENT ASSETS		**134,069**	97,056
TOTAL ASSETS LESS CURRENT LIABILITIES		**275,389**	208,365
NON-CURRENT LIABILITIES			
Promissory note payable		**28,272**	–
Derivative financial instruments	*12*	**27,386**	–
Convertible bonds	*12*	**69,311**	–
		124,969	–
NET ASSETS		**150,420**	208,365
CAPITAL AND RESERVES			
Share capital		**57,624**	57,624
Reserves		**92,796**	150,741
TOTAL EQUITY		**150,420**	208,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for financial assets at fair value through profit or loss and derivative financial instruments, which are measured at fair value. These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in note 2 below and the adoption of the accounting policy for convertible bonds and derivative financial instruments as follows.

Convertible bonds

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative and do not contain an equity component, it is separate from its liability component. On 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.

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.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

2. ADOPTION OF NEW/REVISED HKFRSs

In the current year, the Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements to HKFRSs	*2014–2016 Cycle: HKFRS 12*

Amendments to HKAS 7: Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The adoption of the amendments results in the additional disclosures in the consolidated financial statements. In accordance with the transitional provisions therein, the comparative information is not presented in the first year of adoption.

Amendments to HKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

Annual Improvements 2014-2016 Cycle: HKFRS 12 – Clarification of the scope

The amendments clarify that except for the summarised financial information for subsidiaries, joint ventures and associates in which the interests are classified or included in a disposal group that is classified as held for sale in accordance with HKFRS 5, the requirements of HKFRS 12 apply to interests in entities within the scope of HKFRS 5.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

3. REVENUE

The Group's revenue represents net invoiced value of goods sold after allowance for returns, trade discounts and value-added tax during the year.

	2018 ***HK$'000***	2017 *HK$'000*
Sales of printed circuit boards	**199,876**	170,245
Sales of petroleum and energy products	**211,983**	–
	411,859	170,245

4. SEGMENT INFORMATION

In order to realise business diversification, the Group has commenced the business of trading of petroleum and energy products and related business during the year ended 31 March 2018. The directors of the Company 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 of the Company consider that the operating segments of the Group comprise:

(i) Manufacturing and trading of printed circuit boards; and

(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 costs, administrative expenses and other operating expenses incurred by the corporate office, loss on disposal of available-for-sale financial assets, fair value loss on derivative financial instruments and net fair value gains on financial assets at fair value through profit or loss.

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 of customers; assets and capital expenditure are attributed to the segments based on the locations of the assets.

4. **SEGMENT INFORMATION (CONTINUED)**

(A) By Business Segments

Year ended 31 March 2018

	Manufacturing and trading of printed circuit boards *HK$'000*	Trading of petroleum and energy products and related business *HK$'000*	Consolidated *HK$'000*
Segment revenue			
Major customer A	–	186,168	186,168
Major customer B	91,280	–	91,280
Other customers	108,596	25,815	134,411
	199,876	211,983	411,859
Segment results	(40,978)	627	(40,351)
Unallocated other income			6,592
Unallocated administrative expenses			(17,927)
Unallocated other operating expenses			(183)
Loss on disposal of available-for-sale financial assets			(3,357)
Fair value loss on derivative financial instruments			(17,136)
Finance costs			(7,715)
Loss before taxation			(80,077)
Income tax expense			–
Loss for the year			(80,077)

4. **SEGMENT INFORMATION (CONTINUED)**

(A) **By Business Segments (Continued)**

Year ended 31 March 2017

	Manufacturing and trading of printed circuit boards *HK$'000*	Trading of petroleum and energy products and related business *HK$'000*	Consolidated *HK$'000*
Segment revenue			
Major customer B	71,874	–	71,874
Major customer C	30,435	–	30,435
Major customer D	19,438	–	19,438
Major customer E	18,377	–	18,377
Other customers	30,121	–	30,121
	170,245	–	170,245
Segment results	(35,547)	–	(35,547)
Unallocated other income			4,167
Unallocated administrative expenses			(13,962)
Unallocated other operating expenses			(2,939)
Fair value gains on financial assets at fair value through profit or loss, net			356
Finance costs			(3,084)
Loss before taxation			(51,009)
Income tax expense			–
Loss for the year			(51,009)

A major customer is a customer (including a group of entities under common control) with whom revenue from transactions amounted to 10% or more of the Group's revenue.

4. SEGMENT INFORMATION (CONTINUED)

(A) By Business Segments (Continued)

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

As at 31 March 2018

	Manufacturing and trading of printed circuit boards *HK$'000*	Trading of petroleum and energy products and related business *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment assets	**166,288**	**98,263**	**219,271**	**483,822**
Segment liabilities	**65,235**	**58,447**	**209,720**	**333,402**
Other segment information:				
Amortisation	**(305)**	**–**	**–**	**(305)**
Depreciation	**(11,487)**	**–**	**(587)**	**(12,074)**
Gain on disposal of financial assets at fair value through profit or loss, net	**–**	**–**	**310**	**310**
Fair value loss on derivative financial instruments	**–**	**–**	**(17,136)**	**(17,136)**
Loss on disposal of available-for-sale financial assets	**–**	**–**	**(3,357)**	**(3,357)**
Gain (Loss) on disposal of property, plant and equipment	**96**	**–**	**(256)**	**(160)**
Reversal of impairment loss on other receivables, deposits and prepayments	**996**	**–**	**–**	**996**
Impairment loss on property, plant and equipment	**(24,291)**	**–**	**–**	**(24,291)**
Deposits paid for acquisition of property, plant and equipment	**731**	**22,770**	**–**	**23,501**
Additions to property, plant and equipment	**3,843**	**39,642**	**1,776**	**45,261**

4. **SEGMENT INFORMATION (CONTINUED)**

(A) By Business Segments (Continued)

As at 31 March 2017

	Manufacturing and trading of printed circuit boards *HK$'000*	Trading of petroleum and energy products and related business *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Segment assets	168,941	–	212,206	381,147
Segment liabilities	49,186	–	123,596	172,782
Other segment information:				
Amortisation	(296)	–	–	(296)
Depreciation	(12,486)	–	(96)	(12,582)
Fair value gains on financial assets at fair value through profit or loss, net	–	–	356	356
Loss on disposal of property, plant and equipment	(283)	–	(2)	(285)
Reversal of impairment loss on trade receivables	14	–	–	14
Reversal of written down of inventories	41	–	–	41
Deposits paid for acquisition of property, plant and equipment	2,005	–	–	2,005
Additions to property, plant and equipment	5,850	–	1,118	6,968

4. SEGMENT INFORMATION (CONTINUED)

(B) Geographical Information

(i) Revenue form external customers

	2018	2017
	HK$'000	*HK$'000*
Singapore	**186,168**	–
North America	**103,037**	77,067
Hong Kong	**40,425**	22,826
Japan	**37,834**	30,457
People's Republic of China (the "PRC")	**34,551**	24,923
Europe	**3,528**	13,455
Other countries	**6,316**	1,517
	411,859	170,245

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

(ii) Non-current assets

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**2,244**	1,334
Singapore	**62,412**	–
The PRC	**76,664**	100,694
	141,320	102,028

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

5. LOSS BEFORE TAXATION

This is stated after charging (crediting):

	2018	2017
	HK$'000	*HK$'000*
Finance costs		
Interest on bank borrowings	**2,968**	3,084
Interest on convertible bonds *(Note 12)*	**4,747**	–
	7,715	3,084
Staff costs (excluding directors' emoluments)		
Salaries, allowances and other employee benefits	**39,972**	37,036
Contribution to defined contribution plans	**4,231**	4,312
Contractual termination benefits	**–**	120
	44,203	41,468
Other items		
Auditor's remuneration	**1,080**	890
Amortisation of prepaid lease payments	**305**	296
Cost of inventories *(Note (i))*	**399,461**	170,213
Depreciation	**12,074**	12,582
Exchange (gain) loss, net	**(3,796)**	1,998
Loss on disposal of property, plant and equipment, net, included in other operating expenses	**160**	285
Operating lease charges for premises	**1,320**	1,167
Reversal of write down of inventories, included in cost of sales	**–**	(41)

Note:

(i) Cost of inventories excludes write down of inventories and related reversal but includes HK$37,446,000 (2017: HK$37,724,000) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

6. INCOME TAX EXPENSE

PRC Enterprise Income Tax has not been provided as the Group's entities incurred a loss for taxation purposes for the year (2017: Nil).

Hong Kong Profits Tax has not been provided as the Group's entities incurred a loss for taxation purposes for the year (2017: Nil).

Where there are assessable profits, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits and PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits for both years.

7. 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 year as follows:

	2018	2017
Loss attributable to owners of the Company (HK$'000)	**(80,077)**	(51,009)
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**576,243,785**	483,391,326
Basic loss per share (HK cents)	**(13.90)**	(10.55)

(b) Diluted loss per share

As the Company's outstanding convertible bonds had an anti-dilutive effect to the basic loss per share calculation for the year ended 31 March 2018, the conversion of the potential dilutive ordinary shares is not assumed in the computation of the diluted loss per share for the year ended 31 March 2018. There were no potential dilutive ordinary shares in issue during the year ended 31 March 2017. The diluted loss per share is the same as the basic loss per share for the years ended 31 March 2018 and 2017.

8. TRADE RECEIVABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables from third parties	**83,757**	29,458
Allowance for doubtful debts	**(219)**	(199)
	83,538	29,259

The Group's business with its trade debtors is mainly on credit basis and the credit period is ranging from 7 to 120 days (2017: 60 days). At the end of the reporting period, the ageing analysis of trade receivables (before allowance for doubtful debts) by invoice date is as follows:

	2018 *HK$'000*	2017 *HK$'000*
Less than 1 month	**50,129**	19,827
1 to 2 months	**20,467**	8,850
2 to 3 months	**5,994**	455
Over 3 months	**7,167**	326
	83,757	29,458

8. TRADE RECEIVABLES (CONTINUED)

At the end of the reporting period, the ageing analysis of trade receivables (net of allowance for doubtful debts) by due date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Not past due	**69,104**	28,775
Less than 1 month past due	**11,704**	438
1 to 2 months past due	**2,419**	–
2 to 3 months past due	**33**	16
Over 3 months past due	**278**	30
	83,538	29,259

The trade receivables that are past due but not impaired related to a number of independent customers that have a good track record with the Group. The Group has not recognised impairment on these balances as there has not been a significant change in credit quality and the directors of the Company believe that the amounts are recoverable. The Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

9. TRADE PAYABLES

The trade payables are non-interest bearing and the Group is normally granted with a credit term ranging from 7 to 90 days (2017: 90 days).

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

	2018	2017
	HK$'000	*HK$'000*
Less than 1 month	**39,676**	12,530
1 to 2 months	**9,465**	5,673
2 to 3 months	**14,128**	4,824
Over 3 months	**13,775**	11,364
	77,044	34,391

10. INTEREST-BEARING BORROWINGS

At the end of the reporting period, the details of the interest-bearing borrowings of the Group are as follows:

	2018		2017	
	Effective interest rate (%)	***HK$'000***	Effective interest rate (%)	*HK$'000*
Secured bank loans	**HIBOR + 1.2% to LIBOR + 3.924%**	**105,543**	HIBOR + 1.2% to LIBOR + 1.5%	114,342

As at 31 March 2018, all bank loans of HK$105,543,000 (2017: HK$114,342,000) are secured by the Group's pledged bank deposits amounting to HK$154,441,000 (2017: HK$123,943,000).

All bank loans are repayable within one year as at 31 March 2018 and 2017.

11. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

With the introduction of new policies and regulations of urban development and environmental protections by the local government, chemical pollution and noises inherent from production activities at the Group's printed circuit board ("PCB") manufacturing facility (the "Existing PCB Plant") and the increasing number of complaints brought by neighbouring residents and potential sanctions enacted by the local government, the Group is exposed to the risk of production suspension. In view of this, the Group initiated a feasibility study for the relocation of the Existing PCB Plant during the year ended 31 March 2018 and on 28 March 2018, entered into a lease agreement with an independent third party in relation to the potential relocation of the Existing PCB CGU to vacant plant spaces, although a formal detailed plan of the relocation is yet to be approved by the directors of the Company.

During the year ended 31 March 2018, the management considered that the existence of above conditions indicated that certain non-current assets of the Group might be impaired. In view of this, the Group estimated the recoverable amount of these non-current assets with reference to a valuation prepared by an independent professional valuer. Accordingly, impairment loss of approximately HK$24,291,000 was recognised in profit or loss during the year ended 31 March 2018.

12. 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$130,000,000 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$130,000,000 to HK$80,000,000, 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 of HK$80,000,000 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.

12. CONVERTIBLE BONDS (CONTINUED)

On 22 September 2017, convertible bonds with an aggregated principal amount of HK$80,000,000 have been successfully placed. The net proceeds were approximately HK$77,194,000.

Upon issuance, the holder of the convertible bonds at any time up till 21 September 2020, could 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 option and call option are classified as derivative financial instruments and stated at fair value. The excess of proceeds over the derivate financial instruments is recognised as the liability component. The fair values of the derivative financial instruments were determined with reference to a valuation conducted by an independent professional valuer.

The fair values of the derivative financial instruments were valued using the Binomial Option Pricing Model, with the following key inputs:

	22 September 2017 (At the issue date)	**31 March 2018**
Stock price	HK$0.400	**HK$0.465**
Exercise price	HK$0.360	**HK$0.360**
Volatility	86.50%	**91.34%**
Option life	36 months	**29 months**
Risk-free interest rate	0.99%	**1.47%**
Discount rate	6.82%	**8.56%**

The movement of the convertible bonds is as follows:

Derivative components, classified as net financial liabilities at fair value through profit or loss

	Conversion option *HK$'000*	**Call option** *HK$'000*	**Total** *HK$'000*
At the issue date	54,442	(44,192)	10,250
Fair value changes	10,336	6,800	17,136
At 31 March 2018	**64,778**	**(37,392)**	**27,386**

Liability component, classified as financial liability at amortised costs

	HK$'000
Nominal value of the convertible bonds issued	80,000
Derivative components	(10,250)
Transaction costs allocated	(2,806)
At the issue date	66,944
Effective interest expenses	4,747
Interest paid	(2,380)
At 31 March 2018	**69,311**

The effective interest rate of the liability component on initial recognition is 12.62% per annum.

13. LITIGATION

In January 2017, Mr. Chan Sik Ming, Harry ("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$4,300,000 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 which was then transferred to the Court of First Instance as High Court Action No. HCA 1082/2017 (the "1st Action").

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 1st Action. 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.

On 24 May 2017, the Company and 華鋒微綫電子(惠州)工業有限公司 (Huafeng Microline (Huizhou) Circuits Ltd.*) ("Huafeng"), a wholly-owned subsidiary of the Company, as first and second plaintiffs filed a statement of claim to the High Court in High Court Action No. 818/2018 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 the Company and Huafeng as an executive director (the "2nd Action"). The ultimate liability or amount is to be assessed. Pursuant to the order made by the High Court on 20 June 2017, the 1st Action was consolidated with the 2nd Action. The directors of the Company are of the opinion, with reference to the opinion of the Group's lawyer, any damages (or part thereof) may be set off against any amounts which may be awarded in Mr. Harry Chan's favour (if any) in the 1st Action.

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

14. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 March 2018, a formal detailed plan of relocation of the Group's circuit board manufacturing facility (the "Relocation Plan") was conditionally approved by the Board of Directors and the Group had agreed with the employee of the Existing PCB Plant for a voluntary compensation for termination of employment contracts of approximately HK$25 million. The management expects the Relocation Plan will be fully executed by end of 2018.

On 25 May 2018, Daisho Microline Limited and Juko Industrial Ltd. (collectively the "Sellers"), wholly-owned subsidiaries of the Company and an independent third party (the "Possible Purchaser") entered into a memorandum of understanding pursuant to which the Sellers intend to sell and the Possible Purchaser intends to purchase entire issued shares in 大鋒華微綫科技(惠州)有限公司 (Da Feng Hua Microline Technology (Huizhou) Company Ltd.*), a wholly-owned subsidiary of the Company, which owns potential redevelopment and disposal of the Group's prepaid lease payments and buildings due to intended relocation of the Group's printed circuit board manufacturing facility (the "Possible Disposal"). The consideration for the Possible Disposal is provisionally estimated to be HK$200,000,000. The Sellers and the Possible Purchaser shall cooperate and negotiate in good faith with the view of entering into a legally binding formal sale and purchase agreement in relation to the Possible Disposal on or before 15 July 2018. Details of the transaction are set out in the Company's announcement dated 25 May 2018. Up to the date of this announcement, no formal agreement is entered between both parties.

* *English name is for identification purpose only.*

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group's total revenue for the current year was approximately HK$412 million, representing an increase of 142% as compared with approximately HK$170 million for the last year. The increase was resulted from the Group engaging in the trading of petroleum and energy products and related business commenced since June 2017. The revenue generated from printed circuit board ("PCB") segment was approximately HK$200 million, a significantly increase of 17.4% as compared with the last year and the revenue generated from trading of petroleum and energy products and related business segment was approximately HK$212 million.

The Group recorded net loss for the year ended 31 March 2018 was approximately HK$80 million, a significantly increase of 56.99% as compared to the last year.

The Group has continuously made the improvement on gross profit margin of approximately 0.04% in last year to a gross profit margin of approximately 3.01% in current year. Gross profit margin of the trading of petroleum and energy products and related business segment was approximately 0.97%. Gross profit margin of PCB segment was approximately 5.18%. The aforesaid continuously improvement on gross profit on PCB segment was mainly due to the success enhancement of the manufacturing process, including (i) the implementation of the tight control on various manufacturing cost; (ii) the improvement in production efficiency so as to reduce in scrap rate; (iii) the reduction in the purchase price of certain major raw material by sourcing different suppliers and (iv) the new marketing team plays a role to canvass for new sales orders from both existing and potential customers. Administrative expenses improved by 5% compared with the last year was mainly due to the reduction on the directors' emolument. Selling and distribution expenses decreased by 9% compared with the last year was mainly due to the decrease in the customer compensation on product quality and cost savings in carriage outwards on PCB. Other operating expenses significantly decreased by 71% compared with the last year was mainly due to the decrease in the loss on foreign currency translation.

The increase in loss for the year as compared to the loss for the last year was mainly attributable to, among other factors, the combined effects of (i) non-cash impairment loss on property, plant and equipment of approximately HK$24 million (2017: Nil). During the year ended 31 March 2018, the Group has the intention of relocating the existing PCB manufacturing plant. In views of this, certain non-current assets of the Group might be impaired; (ii) non-cash fair values loss of derivative financial instruments of approximately HK$17 million (2017: Nil); and (iii) loss on disposal of available-for-sale financial assets of approximately HK$3 million (2017: Nil).

The Group's gearing ratio (defined as interest-bearing borrowings, promissory note payable and liability component of convertible bonds divided by total capital) as at 31 March 2018 was 135% (2017: 55%). The Group's current ratio as at 31 March 2018 and 2017 was 1.64 times and 1.56 times respectively. The Group's operations had a net cash outflow of approximately HK$32 million during the year ended 31 March 2018 (2017: approximately HK$25 million).

Business and Financial Review (Continued)

As at 31 March 2018, the Group's total cash and bank balances (including pledged bank deposits) were approximately HK$214 million (2017: HK$198 million) and the Group's total interest-bearing borrowings amounting to approximately HK$106 million (2017: HK$114 million). Therefore, the Group had a net cash balance of approximately HK$108 million (2017: HK$84 million). Besides, the total credit facilities available to the Group were approximately HK$218 million (2017: HK$360 million) and, therefore, the unutilised credit facilities were approximately HK$112 million (2017: HK$246 million).

Capital Structure

The capital structure of the Group for the year ended 31 March 2018 is summarised as be below:

Bank Borrowings

The interest rate structure, maturity profile, currency structure and underlying security of the Group's interest-bearing borrowings as at 31 March 2018 and 2017 are detailed in note 10 to the consolidated financial statements in this announcement.

Promissory Note

As at 31 March 2018, the Group had outstanding promissory note in the principal amount of HK$33 million (2017: Nil) issued on 27 March 2018 upon the completion of acquisition of one of four vessels and fulfillment of the conditions set out in the sale and purchase agreement. The promissory note is interest free and will be matured in 2 years from the issue date.

Convertible Bonds

As at 31 March 2018, the Company had 6% interest-bearing convertible bonds. Summary of the movement of the convertible bonds is as follow, further details are set out in note 12 to the consolidated financial statements in this announcement.

Date of issue	**Principal amount** *(HK$)*	**Maturity date**	**Conversion price per share** *(HK$)*	**Amount convert into shares during the year** *(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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Structure (Continued)

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

The net proceeds from issue of new shares under 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 31 March 2018, 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 (2) Repayment of bank borrowings	(1) Bank loan repayment of HK$22 million (2) Marketing department establishment of HK$5.2 million (3) Purchase of machineries of HK$5 million (4) Factory and machineries improvement program of HK$13.1 million (5) Information system improvement of HK$0.15 million (6) Consultants for business development of HK$1.2 million

Capital Structure (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 raise (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 vessels (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 (4) Marketing development of HK$0.17 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 year ended 31 March 2018. The Group did not enter any foreign exchange derivative contract to manage the currency translation risk of Renminbi against United States dollars and United States dollars against Hong Kong dollars during the year ended 31 March 2018, 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)

Litigation

Save as disclosed outstanding litigation set out in note 13 to the consolidated financial statements in this announcement, the Group is not a party to any other significant legal proceedings.

Capital Commitments

As at 31 March 2018, the Group had a total capital commitments of approximately HK$129 million, contracted for but not provided for in the consolidated financial statements, of which mainly consisted of the remaining capital commitments for acquisition of vessels.

Share Option Scheme

A share option scheme (the “Share Option Scheme”) was approved and conditionally adopted by an ordinary resolution of the shareholder of the Company on 22 November 2016. On 23 June 2017, the Share Option Scheme was confirmed by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

No share options had been granted by the Company under the Share Option Scheme since its adoption.

Contingent Liabilities

As at 31 March 2018, the Group did not have any material contingent liability (2017: Nil).

Employee Benefits

As at 31 March 2018, the Group had 461 (2017: 468) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2018, the Group’s total staff costs including directors’ emoluments were approximately HK$46 million (2017: approximately HK$49 million). The decrease in employee benefits for the year was mainly attributable to, among other factors, the combined net effects of (i) the decrease in directors’ emolument; (ii) the increase of salary increment in Mainland China; and (iii) the increase of the foreign exchange translation on Renminbi against Hong Kong dollars.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: Nil).

Material Acquisition and Disposals of Subsidiaries and Associated Companies

For the year ended 31 March 2018, the Group had made the disposal of its equity interests in Daisho Denshi Co., Ltd. ("Daisho Denshi") to Daisho Denshi at a consideration of Japanese Yen 80 million (equivalent to approximately HK$5.9 million). Accordingly, a loss on disposal of HK$3.4 million was recognised in consolidated profit or loss.

On 29 September 2017, the Group (the "Purchaser") entered into the sale and purchase agreement with Inter-Pacific Group Pte. Limited (the "Vendor"), 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. Details of the acquisition are set out in the Company's circular dated 27 December 2017. On 27 March 2018, the first vessel was delivered to the Group and the promissory note in the principal amount of HK$33,310,000 was issued to the Vendor upon fulfillment of the conditions set out in the sale and purchase agreement. The remaining three vessels were estimated to deliver to the Group during the coming financial year and the Company will further require to issue two promissory notes in aggregate principal amount of HK$113,170,000 to the Vendor.

Outlook

Printed Circuit Board Segment

The new policies of urban development and environmental protections by the Huizhou Government gave the Group an insight to the problems of operation of the PCB factory in Huizhou. During the year ended 31 March 2018, the Group conducted an initial feasibility study in relation to the relocation of the current PCB manufacturing facility. On 28 March 2018, the Group entered into a lease agreement with an independent third party (the "Independent Third Party") located in the city of Huizhou. The Company simultaneously explores any further cooperation opportunities with the Independent Third Party which is also engaged in PCB manufacturing (the "Cooperation"). The expected synergy would achieve through the Cooperation can benefit each with its respective technological advantages, customer bases or cost reduction.

As a result of these initiatives, it is estimated that more efficient resources are realised and expected to maximise the profit to fulfil the expectation of shareholders. In additions, the sales orders are making satisfactory progress and our existing customers have shown their strong continuous support to the Group once the plant resume production later on.

On 25 May 2018, the Group entered into a memorandum of understanding to sell entire issued shares in Da Feng Hua Microline Technology (Huizhou) Company Ltd.* (大鋒華微綫科技(惠州)有限公司), a wholly-owned subsidiary of the Company, which owns the Group's prepaid lease payments and buildings with an independent third party. In such the way, the cash flow will project to increase in return brings important benefits not just to the capital and cooperative environment to the Group for sustaining the Group's business development and future expansion.

Looking further ahead, the operating environment in the PRC remains challenging but business opportunity is still there. The Group believes after the relocation of plant and streamlining the production line and a newly Cooperation with strategic partners the Group can catch up the progress.

* *English name is for identification purpose only.*

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook (Continued)

Trading of Petroleum and Energy Products and Related Business Segment

The Group has commenced the operating of the trading of petroleum and energy products and related business in mid-June 2017 and rendered a stabilised profit to the Group. Afterwards, the Group entered into the sale and purchase agreement in relation to the acquisition of four vessels. The first vessel received on 27 March 2018 upon fulfillment of the conditions set out in the sales and purchase agreement and the remaining three vessels were estimated to delivery to the Group during the coming financial year. Once completion, the leasing income generated from the master lease agreement will further broaden revenue base, derive reasonable rate of return and with the outcome of stable income of the Group in the foreseeable future.

Going forward, the Group will continue to develop the petroleum trading business in Hong Kong and further expand the Singapore market. Our management team members have evidenced experience to run the petroleum business and have long been working with the Singapore reputable and large petroleum companies and their experiences will enhance the Group's opportunity to increase the market share of the Singapore market.

Shareholders can therefore expect to see the Group continue to transform its business model in the coming years to more diversified business, PCB manufacturing and the trading of Petroleum business.

DISCLOSURE OF CHANGE OF DIRECTOR'S INFORMATION

Pursuant to Chapter 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the changes and updated Directors' information are as follows:

Mr. Yeung Chi Shing, Bert resigned as an independent non-executive director of the Group on 30 September 2017.

Mr. Law Ping Wah was appointed as an independent non-executive director, member of audit committee, remuneration committee and nomination committee of the Group on 16 November 2017.

Mr. Lee Man Kwong was re-designated from a non-executive director to an executive director of the Group on 1 June 2018.

DISCLOSURE OF CHANGE OF COMPANY SECRETARY

Mr. Chan Tsz Hong resigned as company secretary and Mr. Siu Ching Hung was appointed as company secretary of the Group on 9 October 2017.

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 year ended 31 March 2018, 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 Group has not appointed CEO. 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.

According to the Company's private act known as "The Juko Laboratories Holdings Limited Company Act 1990", which is an Act under the Company's former name of Juko Laboratories Holdings Limited when the Company 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, Ms. Cheung Lai Na has agreed to retire at least once every three years.

RISK MANAGEMENT AND INTERNAL CONTROLS

During the year, the Board had engaged reputable internal control advisors (the "Advisors") to perform a review of the Group's internal controls (the "Internal Controls Review") and assist the Company to perform a Group's risk assessment (the "risk assessment"). The scope of work of the Advisors was to conduct a gap analysis of the Company's internal controls system to identify potential areas of improvement, and to perform a high-level internal controls review of certain business processes to identify potential internal controls design gaps, and to recommend practical actions to be taken.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

The reports of the Internal Controls Review (the "Review Reports") containing the risk analysis, observations, recommendations and corresponding management responses was issued. The Company accepts most of the Advisors' recommendations in the Review Reports and the Company believes that after the implementation of such recommendations, the Group would be able to further enhance its internal controls system and its risk assessment process. As at the date of this announcement, the implementation is in progress and expected the major recommendations would be fully implemented in the second half of 2018.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the consolidated financial statements of the Group for the year ended 31 March 2018 and agreed with all the accounting treatments which have been adopted therein.

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 the 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.

SCOPE OF WORK PERFORMED BY MAZARS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2018 have been agreed by the Group's auditor, Mazars CPA Limited ("Mazars"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The Company's Annual Report for the year ended 31 March 2018 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the website of the Stock Exchange at "www.hkexnews.hk" and the Company's website at "www.irasia.com/listco/hk/daisho" in due course.

By Order of the Board
Cheung Lai Na
Chairman

Hong Kong, 12 June 2018

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

Executive directors:
CHEUNG Lai Na *(Chairman)*
CHEUNG Lai Ming
LEE Man Kwong

Independent non-executive directors:
LEUNG King Fai
CHOU Yuk Yan
LAW Ping Wah