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 2010/11

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the period under review, the overall global economy shows mixed results with many uncertainties. According to the Nelsen research, the global consumer confidence index fell in 25 of 52 countries in the fourth quarter of year 2010 as hope for a global economic recovery evaporated at the end of last year. According to the survey, confidence levels fell in half of the countries surveyed as widespread concern for unemployment, job creation, rising food and utility costs eradicated any expectation of sustained economic recovery. Global consumers ended 2010 more pessimistic than at the start of last year. As the immediate economic and financial reality remained fragile and with the lack of positive indicators throughout 2010, consumers were given a harsh reality check that full recovery is still a long way off.

As the only country with both high Gross Domestic Product (GDP) and Consumer Price Index (CPI) growth, China government announced a strategy to increase labors minimum wages steadily to offset the impact on the CPI rising trend. As a result, both Guangdong and Jiangsu provinces raised their labors minimum wage around 18% in the year of 2010. In the mean time, China's currency, the RMB, also keeps on slow but steady appreciation trend. During the period under review, the RMB had appreciated a total of 3.13%, and keeps on climbing slowly over time. In addition, the China government also offers lots of incentives to stimulate the local economies in its inland provinces recently. As a result, more and more small enterprises were born in the past few years in the inland provinces. Those local firms then can lure some residents to stay and work at local companies, which mean fewer work forces are available to the southern and eastern regions, where most electronics manufacturing services (EMS) firms are located.

The Group analyzed the global economic recovery trend and China domestic development carefully, and made proper strategic moves accordingly. Ever since the financial tsunami, the Group has started to set up two offshore production bases in Vietnam and Thailand to diversify our sole focus in China. During the period under review, both offshore factories have been able to start mass production smoothly. During the transition period, our revenue has declined almost 12% to HK$1,213 million for the six months that ended 31 December 2010 (six months ended 31 December 2009: HK$1,379 million). Under capacity utilization during the new factory setup period together with unfavorable labor wage and currency exchange rate, led to a downturn of gross profit to HK$43 million and net loss of HK$27 million (six months ended 31 December 2009: HK$88 million and profit of HK$38 million respectively).

Although the global economy and overall operating environment were tough, the Group was able to broaden its client base and product mix during the period. Apart from maintaining partnerships with our major clients including Toshiba, Panasonic and ASRock, we have successfully engaged another Korean leading electronics company, in providing printed circuit board assembly (PCBA) services to its notebook PC motherboards as well as cell phone flexible printed circuit (FPC) assemblies. Besides, we also engaged one of Taiwan's leading PC firms to step into the burst Tablet PC industry. With the broadened customer base, we are very confident to achieve a more balanced sales and product mix to offset seasonal changes of a single industry.

The board of directors did not recommend the payment of an interim dividend. Looking ahead, we are aware of the serious challenges from the coming basic salary in the PRC hike, as well as the loosening up of China foreign exchange rate control. The Group expects both Vietnam and Thailand factories can reach breakeven points on the second half of the fiscal year. In addition, the newly engaged Tablet PC business also could bring in added revenues, as many market analysts believe this is the sector with best growing potential since Apple released iPAD, its first tablet device that hit the market with blast.

In the mid- to long-term, we remain modest optimistic about our business. To meet end-user demands for consumer electronics and rapid technological advancement, more and more Japanese and Korean firms need to outsource manufacturing procedures to EMS providers for cutting costs and shortening production lead time in order to enhance their competitiveness. With the long-term relationship with top-tier customers and the capabilities to meet stringent requirements and deliver high-quality products, we are poised to capture more opportunities ahead.

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

Philip Lam
Chairman

Hong Kong, 25 February 2011

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

For the six months ended 31 December 2010, the Group's unaudited consolidated turnover amounted to approximately HK$1,213 million (2009: HK$1,379 million). The revenue decrease of 12% in the first half of fiscal year 2011 is due to the slow down of economic recovery. The Group recorded a loss of approximately HK$27 million for the six months ended 31 December 2010 (2009: profit of HK$38 million). Basic loss per share for the six months ended 31 December 2010 was HK$0.03 (2009: basic earnings per share: HK$0.04).

The Group provides primarily two types of service: Pure Assembly and Procurement & Assembly. During the period, revenue from Procurement & Assembly decreased by 11%, mainly due to decreased in demand of hard disk drive (HDD) controllers. The faster than expected increase in demand of tablet PC caused a drop in demand of motherboard, which accounted for the 19% decline in revenue of Pure Assembly.

While the overall gross profit stood at HK$43 million (six months ended 31 December 2009: HK$88 million), gross margin dropped from 6% to 4%. This was partly caused by the substantial growth in minimum wages in China and continuous appreciation of RMB.

As the orders of PC motherboards and HDD controllers come in slower than expected in the first quarter of fiscal year 2011 and the plants were under utilized, the Group thus incurred a higher average cost of production. In the second quarter of this financial year, the shortage of labor in southern and eastern parts of China, the increase in minimum wages and continuous appreciation of RMB further boosted the production cost.

Since technology changes rapidly, it increases the competitiveness of more advanced products in the market. The average selling price of first tier Double Data Rate 2 (DDR2) keeps on declining. It seriously reduces the demand of second tier DDR2. Moreover, there is a trend that DDR2 will be replaced by Double Data Rate 3 (DDR3). Furthermore, Samsung has announced its Double Data Rate 4 (DDR4). The management, having considered the market conditions, business prospects and the technology development, has decided not to continue the business of DDR2 in Suzhou. This resulted in a one-off impairment loss of HK$31 million.

Despite these difficulties, the Group was in a healthy financial position with net cash, being total cash less total debt, was positive. Cash and Cash equivalents as at 31 December 2010 was HK$128 million (30 June 2010: HK$212 million).

Business Review

During the review period, the Group maintained focus on top-tier clients and products with high growing potential. HDD controllers, PC motherboards (including desktop, Tablet PC and notebook PC), and LCD TV controllers remained the core products of the Group, contributing 95% of the total turnover. Other products, such as mobile LCD controller boards and car CD/DVD player controller boards, maintained stable revenue contribution to the Group's total turnover in the first half of fiscal year 2011.

HDD Controllers

Sales from this segment showed major decline as demand of HDD controllers was reduced by the popularity of iPad, MacBook Air and Tablet PC, which are equipped with solid state disk (SSD) instead of traditional HDD. Thus, the revenue was down by 31% to HK$687 million from last year's HK$992 million.

The Group is the sole provider of PCBA service in China for Toshiba's 2.5-inch and 1.8-inch HDD controllers, as well as the major supplier of its Thailand factory. The factory in Thailand started operation in September 2010. This relationship has provided the Group the leverage to grow with the HDD market driven by potentially growing demand from High-Definition multimedia and large files, new model HDD featured with better power consumption and anti-shocking design.

PCs, Notebooks and Tablet Motherboards

Sales growth from this segment slowed down steadily throughout the first half of the financial year due to weakening demand and competition from Apple iPad. In addition to the relatively high market penetration and a "good-enough" computing experience with existing PCs, consumers are now being more cautious with their purchases and competing devices have been vying for consumer dollars. Our customers recorded a soft Christmas quarter as Europe remained constrained by high inventory levels particularly in the retail channel. Consumer demand continued to be adversely impacted by the stellar uptake of media tablets, diverting consumers' budget away from computing products. Recovery in the commercial segment continued gradually, however the sustained economic uncertainty and a string of new austerity measures put pressure on information technology investments.

According to the Japan EM Data Service 株式會社 research data, the total volume of worldwide notebook PCs shipment (164 million sets) far exceeds the volume of desktop PCs (129 million sets) in 2009. The volume gap of these two products is expected to enlarge since the notebook PCs shipment is with faster growth rate in the coming years. The Group observed the trend and started to work with a Korea leading electronics company for its notebook PC motherboards assembly service during the review period. Even the PC motherboard product mix was broadened, the total revenue of the PC motherboard sector was still down by 9.2% to HK$119 million (six months ended 31 December 2009: HK$131 million).

Ever since Apple released its first tablet device, iPAD beginning of year 2010, consumers all over the world started to brace this new product sector, and make it the fastest growing sector in the PC industry. The Group is able to catch up with the trend, and work with a leading Taiwan firm to start the Tablet PC main board assembly services since late 2010. The Group expects this newly developed business sector could bring in steadily growing potential in the coming years.

LCD TV Controllers

The rising demand for liquid-crystal display televisions (LCD TV) and light-emitting diode televisions (LED TV) will drive the growth of PCBA industry this financial year. Countries such as China and Japan are two key areas of growth for LCD TV. The LCD TV shipment market share kept on increasing in 2010. The continuous growing trend has created vast demand for worldwide LCD TV supply chain. The Group is able to work with Toshiba and keep up with the trend to provide LCD TV controller board assembly services during the period under review. The total revenue goes up by 132% to HK$371 million (six months ended 31 December 2009: HK$160 million).

Mobile LCD Controllers

Strong smart phone demand continues to drive the Global mobile phone market. Growth in this segment was supported by the surge in Android devices and strong sales of Apple's iPhone 4. Feature phones suffered their biggest decline ever, with shipments down. Operators are moving their subsidies to smartphones and this segment has suffered from the lack of attractive devices, leaving price as the major sales driver. Apple, RIM, and the vendors producing Android-based smartphones have put noticeable pressure on Nokia, the overall market leader. The Group is also affected by this trend. Moreover, this sector is relatively mature with steadily dropping unit price. Besides, the emerging China clone cell phone market started to occupy the global low end market and drove down the market share of first tier cell phone makers, which were the main mobile LCD customers of the Group.

The combined challenges resulted in a decrease in revenue of 66% to HK$15 million from this segment (six months ended 31 December 2009: HK$44 million).

Others

During the period, the Group has been actively consolidating the existing customers and focus on high margin, large volume and good market potential customers. So, the amounts in this segment are reduced.

Apart from customer consolidation strategy, the Group also actively looked into the fast growing and high potential segments such as Tablet PC and Car PC. The Group foresees these new products will gradually grow up in the near future.

Production Facilities

In the first half of fiscal year 2011, the Group had made substantial equipment investment in China and Thailand, amounting to HK$63 million. The Group set up a new factory in Thailand. With a new factory in place, the Group invested in both SMT and AOI machines. The investment in SMT machines increased the surface mount capacity while the AOI system, with its advanced color camera imaging technology, will offer PCB inspection. The AOI system also inspects solder joints and verifies correct part assembly whilst increasing throughput rates and opening up capacity.

In addition to the new investment, the Group also reallocated existing machines over its factories in Asia region to optimize utilization. Although the overall equipment utilization rate was still below optimal level as some production works had been relocated to its offshore factories, the Group expects the utilization rate will increase steadily over time as new customers/ products, such as tablet PC motherboard, are bringing into its China factory. As at 31 December 2010, it had 527 SMT machines and a production capacity of 97 billion chips per year in China.

The Vietnam factory has been completed and started operation since the end of 2009. As its local management team becomes more mature, the production volume has been steadily increasing. Currently the Vietnam factory has installed 56 SMT machines, with a production capacity of 13 billion chips per year. As the Chinese operational costs keep on increasing, the Group expects the existing customers will relocate more orders to the Vietnam factory, which would need more machinery to meet the end requirements.

During the review period, the Group's new Thailand factory has been partially completed and started operation accordingly. Since this factory located in the same campus as Toshiba's, Toshiba has been gradually allocated increasing HDD controller assembly jobs to the Group. As of 31 December 2010, it had 8 high speed SMT machines and a production capability of 7 billion chips per year. Looking forward, the Group believes the Thailand factory will keep on growing in the coming years with proximity to customer and good production quality as the critical success factors.

Prospect

With the global economic downturn and the subsequent decline in the electronics industry revenues, the recession's impact has been particularly severe on contract manufacturers, with revenues witnessing a steep decline due to fall in orders from automotive, mobile phone equipment, and capital equipment markets.

The shortage of component supplies also hampered the operations of contract manufacturers. Original Design Manufacturers (ODMs), on the other hand, exhibited resilience to the adverse conditions, partly attributed to their focus on low-mix, high volume products such as motherboards, notebooks and PCs. The strong growth potential of ODMs is also attributed to their strengthening presence in the fast-growth markets such as LCD TVs and mobile PCs.

During the recession-recovery cycle, many factories that did not have full utilization, strong financial support and economy scale had folded. The Group, among other stronger EMS companies, expects the EMS industry to maintain moderate growth coping with the recovering global economy.

However, continuous fast growing China domestic economy also casts potential cloud into the EMS industry. There are three major factors that would require more attention: labor shortage, minimum wage increase as well as foreign currency exchange rate appreciation in China. This labor shortage problem has been observed by many EMS operations in China since August 2009, and got worse before and after the Chinese New Year holidays of 2010. The Group expects the situation might remain the same as China government keep on developing domestic economies, which would absorb more workers locally inland. The Group expects the offshore productions would be one of the measures that could offset the labor shortage issue.

Looking forward, the Group believes the Chinese business environment would become even tougher as the minimum wages in the PRC jump up again, partially resulting from the sustaining labor shortage. Guangdong already announced to increase the minimum wage to RMB1,300 per month, a hefty leap of 18% beginning 1 March, 2011, while Jiangsu province made similar announcement even earlier this year. Besides, piling up Chinese foreign reserves could again lead to steady appreciation of RMB, as China government already imposed new approach to loosen up RMB's tight link with US dollars. The combined factors of higher salary multiplied by RMB appreciation will eventually drive up the overall operational costs at an alarming pace in the coming years.

The Group continues to shift its production facilities to low-cost offshore locations such as Vietnam and Thailand. They have vast potential due to lower labor costs and tax incentive policies. While the electronics supply base in Vietnam is in early growth phase, Thailand, in contrast, is a well-established manufacturing location. Low labor cost and different holiday schedules are two other competitive advantages for the Group.

In summary, the Group believes the worst recession is improving, but far from over, which has reflected in its interim report 2010/2011. Looking ahead, the Group expects the overall EMS industry will maintain moderate growth rate. However, the drastically increasing labor cost and potential currency appreciation in China would bring in more serious impact to the Group's daily operation in China. Overseeing the trend, the Group will keep on diversification of its production facilities outside of China, which would secure its competitive edge in the long run.

Liquidity and Financial Resource

The Group had bank balances and cash of approximately HK$128 million as at 31 December 2010. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 December 2010, the Group had net current assets of approximately HK$417 million (30 June 2010: HK$473 million) and a current ratio of 2.2 (30 June 2010: 1.8). The Group's net asset value was HK$1,023 million, slightly decreasing from HK$1,061 million at 30 June 2010.

All finance leases and unsecured bank loan were utilized in financing the Group's machineries and daily operation. The Group's total obligation under finance lease increased from HK$0.05 million as at 30 June 2010 to HK$8.3 million as at 31 December 2010 because the Group entered into a new machinery lease for its Thailand factory in the first half of fiscal year 2011. The unsecured bank loan decreased from HK$23 million as at 30 June 2010 to HK$20.7 million as at 31 December 2010. Total debt to total assets ratio was 27% (30 June 2010: 37%).

Currently, all of our cost of direct materials and turnover are denominated in US dollar, to which the HK dollar is pegged. Our labor costs and operation overheads are mainly denominated in RMB, VND and THB. The Group has been actively monitoring 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 2010, the Group did not have any material contingent liabilities.

Staffs

As at 31 December 2010, the Group employed a total of 4,798 staffs, of which 4,051 were employed in Mainland China, while 42 were employed in Hong Kong, 575 were employed in Vietnam and 130 were employed in Thailand. The Group has implemented remuneration package, bonus and share option schemes as part of the 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 (six months ended 31 December 2009: NIL).

Purchase, Sale Or Redemption of Shares

During the six months ended 31 December 2010, there was no purchase, redemption or disposal of the Group's listed securities by the Group or any of its subsidiaries.

Directors' interests in Shares and Underlying Shares

At 31 December 2010, 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 positions

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.

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 2010.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2010, 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 2010.

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 2010, 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. 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 2010.

Remuneration Committee

The Board established the remuneration committee comprising a majority of Independent Non-Executive Directors, who meet at least once a year. 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, 25 February 2011

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 14 to 26, which comprises the condensed consolidated statement of financial position of Fittec International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 31 December 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company 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 inquiries, 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
25 February 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	NOTES	Six months ended 31.12.2010 HK$'000 (unaudited)	Six months ended 31.12.2009 HK$'000 (unaudited)
Revenue	3	**1,212,553**	1,379,180
Cost of sales	4	**(1,169,451)**	(1,291,045)
Gross profit		**43,102**	88,135
Other income		**4,908**	4,564
Other gains and losses		**(1,949)**	68
Distribution expenses		**(6,946)**	(6,716)
Administrative expenses		**(46,461)**	(41,672)
Impairment loss recognised in respect of property, plant and equipment	9	**(25,414)**	–
Finance costs		**(653)**	(167)
(Loss) profit before tax		**(33,413)**	44,212
Income tax expense	5	**(584)**	(6,228)
(Loss) profit for the period	6	**(33,997)**	37,984
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**1,028**	451
Exchange differences on long term advances to a foreign operation		**4,530**	–
		5,558	451
Total comprehensive (expense) income for the period		**(28,439)**	38,435
(Loss) profit for the period attributable to:			
Owners of the Company		**(27,112)**	37,984
Non-controlling interests		**(6,885)**	–
		(33,997)	37,984
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(21,554)**	38,435
Non-controlling interests		**(6,885)**	–
		(28,439)	38,435
Basic (loss) earnings per share	8	**HK$(0.03)**	HK$0.04
Diluted (loss) earnings per share	8	**N/A**	HK$0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	NOTES	**31.12.2010 HK$'000 (unaudited)**	30.6.2010 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**597,926**	584,806
Prepaid lease payments		**4,241**	4,410
Deposits for acquisition of property, plant and equipment		**24,613**	13,972
		626,780	603,188
CURRENT ASSETS			
Inventories		**125,360**	307,545
Trade and other receivables	10	**494,329**	452,870
Trade receivables factored with recourse	10	**25,997**	100,888
Prepaid lease payments		**103**	106
Bank balances and cash		**128,289**	212,218
		774,078	1,073,627
CURRENT LIABILITIES			
Trade and other payables	11	**255,793**	422,091
Advance drawn on trade receivables factored with recourse		**25,997**	100,888
Tax liabilities		**52,222**	54,784
Obligations under finance leases – due within one year		**2,054**	50
Unsecured bank borrowings	12	**20,709**	23,046
		356,775	600,859
NET CURRENT ASSETS		**417,303**	472,768
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,044,083**	1,075,956
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		**6,250**	–
Deferred taxation		**15,130**	15,130
		21,380	15,130
		1,022,703	1,060,826
CAPITAL AND RESERVES			
Share capital	13	**96,839**	96,839
Reserves		**934,050**	965,288
Equity attributable to owners of the Company		**1,030,889**	1,062,127
Non-controlling interests		**(8,186)**	(1,301)
Total equity		**1,022,703**	1,060,826

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	Attributable to owners 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	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2009 (audited)	96,839	450,739	11,478	6,400	1,796	23,929	462,707	1,053,888	–	1,053,888
Profit for the period	–	–	–	–	–	–	37,984	37,984	–	37,984
Exchange differences arising on translation of foreign operations	–	–	–	–	–	451	–	451	–	451
Total comprehensive income for the period	–	–	–	–	–	451	37,984	38,435	–	38,435
Release upon lapse of vested share options	–	–	–	–	(21)	–	21	–	–	–
Dividend paid	–	–	–	–	–	–	(19,368)	(19,368)	–	(19,368)
At 31 December 2009 (unaudited)	96,839	450,739	11,478	6,400	1,775	24,380	481,344	1,072,955	–	1,072,955
At 1 July 2010 (audited)	96,839	450,739	11,478	6,400	–	15,171	481,500	1,062,127	(1,301)	1,060,826
Loss for the period	–	–	–	–	–	–	(27,112)	(27,112)	(6,885)	(33,997)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	1,028	–	1,028	–	1,028
Exchange differences on long term advances to a foreign operation	–	–	–	–	–	4,530	–	4,530	–	4,530
Total comprehensive income (expense) for the period	–	–	–	–	–	5,558	(27,112)	(21,554)	(6,885)	(28,439)
Dividend paid	–	–	–	–	–	–	(9,684)	(9,684)	–	(9,684)
At 31 December 2010 (unaudited)	96,839	450,739	11,478	6,400	–	20,729	444,704	1,030,889	(8,186)	1,022,703

notes:

(i) 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 in December 2004.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**3,967**	(138,585)
NET CASH USED IN INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	**(54,519)**	(25,770)
Deposits for acquisition of property, plant and equipment	**(24,613)**	(4,363)
Interest received	**727**	91
Proceeds from disposal of property, plant and equipment	**70**	–
Proceeds from release of prepaid lease payments	**–**	17,899
	(78,335)	(12,143)
CASH USED IN FINANCING ACTIVITIES:		
Dividend paid	**(9,684)**	(19,368)
Repayment of unsecured bank borrowings	**(2,337)**	–
Interest paid	**(653)**	(167)
Repayment of obligations under finance leases	**(50)**	(299)
	(12,724)	(19,834)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(87,092)**	(170,562)
CASH AND CASH EQUIVALENTS AT 1 JULY	**212,218**	303,700
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**3,163**	451
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**128,289**	133,589

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

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.

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 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments that are effective for annual periods beginning on or after 1 January 2010
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 in relation to the amendments that are effective for annual periods beginning on or after 1 July 2010
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of these new and revised HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5")* clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current period. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with an aggregate carrying amount of approximately HK$18,346,000 at 30 June 2010 have been classified from non-current liabilities to current liabilities. As at 31 December 2010, bank loans (that were repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with an aggregate carrying amount of HK$15,982,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss and the Group's basic and diluted (loss) earnings per share for the current and prior periods.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Summary of the effect of the above change in accounting policies

The effect of changes in accounting policies described above on the financial position of the Group as at 30 June 2010 is as follows:

	As at 30 June 2010 (originally stated) HK$'000	Adjustment HK$'000	**As at 30 June 2010 (restated) HK$'000**
Unsecured bank borrowings – current	4,700	18,346	**23,046**
Unsecured bank borrowings – non-current	18,346	(18,346)	**–**
Total effects on net assets	23,046	–	**23,046**
Accumulated profits, total effects on equity	–	–	**–**

There is no impact on the financial position of the Group as at 1 July 2009.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for amendments to HKFRS 3 (as revised in 2008), HKAS 1 and HKAS 28[1]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 24 (Revised)	Related Party Disclosures[1]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[1]

1 Effective for annual periods beginning on or after 1 January 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate the application of other new and revised HKFRSs will have no material impact on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

3. SEGMENT INFORMATION

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 information is reported to the executive directors for the purpose of resources allocation and performance assessment.

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Segment revenue		
Pure assembly services	**150,569**	185,976
Procurement and assembly services	**1,057,233**	1,189,099
Repair and maintenance services	**4,751**	4,105
	1,212,553	1,379,180
Segment results		
– Pure assembly services (Note)	**(17,902)**	30,192
– Procurement and assembly services	**32,831**	57,381
– Repair and maintenance services	**886**	562
	15,815	88,135
Unallocated corporate expenses	**(53,579)**	(48,450)
Unallocated other income	**5,004**	4,694
Finance costs	**(653)**	(167)
(Loss) profit before tax	**(33,413)**	44,212

The segment revenues are all from external customers and there are no inter-segment sales for both periods.

Note: The segment result of the pure assembly services segment for the six month period ended 31 December 2010 included the impairment loss recognised on property, plant and equipment of HK$25,414,000, the impairment loss of HK$5,282,000 against certain categories of inventory and the impairment loss recognised on trade and other receivables of HK$1,873,000.

Segment (loss) profit represents the (loss from) profits earned by each segment without allocation of other income, other gains and losses (excluding impairment loss recognized on trade and other receivables), distribution costs, administrative expenses and finance costs. This is the measure reported to the executive directors for the purposes of resources allocation and performance assessment.

4. COST OF SALES

Included in cost of sales is an impairment loss of HK$5,282,000 against certain categories of inventory (See note 9).

5. INCOME TAX EXPENSE

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**584**	6,228

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the assessable profit for both periods ended 31 December 2009 and 2010. 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 50% relief from Hong Kong Profits Tax.

One of the subsidiaries in Hong Kong is negotiating with the Inland Revenue Department of Hong Kong regarding taxability of its profits in prior years. In the opinion of the directors, sufficient tax provision has been made by the subsidiary in the prior years and no additional tax provision is required.

People's Republic of China (the "PRC")

Under the Enterprise Income Tax Law of the PRC (the "EIT Law"), which was effective from 1 January 2008, the PRC income tax for both domestic and foreign investment enterprises was unified at 25% effective from 1 January 2008. Under the transitional provision granted by relevant tax authorities, certain of the Group's PRC subsidiaries that were subject to a PRC income tax rate lower than 25% have continued to enjoy the lower PRC income tax rate and this will gradually increase to the new PRC income tax rate within five years after the effective date of the EIT Law.

For those subsidiaries located in the Shenzhen Free Trade Zone, the PRC, according to the EIT Law and the relevant circular which was effective on 1 January 2008, the income tax rate was 18% with effect from 1 January 2008 and gradually increased to 20%, 22%, 24% and 25% with effect 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 these two Suzhou subsidiaries had incurred losses for the periods ended 31 December 2009 and 2010, no provision for PRC Enterprise Income Tax was made for both periods.

Vietnam

In accordance with the relevant tax rules and regulations in Vietnam, the Group's subsidiary in Vietnam is entitled to corporate income tax exemption for three years from its first profit-making year of operation and a reduction of 50% for seven years thereafter. As of 31 December 2010, this subsidiary had not yet generated any assessable profit. Accordingly, no provision for Vietnam corporate income tax was made for both periods.

5. INCOME TAX EXPENSE (Continued)

Thailand

In accordance with the relevant rules and regulations in Thailand, the Group's Thailand subsidiary is entitled to income tax exemption for a period of eight years from the date it first generates income. As of 31 December 2010, this subsidiary had not yet generated any assessable income. Accordingly, no provision for Thailand income tax was made for the current period.

6. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**40,643**	38,008
Release of prepaid lease payments	**52**	31
Net exchange loss	**108**	62
Loss on disposal of property, plant and equipment	**63**	–
Impairment loss recognised on trade and other receivables (included in other gains and losses)	**1,873**	–
and after crediting:		
Gain on disposal of prepaid lease payments	**–**	130
Reversal of impairment loss on trade receivables	**96**	–
Interest income	**727**	91

7. DIVIDEND

	Six months ended	
	31.12.2010	31.12.2009
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Dividend recognised as distributions during the period:		
Final dividend paid for the preceding year ended 30 June 2010 – HK$0.01 (2009: HK$0.02) per share	**9,684**	19,368

The Board of Directors did not recommend the payment of an interim dividend for both the current and prior periods.

8. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the six month periods ended 31 December 2010 is based on the loss for the period attributable to owners of the Company of HK$27,112,000 (Six months ended 31 December 2009: profit of HK$37,984,000) and the number of 968,394,000 ordinary shares in issue during both periods.

No diluted loss per share for the six months ended 31 December 2010 is presented as the Company had no outstanding share options or other potential ordinary shares during the period.

The computation of diluted earnings per share for the six months ended 31 December 2009 did not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price of the shares during that period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2010, the Group acquired property, plant and equipment of approximately HK$62,823,000 (Six months ended 31 December 2009: approximately HK$25,770,000).

In addition, during the period, in light of the changes in technologies and market conditions, management critically reviewed the Group's production capacity and inventory mix and concluded that (i) certain production facilities in a PRC plant had become excessive and obsolete (ii) certain categories of raw material inventory would no longer be used for future production and (iii) the carrying amount of these assets should be reduced to recoverable amount for the property, plant and equipment and the estimated realisable value for the inventories. Accordingly, impairment losses of approximately HK$25,414,000 and HK$5,282,000 (note 4) were recognised against property, plant and equipment and inventory, respectively, in the condensed consolidated statement of comprehensive income for the six months period ended 31 December 2010.

10. TRADE AND OTHER RECEIVABLES/TRADE RECEIVABLES FACTORED WITH RECOURSE

The Group allows its trade customers credit periods ranging from 30 to 120 days. The following is an aged analysis of the Group's trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	31.12.2010 **HK$'000** **(unaudited)**	30.6.2010 HK$'000 (audited)
0 – 30 days	**114,811**	72,914
31 – 60 days	**142,677**	225,700
61 – 90 days	**122,003**	90,953
91 – 120 days	**87,808**	26,374
121 – 180 days	**2,110**	215
181 – 365 days	**631**	3,094
Over 365 days	**637**	–
	470,677	419,250

The trade receivables factored to banks with recourse all have a maturity period of less than 120 days.

11. TRADE AND OTHER PAYABLES

The credit period for purchase of goods ranging from 30 to 90 days. The aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period are as follows:

	31.12.2010 HK$'000 (unaudited)	30.6.2010 HK$'000 (audited)
0 – 30 days	**102,437**	180,853
31 – 60 days	**62,088**	161,323
61 – 90 days	**41,324**	40,423
91 – 180 days	**10,584**	13,949
181 – 365 days	**5,715**	1,866
Over 365 days	**606**	–
	222,754	398,414

12. UNSECURED BANK BORROWINGS

	31.12.2010 HK$'000 (unaudited)	30.6.2010 HK$'000 (audited)
Bank loans	**20,709**	23,046

The Group's variable-rate bank borrowings carry interest at Hong Kong Interbank Offered Rate plus 2% per annum and the effective interest rate for the period ended 31 December 2010 is 2.5% per annum (At 30 June 2010: 2.5% per annum). The bank borrowings are repayable by monthly instalments up to 2015.

13. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 30 June 2010 and 31 December 2010	**3,000,000,000**	300,000
Issued and fully paid:		
At 30 June 2010 and 31 December 2010	**968,394,000**	96,839

14. MAJOR NON-CASH TRANSACTIONS

During the six months ended 31 December 2010, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$8,304,000 (Six months ended 31 December 2009: Nil).

15. CAPITAL COMMITMENTS

At 31 December 2010, the Group had capital expenditures of approximately HK$2,720,000 (At 30 June 2010: approximately HK$7,563,000) contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment.

16. RELATED PARTY DISCLOSURES

The compensation of the Group's key management personnel for the six months ended 31 December 2010 was approximately HK$3,608,000 (Six months ended 31 December 2009: approximately HK$3,549,000).