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威雅利電子(集團)有限公司

WILLAS-ARRAY ELECTRONICS (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Hong Kong stock code: 854)

(Singapore stock code: W12)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2014**

FINANCIAL HIGHLIGHTS

	For the six months ended September 30,		Change %
	2014	2013	
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
Revenue	1,779,351	1,628,996	+9.2
Gross profit	150,131	174,089	-13.8
Profit before tax	16,218	30,450	-46.7
Profit attributable to shareholders	13,697	23,595	-41.9
Basic earnings per share (<i>HK cents</i>)	3.65	6.33	-42.3

UNAUDITED FINANCIAL RESULTS

The board of directors (the “Board”) of Willas-Array Electronics (Holdings) Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended September 30, 2014, together with the relevant comparative figures.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended September 30, 2014

		For the six months ended September 30,	
		2014	2013
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	1,779,351	1,628,996
Cost of sales		(1,629,220)	(1,454,907)
Gross profit		150,131	174,089
Other operating income		1,022	2,129
Distribution costs		(22,714)	(21,666)
Administrative expenses		(107,074)	(108,537)
Listing expenses		–	(13,108)
Share of profit of associates		355	5,285
Other gains and losses		170	(403)
Amortisation of financial guarantee liabilities		2,465	597
Finance costs		(8,137)	(7,936)
Profit before tax		16,218	30,450
Income tax expenses	4	(5,134)	(9,044)
Profit for the period	5	11,084	21,406
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit/(loss):</i>			
Exchange differences on translation of overseas operations		(1)	3,855
Release of exchange differences upon dissolution of overseas operations		280	–
Other comprehensive income for the period, net of tax		279	3,855
Total comprehensive income for the period		11,363	25,261

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME** – continued

For the six months ended September 30, 2014

		For the six months ended September 30,	
		2014	2013
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		13,697	23,595
Non-controlling interests		(2,613)	(2,189)
		<u>11,084</u>	<u>21,406</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		13,976	27,443
Non-controlling interests		(2,613)	(2,182)
		<u>11,363</u>	<u>25,261</u>
Earnings per share	12		
– Basic (HK cents)		<u>3.65</u>	<u>6.33</u>
– Diluted (HK cents)		<u>3.61</u>	<u>6.23</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2014

		As at September 30, 2014	As at March 31, 2014
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		239,805	218,977
Restricted bank deposits		7,296	7,296
Trade and bills receivables	6	688,902	602,266
Other receivables and prepayments – current		9,324	6,994
Prepaid lease payments – current		12	12
Income tax recoverable		–	1,338
Inventories		509,201	440,067
Total current assets		1,454,540	1,276,950
Non-current assets			
Prepaid lease payments – non-current		601	607
Property, plant and equipment	7	156,217	157,128
Long-term deposits		288	427
Available-for-sale investments		2,001	2,001
Interests in associates		86,924	59,172
Deferred tax assets		363	339
Total non-current assets		246,394	219,674
Total assets		1,700,934	1,496,624

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

– continued

As at September 30, 2014

		As at September 30, 2014	As at March 31, 2014
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Audited)
LIABILITIES AND EQUITY			
Current liabilities			
Trust receipt loans		686,190	440,805
Trade and bills payables	8	318,308	339,535
Other payables		42,051	40,663
Income tax payable		7,359	4,833
Derivative financial instruments		65	268
Financial guarantee liabilities		1,092	660
Bank borrowings		100,577	112,300
Total current liabilities		1,155,642	939,064
Non-current liabilities			
Deferred tax liabilities		3,187	2,791
Capital, reserves and non-controlling interests			
Issued capital	9	75,349	74,544
Capital reserves		194,486	195,716
Other reserves		277,730	287,356
Equity attributable to owners of the Company		547,565	557,616
Non-controlling interests		(5,460)	(2,847)
Total equity		542,105	554,769
Total liabilities and equity		1,700,934	1,496,624
Net current assets		298,898	337,886
Total assets less current liabilities		545,292	557,560

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended September 30, 2014

	For the six months ended September 30,	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Operating activities		
Profit before tax	16,218	30,450
Adjustments for:		
Depreciation expense	6,019	5,835
Amortisation of prepaid lease payments	6	6
Interest expense	8,137	7,936
Allowance for (reversal of) inventories	6,664	(4,318)
Allowance for doubtful trade receivables	9	6,559
Gain on disposal of property, plant and equipment	(26)	—
Net gain on fair value changes of derivative financial instruments	(203)	(598)
Share of profits of associates	(355)	(5,285)
Amortisation of financial guarantee liabilities	(2,465)	(597)
Interest income	(401)	(774)
Release of exchange difference upon dissolution of overseas operation	280	—
Operating cash flows before movements in working capital	33,883	39,214
Increase in trade and bills receivables	(86,645)	(101,861)
(Increase) decrease in other receivables and prepayments	(2,330)	875
Increase in inventories	(75,798)	(96,804)
(Decrease) increase in trade and bills payables	(21,227)	43,220
Increase in other payables	561	7,469
Decrease in long-term deposits	139	83
Cash used in operations	(151,417)	(107,804)
Income tax paid	(898)	(4,039)
Interest paid	(7,311)	(7,513)
Interest received	401	774
Net cash used in operating activities	(159,225)	(118,582)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – continued
For the period ended September 30, 2014

	For the six months ended September 30,	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Investing activities		
Purchase of property, plant and equipment	(5,194)	(1,450)
Withdrawal of restricted bank deposits	2,516	7,161
Placement of restricted bank deposits	(2,516)	(7,296)
Proceeds from disposal of property, plant and equipment	112	–
Capital injection to associates	(24,500)	–
	<hr/>	<hr/>
Net cash used in investing activities	(29,582)	(1,585)
	<hr/>	<hr/>
Financing activities		
Dividend paid to shareholders	(25,702)	(22,855)
Proceeds from exercise of share options	1,675	–
Repayment of trust receipt loans	(829,631)	(755,673)
Proceeds from trust receipt loans	1,075,016	914,409
Repayment of bank borrowings	(108,577)	(73,000)
Proceeds from bank borrowings	96,854	50,000
	<hr/>	<hr/>
Net cash from financing activities	209,635	112,881
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	20,828	(7,286)
Cash and cash equivalents at beginning of period	218,977	390,395
Effects of exchange rate changes on the balance of cash held in foreign currencies	–	(2,271)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<u>239,805</u>	<u>380,838</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended September 30, 2014

	Issued capital	Capital reserves	Statutory reserve	Currency translation reserve	Accumulated profits	Attributable to owners of the Company	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At April 1, 2013 (Audited)	74,544	196,500	14,135	17,510	245,532	548,221	1,251	549,472
Total comprehensive income for the period:								
Profit for the period	-	-	-	-	23,595	23,595	(2,189)	21,406
Other comprehensive income for the period, net of income tax	-	-	-	3,848	-	3,848	7	3,855
Total	-	-	-	3,848	23,595	27,443	(2,182)	25,261
Transactions with owners, recognised directly in equity:								
Share options cancelled/lapsed	-	(723)	-	-	723	-	-	-
Dividend paid (Note 11)	-	-	-	-	(22,855)	(22,855)	-	(22,855)
Transfer to statutory reserve	-	-	853	-	(853)	-	-	-
Total	-	(723)	853	-	(22,985)	(22,855)	-	(22,855)
At September 30, 2013 (Unaudited)	74,544	195,777	14,988	21,358	246,142	552,809	(931)	551,878
At April 1, 2014 (Audited)	74,544	195,716	16,480	20,756	250,120	557,616	(2,847)	554,769
Total comprehensive income for the period:								
Profit for the period	-	-	-	-	13,697	13,697	(2,613)	11,084
Other comprehensive income for the period, net of income tax	-	-	-	279	-	279	-	279
Total	-	-	-	279	13,697	13,976	(2,613)	11,363
Transactions with owners, recognised directly in equity:								
Exercise of share options	805	870	-	-	-	1,675	-	1,675
Share options lapsed	-	(2,100)	-	-	2,100	-	-	-
Dividend paid (Note 11)	-	-	-	-	(25,702)	(25,702)	-	(25,702)
Total	805	(1,230)	-	-	(23,602)	(24,027)	-	(24,027)
At September 30, 2014 (Unaudited)	75,349	194,486	16,480	21,035	240,215	547,565	(5,460)	542,105

Note: The statutory reserve is non-distributable and was appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") and Taiwan under the laws and regulations of the PRC and Taiwan.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2014

1. BASIS OF PREPARATION

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda with its registered office at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Its principal place of business is at 24/F, Wyler Centre Phase 2, 200 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong. The Company is listed on the Main Board of Singapore Exchange Securities Trading Limited and on the Main Board of The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange"). The condensed consolidated financial statements are presented in Hong Kong dollars which is also the functional currency of the Company.

The principal activity of the Company is that of investment holding and the Group is engaged in the trading of electronic components.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the HK Stock Exchange (the "Listing Rules").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Application of International Financial Reporting Standards

In the current reporting period, the Group has applied, for the first time, new Interpretations and certain amendments to the International Financial Reporting Standards ("IFRSs") issued by the IASB that are mandatory effective for the current reporting period.

The application of the new Interpretation and amendments to IFRSs in the current reporting period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and assessment of segment performance are principally categorised into two key operating segments, (a) trading of electronic components and (b) trading and designing integrated circuits, in which for trading of electronic components segment, it will further be disaggregated by geographical locations for CODM review.

The Group's reportable segments are as follows:

(a) Trading of electronic components

- Southern China Region;
- Northern China Region;
- Taiwan

(b) Trading and designing integrated circuits

3. SEGMENT INFORMATION – continued

For the six months ended September 30, 2014 (Unaudited)

	Trading of electronic components				Trading and designing integrated circuits	Elimination HK\$'000	Total HK\$'000
	Southern China Region HK\$'000	Northern China Region HK\$'000	Taiwan HK\$'000	Sub-total HK\$'000	HK\$'000		
Revenue							
Sales – external	1,040,531	685,668	51,262	1,777,461	1,890		1,779,351
Sales – inter-company	209,707	123,906	5,217	338,830	12,341	(351,171)	–
Net sales	1,250,238	809,574	56,479	2,116,291	14,231	(351,171)	1,779,351
Cost of sales	1,162,142	755,584	50,868	1,968,594	11,387	(350,761)	1,629,220
Gross profit	88,096	53,990	5,611	147,697	2,844	(410)	150,131
Segment result	14,873	4,515	1,220	20,608	(6,128)	(410)	14,070
Unallocated other revenue							460
Amortisation of financial guarantee liabilities							2,465
Unallocated corporate expenses							(1,132)
Share of profit of associates							355
Profit before tax							16,218
Income tax expenses							(5,134)
Profit for the period							11,084
Non-controlling interests							2,613
Profit attributable to owners of the Company							13,697

3. SEGMENT INFORMATION – continued

For the six months ended September 30, 2013 (Unaudited)

	Trading of electronic components				Trading and designing integrated	Elimination	Total
	Southern	Northern	Taiwan	Sub-total	circuits		
	China Region HK\$'000	China Region HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue							
Sales – external	1,006,292	578,285	35,524	1,620,101	8,895	–	1,628,996
Sales – inter-company	194,532	121,966	7,621	324,119	18,136	(342,255)	–
Net sales	1,200,824	700,251	43,145	1,944,220	27,031	(342,255)	1,628,996
Cost of sales	1,108,264	633,868	38,106	1,780,238	19,044	(344,375)	1,454,907
Gross profit	<u>92,560</u>	<u>66,383</u>	<u>5,039</u>	<u>163,982</u>	<u>7,987</u>	2,120	<u>174,089</u>
Segment result	<u>18,526</u>	<u>28,492</u>	<u>(604)</u>	<u>46,414</u>	<u>(7,582)</u>	2,120	<u>40,952</u>
Unallocated other revenue							493
Amortisation of financial guarantee liabilities							597
Unallocated corporate expenses							(3,769)
Listing expenses							(13,108)
Share of profit of associates							<u>5,285</u>
Profit before tax							30,450
Income tax expenses							<u>(9,044)</u>
Profit for the period							21,406
Non-controlling interests							<u>2,189</u>
Profit attributable to owners of the Company							<u>23,595</u>

Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administrative expenses, other revenue, listing expenses, amortisation of financial guarantee liabilities and share of profit of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM is of the opinion that the presentation of assets and liabilities in accordance with the reportable segments is not meaningful as the management can monitor the Group's assets and liabilities in one pool which is more efficient and effective.

4. INCOME TAX EXPENSES

	For the six months ended September 30,	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
The income tax charge comprises:		
Current Tax		
– Hong Kong	3,649	7,118
– PRC Enterprise Income Tax	282	2,450
– Other jurisdictions	558	809
	<u>4,489</u>	<u>10,377</u>
Under (over) provision in prior periods		
– PRC Enterprise Income Tax	226	–
– Other jurisdictions	47	(63)
	<u>273</u>	<u>(63)</u>
Deferred tax		
– Current period	372	(1,270)
	<u>5,134</u>	<u>9,044</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiaries is 25%. The tax rate of the Taiwan subsidiary is 17%. Income taxes for overseas subsidiaries are calculated at the rates prevailing for the respective jurisdictions.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at or after charging (crediting):

	For the six months ended September 30,	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Directors' fees:		
Directors of the Company	554	555
Directors of the subsidiaries	5	9
Directors' remuneration: <i>(Note i)</i>		
Directors of the Company	4,954	6,038
Directors of the subsidiaries	353	658
Audit fees paid to auditors	1,372	1,252
Non-audit fees paid to auditors		
Auditors of the Company	—	—
Other auditors	126	126
Staff costs (excluding directors' remuneration) <i>(Note i)</i>	69,219	68,426
Amortisation of prepaid lease payment	6	6
Cost of inventories recognised as expenses	1,629,220	1,454,907
Depreciation of property, plant and equipment	6,019	5,835
Gain on disposal of property, plant and equipment	(26)	—
Net foreign exchange loss (gain)	50	(5,558)
Net gain on fair value changes of derivative financial instruments	(203)	(598)
Allowance for doubtful trade receivables	9	6,559
Interest income from bank deposits	(401)	(774)
Allowance for (reversal of) inventories <i>(Note ii)</i>	6,664	(4,318)
	<u> </u>	<u> </u>

Notes:

- (i) During the six months ended September 30, 2014 and 2013, there are cost of defined contribution plans amounting to HK\$8,443,000 and HK\$7,885,000, respectively, included in staff costs and directors' remuneration.
- (ii) During the six months ended September 30, 2013, there is a reversal of allowance for inventories of approximately HK\$4,318,000 recognised because of return of the relevant inventories to the vendors.

6. TRADE AND BILLS RECEIVABLES

	As at September 30, 2014 <i>HK\$'000</i> (Unaudited)	As at March 31, 2014 <i>HK\$'000</i> (Audited)
Trade receivables	688,393	596,964
Less: allowance for doubtful debts	(29,994)	(30,417)
Net trade receivables	658,399	566,547
Bills receivables	30,503	35,719
	688,902	602,266

Bills receivable represent bank drafts received from customers that are non-interest bearing and due within one year.

The Group allows an average credit period of 60 days to its trade customers. The following is an analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date, which approximated the revenue recognition date.

	As at September 30, 2014 <i>HK\$'000</i> (Unaudited)	As at March 31, 2014 <i>HK\$'000</i> (Audited)
Less than 60 days	500,662	408,511
61 to 90 days	124,343	120,262
Over 90 days	33,394	37,774
	658,399	566,547

The aged analysis of bills receivables presented based on the issue date at the respective reporting dates:

	As at September 30, 2014 <i>HK\$'000</i> (Unaudited)	As at March 31, 2014 <i>HK\$'000</i> (Audited)
Less than 60 days	18,525	21,156
61 to 180 days	11,978	14,563
	30,503	35,719

6A. TRANSFER OF FINANCIAL ASSETS

As at September 30, 2014 and March 31, 2014, trade receivables amounted to HK\$9,777,000 and HK\$ nil, respectively, were transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing amounted to HK\$9,777,000 and HK\$ nil, respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$5,194,000 (2013: HK\$1,450,000) on the acquisition of property, plant and equipment. In addition, the Group disposed of certain property, plant and equipment with a carrying amount of HK\$86,000 (2013: HK\$ nil), resulting in a gain of HK\$26,000 (2013: HK\$ nil).

8. TRADE AND BILLS PAYABLES

	As at September 30, 2014 HK\$'000 (Unaudited)	As at March 31, 2014 HK\$'000 (Audited)
Trade payables	300,716	323,386
Bills payables	17,592	16,149
	<u>318,308</u>	<u>339,535</u>

The following is an aged analysis of trade payables presented based on the invoice date.

	As at September 30, 2014 HK\$'000 (Unaudited)	As at March 31, 2014 HK\$'000 (Audited)
Less than 30 days	253,925	276,015
31 to 60 days	46,097	47,233
61 to 90 days	663	—
Over 90 days	31	138
	<u>300,716</u>	<u>323,386</u>

Bills payables of the Group are aged within 30 days (March 31, 2014: 60 days).

9. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised		
At April 1, 2013, September 30, 2013, April 1, 2014 and September 30, 2014		
– Ordinary shares of HK\$0.2 each	600,000	120,000
Issued and fully paid		
At April 1, 2013, September 30, 2013 and April 1, 2014		
– Ordinary shares of HK\$0.2 each	372,720	74,544
Exercise of share options	4,025	805
At September 30, 2014		
– Ordinary shares of HK\$0.2 each	376,745	75,349

10. SHARE-BASED PAYMENTS

The Company had adopted the Willas-Array Electronics Employee Share Option Scheme II and the Willas-Array Electronics Employee Share Option Scheme III to grant share options to eligible employees, including the Executive Directors of the Company and its subsidiaries. Details of the share options schemes are disclosed in the Group's annual financial statements for the year ended March 31, 2014.

The table below discloses movement of the Company's share options:

	Number of share options
Outstanding at April 1, 2013 (Audited)	22,138,800
Lapsed during the period	(600,000)
Cancelled during the period	(2,766,000)
	<hr/>
Outstanding at September 30, 2013 (Unaudited)	18,772,800
Cancelled during the period	(240,000)
	<hr/>
Outstanding at April 1, 2014 (Audited)	18,532,800
Lapsed during the period	(8,160,000)
Exercised during the period	(4,024,800)
	<hr/>
Outstanding at September 30, 2014 (Unaudited)	6,348,000
	<hr/> <hr/>

During the period, share options holders exercised part of their share options and acquired 3,016,800 shares and 1,008,000 shares of HK\$0.20 each of the Company at an exercise price of S\$0.067 per share on June 13, 2014 and July 22, 2014, respectively. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was S\$0.164.

10. SHARE-BASED PAYMENTS – continued

Fair values of the share options were calculated using The Black-Scholes option pricing model.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share option reserve.

11. DIVIDENDS

During the six months ended September 30, 2014, a final dividend of HK6.822 cents per share was declared and distributed to the shareholders in respect of the year ended March 31, 2014 (2013: final dividend of HK6.132 cents per share). The aggregate amount of final dividend distributed and paid in the current period amounted to approximately HK\$25,702,000 (2013: HK\$22,855,000).

The directors of the Company have determined that no interim dividend will be proposed for the six months ended September 30, 2014.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	For the six months ended September 30,	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	13,697	23,595
	For the six months ended September 30,	
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	374,903	372,720
Effect of dilutive potential ordinary shares:		
Options	4,743	6,165
Weighted average number of ordinary shares for the purpose of diluted earnings per share	379,646	378,885

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

The Group's sales revenue had increased by 9.2% from HK\$1,629.0 million for the six months ended September 30, 2013 ("1H FY2014") to HK\$1,779.4 million for the six months ended September 30, 2014 ("1H FY2015").

Turnover by Market Segment Analysis

(in HK\$'000)

	1H FY2015		1H FY2014		Increase (Decrease)	
		%		%		%
Industrial	421,521	23.7%	416,104	25.5%	5,417	1.3%
Telecommunications	299,981	16.9%	205,113	12.6%	94,868	46.3%
Home Appliance	278,463	15.6%	192,388	11.8%	86,075	44.7%
Dealer	260,235	14.6%	250,224	15.4%	10,011	4.0%
Audio and Video	136,757	7.7%	173,046	10.6%	(36,289)	-21.0%
EMS	130,072	7.3%	119,733	7.4%	10,339	8.6%
Automotive	118,817	6.7%	117,009	7.2%	1,808	1.5%
Lighting	69,254	3.9%	76,467	4.7%	(7,213)	-9.4%
Others	64,251	3.6%	78,912	4.8%	(14,661)	-18.6%
	<u>1,779,351</u>	<u>100.0%</u>	<u>1,628,996</u>	<u>100.0%</u>	<u>150,355</u>	<u>9.2%</u>

In 1H FY2015, we have continued to build on our competitive strengths to increase market share in our target market segments. We registered a period-on-period increase of 9.2% in revenue to HK\$1,779.4 million. This increase was a result of our strategic investment in engineering resources, and working closely with our strong reputable principal suppliers in various applications to capture opportunities in the China market which is still growing albeit at a slower pace than previously.

Industrial

This segment continued to be our largest contributor, with a revenue of HK\$421.5 million, representing 23.7% of Group revenue. The revenue growth for this segment was hampered by the termination of the China government's subsidy program for energy saving appliances as well as the unstable export market.

However with our extensive distribution coverage of this segment and our dedicated engineering resources, we were able to maintain our market share and recorded a 1.3% revenue growth over the previous corresponding period. We believe that following a short term adjustment of the market, this segment still has long term growth prospects and it is worthwhile for us to devote more resources to further develop new applications and solutions for this market segment.

Telecommunications

The revenue from the telecommunications segment was HK\$300.0 million, representing a strong growth of 46.3% compared to the same period last year. We were able to benefit and capture the opportunities from the rising acceptance of China's local mobile phone brands in the worldwide market because of our strategy to focus on China's local manufacturers. We will continue our Field Application Engineer's support and to leverage on our strong principal suppliers in this segment to provide better value-added services and more products to sustain the continuous growth in this segment.

Home Appliance

The revenue from this segment was HK\$278.5 million, a strong growth of 44.7% compared to the same period of the previous year. Although the overall domestic China home appliance/white goods market was weak, the growth was mainly contributed by the strong demand from the export market in small home appliance and the recovery of the US market. This growth was enabled by our broad coverage in this market segment, in order to capture available growth opportunities. We are optimistic that there are positive long term prospects in this market segment as it continues to develop products in line with increasing consumer demand for better lifestyles and the new trend of "smart" homes.

Dealer

This segment's revenue increased 4.0% as compared to the same period last year to HK\$260.2 million. The increase was in-line with market performance. The strong support from principal suppliers and our close co-ordination with our dealer customers on specific package deals enabled us to maintain our performance in this segment.

Audio and Video

The overall slowdown of the global audio and video market has affected the revenue from the distribution of our audio products developed by our non-wholly owned subsidiary, ValenceTech Group. The demand for smartphone audio docking solutions continued to decline, and we adapted to the market situation by switching our focus to the higher-end audio products in order to cover the shortfall. However, the revenue still recorded a decrease of 21.0% to HK\$136.8 million in the first half of FY2015. In view of this shrinking market, we plan to re-allocate our resources to better use in other prospective applications.

EMS

This segment achieved an 8.6% increase in revenue to HK\$130.1 million. This segment continued the growth momentum of the second half of FY2014 as the export market became more active and orders increased, especially from the US, where buyers were more willing to place orders. We believe that as the global economy becomes more stable and starts to pick up, the export market for China's electronics products will stand to benefit. We will work closely with our EMS customers to monitor the forecast and inventory levels, in order to take advantage of the upward trend.

Automotive

During the first half of FY2015, our Automotive segment was affected by weak export demand for after-market car audio products. Although we were able to capitalize on the stable growth of the domestic China market, the total revenue only increased by 1.5% compared to the same period last year. We remain positive about the potential of this segment in relation to the domestic China market. The characteristic of this segment is long design cycle and long product life cycle. Our commitment of resources in terms of Sales and Marketing as well as Engineering in this segment is a strategic move in anticipation of future growth.

Lighting

Revenue from this segment dropped 9.4% compared to the same period last year to HK\$69.3 million in 1H FY2015. The market situation was very unstable with little visibility in terms of export demand. Although we were able to generate significant growth in the second half of FY2014, due to a pick up in export demand from both commercial and retail consumers, it could not continue to 1H FY2015 when demand declined along with severe price erosion. Our response was to immediately tighten inventory control and clear excessive goods, which helped us to maintain a healthy position to face the market volatility.

Others

This segment covers personal computers, toys, security equipment and renewable energy applications. In line with the overall industry performance for such products, our revenue for this segment declined 18.6% compared to the same period last year to HK\$64.3 million.

Profit Margin

There was an imbalance of supply and demand of electronic components because of the weak demand in the market, which unexpectedly turned bearish in 1H FY2015 mainly due to the slowdown in China's growth. This in turn led to downward pressure on prices and a squeeze on our gross profit margin which declined from 10.69% in 1H FY2014 to 8.44% in 1H FY2015.

Distribution costs

Distribution costs increased by 4.8% from HK\$21.7 million for 1H FY2014 to HK\$22.7 million for 1H FY2015. The increase in distribution costs was mainly due to higher promotional expenses which is in line with the rise in sales revenue.

Administrative expenses

Administrative expenses decreased slightly by HK\$1.4 million, or 1.3%, from HK\$108.5 million for 1H FY2014 to HK\$107.1 million for 1H FY2015.

Other gains and losses

Other gains of HK\$0.2 million for 1H FY2015 were mainly due to a gain on fair value changes of derivative financial instruments while other losses of HK\$0.4 million for 1H FY2014 were mainly due to an exchange gain offset by an allowance for doubtful trade receivables made.

Finance costs

Finance costs increased by HK\$0.2 million, or 2.5%, from HK\$7.9 million for 1H FY2014 to HK\$8.1 million for 1H FY2015.

Listing expenses

Listing expenses of HK\$13.1 million for 1H FY2014 refers to the expenses incurred in the dual primary listing exercise on the HK Stock Exchange. Total listing expenses amounting to HK\$26.1 million were recognised in the full financial year ending March 31, 2014.

Share of profit of associates

Share of the profit of associates decreased significantly from HK\$5.3 million for 1H FY2014 to HK\$0.4 million for 1H FY2015. Unlike the booming market in 2013 for memory products on which the associate company was focusing, the market demand became stagnant from mid-2014 while we have piled up certain inventories to meet the forecast demand. As a result, a stock provision was made for the slow moving inventories resulting in a significant drop in net profit of the associated company.

LIQUIDITY AND FINANCIAL RESOURCES**Financial Position**

Compared to previous year ended March 31, 2014, the increase in trust receipt loans by HK\$245.4 million was due to the increase in purchasing activity during the current financial period. Trade and bills receivables increased by HK\$86.6 million when compared to year ended March 31, 2014 due to increase in sales revenue towards the end of this period. The debtors turnover days increased from 2.3 months to 2.4 months.

Inventories

Inventories increased from HK\$440.1 million as at March 31, 2014 to HK\$509.2 million as at September 30, 2014. Our inventory turnover days remained at 1.9 months.

Cash Flow

As at September 30, 2014, the Group had a working capital of HK\$298.9 million, which included a cash balance of HK\$239.8 million, compared to a working capital of HK\$337.9 million, which included a cash balance of HK\$219.0 million at March 31, 2014. The increase in cash by HK\$20.8 million was attributable to the net effect of cash inflow of HK\$209.6 million from financing activities and cash outflows of HK\$159.2 million in operating activities and HK\$29.6 million in investing activities.

Cash inflow from financing activities was attributable to an increase in trust receipt loans due to increase of purchasing activities during the period.

Cash outflow in operating activities was mainly attributable to the increase in inventories and trade receivables towards the end of the period under review.

Cash outflow in investing activities was mainly attributable to a further investment in the associated company in May 2014 of HK\$24.5 million. After this injection, we still maintain a 49% stake in the associated company. Till now, the associated company had a share capital of HK\$150 million, with the Company's share of contribution of HK\$73.5 million.

Borrowing and Banking Facilities

As at September 30, 2014, bank loans of approximately HK\$90.8 million were unsecured and repayable in quarterly or monthly installments ending in FY2015.

As at September 30, 2014, trade receivables amounted to HK\$9.8 million (March 31, 2014: HK\$ nil) were transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing amounted to HK\$9.8 million (March 31, 2014: HK\$ nil)

Bank borrowings bore interest at a weighted annual effective rate of 2.80% for fixed rate borrowing and 2.38% for variable rate borrowings as at September 30, 2014.

As at September 30, 2014, trust receipt loans were unsecured, repayable within one year and bore an effective interest rate of 1.82% to 2.73% per annum. As at September 30, 2014, the Group had unutilised banking facilities of approximately HK\$434.3 million.

Foreign Exchange Risk Management

The Group incurs foreign currency risk mainly on sales and purchases that are denominated in currencies other than our functional currencies. The Group is mainly exposed to the fluctuations in the United States dollar and Japanese yen against the Hong Kong dollar. However, as the Hong Kong dollar is pegged to the United States dollar, the exposure of entities that use Hong Kong dollars as their respective functional currency to the fluctuations in the United States dollar is minimal. The major foreign currency giving rise to our foreign exchange risk is Japanese yen. The Group has a foreign currency hedging policy to monitor and maintain its foreign exchange exposure at an acceptable level.

Gearing Ratio

The gearing ratio as at September 30, 2014 was approximately 146.9% (March 31, 2014: 102.1%). Gearing ratio is derived by dividing total debt (representing interest-bearing bank borrowings, trust receipt loans and bills payables) by shareholders' equity at the end of a given period. The increase was mainly due to a increase in trust receipt loans from HK\$440.8 million to HK\$686.2 million.

Contingent Liabilities

As at September 30, 2014, the Company had given corporate guarantees (unsecured) to its banks in respect of banking facilities granted to its subsidiaries. The aggregate banking facilities granted to the subsidiaries were approximately HK\$1,228.9 million, of which approximately HK\$797.2 million was utilised and guaranteed by the Company.

As at September 30, 2014, the Company had also given guarantees to certain suppliers in relation to the subsidiaries' settlement of the respective payables. The aggregate amounts payable to these suppliers under guarantee were approximately HK\$169.2 million.

As at September 30, 2014, the Company had given corporate guarantees (unsecured) of approximately HK\$171.1 million to its banks in respect of banking facilities granted to its associates, of which approximately HK\$138.1 million was utilised.

STRATEGY AND PROSPECTS

Given the present business outlook, we expect that the slower growth in China and the slow recovery of the European market would still prevail and the operating environment for the Group is expected to remain challenging.

The Group will continue to be prudent in managing its operations while maintaining a healthy liquidity position.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended September 30, 2014 (2013: HK\$ nil).

EMPLOYEES AND REMUNERATION POLICIES

As at September 30, 2014, the Group had a workforce of 513 full-time employees, of which approximately 37.4% worked in Hong Kong, 58.3% in the People's Republic of China (the "PRC") and the remainder in Taiwan.

The Group actively pursues a strategy of recruiting, developing and retaining talented employees by (i) providing them with regular training programmes to ensure that they are kept abreast of the latest information pertaining to products distributed by the Group, technological developments and market conditions of the electronics industry; (ii) aligning employees' compensation and incentives with their performance; and (iii) providing them with a clear career path with opportunities for taking on additional responsibilities and securing promotions.

While the Group's employees in Hong Kong and Taiwan are required to participate in the Mandatory Provident Fund scheme and a defined contribution pension scheme respectively, the Group makes contributions to various government-sponsored employee-benefit funds, including social insurance fund, housing fund, basic pension insurance fund and unemployment, maternity and work-related insurance funds for its employees in the PRC in accordance with the applicable PRC laws and regulations.

Further, the remuneration committee of the Company reviews and determines the remuneration and compensation packages of the directors of the Company (the "Directors") and senior management with reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months period ended September 30, 2014, the Company did not redeem any of its listed securities nor did any of its subsidiaries purchase or sell any of such securities.

COMPLIANCE WITH HONG KONG CORPORATE GOVERNANCE CODE

The Board and the Company's management are committed to maintaining high standards of corporate governance. The Board firmly believes that conducting the Group's business in a transparent and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders. The Board considers that during the six months ended September 30, 2014, the Company has complied with the code provisions of the Corporate Governance Code (the "HK CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the HK Stock Exchange (the "HK Listing Rules") except for Code provision A.4.1 of the HK CG Code which stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing Independent Non-executive Directors of the Company (the “INEDs”) is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the HK CG Code. However, all of the directors are subject to retirement by rotation at each annual general meeting of the Company under the By-laws of the Company. As such, the Board considers that sufficient measures are in place to ensure that the Company’s corporate governance practices relating to the terms of the INEDs are no less exacting than those contained in the HK CG code.

COMPLIANCE WITH HONG KONG MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “HK Model Code”) as set out in Appendix 10 to the HK Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Following a specific enquiry made by the Company on the Directors, all of them have confirmed that they had complied with the required standards as set out in the HK Model Code.

REVIEW BY AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the HK CG Code and the Listing Manual of Singapore Exchange Securities Trading Limited. The Audit Committee comprises all of the three INEDs, namely Jovenal R. Santiago (committee chairman), Wong Kwan Seng, Robert and Iu Po Chan, Eugene. The Group’s unaudited interim results and the Company’s interim report for the six months ended September 30, 2014 have been reviewed by the Audit Committee.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED, THE COMPANY AND SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (the “HKEx”) at www.hkex.com.hk, the website of the Company at www.willas-array.com and the website of Singapore Exchange Securities Trading Limited at www.sgx.com. The interim report of the Company for the six months ended September 30, 2014 will be dispatched to the shareholders and published on the respective websites of HKEx and the Company in due course.

By Order of the Board
Willas-Array Electronics (Holdings) Limited
Leung Chun Wah
Chairman and Executive Director

Hong Kong, November 14, 2014

As at the date of this announcement, the Board comprises four Executive Directors, namely Leung Chun Wah (Chairman), Kwok Chan Cheung (Deputy Chairman), Hon Kar Chun (Managing Director) and Leung Hon Shing; and three Independent Non-executive Directors, namely Jovenal R. Santiago, Wong Kwan Seng, Robert and Iu Po Chan, Eugene.