



FITTEC INTERNATIONAL GROUP LIMITED

奕達國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

stock code: 2662



Interim Report
2005/06

GROUP FINANCIAL HIGHLIGHTS

- Group turnover rose to HK\$939 million (2005: HK\$927 million)
- Group gross profit rose by 32% to HK\$145 million (2005: HK\$110 million)
- Excluding the listing expenses, the Group's profit attributable to equity holders rose by 32% to HK\$113 million (2005: HK\$85 million)
- Earning per share rose to HK\$0.13 (2005: HK\$0.12)
- Interim dividend of HK\$0.03 per share
- Consolidated net asset value increased to HK\$1,021 million (2005: HK\$393 million)
- Net cash was HK\$561 million, compare to net debt of HK\$13 million in 2005

Chairman's Statement

Dear Shareholders,

The Board of Directors of Fittec International Group Limited (the "Company"), together with its subsidiaries (the "Group"), are pleased to announce the Group's first interim results since it was listed on the Stock Exchange of Hong Kong Limited on 14 December 2005.

The listing marked a major milestone in the Group's development and has provided it with a stronger platform to take its business to new heights. The net proceeds from the listing will be used to fund expansion of production capacity, which will enable us to capitalise on the continuing trend in outsourcing to China, particularly from Japanese OEMs. As indicated in the prospectus dated 30 November 2005 issued by the Company, part of the net proceeds would be used to establish a new factory in Suzhou. The Directors are using their best efforts in locating a suitable place in Suzhou for the establishment of the new production facilities and would be pleased to provide further updates and progress to the shareholders.

During the past few years, we have devoted much effort to shifting our business to higher margin products and allocating more production capacities in the assembly of sophisticated products. This not only has improved our profitability, but also sharpened our business focus on three key areas, namely hard disk drive (HDD) controllers, mobile LCD controllers and motherboards. In the first half of the financial year 2006, all our three key business areas registered impressive growth in profits and orders. The profit attributable to equity holders rose to HK\$98 million growing 15% compared with the same period last year. The Directors have recommended the payment of an interim dividend of HK\$0.03 per share for the year ending 30 June 2006 which is expected to be payable on 20 April 2006 to shareholders whose names appear on the Register of Member of the Company as at 12 April 2006.

As the outsourcing trend persists and grows, the Group is confident that its growth momentum will continue to gather in the latter half of the year and translate into satisfactory returns. We will further expand our production capacity to meet the increasing demands of top-tier clients and to maximize the long term growth potential.

I would like to take this opportunity to thank the management and staff for their dedication and invaluable efforts. My gratitude also goes to all shareholders, investors and customers for their unwavering trust and support.

Philip Lam
Chairman

Hong Kong, 23 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 31 December 2005, turnover was HK\$939 million, representing an increase of 1.3% as compared with the same period last year. The increase in turnover was driven by increased orders in high margin product categories, offset by a decrease in turnover from certain lower margin products, such as assembly of DVD and CD player mainboards and printer mainboards, which we either lowered our exposure to or exited completely.

As a result of this continued effort to focus our capacity on higher margin products, gross profit grew 32% to HK\$145 million as compared with the same period last year. Gross margins improved to 15.4% from 11.8%.

Profit attributable to the equity holders of the Company rose to HK\$98 million, growing 15% compared with the same period last year. This was distorted by one-off expenses of HK\$16 million relating to our initial public offering. Excluding these one-off expenses, profit attributable to the equity holders of the company grew 32% compared with the previous year.

Business Review

During the period under review, we continued to shift our production capacity to assembling more sophisticated and higher margin products. The profit contribution from our three major products, namely hard disk drive (HDD) controllers, mobile LCD controllers and motherboards all continued to grow strongly.

HDD Controllers

Procurement and assembly revenue from HDD controllers increased by 25% to HK\$688 million from HK\$548 million in the same period last year. Being the largest provider of PCB assembly service for Toshiba's HDD controllers, we continued to benefit from Toshiba's market share expansion in the hard disk drive market, which resulted in increasing orders for us.

Mobile LCD Controllers

Revenue from mobile LCD controllers decreased from HK\$123 million to HK\$51 million in the first half of the year, although the underlying assembly orders and profit contribution continued to grow strongly. The decrease in top-line revenue was primarily due to a major customer opting to undertake procurement activities on its own, with the result that turnover from this customer became pure assembly service revenue, rather than procurement and assembly income. As assembly service revenue commands far higher margins, the profit contribution from this category of product grew significantly, in spite of the decrease in overall revenue. During the period under review, we provided PCB assembly services for LCD controller modules to Nitto Denko and Sanyo Epson, the substantial producers of mobile phone LCDs in the world.

Motherboards

Assembly service for motherboards continued to grow strongly, with revenue increasing 38% to HK\$165 million from HK\$119 million. This growth was primarily attributable to increased orders from our existing customers, ASRock and Asustek. The Group is the sole supplier of motherboards to ASRock, a subsidiary of Asustek, the largest manufacturer of motherboards in the world.

Prospects

We remain optimistic about the outlook for the remainder of the financial year, with indicative orders from customers providing us with some confidence. Going forward, we believe that the global trend in outsourcing will continue, and see evidence of acceleration in outsourcing from Japanese OEMs. This trend will continue to benefit China EMS companies focused on superior quality.

In the hard disk drive industry, strong growth in end-user demand and continued market consolidation bodes well for our HDD controller business. Given our strong relationship with Toshiba, we are very well positioned to benefit from the continued growth in its hard disk drive products. In the field of mobile LCD controllers, since we adopt amongst the most advanced technologies, we believe that we have an edge to capture more Japanese high-tech brands in the industry. In the motherboards industry, we see a growing trend in Taiwanese ODMs outsourcing to Chinese EMS companies, which we intend to capitalise on.

Recently, we secured a number of new customers, including two leading Japanese OEMs who have outsourced the assembly of their respective LCD backlights to us. The LCD backlights we assemble for these customers are destined for used in numerous fast-growing end-products, such as portable gaming device and digital cameras. We continue to pursue new customers for products with strong end-market growth potential, and complex and technologically demanding assembly requirements. We are optimistic that additional new accounts will be secured in the second half of the year.

In terms of capacity expansion, we purchased and installed four new SMT lines during the period to meet near term increases in demand, we plan to establish industrial presence in Suzhou in the near future. This will enable us to commence production to satisfy potential orders from customer located in Eastern China. We have received verbal indications from certain existing customers that they would also outsource a portion of their local requirements to us in the Suzhou area, and we are discussing with numerous new customers for a variety of products. The launch of this new facility, together with an expanded facility in Guangdong to replace our existing factories, will enable us to capitalise on the strong growth in demand anticipated over the next few years.



INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF FITTEC INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 7 to 20.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 December 2005.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 31 December 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 March 2006

UNAUDITED INTERIM RESULTS

The Directors of the Company are pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 31 December 2005 with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	NOTES	Six months ended	
		31.12.2005 HK\$'000 (Unaudited)	31.12.2004 HK\$'000 (Unaudited)
Turnover	3	938,939	927,396
Cost of sales		(794,019)	(817,640)
Gross profit		144,920	109,756
Other income		6,670	6,867
Distribution costs		(2,304)	(2,222)
Administrative expenses		(20,172)	(13,742)
Listing expenses		(16,635)	–
Finance costs		(3,236)	(2,717)
Profit before taxation	4	109,243	97,942
Taxation	5	(11,146)	(8,570)
Profit for the period		98,097	89,372
Attributable to:			
Equity holders of the Company		98,097	85,535
Minority interests		–	3,837
		98,097	89,372
Dividends	6	29,052	–
Earnings per share	7		
Basic		HK\$0.13	HK\$0.12
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	NOTES	31.12.2005 HK\$'000 (Unaudited)	30.6.2005 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	293,407	287,878
Deposits for acquisition of property, plant and equipment		7,850	4,214
		301,257	292,092
CURRENT ASSETS			
Inventories		131,782	104,834
Trade and other receivables	9	249,873	169,418
Investments		1,885	1,885
Pledged bank deposits		3,071	15,105
Bank balances and cash		671,298	88,796
		1,057,909	380,038
CURRENT LIABILITIES			
Trade and other payables	10	179,126	135,867
Amounts due to related companies		–	3,138
Amounts due to directors		–	414
Taxation		30,611	19,945
Obligation under finance leases	11	36,073	37,420
Bank borrowings – due within one year	12	26,577	487
		272,387	197,271
NET CURRENT ASSETS		785,522	182,767
TOTAL ASSETS LESS CURRENT LIABILITIES		1,086,779	474,859
NON-CURRENT LIABILITIES			
Obligations under finance leases	11	47,691	64,647
Deferred taxation		17,688	17,350
		65,379	81,997
		1,021,400	392,862
CAPITAL AND RESERVES			
Share capital	13	96,000	10,000
Reserves		925,400	382,862
		1,021,400	392,862

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Attributable to equity holders of the Company								
	Share capital	Share premium	Contributed surplus	Special reserve	Exchange reserves	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2004	9,600	-	-	-	-	183,391	192,991	8,041	201,032
Profit for the period and total recognised income for the period	-	-	-	-	-	85,535	85,535	3,837	89,372
Acquisition of additional interest in a subsidiary	400	-	11,478	-	-	-	11,878	(11,878)	-
At 31 December 2004	10,000	-	11,478	-	-	268,926	290,404	-	290,404
Profit for the period and total recognised income for the period	-	-	-	-	-	102,458	102,458	-	102,458
At 30 June 2005	10,000	-	11,478	-	-	371,384	392,862	-	392,862
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	4	-	4	-	4
Profit for the period	-	-	-	-	-	98,097	98,097	-	98,097
Total recognised income for the period	-	-	-	-	4	98,097	98,101	-	98,101
Group reorganisation (Note 13)	62,000	(68,400)	-	6,400	-	-	-	-	-
Issue of new shares (Note 13)	24,000	528,000	-	-	-	-	552,000	-	552,000
Share issue expenses	-	(21,563)	-	-	-	-	(21,563)	-	(21,563)
At 31 December 2005	96,000	438,037	11,478	6,400	4	469,481	1,021,400	-	1,021,400

Note:

Contributed surplus represented the difference between the fair value of the underlying assets of the subsidiary acquired and the nominal value of the shares issued for the acquisition of additional interest in a subsidiary in December 2004.

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries acquired pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 2005.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Six months ended	
	31.12.2005 <i>HK\$'000</i> <i>(Unaudited)</i>	31.12.2004 <i>HK\$'000</i> <i>(Unaudited)</i>
NET CASH FROM OPERATING ACTIVITIES	61,028	226,042
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(23,947)	(29,941)
Deposits for acquisition of property, plant and equipment	(3,636)	(1,217)
Decrease in pledged deposits	12,034	7,001
Interest received	2,031	128
NET CASH USED IN INVESTING ACTIVITIES	(13,518)	(24,029)
FINANCING ACTIVITIES		
Net proceeds from issue of shares	530,437	–
Bank borrowings raised	34,889	–
Repayment of obligation under finance leases	(18,303)	(27,630)
Repayment of bank borrowings	(8,799)	(22,352)
Interest paid	(3,236)	(1,283)
Dividends paid	–	(80,000)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	534,988	(131,265)
NET INCREASE IN CASH AND CASH EQUIVALENTS	582,498	70,748
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	88,796	16,979
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	4	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD, represented by bank balances and cash	671,298	87,727

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second, Revision) of the Cayman Islands on 19 August 2005. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 14 December 2005. The Company's ultimate holding company is Fittec Holdings Limited ("Fittec Holdings"), a company incorporated in the British Virgin Islands.

In preparation for the listing of the Company's shares on the Stock Exchange, the Company has undergone a group reorganisation (the "Group Reorganisation") in November 2005 pursuant to which the Company became the holding company of the subsidiaries. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated financial statements for the six months ended 31 December 2004 have been prepared using the principles of merger accounting. Details of the Group Reorganisation are set out in the prospectus dated 30 November 2005 issued by the Company ("Prospectus").

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are initially measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's accountants' report as set out in the Prospectus for the year ended 30 June 2005.

At the date of authorisation of these financial statements, the HKICPA has issued the following standards and interpretations (“INT”) that are not yet effective.

HKAS 1 (Amendment)	Capital disclosure ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ³
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK (IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK (IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK (IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK – INT 4	Leases – Determination of the length of lease term in respect of Hong Kong land leases ⁵

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

⁵ Effective for annual periods beginning on or after 24 May 2005.

The Group has not early applied the above new standards and interpretations that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new standards and interpretations but is not yet in a position to determine whether these new standards and interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These new standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into the following major divisions: provision of (i) assembly services and (ii) procurement and assembly services. These divisions are the basis of which the Group reports its primary segment information.

	Six months ended	
	31.12.2005	31.12.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover		
– Assembly services	226,874	211,880
– Procurement and assembly services	712,065	715,516
	938,939	927,396
Segment results		
– Assembly services	130,001	109,484
– Procurement and assembly services	26,945	11,964
	156,946	121,448
Unallocated corporate expenses	(34,502)	(27,656)
Unallocated other operating income	6,670	6,867
Listing expenses	(16,635)	–
Finance costs	(3,236)	(2,717)
Profit before taxation	109,243	97,942
Taxation	(11,146)	(8,570)
Profit for the period	98,097	89,372

4. PROFIT BEFORE TAXATION

	Six months ended	
	31.12.2005 <i>HK\$'000</i> <i>(Unaudited)</i>	31.12.2004 <i>HK\$'000</i> <i>(Unaudited)</i>
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	18,418	16,542
Cost of inventories recognised as expense	664,130	688,152
and after crediting:		
Bank interest income	2,031	128

5. TAXATION

	Six months ended	
	31.12.2005 <i>HK\$'000</i> <i>(Unaudited)</i>	31.12.2004 <i>HK\$'000</i> <i>(Unaudited)</i>
The charge comprises:		
Hong Kong Profits Tax		
Current period	10,808	6,864
Deferred tax	338	1,706
	11,146	8,570

Hong Kong Profits Tax is calculated at 17.5% on the assessable profits for both periods. In the opinion of the Directors, based on Departmental Interpretation Practice Notes No. 21 issued by the Inland Revenue Department, a subsidiary of the Company is entitled to at least 50% relief from Hong Kong Profits Tax.

No provision for People's Republic of China ("PRC") enterprise income tax has been made in the financial statements as all the subsidiaries established in the PRC had no assessable profits for the period.

6. DIVIDENDS

The Directors have determined that an interim dividend of HK\$0.03 per share which is expected to be payable on 20 April 2006 (For the six months ended 31 December 2004: Nil) to the shareholders of the Company whose names appeared in the register of members on 12 April 2006.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 31 December 2005 is based on the profit attributable to equity holders of the Company of HK\$98,097,000 (For the six months ended 31 December 2004: HK\$85,535,000) and the weighted average number of 743,478,261 (For the six months ended 31 December 2004: 720,000,000) shares in issue during the period. The weighted average number of shares for the six month ended 31 December 2004 and 2005 have been retrospectively adjusted for the effect of the capitalisation of share premium and the effect of Group Reorganisation on 16 November 2005 as detailed in the Prospectus.

Diluted earnings per share are not presented because there were no potential ordinary shares outstanding during both periods.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2005, the Group acquired property, plant and equipment of approximately HK\$23,947,000 (For the six months ended 31 December 2004: HK\$29,941,000).

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 90 days to its trade customers.

The following is an aged analysis of the trade receivables at the balance sheet date:

	31.12.2005 <i>HK\$'000</i> <i>(Unaudited)</i>	30.6.2005 <i>HK\$'000</i> <i>(audited)</i>
0 – 30 days	237,393	120,172
31 – 60 days	2,641	23,859
61 – 90 days	2	16,896
91 – 180 days	43	1,711
181 – 365 days	77	970
Over 365 days	–	808
	<hr/> 240,156	<hr/> 164,416

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	31.12.2005 <i>HK\$'000</i> <i>(Unaudited)</i>	30.6.2005 <i>HK\$'000</i> <i>(audited)</i>
0 – 30 days	141,697	114,424
31 – 60 days	19,195	9,172
61 – 90 days	1,245	293
91 – 180 days	1,776	623
Over 365 days	–	25
	<hr/> 163,913	<hr/> 124,537

11. OBLIGATIONS UNDER FINANCE LEASES

During the six month ended 31 December 2005, the Group repaid finance leases of approximately HK\$18,303,000 (For the six months ended 31 December 2004: HK\$27,630,000).

12. BANK BORROWINGS

During the six months ended 31 December 2005, the Group obtained new bank borrowings of approximately HK\$34,889,000 (For the six months ended 31 December 2004: HK\$Nil).

13. SHARE CAPITAL

	Number of shares	Amounts HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised:</i>		
On the date of incorporation	1,000,000	100
Increase on 16 November 2005	2,999,000,000	299,900
	<u>3,000,000,000</u>	<u>300,000</u>
At 31 December 2005	<u>3,000,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>		
Allotted and issued at nil paid on the date of incorporation	1	–
Issue of shares upon the Group Reorganisation	36,000,000	3,600
Issue of shares on capitalisation of share premium account	683,999,999	68,400
Issue of shares for global offering	240,000,000	24,000
	<u>960,000,000</u>	<u>96,000</u>
At 31 December 2005	<u>960,000,000</u>	<u>96,000</u>

The following changes in the share capital of the Company took place during the period from 19 August 2005 (date of incorporation) to 31 December 2005:

- (a) The Company was incorporated on 19 August 2005 with an authorised capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. On the date of incorporation, 1 share was allotted and issued at nil paid.
- (b) Pursuant to the written resolutions passed by all the shareholders of the Company on 16 November 2005 to effect the Group Reorganisation, the following movements in the authorised and issued share capital of the Company took place:
 - (i) The authorised share capital of the Company was increased from HK\$100,000 to HK\$300,000,000 by the creation of an additional 2,999,000,000 ordinary shares of HK\$0.10 each. The new shares rank pari passu in all respects with the then existing shares.

- (ii) Pursuant to the agreement with Fittec Holdings, the Company acquired from Fittec Holdings the entire issued share capital of Fittec (BVI) Limited, in consideration of which the Company allotted and issued 36,000,000 ordinary shares of HK\$0.10 each, credited as fully paid, to Fittec Holdings.
 - (iii) 683,999,999 ordinary shares of HK\$0.10 each in the Company were allotted and issued as fully paid to the shareholders on 16 November 2005 in proportion to their respective shareholdings, by the capitalisation of an amount of HK\$68,400,000 in the share premium account of the Company.
- (c) On 14 December 2005, the Company issued a total of 240,000,000 ordinary shares of HK\$0.1 each at the price of HK\$2.30 per share by means of global offering.

All the shares issued during the period rank pari passu in all respects with the then existing shares.

The share capital of the Group at 31 December 2004 represented the share capital of Fittec Electronics Company Limited, a subsidiary of the Company, before Group Reorganisation.

14. CAPITAL COMMITMENTS

At 31 December 2005, the Group had capital expenditures of approximately HK\$460,000 (At 30 June 2005: HK\$2,223,000) contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment.

15. PLEDGE OF ASSETS

At 31 December 2005, the Group had pledged investments of approximately HK\$1,885,000 (At 30 June 2005: HK\$1,885,000) and bank deposits of approximately HK\$3,071,000 (At 30 June 2005: HK\$15,105,000) to banks for banking facilities to the Group.

16. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

Name of related company	Relationship	Nature of transactions	Six months ended	
			31 December	2004
			2005	2004
			HK\$'000	HK\$'000
			(Unaudited)	(Unaudited)
Host Leader Enterprises Limited	Controlled by certain directors	Rental expenses	–	48
Mikawa Technology Company Limited	Controlled by a director	Sub-contracting charges	–	17,564
Ms. Sun Ming Yee	Minority shareholder	Acquisition of additional interest in a subsidiary	–	400
Compensation of key management		Remuneration	3,205	1,526

17. POST BALANCE SHEET EVENT

On 4 January 2006, the Company issued 8,394,000 shares of HK\$0.10 each at a price of HK\$2.30 by means of the partial exercise of the over-allotment option as set out in the Prospectus. Details are set out in the announcement to the shareholders of the Company dated 4 January 2006.

LIQUIDITY AND FINANCIAL RESOURCE

As at 31 December 2005, the Group had cash and bank balances of approximately HK\$671 million. During the period, the Group recorded a cash inflow from the initial public offering of HK\$512 million. The Group also purchased fixed assets of HK\$24 million during the period. As at 31 December 2005, apart from the obligation under finance leases and short term trade loan, the Group did not have any other borrowings.

As at 31 December 2005, the Group's current assets and liabilities were HK\$1,058 million and HK\$272 million respectively, with a current ratio of 3.9. Total current liabilities were only 26% of the capital and reserve attributable to the company's equity holders of HK\$1,021 million. The Group's net asset value was HK\$1,021 million, grew from HK\$393 million at 30 June 2005.

Currently, all of our cost of direct materials and substantially all of our sales revenue are denominated in US dollars, to which the Hong Kong dollar is pegged. The Group has not been exposed nor do we anticipate being exposed to material risks due to changes in exchange rates.

As at 31 December 2005, the Group did not have any material contingent liabilities or capital commitments.

HUMAN RESOURCES

As at 31 December 2005, the Group had approximately 6,878 employees. Employees' cost during the first six months of the year including directors emoluments amounted to HK\$68,362,000. The Group ensures that employees' remuneration packages are competitive and are determined mainly on factors including job nature, market conditions, individual performance, qualification and experience. The Group also provides other benefits to its employees and training as and when required.

CLOSURE OF REGISTER OF MEMBER

Register of members of the Company will be closed from 10 April 2006 to 12 April 2006 (both days inclusive), during which period no transfer will be effected.

In order to qualify for above-mentioned interim dividend, all transfers accompanied by the relevant share certificates must be logged by 4:00 p.m. on 7 April 2006, with Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the period. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's share during the period.

SHARE OPTIONS

During the six months ended 31 December 2005, no options have been granted under the option scheme operated by the Company and no options were outstanding during the period.

DISCLOSURE OF INTEREST

As 31 December 2005, the interests and short positions of the directors in the shares, underlying share and debentures of the company and its associated companies (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as 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 (the "Model Code") contained in the Rules Governing the Listing of Securities on Stock Exchange (the "Listing Rules"), were as follows:

Ordinary shares of HK\$0.10 each in the Company at 31 December 2005

Name of Directors		Nature of interest		Number of shares held	Percentage to total issued share capital
Lam Chi Ho	Long position	Corporate interests	(note 1)	760,000,000	75%
Sun Mi Li	Long position	Family interest	(note 2)	760,000,000	75%

Notes:

- These shares are owned by Fitec Holdings Limited, the issued share capital of which is wholly owned by Mr. Lam Chi Ho.
- Ms. Sun Mi Li is the wife of Mr. Lam Chi Ho. Her shareholding disclosed under the heading "Family interests" in the above table is the family interest of Mr. Lam Chi Ho.

Save as disclosed above, as at 31 December 2005, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated companies (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the six months ended 31 December 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or its associated companies.

SUBSTANTIAL SHAREHOLDER

As at 31 December 2005, the register of substantial shareholders maintained under section 336 of the SFO show that as at 31 December 2005 the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of holder of securities	Type of securities		Number of shares held	Percentage
				to total issued share capital
Fittec Holdings Limited	Shares	Long position	760,000,000	75%
ABN AMRO Holding N.V.	Shares	Long position	123,204,000	12.83%
		Short position	36,000,000	3.75%

CORPORATE GOVERNANCE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the Interim Period, in compliance with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. During the six months ended 31 December 2005, all the Directors have complied with the relevant requirements under the Model Code regarding their dealing in the securities of the Company.

AUDIT COMMITTEE

The Company has formed an audit committee to review and supervise the financial reporting process and internal control procedures of the Group. At present, the audit committee has three members including Mr. Chung Wai Kwok, Jimmy (Chairman), Mr. Christopher Roger Moss (OBE) and Mr. Xie Bai Quan, all of them are independent non-executive Directors.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of these unaudited interim accounts. At the request of the Board of Directors, the Group's external auditors have carried out a review of these unaudited interim accounts in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

The remuneration committee of the Company has been set up in accordance with Appendix 14 to the Listing Rules. The committee comprises Mr. Christopher Roger Moss (OBE) (Chairman), Mr. Chung Wai Kwok, Jimmy and Ms. Sun Mi Li. The remuneration committee has reviewed the compensation payable to all directors and senior managers in accordance with contractual terms and that such compensation is fair and not excessive to the Company.

BOARD OF DIRECTORS

As at the date of this report, the executive Directors are Mr. Lam Chi Ho, Ms. Sun Mi Li, Ms. Wu Siu Fan, Anita, and Mr. Tsuji Tadao. The independent non-executive Directors are Mr. Christopher Roger Moss (OBE), Mr. Xie Bai Quan, and Mr. Chung Wai Kwok, Jimmy.

By Order of the Board

Lam Chi Ho

Chairman

Hong Kong, 23 March 2006