



# DAISHO MICROLINE HOLDINGS LIMITED

(Formerly known as “Suwa International Holdings Limited”)

(Incorporated in Bermuda with limited liability)

(Stock Code : 567 )

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2005

### ANNUAL RESULTS

The Board of Directors (“the Board”) of Daisho Microline Holdings Limited (“the Company”) presents the audited consolidated results of the Company and its subsidiaries (“the Group”) for the year ended 31 March 2005, which have been reviewed by the Audit Committee of the Company as follows:

		Year ended 31 March	
		2005	2004
	Notes	HK\$'000	HK\$'000
<b>TURNOVER</b>	2	<b>258,237</b>	241,666
Cost of sales		<b>(224,813)</b>	(207,992)
Gross profit		<b>33,424</b>	33,674
Other revenue and gains		<b>1,577</b>	1,409
Selling and distribution costs		<b>(24,323)</b>	(14,920)
Administrative expenses		<b>(22,671)</b>	(20,564)
Other operating expenses		<b>(800)</b>	(3,245)
<b>LOSS FROM OPERATING ACTIVITIES</b>	3	<b>(12,793)</b>	(3,646)
Finance costs	4	<b>(1,472)</b>	(1,806)
<b>LOSS BEFORE TAX</b>		<b>(14,265)</b>	(5,452)
Tax	5	<b>—</b>	—
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(14,265)</b>	(5,452)
<b>LOSS PER SHARE</b>	7		
– Basic		<b>(HK3.06 cents)</b>	(HK1.17 cents)
– Diluted		<b>N/A</b>	N/A

Notes:

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

## 2. SEGMENT INFORMATION

### (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 on the basis of geographical segments, segment revenue is based on the geographical location of the customers. From 1 April 2004, the Group changed its identification of reporting geographical segments and the prior year segment information has been restated.

	Year ended 31 March	
	2005	2004
	HK\$'000	HK\$'000 (Restated)
Segment revenue:		
Sales to external customers:		
Finland	84,296	60,978
Hong Kong	40,087	48,911
Japan	28,740	36,407
Mainland China	55,095	47,168
Others	50,019	48,202
	<u>258,237</u>	<u>241,666</u>

## 3. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after crediting/(charging):

	Year ended 31 March	
	2005	2004
	HK\$'000	HK\$'000
Bank interest income	25	18
Loss on disposal of fixed assets	(19)	—
Depreciation *	<u>(33,371)</u>	<u>(33,010)</u>

\* Cost of sales includes depreciation of fixed assets of HK\$30,270,000 (2004: HK\$29,913,000) attributable to the manufacturing activities, which is also included in the total amount disclosed above.

#### 4. FINANCE COSTS

	Year ended 31 March	
	2005	2004
	HK\$'000	HK\$'000
Interest on:		
Bank loans and other loans wholly repayable within five years	1,313	1,186
Finance leases and hire purchase contracts	159	620
	<u>1,472</u>	<u>1,806</u>

#### 5. TAX

No provision for profits tax has been made for the year as the Company and its subsidiaries either had no assessable profits for the year or had utilised tax losses brought forward from prior years to offset the assessable profits arising during the year (2004: Nil).

The Group has estimated tax losses arising in Hong Kong of HK\$48,107,000 (2004: HK\$38,935,000) and Mainland China of HK\$4,340,000 (2004: HK\$1,533,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

#### 6. DIVIDEND

The Board has resolved not to declare any dividend for the year ended 31 March 2005 to the shareholders (2004: Nil).

#### 7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$14,265,000 (2004: net loss of HK\$5,452,000) and 466,013,785 (2004: 466,013,785) shares in issue during the year.

Diluted loss per share for the years ended 31 March 2005 and 2004 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The total turnover of printed circuit boards (“PCB”) for the current year was about 7% higher than that for last year. The sales value of multi-layer PCB as a percentage of total turnover for the current year was about 77% while that for last year was about 62% only.

The Group confronted a difficult operating environment during the first three quarters of the current year and the average gross profit percentage for that period was just 10% which was about 4% lower than that for last year. The operating performance for that period was not satisfactory as a result of both the skyrocket in our purchase prices of certain major raw material items and the weak demand for PCB from the Group’s telecommunication products customers. Yet, thanks to the substantial orders for delicate PCB and the gradual improvement in the operating environment commencing from December 2004 onwards, the Group’s previous investment in advanced machinery for the manufacture of delicate PCB has begun to bear fruits. The average gross profit percentage for the last quarter of the current year has reached 20%.

The big rise in our purchase prices of certain major raw material items in the manufacture of PCB for several times during the first three quarters of the current year was related primarily to the mismatch in the worldwide demand and supply for non-ferrous metals to which the Group could exert no influence. For example, because of the worldwide huge demand for copper, our average purchase price of copper foil during the first half of the current year increased by about 27% as compared to that in the last corresponding period. And because of the worldwide shortage in the supply of fibre-glass, our purchase prices of certain laminate and prepreg in September 2004 were almost 40% and 27% respectively higher than those in April 2004. Given the frequency and the extent of the increment in our purchase prices of these major raw material items, the Group could hardly pass this burden wholly to the customers immediately especially in light of the weak demand for PCB. Hence, the Group inevitably suffered from temporary deterioration in profitability during that period.

The turning point for the Group’s operating performance occurred in December 2004 when some customers began to place substantial orders for delicate PCB. Equipped with advanced machinery and production know-how, the Group has been ready to manufacture delicate PCB for some time. But without any substantial orders for delicate PCB, it will be quite risky to invest further in advanced machinery for the purpose of upgrading the Group’s PCB production capacity and capability. The substantial orders for delicate PCB was a catalyst in the evolution of the Group. The Group has begun to invest further in advanced machinery since December 2004 and the Group has been more capable of meeting the customers’ continuously stringent requirements. At the same time, the Group has been in a better position to negotiate our purchase prices of both raw material items and machinery with the suppliers in light of the increase in the volume of our orders.

## Financial Review

As at 31 March 2005, the Group's gearing ratio (i.e. the ratio of total liabilities to shareholders' fund) was 0.98 times (2004: 0.64 times) while the Group's current ratio was 1.04 times (2004: 1.11 times). The higher gearing ratio and the lower current ratio at current year end were resulted primarily from the current year addition of about HK\$30 million worth of machinery and equipment out of which over half of them were acquired by means of finance leases. Because the Group can generate substantial net cash inflow from its PCB operating activities, these financial ratios will be improved during the year ahead.

As at 31 March 2005, the Group's aggregate outstanding balances of the finance lease and hire purchase contract payables, other loans and bank loans amounting to HK\$35,944,000 (2004: HK\$18,479,000) out of which HK\$20,310,000 (2004: HK\$9,534,000) were repayable within the next 12 months. The bank loans of HK\$8,120,000 (2004: Nil) were all required to be settled in United States dollars, repayable within 3 months and subjected to floating interest rates. Other borrowings were all required to be settled in Hong Kong dollars, originally repayable monthly over 3 years and mostly subjected to floating interest rates. The Group does not adopt any interest rate hedging tool for all these borrowings. Certain machinery and equipment of the Group with a net book value as at 31 March 2005 of HK\$28,484,000 (2004: HK\$45,708,000) were pledged to secure these borrowings.

As at 31 March 2005, the Group's current assets and total liabilities were mostly required to be settled in either Hong Kong dollars or United States dollars. Hence, the group's net exposure to fluctuation in exchange rates is insignificant and no foreign currency hedging tool is adopted.

## Employee Benefits

As at 31 March 2005, the Group has 1,169 (2004: 1,064) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2005, the Group's total staff costs including directors' remuneration were HK\$24,667,000 (2004: HK\$24,456,000).

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

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 allow 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.

A total of 16,250,000 share options which represented approximately 3.5% of the Company's shares in issue at the date of grant were granted to certain directors and full-time employees of the Group on 15 June 2004. The exercise price and the exercise period of these share options are HK\$0.20 per share and from 15 June 2004 to 14 June 2009, respectively. The closing price of the Company's shares at the date of grant of these share options on 15 June 2004 was HK\$0.192 per share. As at 31 March 2005, all the 16,250,000 share options granted remained unexercised.

## **OUTLOOK**

The year 2004 was definitely a difficult year for the Group but the Group had weathered the difficult period. The beginning of the year 2005 is a good starting point for the Group as the substantial orders for delicate PCB have persisted and the operating results of the Group has turned around since January 2005. Although the year ahead looks promising, the Board is wary of the challenging factors which may impact the Group.

As mentioned before, the Group could exert no influence to any mismatch in the worldwide demand and supply of non-ferrous metals used in the manufacture of our major raw material items. If there is any such mismatch which will drive up our purchase prices of major raw material items steeply and the Group cannot shift the burden wholly to the customers, the Group will suffer as in current year.

Besides, the Group is currently quite heavily relying on its telecommunication products customers from whom about 70% of the total turnover is generated. Although the business of these customers is still quite robust for the moment, there is no guarantee that the same will apply in next year. In light of this, the Board intends to further broaden the customer base of the Group after upgrading the production capacity so as to alleviate the impact which may result from relying too much on particular type of customer.

The petroleum price is standing at its unprecedentedly high level. The interest rates for United States dollars and Hong Kong dollars are rising and the Renminbi currency is likely to appreciate in the near future. Although these events may not increase the operating costs of the Group to a great extent, they may hinder the growth of the world economy and the business of the Group may be adversely affected accordingly.

In spite of the above concern, the Board is confident that the Group will show a more healthy picture in the year ahead.

## **PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

All of the Company's information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website at <http://www.hkex.com.hk> in due course.

By Order of the Board  
**Chan Sik Ming, Harry**  
*Chairman*

Hong Kong, 22 July 2005

*As at the date of this announcement, the Board consists of six executive directors, namely, CHAN Sik Ming, Harry, LO Sun Wah, Motofumi TSUMURA, Hiroto SASAKI, Hiroyuki KIKUCHI and AU-YEUNG Wai Hung, and three independent non-executive directors, namely, Taro AKASHI, Kohu KASHIWAGI and CHAN Yuk Tong.*

# **NOTICE OF THE ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the annual general meeting of the Company will be held at Units B12-16, 3/F., Block B, Hoplite Industrial Centre, 3-5 Wang Tai Road, Kowloon Bay, Hong Kong on Tuesday, 23 August 2005 at 10:30 a.m. for the following purposes:

1. To receive and adopt the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2005.
2. To re-elect four directors, to fix the number of directors to twelve and to authorise the Board of Directors to fix the remuneration of the directors.
3. To appoint Auditors for the ensuing year and to authorise the Board of Directors to fix their remuneration.
4. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

## **ORDINARY RESOLUTION**

**“THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares as scrip dividends in accordance with the bye-laws of the Company from time to time; or (iii) an issue of shares upon the exercise of rights of subscription or conversion under the terms of any bonds, warrants, debenture, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company; or (iv) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to the grantees as specified in such scheme or arrangement or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company; or
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
  - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to the holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

By Order of the Board  
**Chan Sik Ming, Harry**  
*Chairman*

Hong Kong, 22 July 2005

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with the Company’s branch registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the meeting if the member so wishes.
3. The register of members will be closed from 22 August 2005 to 23 August 2005, both dates inclusive, during which period no transfer of shares will be effected.

4. With regard to item No.2 in the notice convening this meeting, the Board proposes that the retiring directors, namely Motofumi Tsumura, Hiroto Sasaki, Taro Akashi and Chan Yuk Tong, be re-elected as directors of the Company. The biographical information of the said retiring directors seeking re-election are set out in the Company's Annual Report for the year ended 31 March 2005. Except for Hiroto Sasaki who is the President of Daisho Denshi Co., Ltd (a substantial shareholder of the Company), these directors are not related to any directors, senior management or substantial shareholders or controlling shareholders of the Company. Except for Chan Yuk Tong who is an independent non-executive director of two other listed companies in Hong Kong, these directors have not held any other positions in other listed public companies in the past three years. Except for Taro Akashi and Chan Yuk Tong who are entitled to a fixed director fee of HK\$20,000 per annum and HK\$8,333 per month respectively under their service contracts with the Company, there is no service contract entered into between the Company and these directors who will be entitled to an emolument as determined by the Board from time to time with reference to their performance and duties, the Company's performance and profitability and the prevailing market conditions. These directors will have no fixed term of service but will be subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the bye-laws of the Company. As at the date of this notice of the annual general meeting, except for Hiroto Sasaki who has share options to subscribe for 4,600,000 shares of the Company, these directors have no interests in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

*As at the date of this notice, the Board consists of six executive Directors, namely CHAN Sik Ming, Harry, LO Sun Wah, Motofumi TSUMURA, Hiroto SASAKI, Hiroyuki KIKUCHI and AU-YEUNG Wai Hung, and three independent non-executive Directors, namely Taro AKASHI, Kohu KASHIWAGI and CHAN Yuk Tong.*