



DAISHO MICROLINE HOLDINGS LIMITED

大昌微綫集團有限公司

Stock Code : 0567



Annual Report
2012-2013

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CORPORATE INFORMATION AND FINANCIAL CALENDAR

Board of Directors

Executive directors

Chan Sik Ming, Harry (*Chairman & Chief Executive Officer*)
Au-Yeung Wai Hung
Yoshio Handa
Shozo Sugaya

Independent non-executive directors

Chan Yuk Tong
Li Chi Kwong
Yeung Chi Shing, Bret

Company Secretary

Au-Yeung Wai Hung

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

Auditors

Ernst & Young

Legal Advisers in Hong Kong

Woo, Kwan, Lee and Lo

Legal Advisers in Bermuda

Appleby

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business

Room 303A, 3rd Floor,
Shui Hing Centre
No. 13 Sheung Yuet Road
Kowloon Bay
Hong Kong

Principal Registrar

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudian Road
Pembroke HM08
Bermuda

Branch Registrar in Hong Kong

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code

0567

Company Website

www.irasia.com/listco/hk/daisho

Financial Calendar

Interim Results:

26 November 2012

Annual Results:

28 June 2013

Annual General Meeting

26 August 2013 (Monday)

Dividends

Interim dividend:	Nil
Proposed final dividend:	Nil

BIOGRAPHICAL INFORMATION OF DIRECTORS

Executive Directors

Chan Sik Ming Harry, aged 59, has been an executive director of the Company since 1990. He is now the Chairman and the Chief Executive Officer of the Company responsible for the overall strategic planning for the Group. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company.

Mr. Chan graduated from the University of Hitotsubashi in Japan with a Bachelor of Arts degree in Commerce in 1978. He has over 32 years of experience in the electronics industry.

Au-Yeung Wai Hung, aged 46, has been an executive director of the Company since November 2003. He has been the Company Secretary and the Financial Controller of the Company since July 1996. He is also a member of the Remuneration Committee of the Company.

Mr. Au-Yeung graduated from the Hong Kong Polytechnic in 1988 with a Professional Diploma in Accountancy. He also obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in 1996 and a Master of Business degree in E-Commerce from the Curtin University of Technology in Australia in 2002. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 25 years of experience in areas related to accounting, auditing, taxation, company secretarial, financial management, personnel management and information technology management.

Yoshio Handa, aged 63, has been an executive director of the Company since 11 July 2012.

Mr. Handa graduated from the chemical engineering faculty of Imaichi Technical High School in Japan. He has joined the production department of one of the Company's substantial shareholders – Daisho Denshi Co., Ltd. ("Daisho Denshi") since August 1970. He has become the managing director and general manager of Daisho Denshi's additive operations department since May 1983, the executive director and general manager of Daisho Denshi's Tochigi factory since May 1988, the general manager of Daisho Denshi's production department and environment and safety promotion department since April 1994, the senior executive director of Daisho Denshi since June 2005 and also the vice president of Daisho Denshi since June 2008. He has over 42 years of experience in the manufacture of printed circuit boards.

Shozo Sugaya, aged 59, has been an executive director of the Company since 11 July 2012.

Mr. Sugaya graduated from the electrical engineering faculty of Tokyo Denki University in Japan. He has joined the design department of Daisho Denshi since March 1976. He has become the managing director and general manager of Daisho Denshi's design department since May 1990, the executive director and general manager of Daisho Denshi's sales department since May 1998, and also the senior executive director and vice president of Daisho Denshi since June 2005. He has over 37 years of experience in the manufacture of printed circuit boards.

BIOGRAPHICAL INFORMATION OF DIRECTORS

Independent Non-Executive Directors

Chan Yuk Tong, aged 51, has been an independent non-executive director of the Company since September 2004. He is the chairman of the Audit Committee and the Remuneration Committee of the Company and a member of the Nomination Committee of the Company.

Mr. Chan obtained a Bachelor degree in Commerce from the University of Newcastle in Australia and a Master degree of Business Administration from the Chinese University of Hong Kong. He is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan has over 25 years of experience in corporate finance, financial advisory and management, professional accounting and auditing.

Mr. Chan is also an independent non-executive director of Ausnutria Dairy Corporation Limited, Global Sweeteners Holdings Limited, Kam Hing International Holdings Limited, Sinopoly Battery Limited (formerly known as Thunder Sky Battery Limited) and Trauson Holdings Company Limited and Xinhua Winshare Publishing and Media Co., Ltd., all of which are listed companies in Hong Kong. Mr. Chan resigned as an executive director of Asia Cassava Resources Holdings Limited on 31 August 2010, an independent non-executive director of Great Wall Motor Company Limited on 26 November 2010 and a non-executive director of Vitop Bioenergy Holdings Limited on 24 May 2011, all of which are listed companies in Hong Kong. He also resigned as an independent non-executive director of BYD Electronic (International) Company Limited (a listed company in Hong Kong) on 7 June 2013, and Anhui Conch Cement Company Limited (a listed company in Hong Kong and Shanghai) on 31 May 2012.

Li Chi Kwong, aged 60, has been an independent non-executive director of the Company since December 2005. Dr. Li is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Dr. Li holds a Doctor of Philosophy degree from the University of Westminster in the United Kingdom and a Master of Science degree in Cybernetics from the London University in the United Kingdom. He also holds numerous professional qualifications in engineering, including Chartered Engineer, Member of the Institute of Mechanical Engineers, Fellow of the Institute of Engineering and Technology, Fellow of the Hong Kong Institute of Engineers, Senior Member of the Institute of Electrical and Electronic Engineers Inc., Fellow of the Hong Kong Association of the Advancement of Science and Technology, and he is also a Registered Professional Engineer.

Dr. Li was an Associate Professor in the Department of Electronic and Information Engineering in the Hong Kong Polytechnic University from year 1985 to 2013. After obtaining over 36 years of experience in the academic field and the engineering industry, he sets up a private consultant company serving a number of engineering companies. He has published over 150 technical papers in international journals and conferences and obtained a number of patents. Dr. Li also serves in many professional and government committees.

Yeung Chi Shing, Bret, aged 56, has been an independent non-executive director of the Company since 21 November 2011. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Yeung graduated from Jinan University in Guangzhou, Mainland China with a Bachelor's degree of Economics in 1983. He joined Nanyang Commercial Bank Limited soon after his graduation. From 1983 to 2002, he served several positions in Nanyang Commercial Bank Limited, including Representative and Chief Representative of Beijing Representative Office, President of Guangzhou Branch, Executive Vice President of Beijing Branch and President of Shenzhen Branch. He is currently a President and major shareholder of a printing corporation. He has considerable years of experience in banking, business operation and management, particularly in the banking and financial business in the Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group's revenue for the current year was about HK\$296 million, down 18% from last year. The decrease in the Group's revenue was mainly caused by the significant reduction in the Group's printed circuit board ("PCB") production capacity resulting from the fire accident occurred in the Group's principal PCB production base in Huizhou, P.R.C. on 24 January 2013. All production lines therein had stopped for almost one month due to the production recovery action and the Chinese New Year holidays in the intervening period. Because certain production machinery was damaged as a result of the fire accident, only less than half of the Group's original PCB production capacity was resumed initially. The management has taken various measures to resume the Group's PCB production capacity to normal level gradually.

The Group's net loss for the current year was about HK\$69 million while the Group's net loss for the last year was about HK\$92 million. The Group's net loss for the current year was mainly due to further impairment loss on the Group's PCB plant and machinery amounting to about HK\$36 million along with the losses from fire amounting to about HK\$17 million comprising mainly of the write-off of damaged production machinery and scrapped work-in-progress resulting from the fire accident. Although the Group has insured for not only the assets in the Group's principal PCB production base but also the loss of profit due to business interruption, none of the insurance compensation relating to the fire accident has been recognised in the Group's results for the current year because the amount of the insurance compensation is still under negotiation with the relevant insurance company.

The Group's gross profit margin increased from 0.02% for last year to 5.27% for the current year. The improvement in the Group's operating results for the current year was mainly resulted from the implementation of various cost-savings measures and the improvement in production efficiency along with the reduction in the purchase prices of certain non-ferrous metals by double-digit in percentage terms since September 2011.

Furthermore, there were net fair value gains on listed equity investments and equity contracts for the current year amounting to about HK\$4 million but there were net fair value losses on listed equity investments and equity contracts for last year amounting to about HK\$3 million.

The Group's gearing ratio (defined as interest-bearing bank and other borrowings divided by total equity) at 31 March 2013 and 31 March 2012 were 49% and 29% respectively. The Group's current ratios at 31 March 2013 and 31 March 2012 were 1.71 times and 1.88 times respectively. The Group generated net cash inflow from operations of about HK\$11 million (2012: HK\$38 million) during the current year.

The interest rate structure, maturity profile, currency structure and underlying security of the Group's interest-bearing bank and other borrowings as at 31 March 2013 and 31 March 2012 are detailed in note 26 of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review (continued)

As at 31 March 2013, the Group's total cash and bank balances were approximately HK\$279 million (31 March 2012: HK\$224 million) and the Group's total interest-bearing bank and other borrowings amounting to approximately HK\$165 million (31 March 2012: HK\$116 million). Therefore, the Group had a net cash balance of approximately HK\$114 million (31 March 2012: HK\$108 million). Besides, the total credit facilities available to the Group were approximately HK\$233 million (31 March 2012: HK\$243 million) and, therefore, the unutilized credit facilities as at 31 March 2013 were approximately HK\$68 million (31 March 2012: HK\$127 million). Accordingly, the Group is capable of financing its operation by its own internal resources and available banking facilities.

Most of the Group's bank balances were denominated in RMB while all of the Group's borrowings were denominated in either US\$ or HK\$. During the current year ended 31 March 2013, some of the Group's lenders required either the pledge of the Group's bank balances or the issue of a letter-of-credit by a bank in P.R.C. as a security for the Group's borrowings. Accordingly, the Group's pledged bank balances along with the Group's borrowings increased during the current year.

As at 31 March 2013, the Group's assets and liabilities were mostly denominated in either HK\$, US\$ or RMB. Because the exchange rate for US\$ against HK\$ is relatively stable 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 P.R.C. has net assets 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.

Staff Costs

As at 31 March 2013, the Group had 676 (31 March 2012: 976) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2013, the Group's total staff costs including directors' remuneration were HK\$47,521,000 (2012: HK\$57,852,000).

Outlook

Resulting from the fire accident occurred in the Group's principal PCB production base on 24 January 2013, certain customers of the Group have transferred part of their purchase orders to other PCB suppliers because the Group cannot meet their demand. The management has taken various measures to resume the Group's PCB production capacity to normal level gradually but it may take some time for these customers to feel comfortable again to place with the Group purchase orders with amount comparable to the level before the fire accident. Hence, it is likely that both the revenue and the operating performance of the Group for the financial year ending 31 March 2014 will be adversely affected. The Group will continue to initiate new cost-savings measures in the months ahead so as to improve its operating results.

Apart from the fire accident, the Group is also aware that certain significant economic issues such as the Europe's sovereign debt crisis and the continuous appreciation of RMB etc. may affect the operating environment of the Group and it has adopted various means to alleviate the impact. Although the road ahead may be full of challenges, the Group as equipped with healthy financial position and ample experience in the manufacture of highly delicate PCB is ready to confront these challenges.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2013.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of investment holding and the manufacture and trading of printed circuit boards. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's loss for the year ended 31 March 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 96.

The directors do not recommend the payment of any dividends in respect of the year.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
REVENUE	<u>295,930</u>	<u>362,043</u>	<u>442,395</u>	<u>348,192</u>	<u>435,247</u>
PROFIT/(LOSS) BEFORE TAX	<u>(66,218)</u>	<u>(94,299)</u>	<u>20,496</u>	<u>(35,159)</u>	<u>(28,073)</u>
Income tax credit/(expense)	<u>(2,300)</u>	<u>2,000</u>	<u>(3,800)</u>	<u>10,895</u>	<u>8,009</u>
PROFIT/(LOSS) FOR THE YEAR	<u>(68,518)</u>	<u>(92,299)</u>	<u>16,696</u>	<u>(24,264)</u>	<u>(20,064)</u>

Attributable to:

Owners of the Company	<u>(68,518)</u>	<u>(92,299)</u>	<u>16,696</u>	<u>(24,264)</u>	<u>(20,064)</u>
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ASSETS AND LIABILITIES

	As at 31 March				
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
TOTAL ASSETS	<u>557,549</u>	<u>609,740</u>	<u>646,638</u>	<u>600,326</u>	<u>574,756</u>
TOTAL LIABILITIES	<u>(221,243)</u>	<u>(207,180)</u>	<u>(173,311)</u>	<u>(171,105)</u>	<u>(126,727)</u>
	<u>336,306</u>	<u>402,560</u>	<u>473,327</u>	<u>429,221</u>	<u>448,029</u>

REPORT OF THE DIRECTORS

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Share Capital and Share Options

There were no movements in either the Company's authorised or issued share capital and share options during the year. Details of the Company's authorised and issued share capital, and share options are set out in notes 28 and 29 to the financial statements, respectively.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption Or Sale of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 March 2013, the Company's reserves available for cash distribution and distribution in specie were HK\$86,380,000 (2012: HK\$86,663,000). In addition, the Company's share premium account, in the amount of HK\$91,483,000 (2012: HK\$91,483,000), may be distributed in the form of fully paid bonus shares.

Major Suppliers and Customers

The percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

- | | | |
|----|--|-----|
| a. | Percentage of purchases attributable to the: | |
| | – Largest supplier | 28% |
| | – Five largest suppliers | 61% |
| b. | Percentage of sales attributable to the: | |
| | – Largest customer | 17% |
| | – Five largest customers | 57% |

Save as disclosed under the heading "Continuing connected transactions" below in this report, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

REPORT OF THE DIRECTORS

Directors

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Chan Sik Ming, Harry (Chairman & Chief Executive Officer)

Au-Yeung Wai Hung

Yoshio Handa (appointed on 11 July 2012)

Shozo Sugaya (appointed on 11 July 2012)

Hiroto Sasaki (resigned on 11 July 2012)

Hiroyuki Kikuchi (resigned on 11 July 2012)

Independent non-executive directors:

Chan Yuk Tong

Li Chi Kwong

Yeung Chi Shing, Bret

According to the Company's private act known as "The Juko Laboratories Holdings Limited Company Act 1990", which is an Act of the Company established when the Company was first established under the former name of Juko Laboratories Holdings Limited, the Chairman of the Company is not required to be subject to rotation in accordance with the bye-laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company, Mr. Chan Sik Ming, Harry, has agreed to retire on a voluntary basis at least once every three years. He will also retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with bye-law 99(A) of the Company's bye-laws, Mr. Chan Yuk Tong will retire by rotation at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Chan Yuk Tong, Dr. Li Chi Kwong and Mr. Yeung Chi Shing, Bret and as at the date of this report still considers them to be independent.

Directors' Biographies

Biographical details of the directors of the Company are set out on pages 3 to 4 of the annual report.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Directors' remuneration is determined by the Company's Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

REPORT OF THE DIRECTORS

Directors' Interests in Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 March 2013, the interests and short positions of the directors in the share capital 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 ("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 number of shares held	Percentage of the Company's issued share capital
Chan Sik Ming, Harry	39,680,000	103,921,417 (Note)	143,601,417	29.90
Au-Yeung Wai Hung	1,300,000	–	1,300,000	0.27

Note: Chan Sik Ming, Harry, and his family are the objects of a discretionary trust which has appointed Earnwell (PTC) Limited as its trustee. At 31 March 2013, Earnwell (PTC) Limited held 103,921,417 shares representing approximately 21.64% of the issued share capital of the Company.

Save as disclosed above, as at 31 March 2013, 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 pursuant to 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.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

At 31 March 2013, the following interests and short positions 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 (PTC) Limited	Trustee	103,921,417	21.64%
Daisho Denshi Co., Ltd.	Directly beneficially owned	<u>50,000,000</u>	<u>10.41%</u>

Save as disclosed above, as at 31 March 2013, 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 or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Continuing Connected Transactions

During the year, the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

During the year, the Group had continuing connected transactions with Daisho Denshi (H.K.) Limited, a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company who has 10.41% equity interests in the Group, for the sale of printed circuit boards amounting to approximately HK\$39 million (2012: approximately HK\$48 million) which were conducted in the ordinary and usual course of the Group's business.

Pursuant to the Company's special general meeting on 26 March 2010, an ordinary resolution was passed to approve the sales transactions with Daisho Denshi Co., Ltd. and its subsidiary (the "Daisho Denshi Group") and the maximum aggregate annual values for these sales transactions were set at HK\$120 million, HK\$144 million and HK\$173 million for the financial years ended 31 March 2011, 2012 and 2013, respectively.

REPORT OF THE DIRECTORS

Continuing Connected Transactions (continued)

The independent non-executive directors of the Company have reviewed the continuing connected transactions with the Daisho Denshi Group as set out above and have confirmed that these continuing connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Director's Interest in a Competing Business

During the year and up to the date of this report, the following directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Yoshio Handa and Mr. Shozo Sugaya are also the executive director and vice president of Daisho Denshi Co., Ltd, which is also involved in the manufacture and trading of printed circuit boards.

As the board of directors of the Company is independent from the board of directors of Daisho Denshi Co., Ltd. and the above directors do not control the board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of Daisho Denshi Co., Ltd.

REPORT OF THE DIRECTORS

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chan Sik Ming, Harry
Chairman

Hong Kong
28 June 2013

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company recognises that good corporate governance is vital to the success and the sustained development of the Group.

The Company aims at complying with, where appropriate, all code provisions of the Code of Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Company’s corporate governance practices are based on the principles and the code provisions (“Code Provisions”) as set out in the CG Code of the Listing Rules. The Company has applied and complied with most of the applicable Code Provisions throughout the year ended 31 March 2013 and up to the date of publication of the annual report, except for certain deviations from the Code Provisions in respect of Code Provisions A.2.1, A.4.1 and A.4.2, details of which are explained below.

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 throughout the year ended 31 March 2013.

Board of Directors

Board composition and practice

The directors of the Company during the year ended 31 March 2013 and up to the date of this annual report were as follows:

Executive directors:

Chan Sik Ming, Harry	(Chairman & Chief Executive Officer)
Au-Yeung Wai Hung	
Yoshio Handa	(appointed on 11 July 2012)
Shozo Sugaya	(appointed on 11 July 2012)
Hiroto Sasaki	(resigned on 11 July 2012)
Hiroyuki Kikuchi	(resigned on 11 July 2012)

Independent non-executive directors:

Chan Yuk Tong
Li Chi Kwong
Yeung Chi Shing, Bret

The biographical details of the Board members are set out on pages 3 and 4 of this annual report.

The Board is responsible for the strategic planning for the Group and the monitoring of the Group’s operating performance while day-to-day management of the Group is delegated to the management team.

CORPORATE GOVERNANCE REPORT

Board of Directors (continued)

Board composition and practice (continued)

The Board supervises the management of business and affairs of the Group. It has established self-regulatory and monitor mechanisms to ensure that effective corporate governance is practised. The Board oversees the Group's overall strategic plans, reviews and approves the interim and annual reports, declares dividend, ensures good corporate governance and compliance, monitors the performance of the management, reviews and approves any material acquisition and disposal of assets.

The Company complies with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. Moreover, each independent non-executive director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the operation of the Group.

Directors' training is an on-going process. The Company is responsible for arranging and funding suitable training and all directors are encouraged to attend relevant training courses. Effective from 1 April 2012, all directors are required to provide the Company with his training record on an annual basis.

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.

Except for Mr. Yeung Chi Shing, Bret whose term of service with the Company is three years, other 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.

CORPORATE GOVERNANCE REPORT

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 of the Company's former name of Juko Laboratories Holdings Limited when it was first established, the Chairman of the Company is not required to be subject to rotation in accordance with the bye-laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company, Mr. Chan Sik Ming, Harry has agreed to retire on a voluntary basis at least once every three years. The last time Mr. Chan Sik Ming, Harry retired on a voluntary basis was on 3 September 2010. He will also retire on a voluntary basis and stand for re-election in the coming annual general meeting.

Board Committees

Audit committee

The Audit Committee was established in 1999 and comprises the three independent non-executive directors of the Company at present. The Board considers that each Audit Committee member has broad commercial experience and technical knowledge and there is a suitable mix of expertise in business, accounting and financial management within the Audit Committee. The composition of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. Its members are:-

Independent non-executive directors

Chan Yuk Tong (Chairman of Audit Committee)

Li Chi Kwong

Yeung Chi Shing, Bret

The Audit Committee's primary responsibility includes reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee also acts as a communication channel between the Company's external auditors and management for all essential issues identified during the course of the audit. The Board has delegated the responsibility for reviewing the corporate governance matters of the Group to the Audit Committee.

During the year ended 31 March 2013, there were two Audit Committee meetings in which the following major responsibilities had been accomplished.

- reviewed with the management the accounting principles and practices adopted by the Group;
- discussed internal controls and financial reporting matters including the review of both the interim and annual consolidated financial statements of the Group and agreed with all the accounting treatments which have been adopted therein;
- reviewed the continuing connected transactions of the Group;
- reviewed the appointment of the Company's external auditors;
- reviewed the Company's compliance with the CG code and disclosure in the corporate governance report under the Listing Rules.

CORPORATE GOVERNANCE REPORT

Board Committees (continued)

Remuneration committee

The Remuneration Committee was established on 22 December 2005 and comprises five members, the majority of whom are independent non-executive directors and its members are:

Independent non-executive directors

Chan Yuk Tong (Chairman of Remuneration Committee)

Li Chi Kwong

Yeung Chi Shing, Bret

Executive directors

Chan Sik Ming, Harry

Au-Yeung Wai Hung

The Remuneration Committee is responsible for formulating and reviewing the remuneration policy and the specific remuneration packages of all directors and senior management of the Group.

The Remuneration Committee makes recommendations to the Board on the specific remuneration packages of individual director and senior management of the Group, including benefits in kind, pension rights and compensation payments. In determining the emolument payable to directors, it takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the justification of performance-based remuneration.

During the year ended 31 March 2013, there were two Remuneration Committee meetings held by means of written resolution in which the level of remuneration for all directors was reviewed and fixed.

Nomination committee

The Nomination Committee was established on 26 March 2012 and comprises four members, the majority of whom are independent non-executive directors and its members are:

Executive directors

Chan Sik Ming, Harry (Chairman of Nomination Committee)

Independent non-executive directors

Chan Yuk Tong

Li Chi Kwong

Yeung Chi Shing, Bret

The Nomination Committee is responsible for formulating director nomination policy for the Board's consideration and implementing the Board's approved director nomination policy.

CORPORATE GOVERNANCE REPORT

Board Committees (continued)

Nomination committee (continued)

During the year ended 31 March 2013, there were two Nomination Committee meetings held by means of written resolution in which the following major responsibilities had been accomplished.

- reviewed the structure, size and composition of the Board;
- assessed the independence of the independent non-executive directors;
- formulated the director nomination policy by determining the criteria for qualifying as candidates for directorship and the process for identifying and evaluating candidates; and
- made recommendation to the Board on the appointment or re-appointment of directors.

Directors' Attendance at Board Meetings, Board Committee Meetings and General Meeting

During the year ended 31 March 2013, there were four Board meetings, two Audit Committee meetings, two Remuneration Committee meetings, two Nomination Committee meetings and two General meetings held.

The names and individual attendance of each director at each Board meeting, Board Committee meeting and General meeting are set out below:

Name of director		Attendance/ Number of Board Meeting	Attendance/ Number of Audit Committee Meeting	Attendance/ Number of Remuneration Committee Meeting	Attendance/ Number of Nomination Committee Meeting	Attendance/ Number of General Meeting
Chan Sik Ming, Harry	(Chairman & CEO)	4/4	N/A	2/2	2/2	2/2
Au-Yeung Wai Hung		4/4	N/A	2/2	N/A	2/2
Chan Yuk Tong		4/4	2/2	2/2	2/2	2/2
Li Chi Kwong		4/4	2/2	2/2	2/2	2/2
Yeung Chi Shing, Bret		4/4	2/2	2/2	2/2	2/2
Yoshio Handa	(appointed on 11 July 2012)	1/2	N/A	N/A	N/A	0/2
Shozo Sugaya	(appointed on 11 July 2012)	1/2	N/A	N/A	N/A	0/2
Hiroto Sasaki	(resigned on 11 July 2012)	1/2	N/A	N/A	N/A	N/A
Hiroyuki Kikuchi	(resigned on 11 July 2012)	0/2	N/A	N/A	N/A	N/A

CORPORATE GOVERNANCE REPORT

Auditors' Remuneration

Ernst & Young is the Company's external auditors. The Audit Committee is responsible for considering the appointment, remuneration and terms of engagement of the external auditors.

During the year ended 31 March 2013, the services provided by Ernst & Young to the Group and associated remuneration were as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Audit services	818	893
Non-audit services	47	46

The Audit Committee is of the view that the auditors' independence was not affected by the provision of non-audit related services.

Internal Controls

The board of directors hold full responsibility for the system of internal control of the Group and continuously reviews its effectiveness. The internal audit division performs investigation of the effectiveness of material processes and controls on a risk-based approach in accordance with the provisions on internal controls as set forth in the CG Code. The findings are reported to the Audit Committee. The Board of Directors, through the Audit Committee, has reviewed the effectiveness of the system of internal control for the year ended 31 March 2013.

Directors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

A statement by the auditors about their reporting responsibilities is set out on page 21 to 22 of this annual report.

CORPORATE GOVERNANCE REPORT

Company Secretary

Mr. Au-Yeung Wai Hung has been appointed as the company secretary of the Company since 1 July 1996, and he is also the financial controller and the executive director of the Company. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. According to Rule 3.29 of the Listing Rules, he is required to take no less than 15 hours of relevant professional training in each financial year commencing from 1 April 2015. He had complied with the above training requirement for the current financial year ended 31 March 2013.

Shareholder Communication Policy

The Board acknowledges that the effective communication with the shareholders of the Company (the “Shareholders”) could enhance the mutual understanding between the Company and the Shareholders. The Board also recognizes that the transparency and timely disclosure of corporate information could enable the Shareholders to make the most informed investment decision. Accordingly, the Company has formulated the shareholder communication policy which has been posted to the Company’s website at www.irasia.com/listco/hk/daisho.

Shareholders’ Rights

The Shareholders have the rights of convening special general meeting, sending enquiries to the Board, proposing resolution at general meeting and proposing a person for election as a director of the Company. The procedures for the Shareholders to exercise these rights are contained in the Company’s website at www.irasia.com/listco/hk/daisho.

Constitutional Documents

A copy of the Company’s Memorandum of Association and New Bye-Laws has been posted to both the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Company at www.irasia.com/listco/hk/daisho. There was no change to the Company’s Memorandum of Association and New Bye-Laws during the year ended 31 March 2013.

INDEPENDENT AUDITORS' REPORT



Ernst & Young
22/F
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

To the shareholders of Daisho Microline Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Daisho Microline Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 23 to 96, which comprise the consolidated and company statements of financial position as at 31 March 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT *(continued)*



To the shareholders of Daisho Microline Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2013, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

28 June 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2013

	Notes	2013 HK\$'000	2012 HK\$'000
REVENUE	4	295,930	362,043
Cost of sales		<u>(280,318)</u>	<u>(361,988)</u>
Gross profit		15,612	55
Other income and gains	4	14,024	9,762
Selling and distribution expenses		(9,779)	(13,474)
Administrative expenses		(28,445)	(32,807)
Other expenses		(3,575)	(3,744)
Losses from fire	8	(17,086)	–
Impairment of items of property, plant and equipment	13	(36,000)	(47,391)
Fair value gains/(losses), net on:			
Other financial assets at fair value through profit or loss		4,022	(3,260)
Derivative financial instruments		59	466
Finance costs	9	(5,021)	(3,738)
Share of loss of a jointly-controlled entity		<u>(29)</u>	<u>(168)</u>
LOSS BEFORE TAX	6	(66,218)	(94,299)
Income tax credit/(expense)	10	<u>(2,300)</u>	<u>2,000</u>
LOSS FOR THE YEAR		<u><u>(68,518)</u></u>	<u><u>(92,299)</u></u>
Attributable to owners of the Company	11	<u><u>(68,518)</u></u>	<u><u>(92,299)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic and diluted		<u><u>HK14.27 cents</u></u>	<u><u>HK19.22 cents</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2013

	2013 HK\$'000	2012 HK\$'000
LOSS FOR THE YEAR	<u>(68,518)</u>	<u>(92,299)</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	<u>2,264</u>	<u>21,532</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>2,264</u>	<u>21,532</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u><u>(66,254)</u></u>	<u><u>(70,767)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2013

	Notes	2013 HK\$'000	2012 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	92,614	163,871
Prepaid land lease payments	14	14,465	14,719
Deposits paid for acquisition of items of property, plant and equipment		4,207	1,215
Investment in a jointly-controlled entity	16	53,316	53,107
Available-for-sale investment	17	19,281	19,281
Deferred tax assets	27	–	2,300
Total non-current assets		183,883	254,493
CURRENT ASSETS			
Inventories	18	29,331	37,215
Trade debtors and bills receivable	19	29,929	55,577
Other financial assets at fair value through profit or loss	21	20,046	23,410
Derivative financial instruments	25	71	143
Sundry debtors, prepayments and deposits	20	15,277	14,444
Tax recoverable		211	211
Pledged bank balances	22	169,319	64,090
Cash and cash equivalents	22	109,482	160,157
Total current assets		373,666	355,247
CURRENT LIABILITIES			
Trade creditors	23	33,926	60,775
Other creditors and accruals	24	22,281	30,141
Derivative financial instruments	25	210	341
Interest-bearing bank and other borrowings	26	161,745	97,390
Total current liabilities		218,162	188,647
NET CURRENT ASSETS		155,504	166,600
TOTAL ASSETS LESS CURRENT LIABILITIES		339,387	421,093

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

31 March 2013

	Notes	2013 HK\$'000	2012 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>339,387</u>	<u>421,093</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	<u>3,081</u>	<u>18,533</u>
Net assets		<u>336,306</u>	<u>402,560</u>
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	28	48,024	48,024
Reserves	30(a)	<u>288,282</u>	<u>354,536</u>
Total equity		<u>336,306</u>	<u>402,560</u>

Chan Sik Ming, Harry
Director

Au-Yeung Wai Hung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2013

	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2011	48,024	91,483	9,379	103,813	220,628	473,327
Loss for the year	–	–	–	–	(92,299)	(92,299)
Other comprehensive income for the year:						
Exchange differences on translation of foreign operations	–	–	–	21,532	–	21,532
Total comprehensive loss for the year	–	–	–	21,532	(92,299)	(70,767)
At 31 March 2012 and 1 April 2012	48,024	91,483*	9,379*	125,345*	128,329*	402,560
Loss for the year	–	–	–	–	(68,518)	(68,518)
Other comprehensive income for the year:						
Exchange differences on translation of foreign operations	–	–	–	2,264	–	2,264
Total comprehensive loss for the year	–	–	–	2,264	(68,518)	(66,254)
At 31 March 2013	<u>48,024</u>	<u>91,483*</u>	<u>9,379*</u>	<u>127,609*</u>	<u>59,811*</u>	<u>336,306</u>

* These reserve accounts comprise the consolidated reserves of HK\$288,282,000 (2012: HK\$354,536,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2013

	Notes	2013 HK\$'000	2012 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(66,218)	(94,299)
Adjustments for:			
Bank interest income	4	(6,471)	(3,900)
Dividend income from listed equity investments	4	(875)	(898)
Loss on disposal of items of property, plant and equipment, net	6	105	–
Losses from fire	8	17,086	–
Fair value losses/(gains), net on:			
Other financial assets at fair value through profit or loss		(4,022)	3,260
Derivative financial instruments – transactions not qualifying as hedges		(59)	(466)
Depreciation	6	28,019	40,060
Impairment/(reversal of impairment) of trade debtors, net	6	823	(904)
Reversal of provision against obsolete inventories	6	(2,133)	(540)
Recognition of prepaid land lease payments	6	316	312
Impairment of items of property, plant and equipment	13	36,000	47,391
Finance costs	9	5,021	3,738
Share of loss of a jointly-controlled entity	16	29	168
		7,621	(6,078)
Decrease in inventories		6,752	9,588
Decrease in trade debtors and bills receivable		24,865	12,124
Decrease in other financial assets at fair value through profit or loss		7,396	979
Decrease/(increase) in sundry debtors, prepayments and deposits		(769)	3,893
Decrease in derivative financial instruments, net		–	(234)
Increase/(decrease) in trade creditors		(27,000)	16,440
Increase/(decrease) in other creditors and accruals		(7,927)	894
		10,938	37,606
Cash generated from operations		6,471	3,900
Interest received			
Net cash flows from operating activities		17,409	41,506

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Year ended 31 March 2013

	Note	2013 HK\$'000	2012 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from listed equity investments		875	898
Acquisition of items of property, plant and equipment		(8,707)	(622)
Acquisition of an available-for-sale investment		–	(19,281)
Increase in pledged bank balances		(104,948)	(40,340)
Net cash flows used in investing activities		<u>(112,780)</u>	<u>(59,345)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in trust receipt loans		(2,706)	(1,060)
New bank loans		110,200	67,595
Repayment of bank loans		(58,591)	(50,718)
Interest paid		(5,021)	(3,738)
Net cash flows from financing activities		<u>43,882</u>	<u>12,079</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(51,489)	(5,760)
Cash and cash equivalents at beginning of year		160,157	157,720
Effect of foreign exchange rate changes, net		814	8,197
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>109,482</u></u>	<u><u>160,157</u></u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	<u><u>109,482</u></u>	<u><u>160,157</u></u>

STATEMENT OF FINANCIAL POSITION

31 March 2013

	Notes	2013 HK\$'000	2012 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	15	70,916	70,916
CURRENT ASSETS			
Due from a subsidiary	15	155,037	155,223
Prepayments	20	206	218
Cash and cash equivalents	22	28	29
Total current assets		155,271	155,470
CURRENT LIABILITIES			
Other creditors and accruals	24	300	216
NET CURRENT ASSETS			
		154,971	155,254
Net assets			
		225,887	226,170
EQUITY			
Issued share capital	28	48,024	48,024
Reserves	30(b)	177,863	178,146
Total equity			
		225,887	226,170

Chan Sik Ming, Harry
Director

Au-Yeung Wai Hung
Director

NOTES TO FINANCIAL STATEMENTS

31 March 2013

1. Corporate Information

Daisho Microline Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of investment holding and the manufacture and trading of printed circuit boards.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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, except for other financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 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 are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i> ²
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> ³
HKFRS 13	<i>Fair Value Measurement</i> ²
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 19 (2011)	<i>Employee Benefits</i> ²
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
<i>Annual Improvements 2009-2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012 ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 April 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 April 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

NOTES TO FINANCIAL STATEMENTS

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2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 April 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 April 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 April 2013.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 April 2013.

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 April 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 April 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group’s policies are as follows:

- (a) **HKAS 1 *Presentation of Financial Statements*:** Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendments clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- (b) **HKAS 32 *Financial Instruments: Presentation*:** Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investments in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's investments in a jointly-controlled entity.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings held under medium term leases	Over the lease terms
Leasehold improvements	Over the lease terms
Machinery and equipment	10%
Furniture and fixtures	20%
Motor vehicles	20%
Computers	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance lease, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and other expenses for receivables.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangements; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale investment

For available-for-sale investments, the Group assesses at the end of the reporting period whether there is any objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increase in the fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade creditors, other creditors, accruals, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group invests in certain derivative financial instruments, such as forward currency contracts, interest rate swaps and equity contracts, for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and a jointly-controlled entity, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and a jointly-controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial assets; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value using an option pricing model at the date at which they are granted, unless the directors consider such cost of equity-settled transactions to be insignificant to the results of the Group.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Group also operates another defined contribution retirement benefit scheme (the “ORSO Scheme”) for those employees who are eligible to participate in this scheme. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Group’s employer contributions vests fully, the ongoing contributions payable by the Group are reduced by the relevant amount of the forfeited employer contributions.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage of the employees’ salaries to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO FINANCIAL STATEMENTS

31 March 2013

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

The functional currency of an overseas subsidiary and a jointly-controlled entity is a currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity (the exchange equalisation reserve). On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by the management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. For the year ended 31 March 2013, provision for impairment of property, plant and equipment amounting to HK\$36,000,000 (2012: HK\$47,391,000) was charged to the income statement. As at 31 March 2013, the aggregate carrying amount of the Group's property, plant and equipment was HK\$92,614,000 (2012: HK\$163,871,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 March 2012 was HK\$2,300,000. Further details are contained in note 27 to the financial statements.

Impairment of trade debtors

The Group makes impairment provision for trade debtors based on an assessment of the recoverability of trade debtors. Impairment provision is made for trade debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability of trade debtors is different from the original estimates, such difference will impact the carrying value of trade debtors and the impairment provision in the periods in which such estimate has been changed. The aggregate carrying amount of the Group's trade debtors as at 31 March 2013 was HK\$29,620,000 (2012: HK\$51,847,000).

NOTES TO FINANCIAL STATEMENTS

31 March 2013

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Depreciation

The Group depreciates property, plant and equipment on the straight-line basis over the respective estimated useful lives as set out in note 2.4 to the financial statements, with the depreciation charge commencing from the date an item of the property, plant and equipment is available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The net carrying value of the Group's property, plant and equipment as at 31 March 2013 was HK\$92,614,000 (2012: HK\$163,871,000).

Allowances for inventories

The Group reviews the inventory ageing analysis periodically, and makes allowance on an annual basis for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items through management's estimation of the net realisable value for such obsolete and slow-moving items based primarily on the latest invoice prices and current market conditions. The aggregate carrying amount of the Group's inventories as at 31 March 2013 was HK\$29,331,000 (2012: HK\$37,215,000).

Estimated insurance claim

The losses on the damaged property, plant and equipment, and the inventories were covered by the comprehensive insurance policies of the Group. However, the Group is now claiming losses, including the accidental physical damage of the property, plant and equipment, inventories, as well as loss of gross profits due to business interruption. The amount of the ultimate insurance claims will be in accordance with the terms and provisions of insurance policies based on the replacement cost basis of the damaged property, plant and equipment, and the ascertainment of ultimate loss of gross profits and additional increased cost of working during the indemnity period.

In making their judgement, the directors considered the detailed recognition criteria as set out in HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and, in particular, whether it has become virtually certain that an inflow of economic benefits to the Company will arise.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

4. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Revenue:		
Sale of printed circuit boards	<u>295,930</u>	<u>362,043</u>
Other income and gains:		
Bank interest income	6,471	3,900
Dividend income from listed equity investments	875	898
Gain on disposal of scrap materials	6,266	4,697
Others	<u>412</u>	<u>267</u>
	<u>14,024</u>	<u>9,762</u>

5. Operating Segment Information

For management purposes, the Group has only one reportable segment, which is the manufacturing and trading of printed circuit boards. Revenue and operating results are the two key indicators provided to the Group's chief operating decision maker to make decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	Group	
	2013 HK\$'000	2012 HK\$'000
Mainland China	126,238	184,203
Hong Kong (place of domicile)	80,511	81,530
Japan	39,760	48,990
Europe	21,503	23,612
Other countries	<u>27,918</u>	<u>23,708</u>
	<u>295,930</u>	<u>362,043</u>

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

NOTES TO FINANCIAL STATEMENTS

31 March 2013

5. Operating Segment Information (continued)

Geographical information (continued)

(b) Non-current assets

	Group	
	2013 HK\$'000	2012 HK\$'000
Hong Kong (place of domicile)	2,516	463
Mainland China (Note)	162,086	232,449
	<u>164,602</u>	<u>232,912</u>

The non-current asset information above is based on the locations of assets and excludes financial instruments and deferred tax assets.

Notes:

- (i) An impairment loss of HK\$36,000,000 (2012: HK\$47,391,000) was recognised on machinery and equipment located in Mainland China during the year, further details are set out in note 13 to the financial statements.
- (ii) Share of loss of a jointly-controlled entity of HK\$29,000 (2012: HK\$168,000) was recognised during the year. The jointly-controlled entity is operating in Mainland China, further details are set out in note 16 to the financial statements.

Information about major customers

Revenue of approximately HK\$39,410,000 (2012: HK\$47,522,000) was derived from sales of printed circuit boards to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company who has 10.41% equity interests in the Company and also a company in which the Group has 7.46% equity interest.

Revenue of approximately HK\$33,685,000 (2012: HK\$27,065,000) was derived from sales of printed circuit boards to a single customer.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

6. Loss Before Tax

The Group's loss before tax is arrived at after charging/(crediting):

	Group	
	2013 HK\$'000	2012 HK\$'000
Auditors' remuneration	818	893
Cost of inventories sold*	282,451	362,528
Reversal of provision against obsolete inventories*	(2,133)	(540)
Employee benefits expense** (excluding directors' remuneration (note 7)):		
Wages, salaries and allowances	36,196	47,314
Pension scheme contributions [#]	3,674	2,955
Less: Forfeited contributions	(66)	(16)
	39,804	50,253
Depreciation** (note 13)	28,019	40,060
Amortisation of prepaid land lease payments (note 14)	316	312
Minimum lease payments under operating leases for land and buildings	590	570
Impairment/(reversal of impairment) of trade debtors (note 19)	823	(904)
Foreign exchange differences, net	696	3,501
Loss on disposal of items of property, plant and equipment, net	105	–
Write-down of inventories to net realisable value	511	233
	39,804	50,253

[#] At 31 March 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

* These items are included in "Cost of sales" on the face of the consolidated income statement.

** "Cost of sales" presented on the face of the consolidated income statement includes direct staff costs of HK\$33,780,000 (2012: HK\$38,537,000) and the depreciation of items of property, plant and equipment of HK\$25,705,000 (2012: HK\$35,781,000) attributable to the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

7. Remuneration of Directors and the Five Highest Paid Employees

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Fees	600	482
Other emoluments:		
Salaries and allowances	6,778	6,778
Pension scheme contributions	339	339
	<u>7,117</u>	<u>7,117</u>
	<u>7,717</u>	<u>7,599</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2013 HK\$'000	2012 HK\$'000
Chan Yuk Tong	200	200
Li Chi Kwong	200	200
Yeung Chi Shing, Bret	200	72
	<u>600</u>	<u>472</u>

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2013

7. Remuneration of Directors and the Five Highest Paid Employees (continued)

Directors' remuneration (continued)

(b) Executive directors

	Fees HK\$'000	Salaries and allowances HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2013				
Chan Sik Ming, Harry	–	6,098	305	6,403
Hiroto Sasaki ^{###}	–	–	–	–
Hiroyuki Kikuchi ^{###}	–	–	–	–
Au-Yeung Wai Hung	–	680	34	714
Yoshio Handa ^{###/###}	–	–	–	–
Shozo Sugaya ^{###/###}	–	–	–	–
	<u>–</u>	<u>6,778</u>	<u>339</u>	<u>7,117</u>
2012				
Chan Sik Ming, Harry	–	6,098	305	6,403
Motofumi Tsumura [^]	10	–	–	10
Hiroto Sasaki	–	–	–	–
Hiroyuki Kikuchi	–	–	–	–
Au-Yeung Wai Hung	–	680	34	714
	<u>10</u>	<u>6,778</u>	<u>339</u>	<u>7,127</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

[#] Resigned on 11 July 2012.

^{##} The executive directors have not entered into any service agreement with the Group and they were not entitled to any salaries and allowances.

^{###} Appointed on 11 July 2012.

[^] Resigned on 24 October 2011.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

7. Remuneration of Directors and the Five Highest Paid Employees (continued)

Remuneration of the five highest paid employees

The five highest paid employees during the year included two (2012: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2012: three) non-director, highest paid employees for the year are as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Salaries and allowances	1,372	1,938
Pension scheme contributions	63	87
	<u>1,435</u>	<u>2,025</u>

The remuneration of the non-director, highest paid employees fell within the band of Nil to HK\$1,000,000.

8. Losses from Fire

On 24 January 2013, there was a fire accident at the Group's production plant in Huizhou, the People's Republic of China ("PRC"). Certain of the Group's inventories and property, plant and equipment were destroyed or damaged.

The losses incurred during the year ended 31 March 2013 as a result of the fire are summarised as follows:

	Group
	HK\$'000
Loss on inventories	3,725
Loss on property, plant and equipment	<u>13,361</u>
	<u>17,086</u>

The losses on the damaged property, plant and equipment and inventories, were covered by the insurance policies of the Group. The Group is now claiming losses, including the accidental physical damage of the property, plant and equipment and inventories, as well as loss of gross profits due to business interruption. The amount of the ultimate insurance claims will be in accordance with the terms and provisions of insurance policies based on the replacement cost basis of the damaged property, plant and equipment, cost value or contract price basis of the inventories and the ascertainment of ultimate loss of gross profits during the indemnity period. Up to the date of this report, no insurance money received or receivable has been recognised in the consolidated financial statements for the year ended 31 March 2013.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

9. Finance Costs

Interest on Bank loans wholly repayable within five years and total interest expense on financial liabilities not at fair value through profit or loss

Group	
2013 HK\$'000	2012 HK\$'000
<u>5,021</u>	<u>3,738</u>

10. Income Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: Nil). No provision for the PRC profits tax has been made as the Group did not generate any assessable profits arising in Mainland China during the year (2012: Nil).

Deferred (note 27) and tax charge/(credit) for the year

Group	
2013 HK\$'000	2012 HK\$'000
<u>2,300</u>	<u>(2,000)</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2013

10. Income Tax (continued)

A reconciliation of the tax expense/(credit) applicable to loss before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate, are as follows:

Group

	2013		2012	
	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(66,218)</u>		<u>(94,299)</u>	
Tax at the statutory tax rate	(10,926)	(16.5)	(15,559)	(16.5)
Higher tax rates for a subsidiary in the PRC	(5,127)	(7.7)	(6,809)	(7.2)
Income not subject to tax	(856)	(1.3)	(923)	(1.0)
Expenses not deductible for tax	948	1.5	913	1.0
Loss attributable to a jointly-controlled entity	5	–	28	–
Tax losses not recognised	11,499	17.4	18,195	19.3
Tax losses utilised from previous periods	(618)	(1.0)	(34)	–
Temporary differences not recognised	1,730	2.7	–	–
Others	<u>5,645</u>	<u>8.5</u>	<u>2,189</u>	<u>2.3</u>
Tax expense/(credit) at the Group's effective rate	<u>2,300</u>	<u>3.6</u>	<u>(2,000)</u>	<u>(2.1)</u>

11. Loss Attributable to Owners of the Company

The consolidated loss attributable to owners of the Company for the year ended 31 March 2013 includes a loss of HK\$283,000 (2012: HK\$322,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. Loss Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of HK\$68,518,000 (2012: HK\$92,299,000) and the number of 480,243,785 (2012: 480,243,785) ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during those years.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

13. Property, Plant and Equipment

Group

31 March 2013

At 31 March 2012 and at
1 April 2012:

Cost	53,667	32,748	730,836	8,587	2,631	3,385	831,854
Accumulated depreciation and impairment	(20,695)	(26,950)	(606,708)	(8,540)	(2,350)	(2,740)	(667,983)

Net carrying amount

	<u>32,972</u>	<u>5,798</u>	<u>124,128</u>	<u>47</u>	<u>281</u>	<u>645</u>	<u>163,871</u>
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At 1 April 2012, net of accumulated
depreciation and impairment

Additions	-	-	5,716	5	-	6	5,727
Disposals	-	-	(13,469)	-	-	-	(13,469)
Depreciation provided during the year	(1,048)	(907)	(25,780)	(38)	(68)	(178)	(28,019)
Impairment	-	-	(36,000)	-	-	-	(36,000)
Exchange realignment	136	18	349	-	-	1	504

At 31 March 2013, net of accumulated
depreciation and impairment

	<u>32,060</u>	<u>4,909</u>	<u>54,944</u>	<u>14</u>	<u>213</u>	<u>474</u>	<u>92,614</u>
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At 31 March 2013:

Cost	53,902	32,891	728,380	8,452	2,208	3,390	829,223
Accumulated depreciation and impairment	(21,842)	(27,982)	(673,436)	(8,438)	(1,995)	(2,916)	(736,609)

Net carrying amount

	<u>32,060</u>	<u>4,909</u>	<u>54,944</u>	<u>14</u>	<u>213</u>	<u>474</u>	<u>92,614</u>
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NOTES TO FINANCIAL STATEMENTS

31 March 2013

13. Property, Plant and Equipment (continued)

Group (continued)

	Buildings HK\$'000	Leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Computers HK\$'000	Total HK\$'000
31 March 2012							
At 1 April 2011							
Cost	51,708	31,558	703,269	8,303	2,391	2,878	800,107
Accumulated depreciation and impairment	(18,841)	(23,425)	(503,602)	(8,179)	(2,216)	(2,585)	(558,848)
Net carrying amount	<u>32,867</u>	<u>8,133</u>	<u>199,667</u>	<u>124</u>	<u>175</u>	<u>293</u>	<u>241,259</u>
At 1 April 2011, net of accumulated depreciation and impairment							
	32,867	8,133	199,667	124	175	293	241,259
Additions	-	-	673	3	189	471	1,336
Depreciation provided during the year	(1,123)	(2,603)	(36,036)	(83)	(88)	(127)	(40,060)
Impairment	-	-	(47,391)	-	-	-	(47,391)
Exchange realignment	<u>1,228</u>	<u>268</u>	<u>7,215</u>	<u>3</u>	<u>5</u>	<u>8</u>	<u>8,727</u>
At 31 March 2012, net of accumulated depreciation and impairment							
	<u>32,972</u>	<u>5,798</u>	<u>124,128</u>	<u>47</u>	<u>281</u>	<u>645</u>	<u>163,871</u>
At 31 March 2012:							
Cost	53,667	32,748	730,836	8,587	2,631	3,385	831,854
Accumulated depreciation and impairment	(20,695)	(26,950)	(606,708)	(8,540)	(2,350)	(2,740)	(667,983)
Net carrying amount	<u>32,972</u>	<u>5,798</u>	<u>124,128</u>	<u>47</u>	<u>281</u>	<u>645</u>	<u>163,871</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2013

13. Property, Plant and Equipment (continued)

The buildings of the Group are situated in Mainland China and are held under medium term leases.

At 31 March 2013, the Group's machinery and equipment with a net carrying amount of approximately HK\$5,229,000 (2012: HK\$16,056,000) were pledged to secure a loan facility granted to the Group (note 26).

The present value of the future cash flows expected to be derived from the Group's property, plant and equipment based on their existing use would likely decrease due to the credit austerity measures in the PRC and Europe's sovereign debt crisis. In addition, the market capitalisation of the Group as at 31 March 2013 was below the net asset value of the Group.

During the year ended 31 March 2013, the directors considered that the existence of the above conditions indicated that non-current assets of the Group might be impaired. In view of this, the directors estimated the recoverable amount of the cash-generating units by comparing the higher of the fair value less costs to sell and the value in use of the cash-generating unit based on the valuation report prepared by an independent professional valuer. The cash-generating unit consisted of the Group's PCB manufacturing facility, which composed of prepaid land lease payments and buildings, leasehold improvements, machinery and equipment, furniture and fixtures, motor vehicles and computers.

The estimates of the recoverable amount of the cash-generating unit as at 31 March 2013 were determined based on a fair value less costs to sell calculation using cash flow projections based on the seven-year financial forecast approved by the directors.

Key assumptions used for the fair value less costs to sell calculation as at 31 March 2013:

Sales volume growth rate: 5%

Gross profit margin rate: 14%

Discount rate: 13%

The directors determined the above sales volume growth rate and gross profit margin rate based on the expectation of future market development.

An impairment provision of HK\$36,000,000 (2012: HK\$47,391,000) was recognised in the income statement for the year.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

14. Prepaid Land Lease Payments

	Group	
	2013 HK\$'000	2012 HK\$'000
Carrying amount at 1 April	15,036	14,792
Exchange realignment	63	556
Recognised during the year	(316)	(312)
	<hr/>	<hr/>
Carrying amount at 31 March	14,783	15,036
Current portion included in sundry debtors, prepayments and deposits	(318)	(317)
	<hr/>	<hr/>
Non-current portion	<u>14,465</u>	<u>14,719</u>

The leasehold land of the Group is held under a medium term lease and is situated in Mainland China.

15. Investments in Subsidiaries

	Company	
	2013 HK\$'000	2012 HK\$'000
Unlisted investments, at cost	<u>70,916</u>	<u>70,916</u>
Due from a subsidiary	<u>155,037</u>	<u>155,223</u>

The amount due from a subsidiary of HK\$155,037,000 (2012: HK\$155,223,000) included in the Company's current assets is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

15. Investments in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Nominal value of issued ordinary share/ registered capital	Class of shares in issue	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Incorporated and operating in Hong Kong					
Daisho Microline Limited	2 shares of HK\$1.00 each	Ordinary	–	100	Trading of printed circuit boards
Daisho Microline Investment Limited	100,000 shares of HK\$1.00 each	Ordinary	–	100	Investment holding
Incorporated in the British Virgin Islands and operating in Hong Kong					
Frequent Luck Limited	1 share of US\$1.00	Ordinary	100	–	Investment holding
Registered in the PRC and operating in Mainland China					
Huafeng Microline (Huizhou) Circuits Limited [#]	US\$62,000,000	*	–	100	Manufacture of printed circuit boards

* This subsidiary has registered instead of issued share capital. It is registered as a wholly-foreign-owned enterprise under the PRC law.

[#] Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

16. Investment in a Jointly-Controlled Entity

	Group	
	2013 HK\$'000	2012 HK\$'000
Share of net assets	<u>53,316</u>	<u>53,107</u>

Particulars of the jointly-controlled entity, which is held indirectly by the Company, are as follows:

Name	Registered capital	Place of registration	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
惠州市華瑞房地產開發有限公司 [#]	RMB8,000,000	PRC	50	50	50	Real estate development

[#] Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2013 HK\$'000	2012 HK\$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	25,950	25,828
Non-current assets*	27,400	27,279
Current liabilities	<u>(34)</u>	<u>-</u>
Net assets	<u>53,316</u>	<u>53,107</u>
Share of the jointly-controlled entity's results:		
Revenue	-	-
Total expenses	(29)	(168)
Tax	<u>-</u>	<u>-</u>
Loss after tax	<u>(29)</u>	<u>(168)</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2013

16. Investment in a Jointly-Controlled Entity (continued)

Subsequent to the end of the reporting period, on 17 June 2013, the Group made an announcement on its intention to dispose of the investment in the jointly-controlled entity. Up to the date of this report, no agreement in respect of the disposal of the investment has been reached.

* A land use right of approximately HK\$25,985,000 (2012: approximately HK\$25,846,000) was included in the share of the non-current assets of the jointly-controlled entity as disclosed above. The jointly-controlled entity holds a piece of land in Huizhou, in Guangdong province of the PRC and it has not commenced any real estate development work so far. The statutory deadline for the commencement of construction work on the land as approved by the relevant government authority for postponement is 20 September 2013.

In the opinion of the directors, based on the legal advice from the Group's legal adviser in the PRC, the land will be considered as idle and subject to idle charge if the jointly-controlled entity has failed to commence the construction work within one year after the commencement date of construction, i.e. 21 September 2014. If the land remain idle for two years up to 21 September 2015, the government has the right to recover the land without compensation. Accordingly, the directors are of the opinion that the chance of the land being recovered without compensation is remote.

17. Available-for-Sale Investment

	Group	
	2013	2012
	HK\$'000	HK\$'000
Unlisted equity investment, at cost	<u>19,281</u>	<u>19,281</u>

The above investment consists of investment in equity securities which are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 March 2013, the above unlisted equity investment with a carrying amount of HK\$19,281,000 (2012: HK\$19,281,000) was stated at cost less impairment, if any because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

18. Inventories

	Group	
	2013 HK\$'000	2012 HK\$'000
Raw materials	10,560	17,228
Work in progress	13,174	14,235
Finished goods	5,597	5,752
	<u>29,331</u>	<u>37,215</u>

19. Trade Debtors and Bills Receivable

	Group	
	2013 HK\$'000	2012 HK\$'000
Trade debtors	30,898	53,047
Impairment	(1,278)	(1,200)
	<u>29,620</u>	<u>51,847</u>
Bills receivable	309	3,730
	<u>29,929</u>	<u>55,577</u>

The Group's trading terms with its trade debtors are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of two months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding debtors to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the above mentioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade debtors are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

19. Trade Debtors and Bills Receivable (continued)

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

	Group	
	2013 HK\$'000	2012 HK\$'000
Current to 1 month	25,746	47,373
1 to 2 months	1,149	2,323
2 to 3 months	879	728
Over 3 months	3,124	2,623
	<u>30,898</u>	<u>53,047</u>

The movements in the provision for impairment of trade debtors are as follows:

		Group	
	Note	2013 HK\$'000	2012 HK\$'000
At beginning of year		1,200	2,680
Amount written off as uncollectible		(823)	(576)
Impairment loss recognised/(reversed)	6	823	(904)
Exchange realignment		78	–
		<u>1,278</u>	<u>1,200</u>

The individually impaired trade debtors with an aggregate carrying amount of HK\$1,278,000 (2012: HK\$1,200,000) relates to customers that were in financial difficulties or were in default in payments and the amounts are not expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

19. Trade Debtors and Bills Receivable (continued)

The aged analysis of the trade debtors that are not considered to be impaired is as follows:

	Group	
	2013 HK\$'000	2012 HK\$'000
Neither past due nor impaired	22,656	36,331
Less than 1 month past due	3,090	11,042
1 to 2 months past due	1,149	2,323
2 to 3 months past due	879	728
Over 3 months past due	1,846	1,423
	<u>29,620</u>	<u>51,847</u>

Debtors that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Debtors that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade debtors is a receivable of HK\$3,033,000 (2012: HK\$7,404,000) due from a related party, which is a subsidiary of a substantial shareholder of the Company, arising from the trading of printed circuit boards, which is repayable in accordance with the credit terms granted to the related party.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

20. Sundry Debtors, Prepayments and Deposits

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Prepayments	6,052	5,128	206	218
Deposits and sundry debtors	9,225	9,316	–	–
	<u>15,277</u>	<u>14,444</u>	<u>206</u>	<u>218</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. Other Financial Assets at Fair Value Through Profit or Loss

	Group	
	2013 HK\$'000	2012 HK\$'000
Hong Kong listed equity investments, at market value	17,430	20,931
Equity investments listed elsewhere, at market value	2,616	2,479
	<u>20,046</u>	<u>23,410</u>

The above investments as at 31 March 2013 and 2012 were classified as held for trading.

At 31 March 2013, all of the Hong Kong listed equity investments amounting to HK\$17,430,000 (2012: HK\$20,931,000) were pledged to secure certain of the Group's bank loans (note 26).

NOTES TO FINANCIAL STATEMENTS

31 March 2013

22. Cash and Cash Equivalents and Pledged Deposits

	Note	Group		Company	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Cash and bank balances		278,801	224,247	28	29
Less: Pledged for bank loans repayable within one year	26	(169,319)	(64,090)	–	–
Cash and cash equivalents		<u>109,482</u>	<u>160,157</u>	<u>28</u>	<u>29</u>

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$242,131,000 (2012: HK\$195,484,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. Trade Creditors

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

	Group	
	2013 HK\$'000	2012 HK\$'000
Current to 1 month	20,372	39,765
1 to 2 months	7,349	13,766
2 to 3 months	1,992	2,056
Over 3 months	4,213	5,188
	<u>33,926</u>	<u>60,775</u>

The trade creditors are non-interest-bearing and are normally settled on 90-day terms.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

24. Other Creditors and Accruals

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Other creditors	12,706	24,546	165	78
Accruals	9,575	5,595	135	138
	<u>22,281</u>	<u>30,141</u>	<u>300</u>	<u>216</u>

Other creditors are non-interest-bearing and have an average term of three months.

25. Derivative Financial Instruments

Group	2013		2012	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	–	–	–	204
Equity contracts	71	210	143	137
	<u>71</u>	<u>210</u>	<u>143</u>	<u>341</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2013

26. Interest-Bearing Bank and Other Borrowings

Group	2013			2012		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Trust receipt loans	LIBOR+2.25%	2013	3,845	LIBOR+2%	2012	6,551
Bank loans – unsecured			–	LIBOR+3%	2012–2013	8,282
Bank loans – secured	HIBOR+1.1% to HIBOR+3.2%	2013	150,730	HIBOR+1.1% to HIBOR+2.8%	2012	75,685
Other loans – secured	Prime–1%	2013–2014	7,170	Prime–1%	2012–2013	6,872
			<u>161,745</u>			<u>97,390</u>
Non-current						
Bank loans – unsecured			–	LIBOR+3%	2013–2014	8,282
Other loans – secured	Prime-1%	2013–2014	3,081	Prime-1%	2013–2014	10,251
			<u>3,081</u>			<u>18,533</u>
			<u>164,826</u>			<u>115,923</u>

	Group	
	2013 HK\$'000	2012 HK\$'000
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	161,745	97,390
In the second year	3,081	15,452
In the third to fifth years, inclusive	–	3,081
	<u>164,826</u>	<u>115,923</u>
Total	<u>164,826</u>	<u>115,923</u>

At the end of the reporting period, except for certain bank and other loans denominated in United States dollars (“US\$”) equivalent to HK\$60,000,000 (2012: HK\$52,000,000), all the bank and other loans were denominated in Hong Kong dollars.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

26. Interest-Bearing Bank and Other Borrowings (continued)

At the end of the reporting period, certain of the Group's bank loans and other loans are secured by:

- (i) pledge of certain of the Group's bank balances amounting to HK\$169,319,000 (2012: HK\$64,090,000);
- (ii) pledge of all of the Group's Hong Kong listed equity investments amounting to HK\$17,430,000 (2012: HK\$20,931,000); and
- (iii) pledge of certain of the Group's machinery and equipment located in the PRC, which had an aggregate carrying value of HK\$5,229,000 (2012: HK\$16,056,000) at the end of the reporting period.

27. Deferred Tax

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

Group

	Depreciation allowance in excess of related depreciation and impairment HK\$'000	Loss available for offsetting against future taxable profits HK\$'000	Total HK\$'000
At 1 April 2011	21,648	(21,948)	(300)
Deferred tax charged/(credited) to the income statement during the year (note 10)	<u>(13,000)</u>	<u>11,000</u>	<u>(2,000)</u>
At 31 March 2012 and 1 April 2012	8,648	(10,948)	(2,300)
Deferred tax charged/(credited) to the income statement during the year (note 10)	<u>(8,648)</u>	<u>10,948</u>	<u>2,300</u>
At 31 March 2013	<u>–</u>	<u>–</u>	<u>–</u>

As at 31 March 2013, the Group had estimated tax losses arising in Hong Kong of approximately HK\$54,761,000 (2012: approximately HK\$51,110,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also had estimated tax losses arising in PRC of approximately HK\$137,667,000 (2012: HK\$97,223,000) that will expire in one to five years. Deferred tax assets have not been recognised in respect of tax losses amounted to HK\$192,428,000 (2012: HK\$99,764,000) as they have arisen in subsidiaries that have been loss-making for some time or it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

28. Share Capital Shares

	2013 HK\$'000	2012 HK\$'000
Authorised: 600,000,000 ordinary shares of HK\$0.10 each	<u>60,000</u>	<u>60,000</u>
Issued and fully paid: 480,243,785 (2012: 480,243,785) ordinary shares of HK\$0.10 each	<u>48,024</u>	<u>48,024</u>

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

29. Share Option Scheme

The Company operates a share option scheme (the "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 allowing the eligible participants to enjoy the results of the Company attained through their effort and contribution. Eligible participants of the Scheme include (i) any full-time employees of the Company or any of its subsidiaries or associated companies; (ii) any directors (whether executive directors, non-executive directors or independent non-executive directors) of the Company or any of its subsidiaries or associated companies; and (iii) any consultants, technical, financial, legal or other professional advisers engaged by the Company or any of its subsidiaries or associated companies, provided that the Company's board of directors or a duly authorised committee may have absolute discretion to determine if one falls within the categories. The Scheme became effective on 28 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the total number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the total number of shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period of one to three years and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options had been granted, exercised or lapsed during the year ended 31 March 2013 and there were no outstanding share options as at 31 March 2013 and 31 March 2012.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the Company's shares issued pursuant to the Group reorganisation in 1989 and the nominal value of the shares and the share premium account of the subsidiaries acquired.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2011	91,483	38,295	48,690	178,468
Total comprehensive loss for the year	—	—	(322)	(322)
At 31 March 2012 and 1 April 2012	91,483	38,295	48,368	178,146
Total comprehensive loss for the year	—	—	(283)	(283)
At 31 March 2013	<u>91,483</u>	<u>38,295</u>	<u>48,085</u>	<u>177,863</u>

The Company's contributed surplus is derived from the difference between the combined net assets of the subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the same reorganisation described in note 30(a) above. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

NOTES TO FINANCIAL STATEMENTS

31 March 2013

31. Contingent Liabilities

The Company has provided certain banks with corporate guarantees of HK\$212 million (2012: HK\$222 million) to secure banking facilities granted to subsidiaries. At 31 March 2013, the facilities were utilised to the extent of HK\$154,575,000 (2012: HK\$98,799,000). The Company has also provided a financial institution with corporate guarantees of HK\$21 million (2012: HK\$21 million) to secure credit facilities granted to a subsidiary. At 31 March 2013, the facilities were utilised to the extent of HK\$10,251,000 (2012: HK\$17,123,000).

Daisho Microline Limited ("DML"), a subsidiary of the Company, a defendant in a lawsuit brought by a third party on 8 December 2011 in respect of alleged sales commission payable amounting to US\$532,000 and RMB110,000 (equivalent to HK\$4,261,000 in aggregate) for the period from 1 April 2008 to 31 March 2011. As the court action is at a preliminary stage of the proceedings, it is not practicable for the Group's legal advisers to form a view as to the probable outcome of this case. However, the directors are of the opinion that the claim is unlikely to succeed on the merits of the case and, therefore, no material liability is likely to result therefrom.

Because all production lines in the Group's principal printed circuit board production base had stopped for almost one month since the fire accident on 24 January 2013, all shipments to the Group's customers were inevitably affected. Certain customers have requested the Group to share part of the price differences they suffered after they diverted their purchase of printed circuit boards from other suppliers in order to satisfy their demand. The Group is currently negotiating with these customers on such requests. It is not practicable for the Group's legal advisers to form a view as to the probable outcome of such requests which are still at a preliminary stage, but the directors are of the opinion that the requests are unlikely to succeed based on their merits. The other information usually required under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it could seriously prejudice the position of the Group in the negotiation with these customers on such requests.

32. Operating Lease Arrangements

The Group leases certain of its office properties under operating lease arrangements. Leases for these properties are negotiated for terms of two years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases for land and buildings falling due as follows:

	Group		Company	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	99	590	–	–
In the second to fifth years, inclusive	–	99	–	–
	<u>99</u>	<u>689</u>	<u>–</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2013

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Capital commitments, contracted but not provided for:				
Plant and machinery	272	440	–	–
Authorised, but not contracted for:				
Plant and machinery	4,834	–	–	–
	<u>5,106</u>	<u>440</u>	<u>–</u>	<u>–</u>

34. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with a related party during the year:

	Group	
	2013 HK\$'000	2012 HK\$'000
Sales of printed circuit boards to a related party	<u>39,410</u>	<u>47,522</u>

Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company who has 10.41% equity interests in the Group and also a company in which the Group has 7.46% equity interest. The products sold were unique and tailor-made according 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.

(b) **Outstanding balance with a related party**

Details of the Group's trade balance with its related party as at the end of the reporting period are disclosed in note 19 to the financial statements.

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34. Related Party Transactions (continued)

(c) Compensation of key management personnel of the group:

	2013 HK\$'000	2012 HK\$'000
Short term employee benefits	6,778	6,778
Post-employment benefits	339	339
Total compensation paid to key management personnel	7,117	7,117

Further details of directors' emoluments are included in note 7 to the financial statements.

The related party transactions in respect of item (a) also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2013

Financial assets

		Group			
	Notes	Loans and receivables HK\$'000	Available- for-sale investment HK\$'000	Financial assets at fair value through profit or loss – held for trading HK\$'000	Total HK\$'000
Available-for-sale investment	17	–	19,281	–	19,281
Trade debtors and bills receivable	19	29,929	–	–	29,929
Other financial assets at fair value through profit or loss	21	–	–	20,046	20,046
Derivative financial instruments	25	–	–	71	71
Financial assets included in sundry debtors, prepayments and deposits	20	9,225	–	–	9,225
Pledged bank balances	22	169,319	–	–	169,319
Cash and cash equivalents	22	109,482	–	–	109,482
		317,955	19,281	20,117	357,353

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35. Financial Instruments by Category (continued)

2013

Financial liabilities

	Notes	Group		
		Financial liabilities at fair value through profit or loss – held for trading HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Trade creditors	23	–	33,926	33,926
Financial liabilities included in other creditors and accruals		–	18,502	18,502
Derivative financial instruments	25	210	–	210
Interest-bearing bank and other borrowings	26	–	164,826	164,826
		210	217,254	217,464

2012

Financial assets

	Notes	Group			
		Loans and receivables HK\$'000	Available-for-sale investment HK\$'000	Financial assets at fair value through profit or loss – held for trading HK\$'000	Total HK\$'000
Available-for-sale investment	17	–	19,281	–	19,281
Trade debtors and bills receivable	19	55,577	–	–	55,577
Other financial assets at fair value through profit or loss	21	–	–	23,410	23,410
Derivative financial instruments	25	–	–	143	143
Financial assets included in sundry debtors, prepayments and deposits	20	9,316	–	–	9,316
Pledged bank balances	22	64,090	–	–	64,090
Cash and cash equivalents	22	160,157	–	–	160,157
		289,140	19,281	23,553	331,974

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35. Financial Instruments by Category (continued)

2012

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss – held for trading HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Trade creditors	23	–	60,775	60,775
Financial liabilities included in other creditors and accruals	24	–	24,546	24,546
Derivative financial instruments	25	341	–	341
Interest-bearing bank and other borrowings	26	–	115,923	115,923
		<u>341</u>	<u>201,244</u>	<u>201,585</u>

Financial assets

	Notes	Company Loans and receivables	
		2013 HK\$'000	2012 HK\$'000
Due from a subsidiary	15	155,037	155,223
Cash and cash equivalents	22	<u>28</u>	<u>29</u>
		<u>155,065</u>	<u>155,252</u>

Financial liabilities

	Financial liabilities at amortised cost	
	2013 HK\$'000	2012 HK\$'000
Financial liabilities included in other creditors and accruals	<u>300</u>	<u>78</u>

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36. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Financial assets				
Cash and cash equivalents	109,482	160,157	109,482	160,157
Pledged bank balances	169,319	64,090	169,319	64,090
Trade debtors and bills receivable	29,929	55,577	29,929	55,577
Financial assets included in sundry debtors, prepayments and deposits	9,225	9,316	9,225	9,316
Other financial assets at fair value through profit or loss	20,046	23,410	20,046	23,410
Derivative financial instruments	71	143	71	143
	338,072	312,693	338,072	312,693
Financial liabilities				
Trade creditors	33,926	60,775	33,926	60,775
Financial liabilities included in other creditors and accruals	18,502	24,546	18,502	24,546
Derivative financial instruments	210	341	210	341
Interest-bearing bank and other borrowings	164,826	115,923	164,826	115,923
	217,464	201,585	217,464	201,585

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36. Fair Value and Fair Value Hierarchy (continued)

Company

	Carrying amounts		Fair values	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Financial assets				
Cash and cash equivalents	28	29	28	29
Due from a subsidiary	155,037	155,223	155,037	155,223
	<u>155,065</u>	<u>155,252</u>	<u>155,065</u>	<u>155,252</u>
Financial liabilities				
Financial liabilities included in other creditors and accruals	300	78	300	78

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged bank balances, trade debtors and bills receivable, trade creditors, financial assets included in sundry debtors, prepayments and deposits, financial liabilities included in other creditors and accruals, and amount due from a subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of other financial assets at fair value through profit or loss are based on quoted market prices. The fair values of derivative financial instruments, including interest rate swaps and equity contracts, have been estimated using a valuation technique based on assumptions that are supported by observable market prices or rates.

NOTES TO FINANCIAL STATEMENTS

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36. Fair Value and Fair Value Hierarchy (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value

As at 31 March 2013

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Other financial assets at fair value through profit or loss	20,046	–	–	20,046
Derivative financial instruments	–	71	–	71
	<u>20,046</u>	<u>71</u>	<u>–</u>	<u>20,117</u>

As at 31 March 2012

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Other financial assets at fair value through profit or loss	23,410	–	–	23,410
Derivative financial instruments	–	143	–	143
	<u>23,410</u>	<u>143</u>	<u>–</u>	<u>23,553</u>

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36. Fair Value and Fair Value Hierarchy (continued)

Liabilities measured at fair value

As at 31 March 2013

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial instruments	–	210	–	210

As at 31 March 2012

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial instruments	–	341	–	341

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

The Company did not have any financial assets and liabilities measured at fair value as at 31 March 2013 (2012: Nil).

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than other financial assets at fair value through profit or loss and derivatives, comprise interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and bills receivable and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and foreign currency forward contracts for the purposes of managing the interest rate and foreign currency risk arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and market price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

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37. Financial Risk Management Objectives and Policies (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates. The interest rates and terms of repayment of the interest-bearing bank and other borrowings of the Group are disclosed in note 26 to the financial statements.

The Group's policy is to minimise the interest rate risk for interest-bearing bank and other borrowings with an original tenor of more than one year by fixing the interest rate at the commencement of the tenor. The Group may make use of interest rate swaps transactions in order to effect fixed interest rates for such borrowings if required.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax and the Group's equity, in respect of the interest-bearing bank and other borrowings based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in loss before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2013			
Interest rate	100	1,624	–
Interest rate	(100)	(1,624)	–
2012			
Interest rate	100	429	–
Interest rate	(100)	(429)	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS

31 March 2013

37. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group operates in Hong Kong and Mainland China with most of the transactions denominated and settled in either United States dollars ("USD"), Hong Kong dollars ("HKD") or Renminbi ("RMB"). As USD is pegged to HKD, the Group considers the risk of movements in exchange rates between HKD and USD to be insignificant. The Group is mainly exposed to the foreign currency risk of the RMB.

It is the Group's policy to enter into forward currency contracts with reference to the estimated cash flows in foreign currencies in order to manage the foreign currency exposures.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates, with all other variables held constant, of the Group's loss before tax and the Group's equity, in respect of the monetary assets and liabilities, and derivative financial instruments based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in exchange rates %	Group Increase/ (decrease) in loss before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2013			
If Hong Kong dollar weakens against USD	0.5 [#]	(67)	–
If Hong Kong dollar strengthens against USD	(0.5) [#]	67	–
If Hong Kong dollar weakens against RMB	10.0	2,602	–
If Hong Kong dollar strengthens against RMB	(1.0)	(260)	–
2012			
If Hong Kong dollar weakens against USD	0.5 [#]	(49)	–
If Hong Kong dollar strengthens against USD	(0.5) [#]	49	–
If Hong Kong dollar weakens against RMB	10.0	6,244	–
If Hong Kong dollar strengthens against RMB	(1.0)	(624)	–

[#] Because HKD is pegged to USD and the Hong Kong Monetary Authority has committed that it will intervene if the exchange rate for USD against HKD is above 7.85 or below 7.75, the possible change in the exchange rate for USD against HKD is minimal.

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS

31 March 2013

37. Financial Risk Management Objectives and Policies (continued)

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, debtor balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an available-for-sale financial asset, other financial assets at fair value through profit or loss, other debtors and certain derivative financial instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy customers, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 6% (2012: 16%) and 55% (2012: 59%) of the Group's trade debtors were due from the Group's largest customer and the five largest customers, respectively. The Group manages the concentration of credit risk by continuously broadening the customer base of the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 19 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade debtors) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. The Group's policy is that not more than 90% of interest-bearing bank and other borrowings should mature in any 12-month period. As at 31 March 2013, 98% (2012: 84%) of the Group's interest-bearing bank and other borrowings would mature in less than one year based on the carrying value of borrowings reflected in the financial statements. The Group will review this policy in due course.

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37. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows.

Group

	2013		
	Less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade creditors	33,926	–	33,926
Financial liabilities included in other creditors and accruals	18,502	–	18,502
Derivative financial instruments	210	–	210
Interest-bearing bank and other borrowings	162,445	3,114	165,559
	<u>215,083</u>	<u>3,114</u>	<u>218,197</u>

Group

	2012		
	Less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Trade creditors	60,775	–	60,775
Financial liabilities included in other creditors and accruals	24,546	–	24,546
Derivative financial instruments	341	–	341
Interest-bearing bank and other borrowings	98,483	19,036	117,519
	<u>184,145</u>	<u>19,036</u>	<u>203,181</u>

At 31 March 2013, the Company had financial liabilities included in other creditors and accruals that were repayable within one year of approximately HK\$300,000 (2012: approximately HK\$78,000).

At 31 March 2013, the Company had financial liabilities in respect of guarantees given to banks and other financial institution in connection with facilities granted to subsidiaries of approximately HK\$164,826,000 (2012: HK\$115,922,000).

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37. Financial Risk Management Objectives and Policies (continued)

Market price risk

Market price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to market price risk arising from individual equity investments classified as trading equity investments (note 21) and derivative financial instruments as at 31 March 2013. Most of the Group's listed investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity index for the Hong Kong Stock Exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 March 2013	High/low 2013	31 March 2012	High/low 2012
Hong Kong – Hang Seng Index	<u>22,300</u>	<u>23,945/ 18,056</u>	<u>20,556</u>	<u>24,468/ 16,170</u>

The following table demonstrates the sensitivity to every 5% change in the fair values of the listed equity investments, with all other variables held constant, of the Group's loss before tax and the Group's equity, based on their carrying amounts at the end of the reporting period.

	Carrying amount HK\$'000	Increase/ decrease in loss before tax HK\$'000	Increase/ decrease in equity* HK\$'000
2013			
Equity investments	<u>20,046</u>	<u>1,002</u>	<u>–</u>
2012			
Equity investments	<u>23,410</u>	<u>1,171</u>	<u>–</u>

* Excluding retained profits

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31 March 2013

37. Financial Risk Management Objectives and Policies (continued)

Market price risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the equity market price in respect of the derivative financial instruments, with all other variables held constant, of the Group's loss before tax and equity, based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in equity market price %	Increase/ (decrease) in loss before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2013			
Derivative financial instruments	10	1,405	–
	(10)	(236)	–
2012			
Derivative financial instruments	10	(174)	–
	(10)	1,026	–

* Excluding retained profits

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2013 and 2012.

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37. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is the interest-bearing bank and other borrowings divided by total capital. Capital includes equity attributable to owners of the Company. The Group's policy is to maintain the gearing ratio below 50%. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	2013	2012
	HK\$'000	HK\$'000
Interest-bearing bank and other borrowings	164,826	115,923
Equity attributable to owners of the Company	336,306	402,560
Gearing ratio	49%	29%

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28 June 2013.