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 08 09

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the period under review, the global economy is suffering the worst recession in decades from the financial tsunami triggered by the collapse of the US subprime home mortgage debt. Many consumers worldwide are caught in the sudden financial turbulence and are trying to figure out better approaches to manage their personal assets, most of which have been decimated in value before they could take proper actions. Due to uncertainty of the future, consumers are now extra cautious in their daily spending, which is unfortunately driving the economy further into a downward spiral.

Conservative consumers' buying behaviors are reducing global demand for products across many different industries. Electronics market is getting tougher over time as a result of a precipitous drop in demand. Consequently, worldwide OEM/ODM/EMS manufacturers are suffering from the worst performance drop.

In line with the badly declining EMS industry, our revenue has declined more than 14% to HK$1,110 million for the six months that ended 31 December 2008. Fierce competition associated with reduced volume, among other challenges from the operational environment, led to a downturn of gross profit to HK$19 million and net loss to HK$16 million.

Although the global economy and overall operating environment was tough, we strived to strengthen our client base and product mix during the period. Apart from maintaining partnerships with our major clients including Toshiba, Panasonic and ASRock, we maintained closer ties with other clients such as Nitto Denko which accounted for an increasing portion of our revenue. Looking forward, we will work closely with China's leading local firms to enter into the fastest growing product sector – the small form factor Notebook, also known as Netbook. The opportunity to get into Netbook market has expanded and enlarged our client base and product mix.

Looking ahead, we are aware of the challenges and expect the next six months to be a difficult period as the worldwide economy attempts to regain its composure. Operation costs in the PRC will continue to rise. To cope with those challenges, we have started to construct our new factory in Vietnam to mitigate the pressure from the growing operation costs in the PRC and to capture new orders from OEMs and ODMs. Construction of our new factory in Vietnam is expected to be completed before the end of April 2009 and trial production will begin in June 2009.

In 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 processes to EMS providers for reducing costs and shortening production lead time in order to enhance their competitiveness. Coping with the long-term relationship with top-tier customers and our capability 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 through this challenging period.

Philip Lam
Chairman

Hong Kong, 26 March 2009

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

EMS industry in year 2008 experienced a significant slowdown in end-markets, endangering the prospects of several EMS/ODMs which faced overcapacity, high labor cost and competition from new entrants into specific market segments. For the six months ended 31 December 2008, the Group's unaudited consolidated turnover amounted to approximately HK$1,110 million (2007: HK$1,302 million). In the wake of the macroeconomic woes and credit crisis in financial markets, the market confidence and consumer buying power were seriously impacted. Spending on consumer electronic products was seriously affected.

The Group recorded a loss of approximately HK$16 million for the six months ended 31 December 2008 (2007: profit of HK$14.8 million). Basic loss per share for the six months ended 31 December 2008 was HK$0.02 (2007: basic earnings per share: HK$0.02).

The Group provided primarily two types of service: Pure Assembly and Procurement & Assembly. During the period, revenue from Procurement & Assembly dropped by 13%, mainly attributable to decline in demand of mobile LCD controllers. The faster-than-expected decline in the global demand of computer and consumer electronic products caused a drop in revenue for Pure Assembly.

While overall gross profit stood at HK$19 million (six months ended 31 December 2007: HK$62 million), gross profit margin dropped to 1.7% which was partially caused by the substantial growth in staff cost.

As orders for PC motherboards continued to come in slowly, the plants were still under-utilized and thus incurred a higher average cost of production. The increase in minimum wages and the adopting of the new labor ordinance in the PRC and appreciation of Renminbi also added production cost burden.

Despite these difficulties, the Group was in a healthy financial position with bank balance and cash of HK$209 million and virtually debt free as at 31 December 2008 (30 June 2008: HK$88 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 91% of the total turnover.

HDD Controllers

Despite the lower-than expected performance of hard disk market, this segment continued to grow steadily with revenue up by 8% to HK$860 million (six months ended 31 December 2007: HK$797 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 decreased by almost 60% to reach HK$89 million (six months ended 31 December 2007: HK$225 million). The handset display market already was struggling in 2008 due to declining Average Selling Prices (ASPs) and dwindling margins. The replacement rate for handsets decreased due to deteriorating economic conditions and this was the main cause for the market downturn. New handset demand from the emerging countries was not sufficient to offset this decline.

PC Motherboards

The slower growth rate of market was the result of decreased computer demand. Revenue from this segment for the review period was down by 52% to HK$60 million (six months ended 31 December 2007: HK$125 million). The impact of the credit crunch was clearly apparent in the PC shipment. Global economic recession was and still is an immediate concern. It is inevitable that the enterprises face IT budget cut. The large corporate clients try to lower their capital expenditure cost and infrastructure requirements. It directly reduces the demand of motherboards. Moreover, Taiwan computer suppliers played a crucial role in expanding the fast-growing netbook segment during the period. It raised the volume for netbook and reduced the sales of desktops. Both impacts led to a drop in revenue of this segment.

LCD Backlights

The revenue of this segment increased to HK$14 million (six months ended 31 December 2007: HK9 million).

The market demand for LCD backlights was supported by the growing popularity of end-user products including portable gaming devices and digital cameras.

Others

Revenue from LCD TV power supply boards increased by 3 times to HK$24 million was supported by the growing popularity of LCD TV.

During the period, the Group no longer had revenue generated from HD-DVD and ODD. (Six months ended 31 December 2007: HK$98 million). Toshiba exited the HD-DVD market. It also affected the ODD revenue directly since the ODD controllers were mainly supplied for HD-DVD player.

Production Facilities

The Group operated two plants in China. One in Southern China, Shajing and the other in Eastern China, Suzhou.

As at 31 December 2008, the Shajing plant had 78 SMT lines and a production capacity of 72 billion chips per year and the Suzhou plant, equipped with 22 SMT lines, was able to put out 22 billion chips a year.

As for the Shajing and Suzhou plant, utilization rate was still below the optimum level as a result of decreased orders. To address the issue, the Group has been actively seeking new customers to fill up the capacity.

During the period, the Group has made progress in expanding its production base to Vietnam. The plant trial production is expected to start in June 2009.

The overall utilization rate of the Group's production facilities was down to 35% as at 31 December 2008. The designed full utilization rate of the production facilities of the Group is 85%.

Prospects

During the review period, the worldwide economy struggled its first overall downturn since the World War II. Traditionally, financial sectors are the main fuel that support the growth of the economy. This time, however, financial sectors worldwide are suffering the worst draw back triggered by the US subprime mortgage crisis. As a result, the Financial sectors could not provide the needed resources to facilitate the overall industry expansion as they did in the past, but themselves sucked in more resources from the global economy and further drove down the recession.

As a result, consumers worldwide tightened their spending plan when they faced the worst uncertainty that they had never faced before. Looking forward, the Group is very conservative about the overall worldwide consumer electronic market outlook, especially the HDD and Mobile LCD sectors. The major applications of these products are the personal devices that demands could be suspended temporarily during the downturn.

On the other hand, the PC motherboards demands might rebound gradually as the Group has expanded its business into the China domestic market, which could be the only market that has positive GDP growth this year. The fast growing netbook market could provide another opportunity for the Group to catch on with its existing partner.

In light of the current recession, the Group will maintain the strategy of focusing on high-volume products to increase its overall equipment utilization rate, deriving synergy from the partnership with top-tier customers and tightening ties with them. The Group will also keep its eye on adding new services, such as the plastic injection and final system assembly capabilities for the Netbook products. This can give the Group a strengthened client base and product mix enriched with new products that show growth potential in the future.

Liquidity and Financial Resource

The Group had bank balances and cash of approximately HK$209 million as at 31 December 2008. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 December 2008, the Group had net current assets of approximately HK$440 million (30 June 2008: HK$490 million) and a current ratio 3.0 (30 June 2008: 2.5). The Group's net asset value was HK$1,070 million, slightly decreased from HK$1,116 million at 30 June 2008.

Apart from obligations under finance lease, the Group was debt free as at 31 December 2008. All finance leases were utilized in financing the Group's machinery. The Group's total obligation under finance lease decreased from HK$3.5 million as at 30 June 2008 to HK$0.8 million as at 31 December 2008 in which approximately HK$0.6 million repayable within one year, HK$0.2 million repayable between two to five years. Total debt to total assets ratio was 18% (30 June 2008: 23%).

Currently, all of our cost of direct materials and 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 2008, the Group did not have any material contingent liabilities.

Staff

As at 31 December 2008, the Group employed a total of 3,774 staff, of which 3,734 were employed in Mainland China, while 40 were employed in Hong Kong. The Group's remuneration package, which includes 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 (2007: NIL).

Purchase, Sale Or Redemption of Shares

During the six months ended 31 December 2008, 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 1.7.2008	Outstanding as at 31.12.2008
Directors	23.4.2007	23.4.2008 to 22.4.2010	0.97	4,174,000	1,674,000
Employees	23.4.2007	23.4.2008 to 22.4.2010	0.97	4,626,000	4,478,000
				8,800,000	6,152,000

Directors' interests in Shares and Underlying Shares

At 31 December 2008, 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

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 2008.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2008, 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			Percentage of the issued	
Name of shareholders	Capacity	Direct interest	Deemed interest	Total interest	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 2008.

Arrangements to purchase shares or debentures

Other than as disclosed under the heading "Share Options" above, at no time during the period was the Company, its ultimate holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

Directors' interests in contracts of significance

No contract of significance to which the Company, its ultimate holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

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 impartiality 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 2008, 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. Mr. Christopher Roger Moss has ceased to be a member of the audit committee of the Company upon his retirement with effect from 1 January 2009; and Mr. Tam Wing Kin has been appointed a member of the audit committee of the Company with effect from 1 January 2009. The existing committee comprises Mr. Chung Wai Kwok, Jimmy as the chairman, Mr. Xie Bai Quan and Mr. Tam Wing Kin 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 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 2008.

Remuneration Committee

The Board established the remuneration committee comprising a majority of Independent Non-Executive Directors, which meets at least once a year. Mr. Christopher Roger Moss has ceased to be the chairman of remuneration committee of the Company upon his retirement with effect from 1 January 2009; and Mr. Tam Wing Kin has been appointed a member of the remuneration committee of the Company with effect from 1 January 2009. The existing committee comprises Mr. Tam Wing Kin as the chairman, 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 and Mr. Tsuji Tadao. The Independent Non-Executive Directors are Mr. Xie Bai Quan, Mr. Chung Wai Kwok, Jimmy and Mr. Tam Wing Kin.

By Order of the Board
Lam Chi Ho
Chairman

Hong Kong, 26 March 2009

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 13 to 24, which comprise the condensed consolidated balance sheet of Fittec International Group Limited as of 31 December 2008 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 ("HKSRE") 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
26 March 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	NOTES	Six months ended 31.12.2008 HK$'000 (unaudited)	31.12.2007 HK$'000 (unaudited)
Revenue	3	**1,109,900**	1,301,814
Cost of sales		**(1,090,736)**	(1,240,180)
Gross profit		**19,164**	61,634
Other income		**14,357**	6,362
Distribution expenses		**(5,972)**	(5,596)
Administrative expenses		**(43,356)**	(42,374)
Finance costs		**(162)**	(976)
(Loss) profit before tax		**(15,969)**	19,050
Income tax expense	4	**—**	(4,214)
(Loss) profit for the period, attributable to equity holders of the Company	5	**(15,969)**	14,836
Dividend paid	6	**29,052**	14,526
Basic (loss) earnings per share	7	**(HK$0.02)**	HK$0.02

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	NOTES	31.12.2008 HK$'000 (unaudited)	30.6.2008 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**619,977**	627,326
Prepaid lease payments		**22,206**	17,213
Intangible asset	9	**—**	—
Deposits for acquisition of property, plant and equipment		**6,551**	475
		648,734	645,014
CURRENT ASSETS			
Inventories		**218,047**	229,231
Trade and other receivables	10	**234,248**	490,948
Prepaid lease payments		**472**	357
Bank balances and cash		**209,370**	87,633
		662,137	808,169
CURRENT LIABILITIES			
Trade and other payables	11	**172,221**	265,041
Tax liabilities		**49,609**	50,416
Obligations under finance leases – due within one year	12	**623**	3,003
		222,453	318,460
NET CURRENT ASSETS		**439,684**	489,709
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,088,418**	1,134,723
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year	12	**162**	497
Deferred taxation		**18,500**	18,500
		18,662	18,997
		1,069,756	1,115,726
CAPITAL AND RESERVES			
Share capital	13	**96,839**	96,839
Reserves		**972,917**	1,018,887
		1,069,756	1,115,726

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note i)	Special reserve HK$'000 (note ii)	Share options reserve HK$'000	Exchange reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 July 2007 (audited)	96,839	450,739	11,478	6,400	537	(1,004)	563,712	1,128,701
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	—	(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 (unaudited)	96,839	450,739	11,478	6,400	537	(2,344)	564,022	1,127,671
At 1 July 2008 (audited)	96,839	450,739	11,478	6,400	2,664	18,898	528,708	1,115,726
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	—	(949)	—	(949)
Loss for the period	—	—	—	—	—	—	(15,969)	(15,969)
Total recognised income and expense for the period	—	—	—	—	—	(949)	(15,969)	(16,918)
Release upon lapse of vested share options	—	—	—	—	(802)	—	802	—
Dividend paid	—	—	—	—	—	—	(29,052)	(29,052)
At 31 December 2008 (unaudited)	96,839	450,739	11,478	6,400	1,862	17,949	484,489	1,069,756

Notes:

(i) The contributed surplus represented the difference between the fair value of the underlying assets of a subsidiary acquired and the nominal value of the shares issued in exchange in December 2004.

(ii) The 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 2008

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**191,978**	(46,741)
NET CASH USED IN INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	**(27,224)**	(75,939)
Deposits for acquisition of property, plant and equipment	**(6,076)**	—
Additions to prepaid lease payments	**(5,287)**	—
Interest received	**1,224**	4,312
	(37,363)	(71,627)
CASH USED IN FINANCING ACTIVITIES:		
Dividend paid	**(29,052)**	(14,526)
Repayment of obligations under finance leases	**(2,715)**	(15,608)
Interest paid	**(162)**	(976)
	(31,929)	(31,110)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**122,686**	(149,478)
CASH AND CASH EQUIVALENTS AT 1 JULY	**87,633**	374,681
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(949)**	(1,340)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**209,370**	223,863

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

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, 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 2008.

In the current interim period, the Group has applied, for the first time, the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA) which are effective for the Group's financial year beginning on 1 July 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum, Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on the results and 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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[5]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

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

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

[4] Effective for annual periods beginning on or after 1 October 2008

[5] Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments 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; all for printed circuit boards and related products. These divisions are the basis on which the Group reports its primary segment information.

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue		
Pure assembly services	**134,783**	178,619
Procurement and assembly services	**970,608**	1,117,855
Repair and maintenance services	**4,509**	5,340
	1,109,900	1,301,814
Segment results		
– Pure assembly services	**5,338**	39,171
– Procurement and assembly services	**12,892**	21,263
– Repair and maintenance services	**934**	1,200
	19,164	61,634
Unallocated corporate expenses	**(49,328)**	(47,970)
Unallocated other income	**14,357**	6,362
Finance costs	**(162)**	(976)
(Loss) profit before tax	**(15,969)**	19,050
Income tax expense	**—**	(4,214)
(Loss) profit for the period	**(15,969)**	14,836

4. INCOME TAX EXPENSE

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	—	4,214

Hong Kong

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which included the reduction in corporate profit tax rate by 1% to 16.5% effective for the year assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 31 December 2008.

For the six months ended 31 December 2007, Hong Kong Profits Tax was calculated at 17.5% of the assessable profit for that period. 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. No provision for Hong Kong Profits Tax has been made for the six months ended 31 December 2008 as the subsidiaries have no assessable profit for the period.

PRC

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which was effective from 1 January 2008. According to the New CIT Law, the PRC income tax for both domestic and foreign investment enterprises was unified at 25% effective from 1 January 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a PRC income tax rate lower than 25% may continue to enjoy the lower PRC income tax rate and gradually transfer to the new PRC income tax rate within five years after the effective date of the New CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

For those subsidiaries located in the Shenzhen Free Trade Zone, the PRC, until 31 December 2007, the income tax rate was 15%. According to the New CIT Law which was effective on 1 January 2008, the income tax rate is 18% with effective from 1 January 2008 (it will be gradually increased to 20%, 22%, 24% and 25% with effective from 1 January 2009, 2010, 2011 and 2012 respectively).

Pursuant to the relevant laws and regulations in the PRC, two subsidiaries located in Suzhou are entitled to full exemption from PRC Enterprise Income Tax for two years commencing from their respective first profit-making year of operation and thereafter, are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. As of 31 December 2008, these two Suzhou subsidiaries had not yet started their first profit-making year. No provision for PRC Enterprise Income Tax has been made for both periods.

Vietnam

In accordance with the relevant tax rules and regulations in Vietnam, the Group's subsidiary in Vietnam will enjoy income tax exemptions and reductions. As of 31 December 2008, this subsidiary had not yet commenced its production nor generated any assessable profit. No provision for Vietnam income tax has been made for both periods.

5. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**34,573**	31,867
Amortisation of an intangible asset (included in cost of sales)	**—**	3,900
Release of prepaid lease payments	**179**	108
Net exchange loss (included in cost of sales)	**5,946**	9,881
and after crediting:		
Interest income	**1,224**	4,312

6. DIVIDEND

	Six months ended	
	31.12.2008	31.12.2007
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Dividend recognised as distributions during the period:		
Final dividend paid for the preceding year ended 30 June 2008 – HK$0.030 (2007: HK$0.015) per share	**29,052**	14,526

The Board of Directors did not recommend the payment of an interim dividend for the current period (2007: Nil).

7. BASIC (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the six months ended 31 December 2008 is based on the loss for the period attributable to equity holders of the Company of HK$15,969,000 (For the six months ended 31 December 2007: profit of HK$14,836,000) and the number of 968,394,000 ordinary shares in issue during both periods.

No diluted (loss) earnings per share has been presented because the exercise price of the Company's options was higher than the average market price of the shares for both periods.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2008, the Group acquired property, plant and equipment of approximately HK$27,224,000 (For the six months ended 31 December 2007: HK$75,939,000).

9. INTANGIBLE ASSET

The intangible asset represented a technology license acquired from an independent third party for the production of Dual Interface Memory Card Converter (the "Converter Manufacturing Business"). The cost of the license was to be 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.

Commercial production using the technology license commenced during the year ended 30 June 2008 and the Group started to amortise the intangible asset. However, due to the rapid changes in technologies and the competiveness of similar products in the market, the level of sale orders secured by the Group was unsatisfactory. The Directors, having considered the market conditions and business prospects, decided not to continue the Converter Manufacturing Business. Consequently, the Directors considered that the unamortised balance of the intangible asset which was HK$31,200,000 at 30 June 2008 would not be recoverable and the full amount was recognised as an impairment loss in the consolidated income statement for the year ended 30 June 2008.

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:

	31.12.2008 HK$'000 (unaudited)	30.6.2008 HK$'000 (audited)
0 - 30 days	**133,915**	194,389
31 - 60 days	**27,110**	237,527
61 - 90 days	**27,335**	14,412
91 - 180 days	**6,832**	2,943
181 - 365 days	**3,608**	2,204
Over 365 days	**1,064**	1,767
	199,864	453,242

11. TRADE AND OTHER PAYABLES

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

	31.12.2008 HK$'000 (unaudited)	30.6.2008 HK$'000 (audited)
0 - 30 days	**105,858**	195,850
31 - 60 days	**34,024**	41,941
61 - 90 days	**14,733**	733
91 - 180 days	**1,565**	858
181 - 365 days	**2,271**	1,467
	158,451	240,849

12. OBLIGATIONS UNDER FINANCE LEASES

During the six months ended 31 December 2008, the Group repaid finance leases of approximately HK$2,715,000 (For the six months ended 31 December 2007: HK$15,608,000).

13. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 30 June 2008 and 31 December 2008	3,000,000,000	300,000
Issued and fully paid:		
At 30 June 2008 and 31 December 2008	968,394,000	96,839

14. CAPITAL COMMITMENTS

At 31 December 2008, the Group had capital expenditures of approximately HK$26,005,000 (At 30 June 2008: approximately HK$20,771,000) contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment.

15. RELATED PARTY DISCLOSURES

The compensation of the key management personnel of the Group for the six months ended 31 December 2008 was approximately HK$4,032,000 (For the six months ended 31 December 2007: approximately HK$4,540,000).