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 2007/08

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the period under review, competitions in the consumer electronics market remained keen. To stand out in the competition, OEMs and ODMs have become increasingly dependent on EMS providers to deliver large volumes of high-quality products at competitive costs and in a timely manner. They continued to outsource to EMS providers and this trend has fostered growth of the EMS industry.

In line with the industry performance, our revenue achieved a 32% growth to HK$1,302 million for the six months ended 31 December 2007. However, keen competitions and other challenges from the operational environment led to a downturn of gross profit and net profit to HK$62 million and HK$15 million respectively.

To capture market opportunities, we have been actively expanding production capacity. During the period under review, we established two new plants. However, these new plants incurred set-up costs and it will take some time for them to achieve smooth operation. As for the Fuyong plant, its utilisation rate still lagged behind the optimum level, which led to a higher average cost of production. Other challenges that we faced included the increase in minimum wages in the PRC and Toshiba exiting its HD DVD business. All these factors adversely affected our profitability and overall performance in the first half of FY2007/08.

Though the operating environment was tough, we strived to strengthen our client base and product mix during the period. Apart from maintaining partnership with our major clients including Toshiba, Espon and ASRock, we forged closer ties with other clients like Nitto Denko and Asustek which accounted for an increasing portion to our revenue. The increasing orders for new products namely LCD backlights N.B. revenue from this product dropped due to the client having changed the service mode to pure assembly; orders for this product still increased., LCD TV power supply boards and ODD controllers also helped us build a more balanced product portfolio. The stronger client base and more diversified product mix have given a solid foundation for us to develop our business in the future.

The board of directors did not recommend the payment of an interim dividend due to the modest financial results.

Looking ahead, we are aware of the challenges and expect the second half year to be a difficult period. The operation costs in the PRC will keep rising, particularly driven by the increasing labour cost and appreciation of the Renminbi. And our overall utilization rate of the production facilities falls behind the optimum level, leading to a higher average cost of production. To cope with those challenges, we will focus on restructuring our internal operations in the coming months. We expect to complete relocating the Futian plant to Shajing by the end of this financial year. By then, we can centralise production of two plants into one to save certain operation costs. We are also exploring opportunities to set up a new plant in Southeast Asia to mitigate the pressure from the growing operation costs in the PRC and capture new orders from OEMs and ODMs around that plant.

In the mid to long term, we remain prudently optimistic about our business. To meet end-user demands for consumer electronics and rapid technological advancement, more and more OEMs need to outsource manufacturing procedures to EMS providers for cost saving and shorter production lead time to enhance their competitiveness. Enjoying long-term relationship with top-tier customers, as well as capable of meeting stringent requirements and delivering high-quality products, we are poised to capture opportunities ahead.

On behalf of the Board, I would like to express my appreciation to the management and staff for their dedication and contributions. My thanks also go to our customers, shareholders and investors for their trust and support in this challenging period.

Philip Lam
Chairman
Hong Kong, 19 March 2008

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

Benefiting from the prosperous EMS industry, the Group's business recorded growth in the six months ended 31 December 2007. Turnover increased by 32% to HK$1,302 million (six months ended 31 December 2006: HK$988 million), because of certain clients' shift of the service mode and the increased orders from existing and new clients during the period under review.

The Group provides primarily two types of service: Pure Assembly and Procurement & Assembly. During the period, revenue from Procurement & Assembly rose by 41.8%, mainly attributable to Epson changing to use the Group's Procurement & Assembly services since March 2007 and a new client placing orders for ODD controllers since May 2007. Epson's shift of service mode correspondingly caused a drop in revenue for the Pure Assembly segment, but the drop was by only 7.9% with Nitto Denko having increasing demand for the Group's Pure Assembly service.

While overall gross profit stood at HK$62 million (six months ended 31 December 2006: HK$80 million), gross profit margin dropped to 4.7%. Gross profit did not rise with turnover partly because cost of sales was pushed up by the substantial growth of the Procurement & Assembly segment (a large proportion of which was raw materials costs borne by the Group's clients). As orders for PC motherboards continued to come in slow, the Fuyong plant was still under-utilized and thus incurred a higher average cost of production. The increase in minimum wages in the PRC and appreciation of the Renminbi also added production cost burden.

The Group's net profit fell to HK$15 million (six months ended 31 December 2006: HK$50 million), mainly as a result of set-up costs incurred by two new plants and the increased operation costs of all the plants of the Group. As at 31 December 2007, however, the Group was in a healthy financial position with bank balance and cash of HK$224 million (30 June 2007: HK$375 million).

Business Review

During the review period, the Group maintained focus on top-tier clients and high-margin products. HDD controllers, mobile LCD controllers and PC motherboards remained the core products of the Group, contributing 88% of the total turnover. New products such as ODD controllers and LCD TV power supply boards also brought in an increasing contribution to the Group's total turnover. And the Group exploited business opportunities in other products with growth potential, such as DDR RAM.

HDD Controllers

This segment continued to grow steadily with revenue up by 7% to HK$797 million (six months ended 31 December 2006: HK$742 million). The Group is the largest provider of PCB assembly service in China for Toshiba's 2.5-inch and 1.8-inch HDD controllers. This relationship has provided the Group the leverage to grow with the hard disk drive market. With hard disk drives finding wider applications in consumer electronic products, such as set-top box (used in high-resolution television set) and digital video recorder systems, demand for them remains stable.

Mobile LCD Controllers

Revenue from this segment increased by almost five times to reach HK$225 million (six months ended 31 December 2006: HK$38 million), mainly driven by Epson switching from using the Group's Pure Assembly service to Procurement & Assembly service in March 2007. Nitto Denko, which increased orders by over seven times, became a major client in this segment. Since the assembly of mobile LCD controllers involves more advanced and complicated techniques, the segment enjoys a better gross profit margin.

PC Motherboards

As the PC market has not fully recovered, revenue from this segment for the review period was down slightly by 7% to HK$125 million (six months ended 31 December 2006: HK$134 million). During the period, Asustek increased orders for high-end PC motherboards though orders from ASRock dropped by 45%. This compensated partly the drop in revenue of the segment. In January 2008, the Group raised the assembly fee and shifted certain increased costs in lead-free motherboards production to clients.

LCD Backlights

With a Japanese client changing service mode from Procurement & Assembly to Pure Assembly in November 2006, revenue of this segment decreased to HK$9 million (six months ended 31 December 2006: HK$27 million). However, underlying orders for this product during the period reported a 83% growth. The market demand for LCD backlights was supported by the growing popularity of end-user products including portable gaming devices and digital cameras.

Others

During the period, some of the Group's new products, such as ODD controllers, reported significant growth. Although the Group only commenced mass production of the product in May 2007, it was able to derive revenue of HK$95 million from this product in the first half of FY2007/08. So long as demand for end-user products including notebook computers, desktop computers, CD players and DVD players keeps rising, this product segment will maintain steady growth. Revenue from LCD TV power supply boards surged by two folds to HK$9 million due to additional orders for assembly service for a new model. The Group also tapped the DDR RAM market last year. Trial production of this product commenced in November 2007 and mass production is scheduled for the second half year.

Toshiba's decision to exit from HD DVD business led to diminished order for HD DVD mainboards from the client. Revenue from this segment thus dropped to HK$3 million.

Production Facilities

In the first half of FY2007/08, the Group continued to expand production capacity and established two more new plants during the period. In Southern China, the relocation of the Futian plant to Shajing has been in progress and is expected to be completed by end of this financial year. The new operation in Shajing, meanwhile, had started production during the period. As at 31 December 2007, it had 18 SMT lines and a production capacity of nine billion chips per year. The total investment in the new plant was around HK$44 million. As for the Fuyong plant, utilization rate was still below the optimum level as a result of decreased orders for PC motherboards. To address the issue, the Group has been actively seeking new customers to fill up the capacity.

The Group has expanded its production base to Eastern China since 2006 and currently operates two plants in Suzhou. With a floor area of over 12,000 square meters, the first leased plant equipped with 22 SMT lines was able to put out 22 billion chips a year as at 31 December 2007. The second plant, also in leased premise, produces DDR RAM and commanded an investment of HK$16 million during the review period. The plant began trial production in November 2007 and mass production is expected to start in the second half of FY2007/08.

As at 31 December 2007, the Group's total annual production capacity increased to 109 billion chips, a 6.9% rise against the last corresponding period. However, affected by the expanded production capacity during the period and the decreased orders for PC motherboards received by the Fuyong plant, the overall utilization rate of the Group's production facilities was down to 53% from 59% last year. The designed full utilization rate of the production facilities of the Group is 85%.

Prospects

According to *evertiq.com*, an online news media for the electronic industry, the EMS industry is expected to grow at 12% a year between now and 2010, pointing to potential for the Group to grow its business. Looking forward, the Group is optimistic about the market outlook of HDD controllers and ODD controllers and expects steady growth for both product segments.

However, in the near future, the business environment remains tough with minimum wages in the PRC on constant climb and pressure from appreciation of the Renminbi. Besides, recovery of the PC market is slower than expected, reducing the orders for PC motherboards hence the utilization rate of the Fuyong plant. To lower the average cost of production, it takes the Group some time to gain more orders to fill up the production capacity of this plant and other new facilities.

To tackle these challenges, the Group is directing more efforts into structuring its internal operations in the coming months. The relocation of the Futian plant to Shajing by end of this financial year, for example, will allow the Group to merge two plants into one so as to improve cost-effectiveness. The Group will also pursue automation of manufacturing procedures to reduce reliance on manual labour. It is in the process of ramping up operation of the new plants in Suzhou and Shajing, which, when completed in the coming years, is expected to enhance the Group's overall performance gradually. The Group is also studying the feasibility of setting up a plant in Southeast Asia to combat production cost issue in the PRC and to capture new orders from OEMs and ODMs nearby that plant.

In addition, the Group will maintain the strategy of focusing on high-margin products, deriving synergy from the partnership with top-tier customers and tightening ties with them. The Group will also keep its eye on new opportunities that can give it a strengthened client base and product mix enriched with new products that show growth potential in the growing consumer electronics market.

Liquidity and Financial Resource

The Group had bank balances and cash of approximately HK$224 million as at 31 December 2007. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 December 2007, the Group had net current assets of approximately HK$529 million (30 June 2007: HK$573 million) and a current ratio 2.62 (30 June 2007: 2.46). The Group's net asset value was HK$1,128 million, slightly decreasing from HK$1,129 million at 30 June 2007.

Apart from obligations under finance lease, the Group was debt free as at 31 December 2007. All finance leases were utilized in financing the Group's machinery. The Group's total obligation under finance lease decreased from HK$33 million as at 30 June 2007 to HK$17 million as at 31 December 2007 in which approximately HK$16 million repayable within one year, HK$1 million repayable between two to five years. Total debt to total assets ratio was 24% (30 June 2007: 27%).

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. Our labor costs and operation overheads are mainly denominated in RMB. The Group actively monitors the foreign exchange exposure in this respect. 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 2007, the Group did not have any material contingent liabilities.

Staff

As at 31 December 2007, the Group employed a total of 6,306 staff, of which 6,261 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.

Dividend

The Board of Directors did not recommend the payment of an interim dividend (2006: HK$0.015 per share).

Purchase, Sale Or Redemption of Shares

During the six months ended 31 December 2007, there was no purchase, redemption or disposal of the Group's listed securities by the Group and any of its subsidiaries.

Share Options

The following table discloses movements in the Company's share options during the period :

	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding as at 1.7.2007	Outstanding as at 31.12.2007
Directors	23.4.2007	23.4.2008 to 22.4.2010	0.97	4,174,000	4,174,000
Employees	23.4.2007	23.4.2008 to 22.4.2010	0.97	5,214,000	4,780,000
				9,388,000	8,954,000

Directors' interests in Shares and Underlying Shares

At 31 December 2007, the interests of the Directors, the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

(a) Ordinary shares of HK$0.1 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lam Chi Ho ("Mr. Lam")	Interest of a controlled corporation *(Note i)*	720,000,000	74.35%
Ms. Sun Mi Li	Family interest *(Note i)*	720,000,000	74.35%

Note:

(i) These securities are registered in the name of and beneficially owned by Fittec Holdings Limited ("Fittec Holdings"), a company incorporated in the British Virgin Islands. The entire issued share capital of Fittec Holdings is beneficially owned by Mr. Lam. Accordingly, Mr. Lam is deemed to be interested in 720,000,000 shares held by Fittec Holdings under the SFO. Ms. Sun Mi Li, the spouse of Mr. Lam, is deemed to be interested in 720,000,000 ordinary shares of the Company.

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Tsuji Tadao	Beneficial owner	1,674,000	1,674,000
Ms. Wu Siu Fan, Anita	Beneficial owner	2,500,000	2,500,000
		4,174,000	4,174,000

Save as disclosed above, none of the Directors, the chief executive nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations as at 31 December 2007.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2007, the following shareholders had notified the Company of their relevant interests and short position in the issued share capital of the Company.

Long positions

Ordinary shares of HK$0.1 each of the Company

		Number of issued ordinary shares held				
Name of shareholders	Capacity	Direct interest	Deemed interest	Total interest	Percentage of the issued share capital of the Company	Note
Fittec Holdings	Beneficial owner	720,000,000	–	720,000,000	74.35%	*a*
Mr. Lam	Interest of a controlled corporation	–	720,000,000 (through 100% corporate interest in Fittec Holdings)	720,000,000	74.35%	*a*
Ms. Sun Mi Li	Family interest	–	720,000,000 (through 100% family interest in Fittec Holdings)	720,000,000	74.35%	*b*

Notes:

(a) These shares are owned by Fittec Holdings, the issued share capital of which is wholly owned by Mr. Lam.

(b) Ms. Sun Mi Li is the wife of Mr. Lam. Her shareholding in the above table is the family interest of Mr. Lam.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2007.

Corporate Governance

The Board confirms that the Group has complied with all material code provisions of the Code on Corporate Government Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 need for separation between the roles of Chairman and Chief Executive Officer. All major decisions are made in consultation with the Board with sufficient independent constituents and hence independent views for protection of minority shareholders' interest, 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the company confirmed that in respect of the six months ended 31 December 2007, all Directors have fully complied with the required standard set out in the Model Code.

Audit Committee

The Company has formed an audit committee to assist the Board in providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the company. The existing committee comprises Mr. Christopher Roger Moss, OBE, Mr. Chung Wai Kwok, Jimmy as the chairman, and Mr. Xie Bai Quan, all of whom are Independent Non-Executive Directors.

The audit committee is provided with sufficient resources to discharge its duties and meets regularly with the management and external auditors and review their reports. During the period, the audit committee held 2 meetings with respect 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 and external auditors. The audit committee has reviewed the results announcement of the company for the six months ended 31 December 2007.

Remuneration Committee

The Board established the remuneration committee comprising a majority of Independent Non-Executive Directors, which meets at least once a year. It is chaired by Mr. Christopher Roger Moss, OBE and comprises two other members, namely Mr. Chung Wai Kwok, Jimmy and Ms. Sun Mi Li. All remuneration committee members, with the exception of Ms. Sun Mi Li, are Independent Non-Executive Directors. The principal duties of the remuneration committee as set out in its terms of reference include, inter alia, the determination of remuneration of Executive Directors and senior management and review of the remuneration policy of the Group.

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, 19 March 2008

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF FITTEC INTERNATIONAL GROUP LIMITED

(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 11 to 19, which comprises the condensed consolidated balance sheet of Fittec International Group Limited as of 31 December 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 March 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	NOTES	Six months ended 31.12.2007 HK$'000 (unaudited)	Six months ended 31.12.2006 HK$'000 (unaudited)
Revenue	3	1,301,814	987,731
Cost of sales		(1,240,180)	(907,548)
Gross profit		61,634	80,183
Other income		6,362	15,546
Distribution expenses		(5,596)	(1,979)
Administrative expenses		(42,374)	(35,908)
Finance costs		(976)	(1,692)
Profit before tax		19,050	56,150
Income tax expense	4	(4,214)	(6,086)
Profit for the period attributable to equity holders of the Company	5	14,836	50,064
Dividend paid	6	14,526	19,368
Basic earnings per share	7	HK$0.02	HK$0.05

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	NOTES	31.12.2007 HK$'000 (unaudited)	30.6.2007 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	583,486	531,883
Intangible asset	9	35,100	39,000
Deposits for acquisition of property, plant and equipment		–	7,531
		618,586	578,414
CURRENT ASSETS			
Inventories		247,212	220,447
Trade and other receivables	10	384,908	366,617
Held-for-trading investments		–	2,057
Bank balances and cash		223,863	374,681
		855,983	963,802
CURRENT LIABILITIES			
Trade and other payables	11	263,997	319,220
Tax liabilities		45,982	41,768
Obligations under finance leases	12	16,581	29,463
		326,560	390,451
NET CURRENT ASSETS		529,423	573,351
TOTAL ASSETS LESS CURRENT LIABILITIES		1,148,009	1,151,765
NON-CURRENT LIABILITIES			
Obligations under finance leases	12	768	3,494
Deferred tax liabilities		19,570	19,570
		20,338	23,064
		1,127,671	1,128,701
CAPITAL AND RESERVES			
Share capital	13	96,839	96,839
Reserves		1,030,832	1,031,862
TOTAL EQUITY		1,127,671	1,128,701

CONDENSED CONSOLIDATED — STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	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)	Share option reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
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	–	–	–	–	–	7,133	–	7,133
Profit for the period	–	–	–	–	–	–	50,064	50,064
Total recognised income and expense 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
At 1 July 2007	96,839	450,739	11,478	6,400	537	(1,004)	563,712	1,128,701
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(1,340)	–	(1,340)
Profit for the period	–	–	–	–	–	–	14,836	14,836
Total recognised income and expense for the period	–	–	–	–	–	(1,340)	14,836	13,496
Dividend paid	–	–	–	–	–	–	(14,526)	(14,526)
At 31 December 2007	96,839	450,739	11,478	6,400	537	(2,344)	564,022	1,127,671

Note:

The contributed surplus represents the difference between the fair value of the underlying assets of a subsidiary acquired and the nominal value of the shares issued in exchange thereof in December 2004.

The special reserve 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 2007

	Six months ended 31.12.2007 HK$'000 (unaudited)	Six months ended 31.12.2006 HK$'000 (unaudited)
NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES	(46,741)	29,808
NET CASH USED IN INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(75,939)	(189,575)
Interest received	4,312	11,372
Proceeds from disposal of property, plant and equipment	–	1,553
	(71,627)	(176,650)
CASH USED IN FINANCING ACTIVITIES:		
Dividend paid	(14,526)	(19,368)
Repayment of obligations under finance leases	(15,608)	(17,578)
Interest paid	(976)	(1,692)
	(31,110)	(38,638)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(149,478)	(185,480)
CASH AND CASH EQUIVALENTS AT 1 JULY	374,681	667,399
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,340)	5,736
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	223,863	487,655

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

1. BASIS OF PREPARATION

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 (the "Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting.

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 2007.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Publics Accountants ("HKICPA") which are effective for the Group's financial year beginning 1 July 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 12	Service Concession Agreements[2]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[3]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 January 2008

[3] Effective for annual periods beginning on or after 1 July 2008

The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

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

	Six months ended 31.12.2007 HK$'000 (unaudited)	Six months ended 31.12.2006 HK$'000 (unaudited)
Revenue		
Pure assembly services	178,619	193,973
Procurement and assembly services	1,117,855	788,466
Repair and maintenance services	5,340	5,292
	1,301,814	987,731
Segment results		
– Pure assembly services	39,171	56,639
– Procurement and assembly services	21,263	22,969
– Repair and maintenance services	1,200	575
	61,634	80,183
Unallocated corporate income	6,362	15,546
Unallocated corporate expenses	(47,970)	(37,887)
Finance costs	(976)	(1,692)
Profit before tax	19,050	56,150
Income tax expense	(4,214)	(6,086)
Profit for the period	14,836	50,064

4. INCOME TAX EXPENSE

	Six months ended 31.12.2007 HK$'000 (unaudited)	Six months ended 31.12.2006 HK$'000 (unaudited)
Hong Kong Profits Tax	4,214	5,086
Deferred tax charge	–	1,000
	4,214	6,086

Hong Kong Profits Tax is calculated at 17.5% of the estimated 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. INCOME TAX EXPENSE *(continued)*

For those subsidiaries located in the Shenzhen Free Trade Zone, the PRC, the income tax rate is 15%. No provision for PRC Enterprise Income Tax has been made as the subsidiaries in Shenzhen had no assessable profit for both periods.

On 16 March 2007, the People Republic of China (the "PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% for certain subsidiaries located in the Shenzhen Free Trade Zone, the PRC from 1 January 2008.

Pursuant to the New Law, the subsidiaries located in Suzhou are still entitled to full exemption from PRC Enterprise Income Tax applicable to foreign enterprises of 25% for the two years starting from its profit-making year, following by a 50% reduction for the next three years. No provision for PRC Enterprise Income Tax has been made as the subsidiaries in Suzhou had no assessable profit for both periods.

5. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2007	**31.12.2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Amortisation of an intangible asset (included in cost of sales)	3,900	–
Depreciation of property, plant and equipment	31,867	22,668
Loss on disposal of property, plant and equipment	–	501
Net exchange loss	572	434
and after crediting:		
Interest income	4,312	11,372

6. DIVIDEND

	Six months ended	
	31.12.2007	**31.12.2006**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Dividends recognised as distributions during the period:		
Final dividend paid of HK$0.015 (2006: HK$0.02) per share	14,526	19,368
Interim dividend proposed of nil (2006: HK$0.015) per share	–	14,526

The Board of Directors did not recommend the payment of an interim dividend (2006: HK$0.015 per share).

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 31 December 2007 is based on the profit for the period attributable to equity holders of the Company of HK$14,836,000 (For the six months ended 31 December 2006: HK$50,064,000) and the number of 968,394,000 ordinary shares in issue during both periods.

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 2007, the Group acquired property, plant and equipment of approximately HK$75,939,000 (For the six months ended 31 December 2006: HK$191,849,000).

9. INTANGIBLE ASSET

The amount represents a technology license acquired from an independent third party. The cost of the license is amortised over its estimated useful life of 5 years on a straight-line basis, commencing from the time when commercial production using the relevant technology began. In the opinion of the Directors, the license is worth at least its carrying amount.

10. 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 Group's trade receivables at the balance sheet date:

	31.12.2007	30.6.2007
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	200,203	299,638
31 – 60 days	84,174	14,130
61 – 90 days	51,039	2,760
91 – 180 days	8,665	11,601
	344,081	328,129

11. TRADE AND OTHER PAYABLES

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

	31.12.2007	30.6.2007
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	200,258	225,186
31 – 60 days	25,636	62,862
61 – 90 days	14,233	1,549
91 – 180 days	714	659
	240,841	290,256

12. OBLIGATIONS UNDER FINANCE LEASES

During the six months ended 31 December 2007, the Group repaid finance leases of approximately HK$15,608,000 (For the six months ended 31 December 2006: HK$17,578,000).

13. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 30 June 2007 and 31 December 2007	3,000,000,000	300,000
Issued and fully paid:		
At 30 June 2007 and 31 December 2007	968,394,000	96,839

14. CAPITAL COMMITMENTS

At 31 December 2007, the Group had capital expenditures of approximately HK$41,120,000 (At 30 June 2007: approximately HK$60,947,000) contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment.

15. PLEDGE OF ASSETS

At 30 June 2007, the Group had pledged its held-for-trading investments of approximately HK$2,057,000 to banks to secure general banking facilities to the Group and the pledge was released during the period.

16. RELATED PARTY DISCLOSURES

The compensation of directors and key management personnel of the Group for the six months ended 31 December 2007 was approximately HK$4,540,000 (For the six months ended 31 December 2006: approximately HK$4,912,000).

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this interim report in connection with us and our business.The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

DDR RAM	double-data-rate random access memory, a new standard of RAM to double the data transfer rate of RAM with system board
EMS	electronics manufacturing services
HD DVD	high-definition digital versatile disk or high-density digital versatile disk, a high-density optical disc format designed for the storage of data and high-definition video
HDD Controllers	hard disk drive controller
LCD	liquid crystal display, a technology used for portable computer displays and watches etc
LCD backlights	a backlight, the form of illumination used in an LCD display
Motherboards	the central component in computers, the mother of all boards
ODD Controllers	optical disk drive controller
ODM	original design manufacturers
OEM	original equipment manufacturers
PCB	printed circuit board, the board that the electronics is mounted on, usually made from a copper coated insulator that has the circuit chemically etched onto one or both sides. The board is then drilled and the components are fitted into the holes and then soldered to the remaining copper
Procurement and Assembly	procure the component for the products to be assembled, and then provide the assembly services to assemble those components into the finished product
Pure Assembly	provide assembly services to customers who only require to assemble pre-provided electronics components into PCBs