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DAIWA ASSOCIATE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code: 1037)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

INTERIM RESULTS

On behalf of the Board of Directors, I would like to present to shareholders the unaudited Interim Report of Daiwa Associate Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2010. The unaudited interim accounts have been reviewed by the Company’s Audit Committee.

RESULTS AND DIVIDEND

For the six months ended 30 September 2010, the Group’s turnover was HK\$946.0 million (2009: HK\$798.4 million), representing a growth of 19% over the corresponding period last year. The gross profit was HK\$79.0 million (2009: HK\$70.7 million) representing an increase of 12% over the corresponding period last year. The operating profit was HK\$11.1 million (2009: HK\$7.7 million) representing an increase of 44% when compared with the same period last year.

EBITDA (earnings before interest, tax, depreciation and amortization) for the period was HK\$18.6 million (2009: HK\$16.0 million) representing an increase of 16% when compared to the last corresponding period. The increase was mainly contributed from electronic components distribution and personal computer products distribution.

Profit attributable to equity holders of the Company for the period was HK\$5.6 million (2009: HK\$4.5 million) which represents an increase of 23% when compared to the last corresponding period. Basic earnings per share was HK1.82 cents (2009: HK1.49 cents).

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets amounted to HK\$195.1 million (31 March 2010: HK\$162.3 million) and the shareholders' funds were HK\$361.9 million at 30 September 2010 (31 March 2010: HK\$360.6 million). The total amount of loans and finance lease was HK\$328.8 million (31 March 2010: HK\$230.9 million) and the net gearing ratio, which is defined as total borrowings after netting off cash and cash equivalents, to shareholders' funds was 0.50 (31 March 2010: 0.18). The cash and bank balances were HK\$146.2 million (31 March 2010: HK\$166.6 million).

At 30 September 2010, total available banking facilities of the Group were approximately HK\$427.2 million, of which HK\$30.8 million was unutilized. The Group's assets are mostly financed by shareholders' funds, trade payables and bank borrowings. The borrowings, cash and cash equivalents are mainly denominated in Hong Kong dollars, US dollars, Canadian dollars and Renminbi. The Group's borrowings are interest bearing at floating rates.

BUSINESS REVIEW AND PROSPECT

It was delighted that the Group had already recovered from the global economic crisis. Turnover of the Group recorded a growth of 19% and each segment of the Group recorded a growth when compared with that of the last reported period.

During the period under review, demand in electronic products fluctuated drastically. Although prices of finished products were mildly increased, orders were small and lead times were rush. The short lead time created a shortage in the supply of electronic components. By the successful strategically planned supply plan, the Group's Component Distribution Segment benefited significantly in the reported period.

The cost of labor increased substantially in PRC in recent years and had handicapped the profit of the manufacturing segment of the Group. The Group had shifted his business concentration from manufacturing to electronic components distribution and the later constituted 69% of the Group's turnover in the reported period and become the core business of the Group.

The Group was mainly engaged in the following major businesses, namely:

- Electronic Components Distribution;
- EMS (Contract Electronic Manufacturing Services);
- Consumer Electronics and Electronic Components Manufacturing; and
- Personal Computer Products Distribution.

Electronic Components Distribution

The Group had considerable sales growth in this segment. As the result of continuous investment in engineering, well established distribution network and effective logistic foundations, the Group achieved aggressive sales target on power management devices and mobile phone solutions during the period.

In the reported period, turnover of the segment increased by 20% to HK\$650.3 million (2009: HK\$543.4 million) and reached the record high of this segment. Result of this segment increased by 37% to HK\$23.6 million (2009: HK\$17.2 million).

The Group has maintained an array of authorized distributorships with renowned suppliers of electronic components such as Toshiba, Panasonic, On Semiconductor, On Bright, Isocom, Johanson, Magnetic, COS, Chino-Excel Technology Corp (CET), Diodes, Rohm, Arnold Magnetics, LiteOn, Everlight, AEM and Abilis Systems.

Other than the sales office in Hong Kong, the Group also established sales offices in Beijing, Shanghai, Shenzhen, Zhaoqing, Chengdu and Xiamen in PRC.

EMS (Contract Electronic Manufacturing Service)

In the reported period, turnover of the segment increased by 18% to HK\$78.9 million (2009: HK\$66.7 million). Result of this segment increased by 31% to HK\$1.5 million (2009: HK\$1.2 million).

The Group focused on continuous advancement in engineering and product development. By improvement in manufacturing process and quality assurance to solid our competitive advantage in the market, the Group earned the recognition from major customers and continuously built up business with new customers with better profit margin.

The Group had engaged in the production of telecommunication modules in mobile phone base stations, active antennas, radar parts, electronic modules in automobiles as well as PCB assembly for industrial purpose products. The facility was equipped with high speed SMT production lines with nitrogen filled reflow furnaces, precise solder paste screen printer, etc. Process reliability could be ensured by the in-house RoHS Scanning Systems and X-Ray Inspection Machine.

Consumer Electronics and Electronic Components Manufacturing

In the reported period, turnover of the segment increased by 7% to HK\$71.9 million (2009: HK\$67.4 million). Result of this segment was a loss of HK\$9.7 million (2009: loss of HK\$5.9 million).

The increasing loss in this segment was mainly due to the continuous increase of labor cost in PRC and the result of material price increase in the low-end consumer electronics products. The Group had already terminated new orders from similar products and shifted to high-end products such as iPhone dockings, active antennas and CD products. The Group also started launching to new production of telecommunication products such as cordless DECT phone, CB radio and two way radios.

Personal Computer Products Distribution

In the reported period, turnover of the segment increased by 20% to HK\$144.9 million (2009: HK\$120.9 million). Result of this segment increased by 98% to HK\$1.9 million (2009: HK\$0.9 million).

The increase in turnover and result in this segment were mainly due to the new business by the penetration of personal computer products to mass merchants.

Business in this segment mainly comes from distribution of personal computer products in North America. Products in this segment include motherboards, display cards, hard disk drives, optical storage device, computer cases, power suppliers, software, memory, memory devices, desk-top computers, notebook computers, netbook computers, computer accessories and iPhone accessories.

FUTURE PROSPECT

Following the trend of economy revitalization since the second quarter of 2009, the electronic components industry had a good beginning for 2010. The world economy is in the slow recovery stage and the market still faces uncertainties but the PRC market which the Group served is experiencing a steady growth. Although some short term variation in PRC market and macro environment are expected, the Group believes that the changing business environment will benefit the Group with new development opportunities.

The Group will focus on the enhancement of sale networks in PRC. Besides, the Group will continuously keep its strong penetration in PRC manufacturing market of mobile phones, handheld electronic devices and automobile by providing value added solutions for supplying electronic components.

In the segment of EMS, the Group will continuously make effective investments in research and development, manufacturing process and quality assurance system so as to further develop the telecommunication infrastructure products. Customers have already started to accept price increases and the Group has already been approved by a number of new customers which will bring in considerable turnover in the coming fiscal year.

In the segment of consumer electronics products and electronic components manufacturing, the Group would keep on developing high-end digital products with valued customer and keep moving away from low-end products. The Group has invested in the development of telecommunication products since 2007 and starts to receive substantial commitment from new customers. The Group believes that the coming business development in this segment will replace the market loss in the low end consumer products. Besides, the management will continuously implement automation measurements to reduce the dependence of labour force in the escalating labour cost environment in the PRC. In addition, the management has started to sub-contract some standard production process to some inland low cost factories which will continue to uphold stringent cost control.

The Group believes that the returns in the distribution segments of Electronic Components and Personal Computer Products keep steady and they maintain as the core businesses of the Group while the turnover in EMS and telecommunication will have a considerable growth in the coming year.

EMPLOYEES

At 30 September 2010, the Group employed a total of approximately 3,000 employees (30 September 2009: 3,300 employees) located in Hong Kong, Canada and PRC.

The Group's remuneration policy is in line with the prevailing market practices and is determined on the basis of performance and experience of the individual. Sales personnel are remunerated by salaries and incentives in accordance with the achievement of their sales target. General staff are offered year-end discretionary bonuses, which are based on the divisional performance and individual appraisals. The Group also provides a Mandatory Provident Fund or ORSO scheme, and medical benefits to all Hong Kong employees. Pursuant to the terms and conditions of the share option scheme adopted by the Company on 18 August 2005, the Group may grant share options to directors and eligible employees. Up to 30 September 2010, no share options had been granted.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

		Unaudited Six months ended 30 September	
		2010	2009
	Note	HK\$'000	HK\$'000
Turnover	2	946,025	798,397
Cost of sales		(866,977)	(727,649)
Gross profit		79,048	70,748
Other income		297	131
Selling and distribution expenses		(11,588)	(9,470)
General and administrative expenses		(56,683)	(53,705)
Operating profit		11,074	7,704
Finance costs — net		(2,170)	(1,737)
Profit before income tax		8,904	5,967
Income tax expense	3	(3,371)	(1,414)
Profit for the period		5,533	4,553
Attributable to:			
Equity holders of the Company		5,557	4,536
Minority interests		(24)	17
		5,533	4,553
Dividends	4	—	911
Earnings per share for profit attributable to equity holders of the Company			
— Basic	5	HK1.82 cents	HK1.49 cents
— Diluted	5	HK1.75 cents	HK1.49 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 September 2010*

	Unaudited	
	Six months ended	
	30 September	
	2010	2009
	HK\$'000	HK\$'000
Profit for the period	5,533	4,553
Other comprehensive income:		
— Fair value gain on available-for-sale financial assets, net of tax	44	152
— Currency translation differences	(4,364)	2,098
Total comprehensive income for the period	1,213	6,803
Total comprehensive income attributable to:		
— Equity holders of the Company	1,237	6,786
— Minority interests	(24)	17
	1,213	6,803

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2010

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000 (Restated)
Non-current assets		
Goodwill	27,340	28,121
Property, plant and equipment	191,741	192,229
Leasehold land and land use rights	14,747	14,932
Deferred income tax assets	961	927
Available-for-sale financial assets	349	305
Other assets	710	710
	<u>235,848</u>	<u>237,224</u>
Current assets		
Inventories	235,096	235,927
Trade and notes receivables	271,354	208,270
Amount due from an associated company	1,172	4,382
Prepayments, deposits and other receivables	21,861	29,472
Cash and cash equivalents	146,205	166,627
	<u>675,688</u>	<u>644,678</u>
Total assets	<u><u>911,536</u></u>	<u><u>881,902</u></u>
Equity		
Capital and reserves attributable to equity holders of the Company		
Share capital	30,394	30,394
Reserves	331,489	330,252
	<u>361,883</u>	<u>360,646</u>
Minority interests	<u>330</u>	<u>354</u>
Total equity	<u><u>362,213</u></u>	<u><u>361,000</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)**As at 30 September 2010*

	Unaudited 30 September 2010 <i>HK\$'000</i>	Audited 31 March 2010 <i>HK\$'000</i> <i>(Restated)</i>
Non-current liabilities		
Borrowings	66,650	36,680
Deferred income tax liabilities	2,074	1,877
	68,724	38,557
Current liabilities		
Borrowings	262,187	194,271
Trade payables	195,045	258,709
Accruals and other payables	20,140	27,769
Current income tax liabilities	3,227	1,596
	480,599	482,345
Total liabilities	549,323	520,902
Total equity and liabilities	911,536	881,902
Net current assets	195,089	162,333
Total assets less current liabilities	430,937	399,557

Notes:

1. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2010.

Except as described below, the accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements of the Group for the year ended 31 March 2010. In 2010, the Group adopted HKAS 17 (amendment), “Leases”, which is mandatory for accounting periods beginning on or after 1 April 2010.

HKAS 17 (amendment), “Leases”, deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under “Leasehold land and land use rights”, and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 April 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 April 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong and certain land leases in Mainland China as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land and land use rights from operating lease to finance lease.

All land interest of the Group is attached to property interest held for own use. Consequential to the adoption of HKAS 17 (amendment), the relevant land interest is now accounted for as property, plant and equipment and is depreciated over the shorter of the useful life of the asset and the lease term.

The effect of the adoption of this amendment is as follows:

	30 September 2010 HK\$'000	31 March 2010 HK\$'000
Increase in property, plant and equipment	5,779	5,844
Decrease in leasehold land and land use rights	<u>(5,779)</u>	<u>(5,844)</u>

The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 April 2010. The adoption of these amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRSs (amendments)	Improvements to HKFRSs 2009 (excluding HKAS 17 (amendment) “Leases”)
HKFRS 1 (revised)	First-time adoption of HKFRSs
HKFRS 1 (amendment)	Additional exemptions for first-time adopters
HKFRS 2 (amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (revised)	Business combinations
HKFRS 5 (amendment)	Non-current asset held for sale and discontinued operations
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 39 (amendment)	Eligible hedged items
HK(IFRIC) — Int 17	Distributions of non-cash assets to owners

The Group did not early adopt any of the new or revised standards, amendments to standards and interpretations to existing standards that have been issued by the Hong Kong Institute of Certified Public Accountants but are not yet effective. Management is currently assessing the financial impact of these revisions to the Group’s financial position and performance.

2. Turnover and segment information

The Group is principally engaged in the design, development, manufacturing and distribution of electronic components, contract electronic manufacturing services and consumer electronics, and the distribution of personal computers products.

An analysis of the Group's turnover and contribution to operating profit by business segments for the period is as follows:

Business segments:

	Electronic components distribution		Contract electronic manufacturing services		Consumer electronics and electronic components manufacturing services		Personal computer products distribution		Group	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
Sales of goods	<u>650,320</u>	<u>543,455</u>	<u>78,937</u>	<u>66,724</u>	<u>71,880</u>	<u>67,367</u>	<u>144,888</u>	<u>120,851</u>	<u>946,025</u>	<u>798,397</u>
Results of reportable segments	23,569	17,227	1,535	1,173	(9,697)	(5,867)	1,853	935	17,260	13,468

A reconciliation of results of reportable segments to profit for the period is as follow:

Results of reportable segments	17,260	13,468
Unallocated incomes	73	195
Unallocated expenses	<u>(6,259)</u>	<u>(5,959)</u>
Operating profit	11,074	7,704
Finance costs — net	<u>(2,170)</u>	<u>(1,737)</u>
Profit before income tax	8,904	5,967
Income tax expense	<u>(3,371)</u>	<u>(1,414)</u>
Profit for the period	<u>5,533</u>	<u>4,553</u>

3. Income tax expenses

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operate in Mainland China are subject to PRC Corporate income tax at the rate of 25% (2009: 25%). Companies established and operated in Canada are subject to Canadian income tax at the rate of 35% (2009: 35%).

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Current taxation:		
— Hong Kong profits tax	1,032	256
— PRC Corporate income tax	1,562	931
— Canadian income tax	614	314
	<u>3,208</u>	<u>1,501</u>
Deferred taxation — relating to the origination and reversal of temporary differences	163	(87)
	<u>3,371</u>	<u>1,414</u>

4. Dividends

	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
2009/2010 Final dividend, paid, of Nil (2008/2009 final paid: HK0.5 cents) per ordinary share (<i>Note (i)</i>)	—	1,518
2010/2011 Interim dividend, of Nil (2009/2010: HK0.3 cents) per ordinary share (<i>Note (ii)</i>)	—	911
	<u>—</u>	<u>2,429</u>

Note (i): At a meeting held on 28 July 2010, no final dividend is declared by the Company's directors for the year ended 31 March 2010.

Note (ii): At a meeting held on 22 November 2010, no interim dividend is declared by the Company's directors for the six months ended 30 September 2010.

5. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$5,557,000 (2009: HK\$4,536,000).

The basic earnings per share is based on the weighted average of 303,945,373 (2009: 303,622,087) ordinary shares in issue during the period. The diluted earnings per share is based on 313,321,067 (2009: 303,622,087) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 9,375,694 (2009: Nil) ordinary shares deemed to be issued at no consideration as exercise of all outstanding share warrants.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2010, save for the following deviations:

Code Provision A.2.1

Under this code provision, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Lau Tak Wan is the Chairman of the Board and the president of the Company. In the opinion of the Board, the role of the president and the chief executive officer is the same. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. Lau Tak Wan will continue to assume the roles of the Chairman of the Board and the president of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company is appointed for a specific term. However, relevant amendments to the Company's bye-laws were proposed and approved by the shareholders at the annual general meeting of the Company held on 1 September 2006, that all directors of the Company (whether appointed for specific terms or not) shall retire from office by rotation at least once every three years. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2010.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim condensed accounts for the six months ended 30 September 2010 with the directors.

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

Neither the Company nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities during the six months ended 30 September 2010.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the website of the Stock Exchange and the Company. The Interim Report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders and published on the website of the Stock Exchange and the Company in due course.

By order of the Board
LAU TAK WAN
President

Hong Kong, 22 November 2010

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Lau Tak Wan, Ms. Chan Yuen Mei, Pinky, Mr. Wan Chor Fai and Mr. Mak Hoi Kai, Stanly and three independent non-executive directors, namely, Mr. Barry John Buttifant, Mr. Choi Yuk Fan and Mr. Liu Ngai Wing.