



# The Partner of Choice for Top-Tier OEMs

# Management Discussion and Analysis

## Financial Review

The Group's business experienced healthy top-line growth during the year under review. With the increase in orders from existing customers, the Group's turnover grew 10.4% to HK\$1,797 million (FY2004/05: HK\$1,628 million).

The Group's gross profit margin was slightly set back to 13.0%, with gross profit at HK\$234 million against last year's HK\$242 million. This was due largely to the rise in labour cost as a result of use of experienced workers, higher overtime wages and the increase in the Guangdong province's minimum wage.

Overall, profit attributable to equity holders was HK\$166 million (FY2004/05: HK\$188 million), after deducting an one-off expense of HK\$18.7 million relating to the IPO in December 2005. As at 30 June 2006, the Group was in a net cash position with bank balance and cash of HK\$667 million (FY2004/05: HK\$104 million).

## Dividend

The Board of Directors has recommended the payment of a final dividend of HK2 cents (FY2004/05: nil) per share. Together with an interim dividend of HK3 cents (FY2004/05: nil) per share already paid, the total dividend for the year will be HK5 cents. The final dividend is payable on Friday, 8 December 2006 to shareholders whose names are on the share register on Friday, 1 December 2006. The share register will close from 27 November 2006 to 1 December 2006, both days inclusive.

## Business Review

The Group provides primarily two types of services: Pure Assembly and Procurement & Assembly. Pure Assembly refers to the assembly of PCBs used in various electronic products; Procurement & Assembly involves, in addition to PCB assembly services, procuring components on behalf of customers. Since the percentage mark-up on component procurement is far lower than the profit margins that can be achieved on assembly services, the aggregate profit margins of the Procurement & Assembly segment are relatively lower than those of Pure Assembly. Nevertheless, procurement services contribute additional revenue in

absolute terms and is a service that certain customers require. Moreover, procurement is largely a risk-free business for the Group, as the risk of fluctuations on component costs are effectively borne by the customer.

For the year ended 30 June 2006, revenue from Procurement & Assembly grew by 13.1% and revenue from Pure Assembly decreased by 0.4%. Gross profit of these two segments decreased mainly due to increased labour cost.

An analysis of the Group's turnover by service types (Pure Assembly, Procurement & Assembly, Repair & Maintenance) and gross profit of each of these services is as follows:

	Turnover	
	FY2005/06 HK\$'000	FY2004/05 HK\$'000
Procurement & Assembly service	1,397,486	1,235,569
Pure Assembly service	391,494	392,906
Repair & Maintenance service	8,061	–
	<b>1,797,041</b>	<b>1,628,475</b>



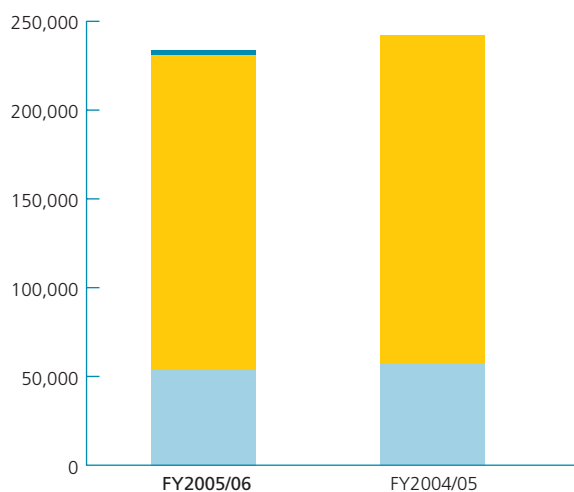
# Management Discussion and Analysis

**Gross Profit**  
FY2005/06 FY2004/05  
HK\$'000 HK\$'000

Procurement & Assembly service	53,733	57,206
Pure Assembly service	177,117	185,213
Repair & Maintenance service	2,974	–
	<b>233,824</b>	<b>242,419</b>

**Gross Profit**

HK\$'000



■ Procurement & Assembly service  
■ Pure Assembly service  
■ Repair & Maintenance service

## Product Analysis

On the product front, the Group continued to shift its focus to sophisticated, high-margin products, such as HDD controllers, mobile LCD controllers and PC motherboards. During the year, the Group ceased production of certain low-margin products, including PCBs of video projectors and Point of Sale systems.

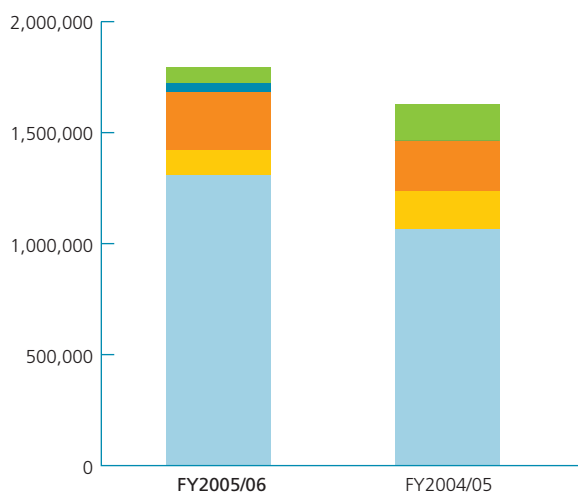
An analysis of the Group's turnover by product type of each of these products is as follows.

	Turnover	
	FY2005/06	FY2004/05
	HK\$'000	HK\$'000
HDD Controller	1,309,961	1,066,305
Mobile LCD Controller	108,961	168,470
PC Motherboard	263,210	228,854
LCD Backlight	39,423	–
Others	75,486	164,846

**1,797,041**    **1,628,475**

**Turnover**

HK\$'000



■ HDD Controller  
■ Mobile LCD Controller  
■ PC Motherboard  
■ LCD Backlight  
■ Others

### HDD Controller

With the increasing adoption of HDD controllers in consumer electronic end-products, such as notebook computers, iPods and GPS systems, this product segment delivered strong performance during the year under review. Revenue from HDD controllers increased by 23% from HK\$1,066 million in the last financial year to HK\$1,310 million. The Group remained the largest provider of PCB assembly services for Toshiba, one of the world's leading suppliers of HDDs.

### Mobile LCD Controller

Revenue from this product segment decreased 35% to HK\$109 million as a result of a major customer switching from Procurement & Assembly services to Pure Assembly services. However, orders for assembly services and underlying gross profit contribution from this segment increased during the year. Sanyo Epson and Nitto Denko were the major customers for mobile LCD controllers.

### PC Motherboard

Revenue from PC motherboards grew by 15% from HK\$229 million last year to HK\$263 million during the year under review. This was primarily driven by the increase in orders from existing customers ASRock and Asustek. Growth would have been even stronger, however, had there not been a delay in the launch of Microsoft's Windows Vista and Office 2007 software, which caused customers to postpone some orders until the hardware requirements for the new software were announced. The Group also received fewer orders of PC motherboards than expected as certain customers cleared their stock of non-lead-free motherboards before the RoHS legislation came into effect on 1 July 2006.

### LCD Backlight

During the year, the Group launched production of a new product, LCD backlights. LCD backlights are components used in a variety of fast-growing end products, such as portable gaming devices and digital cameras. During the year, the Group made a strong inroad into this market with the acquisition of two new customers. The Group commenced trial production in December 2005 and began mass production in January 2006. Although this new product segment accounted for just 2% of the Group's turnover for the year, it has strong potential for growth.

### Others

The Group's strategy is to focus on high-margin products and high-end customers. During the year, the Group ceased

production of certain lower-margin products, such as CD, DVD and printer mainboards, PCB of video projector and Point of Sale system. Therefore, revenue from this segment dropped 54% to HK\$75 million.

### Production Facilities

During the year, the Group ramped up its production capacity in order to meet increased orders from existing and new customers. Four new SMT lines were added at the Group's existing Fuyong plant. The Group also extended its production base to Eastern China by leasing a production facility in Suzhou with a floor area of over 7,200 square metres. The facility provides assembly services of PC motherboards and flexible printed circuit products for large Japanese and Taiwanese brands. The new plant, which started trial runs in August 2006, is equipped with 11 SMT lines, increasing the Group's total production capacity by 13%. By 30 September 2006, in addition to Suzhou plant, the Group also added eight SMT lines in the Futian and Fuyong plants, increasing the Group's production capacity by 10%. Overall, the Group plans to install a total of 33 SMT lines at a cost of around HK\$165 million in FY2006/07 in this facility. With this added capacity, the Group has the capacity to take on new orders and start production in Eastern China before construction of its new plant in Suzhou is completed.

During the year, the utilization rate of the Group's production facilities was maintained at around 70% (FY2004/05: 61%).

### Prospects

The EMS industry offers tremendous opportunities for companies such as Fittec, which enjoy economies of scale, possess high-end production facilities, and can deliver premium services at competitive prices. Demand will continue to be driven by the outsourcing by Japanese and Taiwanese OEMs to EMS companies in China.

In the year ahead, it is expected that demand will continue to rise for the Group's HDD controllers and mobile LCD controllers. Order volumes of PC motherboards have already returned to normal after Microsoft announced the hardware requirements for Windows Vista at the end of March 2006. Hence, together with HDD controllers and mobile LCD controllers, the Group expects PC motherboards will remain a major growth driver of the Group's business. The Group will also step up development and production of LCD backlights to increase its contribution to the Group's revenues over the next few years.

# Management Discussion and Analysis

The Group is pleased to announce that it recently gained new orders from Toshiba for HD DVD mainboards to be used in its new format HD DVD player. Toshiba's HD DVD player is the next-generation DVD format supported by the leaders in movie and entertainment, consumer electronics, computer hardware and software industries. This product is now under trial production, and mass production is expected to commence in November. Moreover, the Group secured a new Japanese OEM customer for which it assembles LCD TV Power Supply Boards. Trial production of this new product was completed in July and mass production has started recently. The Group is also in talks with other potential Japanese and Taiwanese customers requiring quality assembly services and scalable production capabilities for products such as PC motherboards and notebook motherboards. Having established strong relationships with customers who are leaders in their respective industries, the Group is well positioned to acquire new business for a wider range of popular electronic products.

To fill the increasing number of orders from existing and new customers, the Group will continue to expand its production facilities. In September 2006, the Group leased additional buildings in the leased facility in Suzhou and expanded the floor area to 12,700 square metres. This plant is currently providing assembly services for Asustek PC motherboards and will start trial production for certain top-tier Japanese OEMs in November.

The Group has finalised a location in Suzhou to construct its new plant. Meanwhile, to support its operations in Southern China, the Group rented a plant with a floor area of around 93,600 square metres in Shajing in August 2006. The Futian plant will be gradually relocated to the Shajing facility by late 2006, and 20 to 25 additional SMT lines will be installed. The new plant is expected to start operation in the first quarter of 2007, which will increase the Group's total production capacity by approximately 30%. In the year ahead, the Group will look to strengthen its sales and marketing team to target new customers and better service existing customers. The Group will also look to further improve the productivity of its workforce. With a clear blueprint for future development, the Group is confident of achieving growth in revenue in the years to come.

Despite that the Group is optimistic about its prospects, it also sees the challenges ahead. Rising labour cost in China is expected to be a concern for all EMS companies in the country. In view of this, the Group will continue to implement its cost control measures to minimise the impact of the rising costs on profit margins.

## Liquidity and Financial Resources

The Group had bank balance and cash of approximately HK\$667.4 million as at 30 June 2006. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 30 June 2006, the Group had net current assets of approximately HK\$800.7 million (30 June 2005 : HK\$182.8 million) and a current ratio 4.87 (30 June 2005: 1.93). The Group's net asset value was HK\$1,073.9 million, growing from HK\$392.9 million at 30 June 2005.

Apart from obligations under finance lease, the Group was debt free as at 30 June 2006. All finance leases were utilized in financing the Group's machinery. The Group's total obligation under finance lease decreased from HK\$102.1 million as at 30 June 2005 to HK\$67.1 million as at 30 June 2006 in which approximately HK\$34.2 million repayable within one year, HK\$32.9 million repayable between two to five years. Total debt to total assets ratio was 19.3% (30 June 2005: 41.5%).

Currently, all of our cost of direct materials and substantially all of our turnover 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 30 June 2006, the Group did not have any material contingent liabilities.

## Staff

As at 30 June 2006, the Group employed a total of 6,590 staff, of which 6,545 were employed in Mainland China, while 45 were employed in Hong Kong. The Group's recently implemented remuneration package, bonus and share option schemes are part of a remuneration policy designed to motivate individual staff by linking part of the staff's compensation with their respective performance. In addition, fringe benefits such as insurance, medical allowance and pensions were provided to ensure the competitiveness of remuneration packages offered by the Group.

## Capital Expenditure

For the year ended 30 June 2006, capital expenditure amounted to HK\$65.5 million, of which, approximately HK\$37.1 million was used for the purchase of machinery for production, and the balance was used for the purchase of equipment and fixed assets for production and management purposes.

### **Use of Net Proceeds from IPO**

The Company issued 240 million shares of HK\$2.30 per share by way of Share Offer (as defined in the prospectus of Company dated 30 November 2005) in December 2005. The net proceeds after deducting the related expenses were approximately HK\$506 million.

An additional net proceeds of approximately HK\$19 million were raised through the partial exercise of over-allotment option of approximately 8.4 million shares in January 2006.

During the year, the Group utilised the above proceeds in accordance with that disclosed in the Prospectus. HK\$45.8 million was used in the acquisition of new machinery and equipment to expand the Group's production capacity. The remaining balances of the proceeds were placed as bank deposits as at 30 June 2006.

### **Purchase, Disposal or Redemption of the Company's Listed Securities**

During the year ended 30 June 2006, there was no purchase, redemption or disposal by the Group and any of its subsidiaries and their jointly controlled entities, of the Group's listed securities.

### **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all Directors regarding any non-compliance with the Code during the year ended 30 June 2006 and all Directors confirmed that they have fully complied with the required standard set out in the Model Code during the year.

### **Audit Committee**

The audit committee of the Company was established on 16 November 2005 in accordance with Appendix 14 to the Listing Rules. The existing committee comprises Mr. Christopher Roger Moss, OBE, Mr. Chung Wai Kwok, Jimmy as the chairman, Mr. Xie Bai Quan. All of the committee members are Independent Non-Executive Directors. During the year ended 30 June 2006, the audit committee held one meeting to review the accounting standards and practices adopted by the Group and to discuss matters regarding the internal controls and financial reporting (including the interim results before proposing them to the Board for approval) with the management, external auditors and internal auditing staff. The audit committee has

reviewed the results announcement of the Company for the year ended 30 June 2006.

### **Compliance with the Code on Corporate Governance Practices**

Since the listing of its shares on the Stock Exchange, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, save and except for the deviation from the code provision A.2.1 of the CG Code whereby the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. Lam Chi Ho.

### **Capital Commitments**

As at 30 June 2006, the Group had capital expenditures of approximately HK\$47.1 million (2005: HK\$2.2 million) contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment.

### **Pledge of Assets**

As at 30 June 2006, the Group had pledged investments of approximately HK\$1.9 million (2005: HK\$1.9 million) to secure banks for banking facilities granted to the Group. No bank deposits were pledged as at 30 June 2006 (2005: HK\$15.1 million).

### **Closure of Register of Member**

Register of members of the Company will be closed from 27 November 2006 to 1 December 2006 (both days inclusive), during which period no transfer will be effected.

In order to qualify for above-mentioned final dividend, all transfers accompanied by the relevant share certificates must be logged by 4:00 p.m. on 24 November 2006, with Company's Registrars, Computershare Hong Kong Investor Services Limited, at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.

### **Share Options**

During the year ended 30 June 2006, no options have been granted under the option scheme operated by the Company and no options were outstanding during the period.

### **Board of Directors**

As at the date of this announcement, 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.