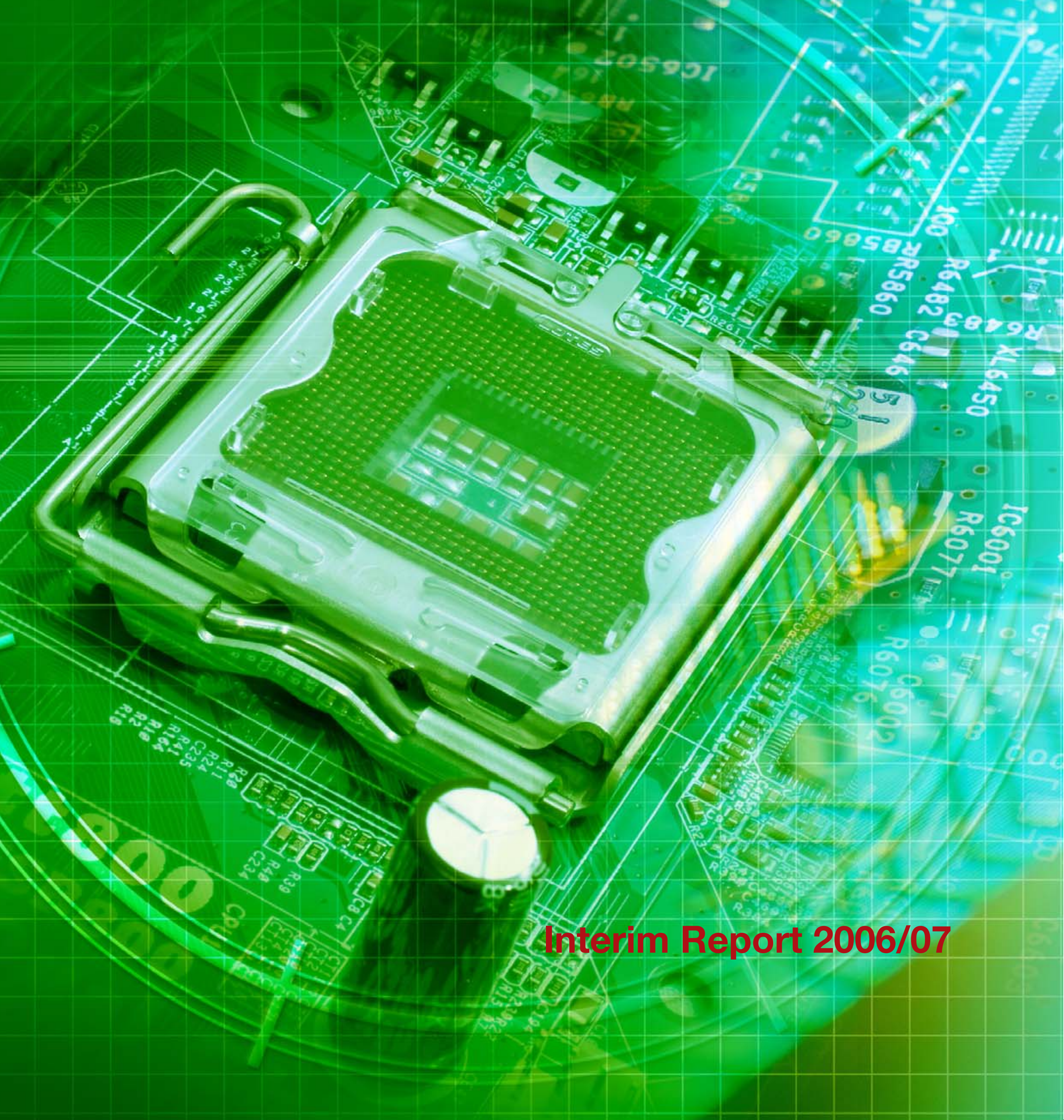
FITTEC

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 2006/07

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the past year, the continued growth of the global economy further stimulated spending, particularly in the consumer electronics market. Such prosperity has given rise to growing demand for competitively-priced lower-weight electronic devices with higher operating speeds and multiple functions. Accordingly, more and more OEMs and ODMs have been outsourcing their product manufacturing to EMS providers in a move to keep prices down. The increase in outsourcing has been a major contributor to the growth of the EMS industry, which achieved a turnover of HK$1,014 billion worldwide in 2006.

We recognize the importance of maintaining strong relationships with our customers, including industry leaders such as Toshiba, Sanyo Epson and Asustek. The growth of these companies in their respective markets has also propelled our growth. Toshiba is a good example. As Toshiba's one of the largest partners for producing HDD controllers, we have made a great effort to strengthen our cooperation with them. We are Toshiba's largest EMS provider for its 2.5-inch and 1.8-inch HDD controllers in China. In addition, we have become Toshiba's chosen outsource partner for their assembly process of another fast-growing product, HD DVD player mainboards. Strong partnerships with top-tier OEMs such as Toshiba not only support our future growth, but also are good evidence on our reliable, high-quality products and services.

Despite the growth of the EMS industry, we encountered challenges in our supply chain management during the period. We increased salary levels to meet the minimum wages in Futian and Fuyong and, in order to meet the new RoHS legislation, paid higher material costs for producing lead-free PC motherboards. We faced another challenge when expanding our production facilities in Suzhou and Shenzhen. Before we could start operating these plants, we had to spend time training our labour force and invest resources preparing our initial set-up. Yet another difficulty was the delayed launch of Windows Vista by Microsoft. This caused a drop in orders for PC motherboards and a lower utilization rate in our Fuyong plant, resulting in higher-than-usual average production costs. All of these challenges led to a setback in our profits in the first half of FY2006/07.

Nevertheless, there were positive developments during the period. We started production in Suzhou ahead of schedule with 23 SMT lines, which were more lines than the target we had set for 2007. We strengthened our production capacity by spending HK$46 million to acquire new machinery and equipment for our plants in southern China, and approximately HK$13 million and HK$120 million in finishings and machinery respectively for the leased Suzhou plant. On the other hand, the plan to construct a new plant in Suzhou is also under review. More importantly, we diversified our client and product mix with the addition of renowned Japanese OEMs to our existing client base, as well as new products with promising growth potential to our portfolio. Following these developments, we are well poised for continuing business growth in the medium to long term.

We remain optimistic about the prospects for the EMS industry. However, we also realize our reliance on certain major clients and rising labour costs could present potential risks for our business. In response to these concerns, while strengthening our relationships with existing clients, we are actively exploring business opportunities to further diversify our client base and product mix. We will also tighten cost controls in our operations and maintain our focus on high-margin clients and products to enhance our profitability. We are confident that these efforts will bear fruit in the future.

On behalf of the Board, I would like to express my appreciation to the management and staff for their dedication and contributions. I would also like to thank our shareholders, investors and customers for their support and trust in us over the years.

Philip Lam
Chairman

Hong Kong, 21 March 2007

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

Driven by the worldwide demand for consumer electronics, the Group's business achieved moderate growth during the six months ended 31 December 2006. Turnover grew by 5% to HK$988 million (for the six months ended 31 December 2005: HK$939 million), which was mainly attributable to increased orders from existing and new clients during the period under review.

Revenue from Procurement & Assembly improved by 11% thanks to the increased orders for HDD controllers and LCD backlights during the period. On the other hand, revenue from Pure Assembly dropped by 15%, mainly as a result of reduced orders on PC motherboards caused by the delayed launch of Microsoft's new Windows Vista operating system. The fast growth of the Procurement & Assembly segment drove up the cost of sales, a large portion of which was raw material costs borne by the Group's clients. Reduced orders on PC motherboards adversely affected the utilization rate of the Fuyong plant and prevented the Group from realizing better economies of scale in this plant. Moreover, rising labour costs and higher expenditures for the production of lead-free motherboards put pressure on profits. All these factors reduced the gross profit to HK$80 million (for the six months ended 31 December 2005: HK$145 million) and pulled down the overall gross margin to 8.1%.

Net profit fell to HK$50 million (for the six months ended 31 December 2005: HK$98 million), partly due to the costs incurred by the expansion of production capacity in Suzhou and Shajing. Nevertheless, the Group was in a sound financial position with bank balance and cash of HK$488 million (31 December 2005: HK$671 million) as at 31 December 2006.

Business Review

The Group primarily provides two types of service: Pure Assembly and Procurement & Assembly. During the review period, the Group continued its strategy of focusing on sophisticated, high-margin products and further expanding its clientele and product portfolio. HDD controllers, mobile LCD controllers and PC motherboards remained the core products of the Group, contributing to over 90% of the total turnover. At the same time, the Group also began exploiting other product opportunities, such as LCD backlights, HD DVD player mainboards and TV power supply boards. All these products show promising growth potential, and production of HD DVD player mainboards and TV power supply boards has already been underway for a few months.

HDD Controllers

The growth momentum of the HDD controllers segment contributed to an increase in revenue of 8% to HK$742 million. During the period, the Group continued to be the largest provider of PCB assembly service for Toshiba's 2.5-inch and 1.8-inch HDD controllers in China. This enabled the Group to benefit from Toshiba's leading market position and its growth in the hard disk drive market. In this segment, 2.5-inch HDD controllers contributed approximately 80% of the revenue while the 1.8-inch models accounted for approximately 20%.

Mobile LCD Controllers

During the period, the Group maintained close relationships with its major clients, Sanyo Epson and Nitto Denko. Although growth was recorded in underlying orders for mobile LCD controllers, revenue decreased by 24% to HK$38 million. The drop was caused by a client postponing orders for products that commanded higher assembly fees. Nevertheless, orders from this client were back to normal levels in 2007.

PC Motherboards

As a result of the delayed launch of Microsoft's Windows Vista, the PC market experienced a downturn during the period. This, in turn, led to fewer orders for PC motherboards and caused a drop in the Group's revenue from this product to HK$134 million. After the European Union's Restriction of Hazardous Substances Directive legislation came into effect on 1 July 2006, motherboards must be produced with lead-free materials in order for them to be qualified for sale in the European market. However, since production of lead-free products is more labour-intensive and involves a consumable material with higher costs, the profit contribution from this product segment deteriorated during the period under review.

LCD Backlights

The performance of the LCD backlight segment showed significant progress since commercial production began in January 2006. With the strong demand for fast-growing end products such as portable gaming devices and digital cameras, revenue from this product segment surged from HK$2 million to HK$27 million. A large portion of the growth could be attributed to the rising number of orders from two Japanese clients during the period.

Others

The Group successfully expanded its client base and product portfolio during the period. It secured orders for two new products, namely, HD DVD player mainboards from Toshiba and LCD TV power supply boards from another new Japanese customer. Commercial production of HD DVD player mainboards started in late October 2006, and by the year-end this product had already contributed HK$9 million to the total turnover. Orders of LCD TV supply boards also recorded steady growth since commercial production began in September 2006. In December 2006, the Group was appointed by Stone Group, a leading Taiwanese IC design house, as the sole manufacturer of its world-first miniature memory card dual-interface converters. Trial production of this product commenced in the first quarter of 2007 and commercial production is expected to start in mid-2007.

Production Facilities

In view of the thriving consumer electronics market, the Group has been implementing its plans to ramp up production capacity after the initial public offering in 2005. To secure orders from clients in eastern China, the Group extended its production base to the region by leasing a plant in Suzhou ahead of original schedule. The leased plant, which has a floor area of over 12,000 square metres, started trial runs in August 2006 of high-end PC motherboards for Asustek, and commercial production started in September 2006. As at 31 December 2006, the plant was equipped with 23 SMT lines – already exceeding the Group's target of 20 SMT lines by 2007 – and had the capacity to assemble 22 billion chips per year. Total capital expenditure on this plant was approximately HK$133 million. Meanwhile, the plan to construct a new plant in Suzhou was also under review.

In southern China, the Group invested a further HK$46 million in September 2006 to acquire new machinery and equipment for the Futian and Fuyong plants to meet increasing orders for HDD controllers and other new products. The Group also leased an additional plant with a floor area of around 72,600 square metres in Shajing in August 2006, where a repair and maintenance centre was established.

As at 31 December 2006, the Group's maximum production capacity was 102 billion chips per year, a rise of 40% over the last corresponding period. The overall utilization rate was down to 59%, however, and the full utilization rate of the production facilities was 85%. This was due to the underutilization of the Fuyong plant, resulting from the fall in orders on PC motherboards, and the lead-time required to set up and configure the machines in the new plants before the commencement of production. Nonetheless, spare capacity has encouraged the Group to take on new orders from existing and potential clients.

Prospects

Increasing labour costs in China are a major concern for all EMS companies with a production base there. Consequently, the Group is introducing new measures to minimize the negative impact of rising labour costs on profit margins. For instance, the Group will implement incentive programmes to raise the productivity of workers and streamline the labour force. Furthermore, the Group will focus on securing orders for high-margin products and clients as well as implementing effective cost controls to maintain profitability and enhance its competitiveness in the market.

Despite escalating labour costs, the Group is cautiously optimistic about the outlook for the remainder of the financial year. After the official launch of Microsoft's Windows Vista in January 2007, demand for motherboards began to pick up. Moreover, given our strong partnerships with industry leaders such as Toshiba, Sanyo Epson and Asustek, the Group is well positioned to benefit from the continuous growth of these existing clients' end market products and to forge further business cooperation with them.

Another positive trend is the steady growth of the Group's clientele and product portfolio over the years. The Group will continue to secure new clients so as to diversify its business risk and will take advantage of opportunities in new products that show promising growth potential in the flourishing consumer electronics market. These include LCD backlights, HD DVD player mainboards, LCD TV power supply boards and miniature memory card dual-interface converters. Capitalising on its reputation, the Group will explore opportunities with other potential customers who pursue EMS partners providing quality assembly services and having scalable production capabilities.

The Group will also go forward with its expansion plans for ramping up production in response to market demand. The leased Suzhou plant is now ready to take on orders in eastern China and will be able to cater for the increasing number of new orders in the near future. As a result, the Group has sufficient time to ensure optimal planning of another new plant to be constructed in Suzhou. In Shenzhen, the Futian plant operation will be relocated to Shajing in April 2007, and this is expected to be completed in phases by the end of 2007. The Group will strive to achieve a balance in the utilization rate of its existing and future facilities in order to attain greater operational efficiency and cost-effectiveness.

Liquidity and Financial Resource

The Group had bank balances and cash of approximately HK$487.7 million as at 31 December 2006. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 December 2006, the Group had net current assets of approximately HK$657.7 million (30 June 2006: HK$800.7 million) and a current ratio 3.00 (30 June 2006: 4.87). The Group's net asset value was HK$1,111.7 million, growing from HK$1,073.9 million at 30 June 2006.

Apart from obligations under finance leases, the Group was debt free as at 31 December 2006. All finance leases were utilized in financing the Group's machinery. The Group's total obligations under finance leases decreased from HK$67.1 million as at 30 June 2006 to HK$49.5 million as at 31 December 2006 in which approximately HK$32.2 million repayable within one year, HK$17.3 million repayable between two to five years. Total debts to total assets ratio was 24.7% (30 June 2006: 19.3%).

Currently, all of our cost of direct materials and substantially all of our turnover are denominated in US dollars, to which the Hong Kong dollars are 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 2006, the Group did not have any material contingent liabilities.

Staff

As at 31 December 2006, the Group employed a total of 7,864 staff, of which 7,820 were employed in Mainland China, while 44 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.

Closure of Register of Member

Register of members of the Company will be closed from 16 April 2007 to 17 April 2007 (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 4:30 p.m. on 13 April 2007, with Company's Registrars, Computershare Hong Kong Investor Services Limited, at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Purchase, Sale or Redemption of Shares

During the six months ended 31 December 2006, there was no purchase, redemption or disposal of the Group's listed securities by the Group and any of its subsidiaries.

Share Options

During the six months ended 31 December 2006, 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 at 31 December 2006, 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 2006

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)*	720,000,000	74.35%
Sun Mi Li	Long position	Family interest *(note 2)*	720,000,000	74.35%

Notes:

1. These shares are owned by Fittec Holdings Limited, the issued share capital of which is wholly owned by Mr. Lam Chi Ho.

2. 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 2006, 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 2006 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 2006, the register of substantial shareholders maintained under section 336 of the SFO show that as at 31 December 2006 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	720,000,000	74.35%

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 except for the deviations as stated in code provision A.2.1 on Chairman and Chief Executive Officer. Mr. Lam Chi Ho assumes the roles of Chairman and Chief Executive Officer of the Group. Given the current corporate structure, the Board considers that there is no separation between the roles of Chairman and Chief Executive Officer. All major decisions are made in consultation with the Board with sufficient independent element although the roles and responsibilities for Chairman and Chief Executive Officer are vested in one person. Therefore, the Board is of the view that there are adequate impartially and safeguards in place.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Code during the six months ended 31 December 2006 and all Directors confirmed that they have fully complied with the required standard set out in the Model Code during the period.

Audit Committee

The Company has formed an audit committee to review and supervise the financial reporting process and internal control procedures of the Group. 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.

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 two Independent Non-Executive Directors, Mr. Christopher Roger Moss, OBE and Mr. Chung Wai Kwok, Jimmy and one Executive Director, Ms. Sun Mi Li. Mr. Christopher Roger Moss, OBE is the chairman of the committee. 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, 21 March 2007

INDEPENDENT INTERIM 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 12 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 (the "HKICPA") 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 Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. 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 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

		Six months ended	
		31.12.2006	**31.12.2005**
	NOTES	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	987,731	938,939
Cost of sales		(907,548)	(794,019)
Gross profit		80,183	144,920
Other income		15,546	6,670
Distribution costs		(1,979)	(2,304)
Administrative expenses		(35,908)	(20,172)
Listing expenses		–	(16,635)
Finance costs		(1,692)	(3,236)
Profit before taxation		56,150	109,243
Income tax expense	*4*	(6,086)	(11,146)
Profit for the period, attributable to equity holders of the Company	*5*	50,064	98,097
Dividend paid	*6*	19,368	–
Basic earnings per share	*7*	HK$0.05	HK$0.13

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	NOTES	31.12.2006 HK$'000 (unaudited)	30.6.2006 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	484,138	315,614
Deposits for acquisition of property, plant and equipment		4,723	6,997
		488,861	322,611
CURRENT ASSETS			
Inventories		142,731	113,613
Trade and other receivables	9	354,845	224,574
Investments held for trading		1,885	1,885
Bank balances and cash		487,655	667,399
		987,116	1,007,471
CURRENT LIABILITIES			
Trade and other payables	10	257,241	137,683
Taxation		39,979	34,893
Obligations under finance leases	11	32,186	34,208
		329,406	206,784
NET CURRENT ASSETS		657,710	800,687
TOTAL ASSETS LESS CURRENT LIABILITIES		1,146,571	1,123,298
NON-CURRENT LIABILITIES			
Obligations under finance leases	11	17,337	32,893
Deferred taxation		17,540	16,540
		34,877	49,433
NET ASSETS		1,111,694	1,073,865
CAPITAL AND RESERVES			
Share capital	12	96,839	96,839
Reserves		1,014,855	977,026
TOTAL EQUITY		1,111,694	1,073,865

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Attributable to equity holders of the Company						
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note)*	Special reserve *HK$'000* *(Note)*	Exchange reserves *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 July 2005	10,000	–	11,478	–	–	371,384	392,862
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	4	–	4
Profit for the period	–	–	–	–	–	98,097	98,097
Total recognised income for the period	–	–	–	–	4	98,097	98,101
Group reorganisation	62,000	(68,400)	–	6,400	–	–	–
Issue of new shares	24,000	528,000	–	–	–	–	552,000
Share issue expenses	–	(21,563)	–	–	–	–	(21,563)
At 31 December 2005	96,000	438,037	11,478	6,400	4	469,481	1,021,400
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	(44)	–	(44)
Profit for the period	–	–	–	–	–	68,020	68,020
Total recognised income and expense for the period	–	–	–	–	(44)	68,020	67,976
Dividend paid	–	–	–	–	–	(29,052)	(29,052)
Issue of new shares	839	18,467	–	–	–	–	19,306
Share issue expenses	–	(5,765)	–	–	–	–	(5,765)
At 1 July 2006	96,839	450,739	11,478	6,400	(40)	508,449	1,073,865
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	7,133	–	7,133
Profit for the period	–	–	–	–	–	50,064	50,064
Total recognised income for the period	–	–	–	–	7,133	50,064	57,197
Dividend paid	–	–	–	–	–	(19,368)	(19,368)
At 31 December 2006	96,839	450,739	11,478	6,400	7,093	539,145	1,111,694

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.

Special reserve represented 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 2006

	Six months ended	
	31.12.2006	**31.12.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	29,808	61,028
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(189,575)	(23,947)
Interest received	11,372	2,031
Deposits paid for acquisition of property, plant and equipment	–	(3,636)
Proceeds from disposal of property, plant and equipment	1,553	–
Decrease in pledged bank deposits	–	12,034
NET CASH USED IN INVESTING ACTIVITIES	(176,650)	(13,518)
FINANCING ACTIVITIES		
Dividend paid	(19,368)	–
Repayment of obligations under finance leases	(17,578)	(18,303)
Interest paid	(1,692)	(3,236)
Net proceeds from issue of shares	–	530,437
Bank borrowings raised	–	34,889
Repayment of bank borrowings	–	(8,799)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(38,638)	534,988
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(185,480)	582,498
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	667,399	88,796
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	5,736	4
CASH AND CASH EQUIVALENTS AT END OF PERIOD, represented by bank balances and cash	487,655	671,298

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

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 since 14 December 2005. The Company's ultimate holding company is Fittec Holdings Limited, 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 reorganization (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 2005 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 of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006, 1 March 2006, 1 May 2006 and 1 June 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC)-INT 11	HKFRS 2: Group and Treasury Share Transactions[4]
HK(IFRIC)-INT 12	Service Concession Agreements[5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 November 2006
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 January 2008

3. SEGMENT INFORMATION

Business segments

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

	Six months ended 31.12.2006 HK$'000 (unaudited)	Six months ended 31.12.2005 HK$'000 (unaudited)
Revenue		
Assembly services	193,973	226,874
Procurement and assembly services	788,466	712,065
Repair and maintenance services	5,292	–
	987,731	938,939
Segment results		
– Assembly service	56,639	130,001
– Procurement and assembly services	22,969	26,945
– Repair and maintenance services	575	–
	80,183	156,946
Unallocated corporate expenses	(37,887)	(34,502)
Other income	15,546	6,670
Listing expenses	–	(16,635)
Finance costs	(1,692)	(3,236)
Profit before taxation	56,150	109,243
Income tax expense	(6,086)	(11,146)
Profit for the period	50,064	98,097

4. TAXATION

	Six months ended 31.12.2006 HK$'000 (unaudited)	Six months ended 31.12.2005 HK$'000 (unaudited)
The charge comprises:		
Hong Kong Profits Tax	5,086	10,808
Deferred tax charge	1,000	338
	6,086	11,146

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

4. **TAXATION** *(continued)*

For those subsidiaries located in the Shenzhen Free Trade Zone, the People's Republic of China (the "PRC"), the income tax rate is 15%.

For a subsidiary located in Suzhou, no provision for PRC enterprise income tax has been made as it has no assessable profit for both periods.

5. **PROFIT FOR THE PERIOD**

	Six months ended 31.12.2006 HK$'000 (unaudited)	Six months ended 31.12.2005 HK$'000 (unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	22,668	18,418
Loss on disposal of property, plant and equipment	501	–
and after crediting:		
Interest income	11,372	2,031

6. **DIVIDEND**

	Six months ended 31.12.2006 HK$'000 (unaudited)	Six months ended 31.12.2005 HK$'000 (unaudited)
Dividends recognised as distributions during the period:		
Final dividend paid of HK$0.02 per share (2005: Nil)	19,368	–
Interim dividend proposed of HK$0.015 (2005: HK$0.03) per share	14,526	29,052

The Board of Directors has resolved to declare an interim dividend of HK$0.015 (2005: HK$0.03) per share payable on 25 April 2007 to the shareholders of the Company whose names appeared in the register of members on 17 April 2007.

7. **BASIC EARNINGS PER SHARE**

The calculation of the basic earnings per share for the six months ended 31 December 2006 is based on the profit for the period attributable to equity holders of the Company of HK$50,064,000 (For the six months ended 31 December 2005: HK$98,097,000) and the weighted average number of 968,394,000 (For the six months ended 31 December 2005: 743,478,261) shares in issue during the period. The weighted average number of shares for the six months ended 31 December 2005 has 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 is 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 2006, the Group acquired property, plant and equipment of approximately HK$191,849,000 (For the six months ended 31 December 2005: HK$23,947,000).

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:

	31.12.2006	30.6.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	264,336	151,915
31 – 60 days	33,802	20,508
61 – 90 days	25,998	17,642
91 – 180 days	2,128	6,252
	326,264	196,317

10. TRADE AND OTHER PAYABLES

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

	31.12.2006	30.6.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	151,321	103,470
31 – 60 days	15,140	9,675
61 – 90 days	511	7,718
91 – 180 days	325	3,922
	167,297	124,785

11. OBLIGATIONS UNDER FINANCE LEASES

During the six months ended 31 December 2006, the Group repaid finance leases of approximately HK$17,578,000 (For the six months ended 31 December 2005: HK$18,303,000).

12. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 30 June 2006 and 31 December 2006	3,000,000,000	300,000
Issued fully paid:		
At 30 June 2006 and 31 December 2006	968,394,000	96,839

13. CAPITAL COMMITMENTS

At 31 December 2006, the Group had capital expenditures of approximately HK$21,730,000 (At 30 June 2006: approximately HK$47,073,000) contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment.

14. PLEDGE OF ASSETS

At 31 December 2006 and 30 June 2006, the Group had pledged investments of approximately HK$1,885,000 to banks to secure general banking facilities to the Group.

15. RELATED PARTY DISCLOSURES

The remuneration of directors and key management of the Group for the six months ended 31 December 2006 was approximately HK$4,912,000 (For the six months ended 31 December 2005: approximately HK$3,205,000).