DAISHO MICROLINE HOLDINGS LIMITED

大昌微綫集團有限公司

Stock Code: 0567

Annual Report

2007

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CORPORATE INFORMATION AND FINANCIAL CALENDAR

Board of Directors

Executive directors

Chan Sik Ming, Harry *(Chairman & Chief Executive Officer)*
Motofumi Tsumura
Hiroto Sasaki
Hiroyuki Kikuchi
Au-Yeung Wai Hung

Independent non-executive directors

Kohu Kashiwagi
Chan Yuk Tong
Li Chi Kwong

Qualified Accountant

Au-Yeung Wai Hung

Company Secretary

Au-Yeung Wai Hung

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation 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

Units B12-16, 3rd Floor, Block B
Hoplite Industrial Centre
3-5 Wang Tai Road
Kowloon Bay
Hong Kong

Principal Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudian Road
Pembroke
Bermuda

Branch Registrar in Hong Kong

Tengis Limited
(to be renamed as Tricor Tengis Limited with effect from 1 August 2007)
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:
30 November 2006

Annual Results:
16 July 2007

Closure of Register of Members

5 September 2007 (Wednesday) to
7 September 2007 (Friday)

Annual General Meeting

7 September 2007 (Friday)

Dividends

Interim dividend:	HK4.0 cents per ordinary share
Proposed final dividend:	HK3.0 cents per ordinary share

BIOGRAPHICAL INFORMATION OF DIRECTORS

Executive Directors

Chan Sik Ming, Harry, aged 53, 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. Mr. Chan graduated from the University of Hitotsubashi in Japan with a Bachelor of Arts degree in Commerce in 1978. He has over 26 years of experience in the electronics industry.

Motofumi Tsumura, aged 44, has been an Executive Director of the Company since October 1999. Mr. Tsumura graduated from the University of Seijo in Japan with a Business Management degree in 1985. He has over 22 years of experience in the electronics industry.

Hiroto Sasaki, aged 67, has been an Executive Director of the Company since October 2001. Mr. Sasaki is the President of Daisho Denshi Co., Ltd., a substantial shareholder of the Company. He has over 40 years of experience in the manufacture of printed circuit boards.

Hiroyuki Kikuchi, aged 67, has been an Executive Director of the Company since November 2003. He has over 42 years of experience in the manufacture of printed circuit boards.

Au-Yeung Wai Hung, aged 40, 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. 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 member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 19 years of experience in areas related to accounting, auditing, taxation, company secretarial, financial management, personnel management and information technology management.

BIOGRAPHICAL INFORMATION OF DIRECTORS

Independent Non-Executive Directors

Kohu Kashiwagi, aged 67, has been an Independent Non-Executive Director of the Company since 1996. Mr. Kashiwagi has over 37 years of experience in the electronics industry.

Chan Yuk Tong, aged 45, has been an Independent Non-Executive Director of the Company since September 2004. He 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 21 years of experience in corporate finance, financial advisory and management, professional accounting and auditing. He is currently a shareholder and a director of a CPA firm and a financial consulting firm in Hong Kong. He is also an executive director of Vitop Bioenergy Holdings Limited and an independent non-executive director of Anhui Conch Cement Company Limited, Carico Holdings Limited, Kam Hing International Holdings Limited and Sichuan Xinhua Winshare Chainstore Co., Ltd., all of which are listed companies in Hong Kong. Mr. Chan was also an independent non-executive director of two listed companies in Hong Kong, namely, Luks Industrial (Group) Limited and World Trade Bun Kee Limited during the periods from 30 September 2004 to 1 December 2005 and from 1 January 2007 to 3 July 2007 respectively.

Li Chi Kwong, aged 54, has been an Independent Non-Executive Director of the Company since December 2005. 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 Register Professional Engineer.

Dr. Li is at present an Associate Professor in the Department of Electronic and Information Engineering in The Hong Kong Polytechnic University where he has taught since January 1985. He has over 30 years of experience in the academic field relating to engineering and he has published about 150 technical papers in international journals and conferences. Dr. Li also serves in many professional and government committees.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group achieved another breakthrough in operating performance for the current year with both revenue and net profit at record high. The Group's revenue for the current year was about HK$750 million, up 20% from last year. The Group's net profit after tax for the current year was about HK$143 million, up 31% from last year.

The outstanding operating performance of the Group for the current year was mainly attributable to two major factors. Firstly, the Group was benefited from the strong global demand for high density inter-connect ("HDI") printed circuit boards ("PCB") for mobile phones, particularly during the first half of the current year because HDI PCB has become the main stream of PCB used for modern mobile phones nowadays. Secondly, the Group acquired timely a series of highly sophisticated production machines from the second half of last year to enlarge its production capacity for HDI PCB and the Group was capable of meeting the huge demand for HDI PCB by the world-renowned telecommunication product customers.

The Group's production facilities were most suitable and best utilized for the manufacture of HDI PCB. Because mobile phone was still the most common product application for HDI PCB and the profit margins from telecommunication product customers were on average far greater than those from other electronic products customers, most of the Group's PCB production capacity for the current year was devoted to meet the demand from the telecommunication product customers. Accordingly, the sales value of PCB for the telecommunication product customers as a proportion of the Group's revenue further increased from about 74% in last year to about 80% in current year.

The Group's gross profit margin decreased slightly from about 45% in last year to about 43% in current year. Although the Group's PCB average selling price during the current year remained stable as compared to last year, the increase in the depreciation charges and the average purchase price of laminate during the current year eroded the Group's gross profit margin. Resulting from the substantial addition of highly sophisticated production machines since the second half of last year, the depreciation charges attributable to the manufacturing activity increased from about HK$35 million in last year to about HK$60 million in current year. Besides, the average purchase price of laminate increased by about 7% during the current year due to the continuous mismatch of global demand and supply for copper and glass fibre.

The Group's revenue for the first half of the current year and the second half of the current year was about HK$459 million and about HK$291 million respectively. After the proliferation of numerous models of mobile phone for almost two years, some of the Group's telecommunication product customers began to review their marketing and technical strategy in the summer of 2006. They tried to re-schedule the delivery time for some models of mobile phone in order to avoid the early erosion in their average selling price and to minimize their stock level. Besides, they commenced to gradually shift the technological requirement of HDI PCB for mobile phone towards a more advance level for which the Group was struggling during the current year. Hence, the Group's operating results for the second half of the current year was less satisfactory.

Business Review *(Continued)*

In light of the forthcoming shift of technological requirement of HDI PCB for mobile phone by some of the Group's world-renowned telecommunication product customers, the Group has expedited its evolution towards becoming a more advance PCB manufacturer. With the effort of the Group's staff and the support rendered by Daisho Denshi Co., Ltd. which is one of the Company's substantial shareholders and also one of the top manufacturers of highly delicate PCB in Japan, the Group is now capable of manufacturing the more advance level of HDI PCB for mobile phone as required by these world-renowned telecommunication product customers. Although these customers are expected to finalize the formal approval of the Group in the supply of the more advance level of HDI PCB to them until the early of 2008, the Group could still continue to sharpen its edge in the manufacture of HDI PCB during the intervening period because the Group has developed some original design manufacturers of mobile phone in the Mainland China consuming HDI PCB with requirements no less inferior to those required by the Group's existing world-renowned telecommunication product customers.

Financial Review

The total capital expenditure incurred by the Group during the current year was about HK$126 million out of which about 86% was incurred during the first half of the current year. They consisted mainly of highly sophisticated production machines acquired to cope with the foreseeable huge demand for HDI PCB. External finance lease facilities amounting to about HK$50 million had been arranged to finance part of these capital expenditure during the current year while the balance of these capital expenditure was financed by the Group's internal resources.

The Group's gearing ratios (defined as the ratio of interest-bearing bank and other borrowings to total equity) at 31 March 2007 and 31 March 2006 were 0.20 times and 0.28 times respectively while the Group's current ratios at 31 March 2007 and 31 March 2006 were 1.54 times and 1.05 times respectively. These financial ratios improved substantially because the Group's PCB operations generated net cash inflow of about HK$194 million during the current year.

As at 31 March 2007, the Group's interest-bearing bank and other borrowings amounting to HK$75,779,000 (31 March 2006: HK$66,425,000) out of which HK$41,293,000 (31 March 2006: HK$32,208,000) were repayable within the next 12 months. These borrowings were all denominated in Hong Kong dollars ("HK$"), originally repayable monthly over 3 years (except for the bank borrowings as at 31 March 2006 totalling HK$4,501,000 which were originally repayable within 3 months) and subjected to floating interest rates for about 91% (31 March 2006: 79%) of them. The Group has not adopted any interest rate hedging tool for these borrowings. Certain machinery and equipment of the Group with a net book value at 31 March 2007 of HK$109,420,000 (31 March 2006: HK$70,089,000) were pledged to secure these borrowings.

Financial Review *(Continued)*

As at 31 March 2007, the Group's assets and liabilities were mostly denominated in either HK$, US$ or Renminbi ("RMB"). Because the exchange rate for US$ against HK$ is relatively stable in Hong Kong for the moment, the Group has not adopted any hedging tool against its assets or liabilities denominated in US$. Also because the Group's subsidiary in Mainland China has net assets as at 31 March 2007 and RMB is expected to appreciate gradually, there is only a remote possibility that the Group will suffer exchange loss on the translation of these net assets and so the Group has not adopted any hedging tool against these net assets denominated in RMB. However, the Group began to make use of foreign exchange forward contracts during the current year to hedge against part of its operating expenses to be paid in RMB in light of the expected appreciation of RMB.

Employee Benefits

As at 31 March 2007, the Group had 1,505 (31 March 2006: 2,001) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2007, the Group's total staff costs including directors' remuneration were HK$48,800,000 (2006: HK$39,197,000).

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

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 whether 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.

Outlook

The Board expects that the Group will not have significant breakthrough in operating performance during the first half of the financial year ending 31 March 2008 because some of the Group's world-renowned telecommunication product customers commenced to gradually shift the technological requirement of HDI PCB for mobile phone towards a more advance level and they are expected to finalize the formal approval of the Group in the supply of the more advance level of HDI PCB to them until the early of 2008. However, the Board is optimistic about the Group's operating performance during the second half of the financial year ending 31 March 2008 because of the following reasons.

Firstly, the Group is now capable of manufacturing the more advance level of HDI PCB for mobile phone as required by the Group's world-renowned telecommunication product customers. Given that the global sales of mobile phones for the year 2006 has reached over 1 billion units and HDI PCB of which there are not many capable manufacturers so far has become the main stream of PCB used for modern mobile phones nowadays, it is just a matter of time for the Group to increase its market share of HDI PCB.

Secondly, the unit selling price for the more advance level of HDI PCB for mobile phone is at least several times higher than that for the type of HDI PCB manufactured by the Group in the past due to the technical difficulties involved in the manufacture of the former. The production cost for the former, however, will increase by a lesser extent as compared to that for the latter. Given the same production volume, the sales value and the profit margins for manufacturing the former will be much higher than those for manufacturing the latter.

Thirdly, it is generally expected that the Chinese government will soon issue the third generation ("3G") telecommunication licences to the service operators before the Olympic Games in Beijing in August 2008. The provision of 3G telecommunication services in the Mainland China will boost the huge demand for 3G mobile phones there and will stimulate the demand for HDI PCB indirectly. The Group will definitely benefit as a result because it sells HDI PCB to not only world-renowned telecommunication products customers but also original design manufacturers for mobile phone in the Mainland China now.

Fourthly, the product applications of HDI PCB are not merely restricted to mobile phone. The Group has succeeded in dealing with a famous Japanese digital camera manufacturer who will place several millions of Hong Kong dollars' worth of monthly sales orders for HDI PCB with the Group from the last quarter of 2007 onwards. The Group is negotiating with other potential non-telecommunication product customers so as to broaden its customer base.

The Board recognizes the importance of sustainable development. The Group has embarked on various green manufacturing measures, ranging from the compliance of the European Union's directive on the Restriction of Hazardous Substances to adoption of energy-saving and water-recycling ideas. Being a responsible corporate citizen, the Group intends to contribute towards alleviating the magnitude of global warming on one hand and to achieve the reduction in the consumption of natural resources, which can lower the production cost on the other hand.

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 2007.

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 profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 27 to 82.

An interim dividend of HK4.0 cents per ordinary share was paid on 7 February 2007. The directors recommend the payment of a final dividend of HK3.0 cents per ordinary share in respect of the year to shareholders on the register of members on 7 September 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

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.

RESULTS	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**750,449**	623,238	258,237	241,666	237,840
PROFIT/(LOSS) BEFORE TAX	**163,354**	130,175	(14,265)	(5,452)	3,315
Tax	**(20,742)**	(21,121)	–	–	–
PROFIT/(LOSS) FOR THE YEAR	**142,612**	109,054	(14,265)	(5,452)	3,315
Attributable to:					
Equity holders of the Company	**142,612**	109,054	(14,265)	(5,452)	3,315

ASSETS AND LIABILITIES	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**563,338**	502,942	247,119	227,668	262,896
TOTAL LIABILITIES	**(189,750)**	(265,601)	(122,569)	(89,027)	(118,664)
	373,588	237,341	124,550	138,641	144,232

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

Details of movements in the Company's share capital and share options during the year are set out in notes 25 and 26 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 27(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 March 2007, the Company's reserves available for cash distribution and distribution in specie were HK$121,280,000 (2006: HK$99,343,000), of which HK$14,418,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$92,031,000 (2006: HK$90,613,000), may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK$48,000.

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	21%
–	Five largest suppliers	49%

b. Percentage of sales attributable to the:

–	Largest customer	33%
–	Five largest customers	75%

Save as disclosed under the heading "Connected Transaction and 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.

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)*
Motofumi Tsumura
Hiroto Sasaki
Hiroyuki Kikuchi
Au-Yeung Wai Hung

Independent Non-Executive Directors:

Kohu Kashiwagi
Chan Yuk Tong
Li Chi Kwong

Directors *(Continued)*

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 . 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. Hiroto Sasaki, Mr. Au-Yeung Wai Hung and Mr. Chan Yuk Tong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Kohu Kashiwagi, Mr. Chan Yuk Tong and Dr. Li Chi Kwong and 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 are determined by the Company's Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

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 2007, 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Directly beneficially owned	Beneficiary of a trust	Total number of shares held	Percentage of the Company's issued share capital
Chan Sik Ming, Harry	39,680,000	103,521,417 *(note)*	143,201,417	29.80
Au-Yeung Wai Hung	4,200,000	–	4,200,000	0.87
Hiroto Sasaki	2,950,000	–	2,950,000	0.61

Note: Chan Sik Ming, Harry, and his family are the objects of a discretionary trust which has appointed Earnwell Limited as its trustee. At the balance sheet date, Earnwell Limited held 103,521,417 shares representing approximately 21.54% of the issued share capital of the Company.

The interests of the directors in the share options of the Company are separately disclosed in note 26 to the financial statements.

Save as disclosed above, as at 31 March 2007, 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

Save as disclosed in the share option scheme disclosures in note 26 to the financial statements, 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 director or their respective spouse 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.

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

At 31 March 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Earnwell Limited	Trustee	103,521,417	21.54%
Daisho Denshi Co., Ltd.	Directly beneficially owned	50,000,000	10.40%

Save as disclosed above, as at 31 March 2007, 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.

Connected Transaction and Continuing Connected Transactions

During the year, the Group had the following connected and 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").

Connected Transaction

During the year, the Group paid technical support fees of HK$794,000 (2006: HK$682,000) to Daisho Denshi Co., Ltd., which is a substantial shareholder of the Company, for the provision of technological advice on the manufacture of printed circuit boards.

Connected Transaction and Continuing Connected Transactions *(Continued)*

Continuing Connected Transactions

During the year, the Group had continuing connected transactions with Daisho Denshi (H.K.) Limited, a subsidiary of Daisho Denshi Co., Ltd., for the sale of printed circuit boards amounting to approximately HK$58 million (2006: approximately HK$38 million) conducted in the ordinary and usual course of the Group's business.

Pursuant to the Company's special general meeting on 31 March 2004, 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 value for these sales transactions was set at HK$132 million for each of the three financial years ended 31 March 2007.

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 sales transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms;

(iii) in accordance with the terms of the relevant agreements governing these sales transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) with an aggregate annual value of these sales transactions not exceeding HK$132 million for the year ended 31 March 2007.

In the opinion of the directors of the Company, the continuing connected transactions during the year ended 31 March 2007 have been entered into in the manner stated above.

The auditors of the Company have reviewed, on a sample test basis, and confirmed that the continuing connected transactions with the Daisho Denshi Group during the year:

(i) have been approved by the board of directors of the Company;

(ii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iii) have not exceeded the annual cap of HK$132 million for the year ended 31 March 2007.

Connected Transaction and Continuing Connected Transactions *(Continued)*

Continuing Connected Transactions (Continued)

In addition to the above, on 1 December 2003, the Group entered into an agreement with a connected person for the provision of consultancy services to the Group in relation to the marketing and sale of printed circuit boards. Up to the termination of the agreement on 1 June 2006, consultancy fees of HK$160,000 (2006: HK$960,000) were paid during the year to the connected person who is a corporate entity in which a director and shareholder is a substantial shareholder and former director of the Company. Such consultancy fees were determined by mutual agreement. As at the balance sheet date, the connected person had ceased to be the substantial shareholder and director of the Company.

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.

Remuneration Committee

The Company's Remuneration Committee was established in December 2005 to formulate and implement the remuneration policy relating to directors and employees of the Group.

The Remuneration Committee comprises two executive directors and three independent non-executive directors of the Company, namely, Mr. Chan Sik Ming, Harry, Mr. Au-Yeung Wai Hung, Mr. Kohu Kashiwagi, Mr. Chan Yuk Tong and Dr. Li Chi Kwong.

Director's Interest in a Competing Business

During the year and up to the date of this report, the following director is 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. Hiroto Sasaki is also a director 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 director does not control the board of the Company, the Group is capable of carrying on its businesses 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
16 July 2007

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 Listing Rules of the Stock Exchange.

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 2007 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 and A.4.1, 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 2007.

Board of Directors

Board composition and practice

As at the date of this annual report, the Board of the Company comprises five executive directors and three independent non-executive directors, which includes:

Executive directors:
Chan Sik Ming, Harry *(Chairman & Chief Executive Officer)*
Motofumi Tsumura
Hiroto Sasaki
Hiroyuki Kikuchi
Au-Yeung Wai Hung

Independent non-executive directors:
Kohu Kashiwagi
Chan Yuk Tong
Li Chi Kwong

Board of Directors *(Continued)*

Board composition and practice (Continued)

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.

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, declaring dividend and ensuring good corporate governance and compliance, monitor the performance of the management and reviewing and approving 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 businesses of the Group.

Chairman and Chief Executive Officer

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

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

Non-Executive Directors

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

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

Re-election of Directors

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

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. He will also retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Board Committees

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)*
Kohu Kashiwagi
Li Chi Kwong

Executive directors:
Chan Sik Ming, Harry
Au-Yeung Wai Hung

The Remuneration Committee is responsible for formulating formal and transparent remuneration policies, and for approving the remuneration packages of directors. 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.

Board Committees *(Continued)*

Remuneration Committee (Continued)

For the year ended 31 March 2007, one Remuneration Committee meeting was held to discuss and approve the directors' performance bonus for the year 2006 and advise on the remuneration of independent non-executive directors. In developing remuneration policies and making recommendation as to the remuneration of the directors, the Remuneration Committee takes into account the performance of the Group as well as those individual directors.

Audit Committee

The Audit Committee of the Company 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)*
Kohu Kashiwagi
Li Chi Kwong

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 Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the audited consolidated financial statements of the Group for the year ended 31 March 2007 and agreed with all the accounting treatments which have been adopted therein.

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 2007, the services and associated remuneration provided by Ernst & Young to the Group were as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Audit services	**625**	585
Other services	**34**	55

Board Committees *(Continued)*

Audit Committee *(Continued)*

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

The Audit Committee has recommended to the Board of Directors that Ernst & Young be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

Directors' Attendance at Board, Audit Committee and Remuneration Committee Meetings

There were five board meetings, two audit committee meetings and one remuneration committee meeting held during the year ended 31 March 2007. The Board meets regularly and additional meeting are convened when deemed necessary by the Board.

The names and individual attendance of each director at each board, audit committee and remuneration committee meetings are set out below:

Name of director	**Attendance/ Number of Board Meeting**	**Attendance/ Number of Audit Committee Meeting**	**Attendance/ Number of Remuneration Committee Meeting**
Chan Sik Ming, Harry *(Chairman & CEO)*	5/5	N/A	1/1
Motofumi Tsumura	0/5	N/A	N/A
Hiroto Sasaki	1/5	N/A	N/A
Hiroyuki Kikuchi	1/5	N/A	N/A
Au-Yeung Wai Hung	5/5	N/A	1/1
Kohu Kashiwagi	0/5	0/2	0/1
Chan Yuk Tong	5/5	2/2	1/1
Li Chi Kwong	5/5	2/2	1/1

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 2007.

Nomination of Directors

Currently, the Company does not have a Nomination Committee. The Board identifies individuals who are suitably qualified to become board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account such attributes as working experience, professional qualification and other relevant factors including the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rules 3.13 of the Listing Rules.

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 pages 25 to 26 of this annual report.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

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

We have audited the financial statements of Daisho Microline Holdings Limited set out on pages 27 to 82, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

Auditors' responsibility *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit 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
16 July 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	4	**750,449**	623,238
Cost of sales		**(427,423)**	(345,028)
Gross profit		**323,026**	278,210
Other income and gains	4	**6,065**	4,406
Selling and distribution costs		**(117,997)**	(113,968)
Administrative expenses		**(37,336)**	(33,066)
Other expenses		**(4,884)**	(2,847)
Finance costs	8	**(5,520)**	(2,560)
PROFIT BEFORE TAX	6	**163,354**	130,175
Tax	9	**(20,742)**	(21,121)
PROFIT FOR THE YEAR		**142,612**	109,054
Attributable to equity holders of the Company	10	**142,612**	109,054
DIVIDENDS	11		
Interim		**19,225**	–
Proposed final		**14,418**	14,252
		33,643	14,252
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK29.81 cents**	HK23.27 cents
Diluted		**HK29.63 cents**	HK22.98 cents

CONSOLIDATED BALANCE SHEET

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**316,886**	242,873
Prepaid land lease payments	*14*	**4,171**	4,069
Deposits paid for acquisition of items of property, plant and equipment		**4,007**	19,270
Total non-current assets		**325,064**	266,212
CURRENT ASSETS			
Inventories	*16*	**40,569**	38,762
Trade debtors	*17*	**85,078**	135,751
Available-for-sale investment	*18*	**15,625**	–
Sundry debtors, prepayments and deposits		**11,440**	8,862
Cash and cash equivalents	*19*	**85,562**	53,355
Total current assets		**238,274**	236,730
CURRENT LIABILITIES			
Trade creditors	*20*	**62,344**	89,427
Other creditors and accruals	*21*	**35,322**	94,062
Interest-bearing bank and other borrowings	*22*	**41,293**	32,208
Tax payable		**16,105**	9,187
Total current liabilities		**155,064**	224,884
NET CURRENT ASSETS		**83,210**	11,846
TOTAL ASSETS LESS CURRENT LIABILITIES		**408,274**	278,058
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*22*	**34,486**	34,217
Deferred tax liabilities	*24*	**200**	6,500
Total non-current liabilities		**34,686**	40,717
Net assets		**373,588**	237,341

CONSOLIDATED BALANCE SHEET *(Continued)*
31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	*25*	**48,061**	47,176
Reserves	27(a)	**311,109**	175,913
Proposed final dividend	*11*	**14,418**	14,252
Total equity		**373,588**	237,341

Chan Sik Ming, Harry
Director

Au-Yeung Wai Hung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2007

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange equalisation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total equity HK$'000
At 1 April 2005		46,601	90,038	9,379	(17,742)	(3,726)	–	124,550
Exchange realignment and total income and expense for the year recognised directly in equity		–	–	–	2,587	–	–	2,587
Profit for the year		–	–	–	–	109,054	–	109,054
Total income and expense for the year		–	–	–	2,587	109,054	–	111,641
Issue of ordinary shares	25	575	575	–	–	–	–	1,150
Proposed final 2006 dividend	11	–	–	–	–	(14,252)	14,252	–
At 31 March 2006 and 1 April 2006		47,176	90,613*	9,379*	(15,155)*	91,076*	14,252	237,341
Exchange realignment and total income and expense for the year recognised directly in equity		–	–	–	24,975	–	–	24,975
Profit for the year		–	–	–	–	142,612	–	142,612
Total income and expense for the year		–	–	–	24,975	142,612	–	167,587
Issue of ordinary shares	25	885	1,418	–	–	–	–	2,303
Final 2006 dividend declared		–	–	–	–	(166)	(14,252)	(14,418)
Interim 2007 dividend	11	–	–	–	–	(19,225)	–	(19,225)
Proposed final 2007 dividend	11	–	–	–	–	(14,418)	14,418	–
At 31 March 2007		**48,061**	**92,031***	**9,379***	**9,820***	**199,879***	**14,418**	**373,588**

* *These reserve accounts comprise the consolidated reserves of HK$311,109,000 (2006: HK$175,913,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**163,354**	130,175
Adjustments for:			
Bank interest income	4	**(2,143)**	(220)
Gain on disposal of items of property, plant and equipment	4	**(150)**	(2,771)
Depreciation	6	**64,401**	38,305
Recognition of prepaid land lease payments	14	**120**	116
Finance costs	8	**5,520**	2,560
		231,102	168,165
Decrease in inventories		**4,710**	773
Decrease/(increase) in trade debtors		**57,418**	(72,002)
Increase in sundry debtors, prepayments and deposits		**(2,121)**	(6,037)
Increase/(decrease) in trade creditors		**(28,993)**	37,208
Increase/(decrease) in other creditors and accruals		**(44,321)**	56,902
Cash generated from operations		**217,795**	185,009
Interest received		**2,143**	220
Interest paid		**(940)**	(1,228)
Interest element on finance lease and hire purchase rental payments		**(4,500)**	(1,329)
Hong Kong profits tax paid		**(6,755)**	–
Overseas profits tax paid		**(13,369)**	(5,434)
Net cash inflow from operating activities		**194,374**	177,238
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of items of property, plant and equipment		**(72,152)**	(86,649)
Deposits paid for acquisition of items of property, plant and equipment		**(4,007)**	(19,270)
Proceeds from disposal of items of property, plant and equipment		**252**	2,773
Purchase of an available-for-sale investment		**(15,625)**	–
Net cash outflow from investing activities		**(91,532)**	(103,146)

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of ordinary shares	25	**2,303**	1,150
Decrease in trust receipt loans		**(4,501)**	(11,793)
Capital element of finance lease and hire purchase rental payments		**(32,679)**	(12,055)
New bank loans		**5,000**	10,000
Repayment of bank loans		**(8,216)**	(15,516)
Dividends paid		**(33,643)**	–
Net cash outflow from financing activities		**(71,736)**	(28,214)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**31,106**	45,878
Cash and cash equivalents at beginning of year		**53,355**	7,169
Effect of foreign exchange rate changes, net		**1,101**	308
CASH AND CASH EQUIVALENTS AT END OF YEAR		**85,562**	53,355
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**33,708**	53,355
Non-pledged time deposits with original maturity of less than three months when acquired	19	**51,854**	–
		85,562	53,355

BALANCE SHEET

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	15	**70,916**	70,916
CURRENT ASSETS			
Due from a subsidiary	15	**190,365**	166,140
Sundry debtors, prepayments and deposits		**231**	167
Cash and cash equivalents	19	**31**	58
Total current assets		**190,627**	166,365
CURRENT LIABILITIES			
Other creditors and accruals	21	**171**	149
NET CURRENT ASSETS		**190,456**	166,216
Net assets		**261,372**	237,132
EQUITY			
Issued share capital	25	**48,061**	47,176
Reserves	27(b)	**198,893**	175,704
Proposed final dividend	11	**14,418**	14,252
Total equity		**261,372**	237,132

Chan Sik Ming, Harry
Director

Au-Yeung Wai Hung
Director

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 also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investment, 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.

Change in segment identification

During the year, the Group changed its identification of reportable geographical segment revenue. The Group reclassified its previous six geographical segments, namely "Mainland China", "Hungary", "Estonia", "Hong Kong", "Japan" and "Others" into the current five geographical segments, namely "Mainland China", "Europe", "Hong Kong", "Japan" and "Others". Further information of the current geographical segments is detailed in note 5 below. In the opinion of the directors, the revised basis of segment identification provides a more appropriate presentation of the segment revenue information. Prior year segment revenue information has been restated for comparative purpose.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2007. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(b) HKAS 39 *Financial Instruments: Recognition and Measurement* *(Continued)*

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HKFRS-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 April 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 Impact of Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKAS 23 (Revised)	Borrowing Costs
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

2.3 Impact of Issued but Not Yet Effective Hong Kong Financial Reporting Standards *(Continued)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HKAS 23 (Revised), HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 interests in subsidiaries are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies *(Continued)*

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 calculated as 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d) above;

2.4 Summary of Significant Accounting Policies *(Continued)*

Related parties (Continued)

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e) above; or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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 – 20%
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 each balance sheet date.

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation (Continued)

An item of property, plant and equipment 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.

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 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 the 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

Financial assets in the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets (Continued)

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted 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.

Fair value

The fair value of investments, where there is no active market, is determined using 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset 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 transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and 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. 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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other creditors and interest-bearing bank loans and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest 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 amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 Summary of Significant Accounting Policies *(Continued)*

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.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. 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, unless the directors consider such derivative financial instruments to be insignificant to the results of the Group. 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 fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, unless the directors consider such gains or losses to be insignificant to the results of the Group.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

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 balance sheet date 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 finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax (Continued)

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

- where 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, where 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.

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

- where 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, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax (Continued)

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:

(i) 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; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

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 payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees 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. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Employee benefits (Continued)

Share-based payment transactions (Continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance 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. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, 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. 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.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 April 2005 and to those granted on or after 1 April 2005.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Employee benefits (Continued)

Pension schemes and other retirement benefits (Continued)

The Group also operates another defined contribution retirement benefits 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 recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies (Continued)

The functional currency of an overseas subsidiary is a currency other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of this entity are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, its income statement is translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity (the exchange equalisation reserve). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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

Judgements and estimates are continually evaluated by the Group's management and such evaluations are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets or liabilities are discussed below.

Depreciation

The net book value of the Group's property, plant and equipment as at 31 March 2007 was HK$316,886,000 (2006: HK$242,873,000). The Group depreciates the property, plant and equipment on the straight line basis over the respective estimated useful lives as set out in note 13 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.

Allowances for inventories

The Group's management reviews the inventory ageing analysis periodically, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production on an annual basis. The Group carries out an inventory review on a product-by-product basis at each balance sheet date 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 carrying amounts of the Group's inventories as at 31 March 2007 was HK$40,569,000 (2006: HK$38,762,000).

3. Significant Accounting Judgements and Estimates *(Continued)*

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 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.

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	
	2007	2006
	HK$'000	*HK$'000*
Revenue:		
Sale of printed circuit boards	**750,449**	623,238
Other income and gains:		
Bank interest income	**2,143**	220
Gain on disposal of items of property, plant and equipment	**150**	2,771
Gain on disposal of scrap materials	**3,570**	955
Others	**202**	460
	6,065	4,406

5. Segment Information

Segment information is presented by way of two formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary reporting basis, by geographical segment.

(a) Business segment

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

(b) Geographical segments

In presenting information by geographical segment, segment revenue is based on the location of the customers, and segment assets and capital expenditure are based on the location of the assets.

As detailed in note 2.1 to the financial statements, from 1 April 2006, the Group has changed its identification of reporting geographical segments and the prior year's segment revenue information has been restated.

The following tables present revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

Group

	Mainland China		Europe		Hong Kong		Japan		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**306,703**	291,792	**248,092**	203,428	**74,022**	48,905	**57,822**	38,375	**63,810**	40,738	**750,449**	623,238

	Mainland China		Hong Kong		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:						
Segment assets	**378,198**	343,237	**185,140**	159,705	**563,338**	502,942
Capital expenditure	**126,015**	147,667	**369**	950	**126,384**	148,617

6. Profit Before Tax

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

		Group	
		2007	2006
	Note	***HK$'000***	*HK$'000*
Auditors' remuneration		**625**	585
Cost of inventories sold*		**428,561**	338,235
Provision/(write back of provision) against obsolete inventories*		**(1,138)**	6,793
Employee benefits expense** (excluding directors' remuneration *(note 7)*):			
Wages, salaries and allowances		**35,212**	28,990
Pension scheme contributions		**661**	251
Less: Forfeited contributions		**(146)**	(721)
Net pension scheme contributions#		**515**	(470)
		35,727	28,520
Depreciation**	*13*	**64,401**	38,305
Minimum lease payments under operating leases for land and buildings		**630**	608
Foreign exchange differences, net		**4,645**	2,564

\# *At 31 March 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: 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$25,196,000 (2006: HK$21,033,000) and the depreciation of items of property, plant and equipment of HK$60,113,000 (2006: HK$34,976,000) attributable to the manufacturing activities, which are also included in the respective total amounts disclosed above for each of these types of expenses.*

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	
	2007	2006
	HK$'000	*HK$'000*
Fees	**280**	208
Other emoluments:		
Salaries and allowances	**5,555**	4,834
Discretionary bonuses*	**7,000**	5,432
Pension scheme contributions	**238**	203
	12,793	10,469
	13,073	10,677

* *Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.*

(a) *Independent non-executive directors*

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

	2007	2006
	HK$'000	*HK$'000*
Kohu Kashiwagi	**20**	20
Chan Yuk Tong	**100**	100
Li Chi Kwong	**100**	28
	220	148

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

7. Remuneration of Directors and the Five Highest Paid Employees

(Continued)

Directors' remuneration *(Continued)*

(b) Executive directors

	Fees	Salaries and allowances	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Chan Sik Ming, Harry	**–**	**4,053**	**6,410**	**189**	**10,652**
Motofumi Tsumura	**60**	**–**	**–**	**–**	**60**
Hiroto Sasaki	**–**	**–**	**440**	**–**	**440**
Hiroyuki Kikuchi	**–**	**450**	**150**	**–**	**600**
Au-Yeung Wai Hung	**–**	**1,052**	**–**	**49**	**1,101**
	60	**5,555**	**7,000**	**238**	**12,853**
2006					
Chan Sik Ming, Harry	–	3,190	4,700	149	8,039
Motofumi Tsumura	60	–	–	–	60
Hiroto Sasaki	–	–	600	–	600
Hiroyuki Kikuchi	–	450	132	–	582
Au-Yeung Wai Hung	–	885	–	39	924
Lo Sun Wah*	–	309	–	15	324
	60	4,834	5,432	203	10,529

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

* *Mr. Lo Sun Wah resigned as a director of the Company on 19 August 2005.*

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 three (2006: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2006: one) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries and allowances	**1,120**	516
Pension scheme contributions	**49**	23
	1,169	539

The remuneration of the non-director, highest paid employees fell within the band of Nil to HK$1,000,000. During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 26 to the financial statements. The Group has not recognised in the current year's income statement the cost of share options granted by the Company during the year since in the opinion of the directors, the values of such share options did not have a significant impact on the Group's results for the year. The fair value of such options is not included in the above non-director, highest paid employees' remuneration disclosures.

8. Finance Costs

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Bank loans wholly repayable within five years	**947**	1,228
Finance lease and hire purchase contract payables	**4,573**	1,332
	5,520	2,560

9. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007	2006
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**20,379**	4,300
Overprovision in prior years	**(2,449)**	–
Current – Elsewhere		
Charge for the year	**9,112**	9,669
Underprovision in prior years	**–**	652
Deferred *(note 24)*	**(6,300)**	6,500
Total tax charge for the year	**20,742**	21,121

9. Tax *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

Group

	2007		2006	
	HK$'000	**%**	*HK$'000*	%
Profit before tax	**163,354**		130,175	
Tax at the statutory tax rate	**28,587**	**17.5**	22,781	17.5
Lower tax rates for specific provinces or local authority	**(4,968)**	**(3.1)**	(3,930)	(3.0)
Income not subject to tax	**(359)**	**(0.2)**	(34)	–
Expenses not deductible for tax	**1,756**	**1.1**	3,727	2.9
Adjustments in respect of current tax of previous periods	**(2,449)**	**(1.5)**	652	0.5
Tax losses not recognised	**30**	**–**	14	–
Tax losses utilised from previous periods	**(1,040)**	**(0.6)**	(5,484)	(4.2)
Temporary differences previously not recognised	**–**	**–**	2,691	2.0
Others	**(815)**	**(0.5)**	704	0.5
Tax charge at the Group's effective rate	**20,742**	**12.7**	21,121	16.2

10. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 March 2007 includes a profit of HK$55,580,000 (2006: HK$86,026,000) which has been dealt with in the financial statements of the Company (note 27(b)).

11. Dividends

	2007	2006
	HK$'000	*HK$'000*
Interim – HK4.0 cents (2006: Nil) per ordinary share	**19,225**	–
Proposed final – HK3.0 cents (2006: HK3.0 cents) per ordinary share	**14,418**	14,252
	33,643	14,252

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

12. Earnings per Share Attributable to Ordinary Equity Holders of the Company *(Continued)*

The calculations of basic and diluted earnings per share are based on:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**142,612**	109,054

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**478,352,415**	468,629,264
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,013,112**	5,869,704
	481,365,527	474,498,968

13. Property, Plant and Equipment

Group

	1 April 2006 HK$'000	Exchange realignment HK$'000	Additions HK$'000	Disposals HK$'000	31 March 2007 HK$'000
31 March 2007					
Cost:					
Buildings	40,882	2,267	860	–	44,009
Leasehold improvements	18,085	993	3,717	–	22,795
Machinery and equipment	391,944	21,915	120,562	(3,342)	531,079
Furniture and fixtures	6,675	324	461	(360)	7,100
Motor vehicles	1,795	50	512	–	2,357
Computers	2,025	25	272	–	2,322
	461,406	25,574	126,384	(3,702)	609,662
Accumulated depreciation:					
Buildings	10,358	604	934	–	11,896
Leasehold improvements	8,945	545	1,784	–	11,274
Machinery and equipment	191,757	11,966	60,585	(3,255)	261,053
Furniture and fixtures	5,229	279	544	(345)	5,707
Motor vehicles	795	32	345	–	1,172
Computers	1,449	16	209	–	1,674
	218,533	13,442	64,401	(3,600)	292,776
Net book value	242,873				316,886

13. Property, Plant and Equipment *(Continued)*

Group

	1 April 2005 HK$'000	Exchange realignment HK$'000	Additions HK$'000	Disposals HK$'000	31 March 2006 HK$'000
31 March 2006					
Cost:					
Buildings	40,248	634	–	–	40,882
Leasehold improvements	17,787	278	20	–	18,085
Machinery and equipment	260,685	3,130	146,501	(18,372)	391,944
Furniture and fixtures	5,384	79	1,215	(3)	6,675
Motor vehicles	1,258	9	528	–	1,795
Computers	1,667	5	353	–	2,025
	327,029	4,135	148,617	(18,375)	461,406
Accumulated depreciation:					
Buildings	9,392	151	815	–	10,358
Leasehold improvements	7,401	120	1,424	–	8,945
Machinery and equipment	172,131	2,730	35,266	(18,370)	191,757
Furniture and fixtures	4,783	71	378	(3)	5,229
Motor vehicles	541	6	248	–	795
Computers	1,272	3	174	–	1,449
	195,520	3,081	38,305	(18,373)	218,533
Net book value	131,509				242,873

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

The aggregate net book value of the Group's property, plant and equipment held under finance leases and hire purchase contracts included in the total amount of machinery and equipment at 31 March 2007, amounted to HK$109,420,000 (2006: HK$66,678,000).

At 31 March 2006, certain of the Group's machinery and equipment with an aggregate net book value as at that date of approximately HK$3,411,000 were pledged to a bank to secure the facilities granted to the Group (note 22).

14. Prepaid Land Lease Payments

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 April	**4,186**	4,236
Exchange realignment	**228**	66
Recognised during the year	**(120)**	(116)
Carrying amount at 31 March	**4,294**	4,186
Current portion included in sundry debtors, prepayments and deposits	**(123)**	(117)
Non-current portion	**4,171**	4,069

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

15. Interests in Subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost	**70,916**	70,916
Due from a subsidiary	**190,365**	221,866
Less: Impairment of amount due from a subsidiary	**–**	(55,726)
	190,365	166,140
	261,281	237,056

The balance with a subsidiary included in the Company's current assets of HK$190,365,000 (2006: HK$166,140,000, net of provision for impairment of HK$55,726,000), is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from a subsidiary approximates to its fair value.

15. Interests in Subsidiaries *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Nominal value of issued ordinary/ registered share 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
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 People's Republic of China (the "PRC") and operating in Mainland China					
Huafeng Microline (Huizhou) Circuits Limited#	US$50,000,000	*	–	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 other Ernst & Young International member firms.*

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.

16. Inventories

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**16,872**	17,207
Work in progress	**15,318**	19,464
Finished goods	**8,379**	2,091
	40,569	38,762

17. Trade Debtors

The Group's trading terms with its customers 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 receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade debtors are non-interest-bearing.

An aged analysis of the trade debtors as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current to 1 month	**83,897**	133,721
1 to 2 months	**423**	1,344
2 to 3 months	**35**	46
Over 3 months	**723**	640
	85,078	135,751

17. Trade Debtors *(Continued)*

Included in the Group's trade debtors are trade receivables of HK$10,839,000 (2006: HK$8,180,000) due from a related party, which is a subsidiary of a substantial shareholder of the Company, arising from trading of printed circuit boards, which are repayable in accordance with the credit terms granted to the related party.

18. Available-for-sale Investment

	Group	
	2007	2006
	HK$'000	*HK$'000*
Time deposit, at fair value	**15,625**	–

During the year, no gain or loss of the Group's available-for-sale investment has been recognised directly in equity (2006: Nil).

The time deposit has a maturity date of 5 September 2007. Full principal amount of US$2 million will be repaid on maturity date, subject to early repayment at the bank's option or the Group's request. Interest income is charged at 7.85% times the number of calendar days in the relevant period on which 12-month LIBOR is greater than or equal to 3-month LIBOR.

The fair value of the time deposit is determined based on the quoted price from an investment bank.

19. Cash and Cash Equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**33,708**	53,355	**31**	58
Time deposits	**51,854**	–	**–**	–
Cash and cash equivalents	**85,562**	53,355	**31**	58

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$5,990,000 (2006: HK$19,851,000). 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.

19. Cash and Cash Equivalents *(Continued)*

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 carrying amounts of the cash and bank balances approximate to their fair values.

20. Trade Creditors

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current to 1 month	**56,481**	74,937
1 to 2 months	**4,611**	12,150
2 to 3 months	**666**	1,373
Over 3 months	**586**	967
	62,344	89,427

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

21. Other Creditors and Accruals

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

22. Interest-bearing Bank and Other Borrowings

Group	2007 Effective interest rate (%)	2007 Maturity	2007 HK$'000	2006 Effective interest rate (%)	2006 Maturity	2006 HK$'000
Current						
Finance lease and hire purchase contract payables *(note 23)*	**3.64% to 4.54%**	**2007-2008**	**5,767**	3.64% to 4.54%	2007	7,270
Finance lease and hire purchase contract payables *(note 23)*	**HIBOR +1.75% to HIBOR +2.5%**	**2007-2008**	**30,526**	HIBOR +1.75% to Prime -1.75%	2007	13,610
Trust receipt loans			**–**	HIBOR +2%	2006	4,501
Bank loans – unsecured	**HIBOR +1.75% to HIBOR +2.5%**	**2008**	**5,000**	HIBOR +2.5% to HIBOR +2.85%	2006-2007	5,549
Bank loans – secured			**–**	HIBOR +3%	2006	1,278
			41,293			32,208
Non-current						
Finance lease and hire purchase contract payables *(note 23)*	**3.64% to 4.54%**	**2008**	**810**	3.64% to 4.54%	2007-2008	6,578
Finance lease and hire purchase contract payables *(note 23)*	**HIBOR +1.75% to HIBOR +2.5%**	**2008-2009**	**30,343**	HIBOR +1.75% to Prime –1.75%	2007-2009	22,917
Bank loans – unsecured	**HIBOR +1.75% to HIBOR +2.5%**	**2008-2009**	**3,333**	HIBOR +2.5% to HIBOR +2.85%	2008	4,722
			34,486			34,217
			75,779			66,425

22. Interest-bearing Bank and Other Borrowings *(Continued)*

	Group	
	2007	2006
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**5,000**	11,328
In the second year	**3,055**	3,333
In the third to fifth years, inclusive	**278**	1,389
	8,333	16,050
Finance lease and hire purchase contract payables repayable:		
Within one year	**36,293**	20,880
In the second year	**26,892**	19,909
In the third to fifth years, inclusive	**4,261**	9,586
	67,446	50,375
Total	**75,779**	66,425

At the balance sheet date, all the bank loans and finance lease and hire purchase contract payables are denominated in Hong Kong dollars.

22. Interest-bearing Bank and Other Borrowings *(Continued)*

Other interest rate information:

	Group			
	2007		2006	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease and hire purchase contract payables	**6,577**	**60,869**	13,848	36,527
Bank loans – unsecured	**–**	**8,333**	–	14,772
Bank loans – secured	**–**	**–**	–	1,278

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and the fair values of the Group's non-current borrowings are as follows:

	Group			
	Carrying amounts		**Fair values**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease and hire purchase contract payables	**31,153**	29,495	**31,161**	29,349
Bank loans – unsecured	**3,333**	4,722	**3,333**	4,722
	34,486	34,217	**34,494**	34,071

The fair values of the non-current borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

The secured bank loans as at 31 March 2006 were secured by certain of the Group's machinery and equipment with an aggregate net book value as at that date of approximately HK$3,411,000 (note 13).

23. Finance Lease and Hire Purchase Contract Payables

The Group leases certain of its machinery and equipment for its business. These leases are classified as finance lease and hire purchase contracts and have remaining lease terms ranging from one to three years.

At 31 March 2007, the total future minimum lease payments under finance lease and hire purchase contracts and their present values were as follows:

Group

	Minimum lease payments 2007 *HK$'000*	Minimum lease payments 2006 *HK$'000*	**Present value of minimum lease payments 2007** *HK$'000*	Present value of minimum lease payments 2006 *HK$'000*
Amounts payable:				
Within one year	**39,530**	23,250	**36,293**	20,880
In the second year	**28,027**	21,338	**26,892**	19,909
In the third to fifth years, inclusive	**4,299**	9,845	**4,261**	9,586
Total minimum finance lease payments	**71,856**	54,433	**67,446**	50,375
Future finance charges	**(4,410)**	(4,058)		
Total net finance lease payables	**67,446**	50,375		
Portion classified as current liabilities *(note 22)*	**(36,293)**	(20,880)		
Non-current portion *(note 22)*	**31,153**	29,495		

24. Deferred Tax

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

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation *HK$'000*
At 1 April 2005	–
Deferred tax charged to the income statement during the year *(note 9)*	6,500
At 31 March 2006 and 1 April 2006	6,500
Deferred tax credited to the income statement during the year *(note 9)*	(6,300)
At 31 March 2007	200

The Group has estimated tax losses arising in Hong Kong of approximately HK$11,076,000 (2006: approximately HK$16,850,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 March 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

25. Share Capital

Shares

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
600,000,000 ordinary shares of HK$0.10 each	**60,000**	60,000
Issued and fully paid:		
480,613,785 (2006: 471,763,785) ordinary shares of HK$0.10 each	**48,061**	47,176

During the year, the subscription rights attaching to 8,850,000 share options were exercised at the subscription prices ranging from HK$0.20 to HK$0.85 per share (note 26), resulting in the issue of 8,850,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$2,303,000.

A summary of the transactions during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	*HK$'000*	*HK$'000*
At 1 April 2005	466,013,785	46,601	90,038	136,639
Share options exercised	5,750,000	575	575	1,150
At 31 March 2006 and 1 April 2006	471,763,785	47,176	90,613	137,789
Share options exercised	8,850,000	885	1,418	2,303
At 31 March 2007	480,613,785	48,061	92,031	140,092

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 26 to the financial statements.

26. 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 the 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 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.

26. Share Option Scheme *(Continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 April 2006	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options *	Price of the Company's shares**: At grant date of options	At exercise date of options
								HK$	*HK$*	*HK$*
Directors:										
Hiroto Sasaki	3,650,000	–	(2,000,000)	–	1,650,000	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.83
Au-Yeung Wai Hung	4,600,000	–	(4,600,000)	–	–	15-6-04	15-6-04 to 14-6-09	0.20	0.192	1.35
	8,250,000	–	(6,600,000)	–	1,650,000					
Other employees:										
In aggregate	1,300,000	–	(1,300,000)	–	–	15-6-04	15-6-04 to 14-6-09	0.20	0.192	0.81
	150,000	–	(150,000)	–	–	14-11-05	14-11-05 to 14-6-09	0.31	0.310	2.23
	–	600,000	(600,000)	–	–	19-5-06	19-5-06 to 14-6-09	0.85	0.830	2.11
	–	200,000	(200,000)	–	–	5-6-06	5-6-06 to 14-6-09	0.83	0.820	2.05
	1,450,000	800,000	(2,250,000)	–	–					
	9,700,000	800,000	(8,850,000)	–	1,650,000					

Notes to the reconciliation of share options outstanding during the year:

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

** *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed at the exercise date of share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line for the respective directors and other employees.*

26. Share Option Scheme *(Continued)*

The 8,850,000 share options exercised during the year resulted in the issue of 8,850,000 ordinary shares of the Company and new share capital of HK$885,000 and share premium of HK$1,418,000 (before issue expenses), as further detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 1,650,000 share options outstanding under the Scheme, which represented approximately 0.3% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,650,000 additional ordinary shares of the Company and additional issued share capital of HK$165,000 and share premium of HK$165,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 1,650,000 share options outstanding under the Scheme, which represented approximately 0.3% of the Company's shares in issue as at that date.

27. 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 30 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.

27. Reserves *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2005		90,038	38,295	(24,978)	–	103,355
Profit for the year		–	–	86,026	–	86,026
Issue of ordinary shares	*25*	575	–	–	–	575
Proposed final 2006 dividend	*11*	–	–	(14,252)	14,252	–
At 31 March 2006 and 1 April 2006		90,613	38,295	46,796	14,252	189,956
Profit for the year		–	–	55,580	–	55,580
Issue of ordinary shares	*25*	1,418	–	–	–	1,418
Final 2006 dividend declared		–	–	(166)	(14,252)	(14,418)
Interim 2007 dividend	*11*	–	–	(19,225)	–	(19,225)
Proposed final 2007 dividend	*11*	–	–	(14,418)	14,418	–
At 31 March 2007		92,031	38,295	68,567	14,418	213,311

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 27(a) above. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus under certain circumstances.

28. Note to the Consolidated Cash Flow Statement

Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of the property, plant and equipment with a total capital value at the inception of the leases of HK$49,750,000 (2006: HK$43,551,000).

29. Contingent Liabilities

(i) The Company has provided corporate guarantees of HK$157 million (2006: HK$40 million) to the Group's banks to secure banking facilities granted to a subsidiary. At 31 March 2007, the facilities were utilised to the extent of HK$8,485,000 (2006: HK$14,773,000).

(ii) The Company has provided corporate guarantees to certain leasing companies to secure the leasing facilities granted to a subsidiary. At 31 March 2007, the total outstanding balance of the finance lease and hire purchase contract payables amounted to HK$67,446,000 (2006: HK$50,375,000) (note 23).

(iii) In the prior year, the Company had provided corporate guarantees to a bank to secure loan facilities granted to a subsidiary. At 31 March 2006, the outstanding loan balance was HK$1,278,000 (note 22).

The Group had no material contingent liabilities at the balance sheet date.

30. 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 balance sheet date, 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	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**76**	511	**–**	–
In the second to fifth years, inclusive	**–**	76	**–**	–
	76	587	**–**	–

31. Commitments

In addition to the operating lease commitments detailed in note 30 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Capital commitments, contracted but not provided for, in respect of acquisition of items of property, plant and equipment	**4,688**	59,641	**–**	–

32. Related Party Transactions

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

		Group	
		2007	2006
	Notes	***HK$'000***	*HK$'000*
Sale of printed circuit boards to a related party	*(i)*	**57,822**	38,329
Technical support fees paid to a related party	*(ii)*	**794**	682

Notes:

(i) Printed circuit boards were sold to a subsidiary of Daisho Denshi Co., Ltd., a substantial shareholder of the Company who has significant influence over the Group, and the products sold were unique and tailor-made to the customer's requirements and specifications. The selling prices of the printed circuit boards were determined based on the complexity of the specifications and were agreed between the respective parties.

(ii) Technical support fees were paid to Daisho Denshi Co., Ltd. for the provision of technical support services for the Group's manufacturing of printed circuit boards. The technical support fees were determined on bases agreed between the respective parties.

32. Related Party Transactions *(Continued)*

(b) Outstanding balance with a related party

Details of the Group's trade balance with its related party as at the balance sheet date are disclosed in note 17 to the financial statements.

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

	2007	2006
	HK$'000	*HK$'000*
Short term employee benefits	**12,835**	10,474
Post-employment benefits	**238**	203
Total compensation paid to key management personnel	**13,073**	10,677

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 connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, finance lease and hire purchase contract payables and cash and bank balances. 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 trade creditors, which arise directly from its operations.

The Group also enters into certain investments and derivative transactions, including principally structured swaps and forward currency contracts, for trading purpose.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and market risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

33. Financial Risk Management Objectives and Policies *(Continued)*

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans, and finance lease and hire purchase contract payables with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate risk exposures and will consider hedging significant interest rate risk exposures should the need arises.

Foreign currency risk

The Group mainly operates in Hong Kong and Mainland China with most of the transactions denominated in Hong Kong dollars, United States dollars and RMB. Management considers that the Group does not have significant exposures to foreign currency risk. Nevertheless, the exchange rates of RMB to foreign currencies are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposures should the need arises.

Credit risk

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed financing facilities. The directors aim to maintain flexibility in funding by keeping credit lines available.

Market risk

The Group trades in derivative financial instruments.

Market risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates and foreign exchange rates. The Group is exposed to market risk through its derivative financial instruments.

Management has established processes to monitor and control various trading transactions in a timely and accurate manner.

34. Comparative Amounts

As detailed in note 2.1 to the financial statements, the comparative amounts of the segment revenue information have been restated to conform with the current year's presentation.

35. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 16 July 2007.