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
2012/13

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the period under review, the overall global economy still went up and down with many uncertainties. United States unemployment rate went down from 8.3% as of July 2012 to 7.3% end of 2012. However, J.P. Morgan analysts cut their estimate for US fourth-quarter GDP growth to an annualized 0.8% from a prior forecast of 1.5% with the concern of the suspending US Financial Cliff. To stimulate the US economy, QE3 was announced on 13 September 2012. In an 11-to-1 vote, the Federal Reserve decided to launch a new US$40 billion a month, open-ended, bond purchasing program of agency mortgage-backed securities and also to continue extremely low rates policy until at least Mid 2015. Nonetheless, the QE3 is expected to increase liquidity in the markets. It can, hence, aggravate the inflation rate further, especially in the emerging countries like China and India.

The European sovereign debt crisis (often referred to as the Eurozone crisis) is an ongoing financial crisis that has made it difficult or impossible for some countries in the euro area to repay or re-finance their government debt without the assistance of third parties. From late 2009, fears of a sovereign debt crisis developed among investors as a result of the rising private and government debt levels around the world together with a wave of downgrading of government debt in some European states. Unemployment in the 17-nation bloc climbed for a fifth month to 11.9 percent, according to the median of 34 economists in a Bloomberg News survey in November 2012, the highest jobless rate since records began in 1995. The crisis did not only introduce adverse economic effects for the worst hit countries, but also had a major political impact on the ruling governments in 8 out of 17 Eurozone countries, leading to power shifts in Greece, Ireland, Italy, Portugal, Spain, Slovenia, Slovakia, and the Netherlands.

The latest results of Japan's electronics leaders reflect how a strong yen, fierce overseas competition, a diplomatic dispute with China and the slowing global economy have all weighed on an industry that many see as having lost its way. The disputed Senkaku/Diyou islands in the East China Sea have been a source of tension between the Japan and China for centuries. The issue, however, escalated during the period under review, and hurt both countries' bilateral trades drastically. In September 2012, protests escalate across mainland China and abroad, with boycotts on Japanese products. As a result, many leading Japanese firms, includes the Toyota, Honda, Nissan, Panasonic, etc. operations in China were forced to shut down for weeks, even months after the protest.

CHAIRMAN'S STATEMENT (CONTINUED)

China's leaders are moving to shift the economy away from its traditional reliance on low-end manufacturing and heavy investment spending, seeking to build a stronger consumer base at home. As the only large country with both high GDP and CPI growth over years, China government had announced strategy to increase labors minimum wages steadily to offset the impact on the record high CPI rising trend. As a result, Shenzhen announced to raise its labors minimum wage around 14% in the beginning of 2012, with many other provinces/regions would follow suite soon. Shenzhen made similar decision of raising its minimum wage again in March 2013. Besides, 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 1.95%, and keeps on climbing slowly over time. In addition, China government also offers lots of incentives to stimulate the local economies in its inland provinces recently, trying to balance its skewed economical developments between the China Eastern and Western regions. As a result, more and more small to medium 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 available to the east regions, where most EMS firms are located.

Foreign capital helped build China into a low-cost manufacturing powerhouse and global growth engine. But its increasingly urban population now has higher expectations in terms of wages and working conditions and louder objections to the pollution that often comes with low-level manufacturing – demands that have eroded China's cost advantage. Thus, the Group made proper strategic moves accordingly. Ever since the 2008 financial tsunami, the Group has started to set up our offshore production bases in lower-wage countries like Vietnam to diversify our sole focus in China. The Vietnam operation has been running smoothly during the period under review. However, the Thailand factory was hit hard and closed by the flooding in the mid of October, 2011. After almost one year hard works and intense communications with the Insurance Company, the Group was finally able to get almost full reimbursement of the lost from the flooding during the period under review. With the soften global economy and Thailand flooding, our revenue has declined almost 25% to HK$604 million for the six months that ended 31 December 2012 (six months ended 31 December 2011: HK$807 million).

Under capacity utilization together with unfavorable labor wage and currency exchange rate, led to a downturn of gross profit to HK$7.7 million. With the final installment compensation for the lost of the Thailand factory from the Insurance, the net profit reached HK$7.5 million (six months ended 31 December 2011: HK$39 million and negative HK$94 million separately).

In additional to the regular operational results, the Group has also resolved its pending law suit concerning its shares distribution dispute with a Japanese national during the period under review. The Plaintiff's action be unconditionally dismissed, with no order as to costs.

CHAIRMAN'S STATEMENT (CONTINUED)

The board of directors did not recommend the payment of an interim dividend. Looking ahead, we are aware of the serious challenges from the continuously basic salary hike in China, as well as the soften global PC demands. The Group expects the next fiscal year to be slightly improved with the gradually resuming global economy.

Besides, the Group is taking aggressive actions to control its expenses in China factory, to offset the increasing operational expenses. These actions include taking more strict head counts control, squeezing manufacturing and office spaces, as well as investments in the semi-automatic production and testing equipment. The Group firmly believes that the manufacturing efficiencies and effectiveness will be gradually improved after those actions are taken in the coming year. One of the Group's China factories will be undertaking new registration process from processing to factory wholly owned foreign subsidiary in the coming 1H of 2013 as required by the China government. We expect the process will be quite smooth as a normal practice, and will not impact the daily operation of the Group.

Outsourcing is common amongst Japanese and Taiwanese electronics manufacturers, allowing them to capitalize on profits by cutting production cost. In the mid-to-long-term, we remain modest optimistic about our business since we have long-term relationship with top-tier Japanese and Taiwanese customers, and we are capable of meeting stringent requirements and locally delivering high-quality products from our factories, we are poised to capture more 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, 25 February 2013

MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW

For the six months ended 31 December 2012, the Group's unaudited consolidated turnover amounted to approximately HK$604 million (2011: HK$807 million). The revenue decrease of 25% in the first half of fiscal year 2013 is due to the terminated order of LCD TV orders which include a large amount of procurement income and decrease the demand of motherboard. The Group recorded slight profits of approximately HK$7.5 million for the six months ended 31 December 2012 (2011: Loss: HK$94 million). Basic earnings per share for the six months ended 31 December 2012 was HK$0.01 (2011: basic loss per share: HK$0.1).

The Group provides primarily two types of service: Pure Assembly and Procurement & Assembly. During the period, revenue from Procurement & Assembly decreased by 25%, mainly due to a Japanese LCD TV customers cut their orders since Korean LCD TV brands serious eroded their global market share. The Group was providing both assembly services and procurement services to this Japanese customer for its LCD TV products. Procurement income is generated when the Group helps the customers to purchase materials to use in production.

The cessation of operation of Thailand factory since flooding and decrease in the demand of motherboard, which accounted for the 24%, decrease in revenue of Pure Assembly.

While the overall gross profit stood at HK$7.7 million (six months ended 31 December 2011: HK$39 million), gross margin decreased from 4.8% to 1.3%. This was mainly due to decrease in order placed by customers, and low utilization of machineries. Although the revenue starts slumping, the company still has to cover those fixed costs. Moreover, the continuously rising wages in China, the shortage of labor in Southern region of China, and the appreciation of RMB further boosted the production cost.

The 2011 severe flooding in Thailand resulted in the suspension of production in our Thailand manufacturing facilities. During the period, the Group received HK$37 million as the final installment of compensation for the damage of flood in Thailand factory.

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 2012 was HK$283 million (30 June 2012: HK$256 million).

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

BUSINESS REVIEW

During the review period, the Group maintained continuous focus on top-tier clients and products with high growing potential. HDD controllers and PC motherboards (include desktop, Tablet PC and notebook PC) remained the major products of the Group, contributing 99% of the total turnover. Other products, such as car CD and DVD player controller boards were suffering drastic volume drops resulting from flooding in Thailand in 2011 and territories dispute between Japan and China. The situation will be gradually back to normal in the coming year.

HDD Controllers

A year after a flooding disaster in Thailand that took out a large portion of hard disk drive production, the industry has fully recovered with shipments to the computer market expected to hit a record level this year. According to market research firm IHS iSuppli, hard drive sales have rebounded, driven by demand in the enterprise market as well as the arrival of the Windows 8 operating system in late 2012. HDD shipments in 2012 for the overall computer market, including PCs, are forecasted to reach 524 million drives, up 4.3% from 502.5 million units last year, according to an IHS report.

This segment showed a slight decline after Toshiba decided to stop their orders in Thailand since flooding. Although part of Thailand orders was shifted to our PRC factory, the revenue was still down by 0.6% to HK$453 million from last year's HK$456 million, The Group is the sole 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 small form factor hard disk drive market driven by fast growing portable devices and other intelligent handheld products. The Group expects these applications will maintain steady growth, so does the demand for the small form factor HDD controllers.

As the only one existing Japanese HDD vendor after the business consolidation in this market sector, Toshiba believes it would be the sole choice of the leading Japanese IT/CE vendors for new portable products designs, and should push up the volume gradually in the coming months.

The Group believes the result of greater demand from the consumer and enterprise PC segments, both of which continue to demand for disk space in order to hold storage-intensive media like videos, music and other forms of social media content. Another major contributor to drive shipment growth is the Windows 8 operating system, which was launched in October, and the subsequent purchase of PCs with the new OS. The Group also agreed that hard drives sales will also get a boost from ultrabooks, including machines that use hybrid drives, which combine spinning disk with solid state storage.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

PCs, Notebooks and Tablet Motherboards

The PC shipments are to decline for first time in 11 years. After entering the year with high hopes, the global PC market has seen its prospects dim, with worldwide shipments set to decline in 2012 for the first time in 11 years, according to analytics provider IHS. The total PC market in 2012 is expected to contract by 1.2% to 348.7 million units, down from 352.8 million in 2011, not since 2001 – more than a decade ago – has the worldwide PC industry suffered such a decline.

Demand for motherboards has declined in 2012 in Europe and America, and growth in China has not met expectations. This has forced manufacturers to drop their shipment figures in 2012. Our PC motherboard customer, ASRock was expected to ship 9 million units in 2012 but they only managed to ship around 7 million units. The revenue contributed by this customer was reduced by 17% to HK$110 million from last year's HK$132 million. This was due to the dropping sales of desktop PC's and dwindling demand for motherboards in the enthusiast sector.

This reflects a combination of consumers' reduced interest in PCs, and vendors' reduced willingness to sell PCs due to other products and services that consumers are interested. The major promotion of ultrabooks could potentially change the market dynamics. The weak U.S. and European economic situation, coupled with the slowing economy in China, affected the region's market sentiments where people reacted by scaling back on spending due to the uncertainties. There was the tightening of budgets in the professional segment, as well as a lack in new government initiatives to stimulate IT purchasing activities. Consumers either spent on alternative devices or remained cautious on discretionary spending.

Samsung Electronics set goals to achieve 30% on-year growth in its notebook shipments in 2012 with 30% of the total volume being ultrabooks. Samsung originally produced all its notebooks in-house, but will continuous outsource its notebook orders to reduce costs. Thanks to these, the Group recorded turnover of notebook segment grew from HK$34.7 million to HK$35.9 million.

LCD TV Controllers

The Global market as a whole has also contracted: total shipments of TVs were down 8% year-on-year, at 51.6m units, with LCD TVs down 2% on sales of just over 44m sets, and plasma down 26%, with just over 3m sets being sold worldwide. On a geographical basis, the country hardest hit was Japan, with sales down 77% year-on-year, while developed markets as a whole fell 23%.

The South Korean manufacturers are doing pretty well in the LCD TV market. According to iSuppli that Samsung and LG were the only two companies to turn a profit from their LCD TV businesses with rivals Sony, Toshiba and Sharp all taking losses on their LCD TV divisions. The competition in this market is keen. South Korean and Taiwanese rivals are leading the battle for global domination. Along with Sony, Panasonic and Sharp have been financially ruined by the lack of demand for their once popular TV sets. A slowing global economy, last year's quake-tsunami disaster and weak demand in Europe – a key market for everything from Japanese televisions has also dented results. The Group's Japanese customers ceased to outsource in order to fill their excess capacity. Under such circumstances, the Group's turnover of this segment decreased from HK$164.5 million to zero for the six months ended 31 December 2012.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

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 iphone and ipad related accessories product. The Group foresees these new products will gradually grow up in the near future.

PRODUCTION FACILITIES

During the review period, the Group had relocated some equipment from both its Shenzhen and Suzhou factories to its Vietnam factory. Thus the overall equipment utilization rate was still below the optimum level as some production works had been relocated to its offshore factories and setting up process. As of 31 December 2012, it had 50 SMT lines and a production capacity of 80.5 billion chips per year in China.

The Vietnam factory has completed the restructuring process of production lines and started to further increase production volumes and capabilities since the late 2012. Currently the Vietnam factory has installed 16 SMT lines, with a production capacity of 24.3 billion chips per year. As the total costs of the PC motherboard production in China keep on increasing, the Group expects the customer will arrange more production capacities into the Vietnam factory, and would need to relocate more machinery from China to meet the end requirements. This trend will help the Group to push up its overall equipment utilization rate eventually.

PROSPECT

Growth of the world economy has weakened considerably during 2012 and is expected to remain subdued in the coming two years, according to the United Nations in its latest issue of the World Economic Situation and Prospects 2013 (WESP), published recently. The global economy is expected to grow at 2.4% in 2013 and 3.2% in 2014; a significant downgrade from the UN's forecast of half a year ago.

The prospects for the next two years continue to be challenging, fraught with major uncertainties and risks slanted towards the downside. A worsening of the euro area crisis, the 'fiscal cliff' in the United States and a hard landing in China could cause a new global recession. Each of these risks could cause global output losses of between 1% and 3%.

The current economic crisis and low growth will continue into 2013 and although significant downside risks remain based on the latest indicators a modest recovery should begin in the later part of the year which should gain traction in 2014.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

In-line with the general recovery in Europe, EMS revenues after stagnating in 2012 and 2013 are expected to show modest growth in 2014 and then show low single-digit growth in the period to 2016. Growth in CEE and North Africa will outpace Western Europe and although the 3C segment – computing, communications and consumer – will continue to dominate, the region will increasingly benefit from the transfer of EMS revenues that is taking place in the Automotive, Medical, Control & Instrumentation, Industrial and Telecommunications (AMCIT). The Group, among other stronger EMS companies, expects the EMS industry to be suffering from short term decline, but would sustain moderate growth coping with the recovering global economy.

In the past five years the EMS production situation in China has evolved considerably. Rising labor costs, low unemployment and increasing worker expectations in Shenzhen and Eastern China, combined with inland areas' rapidly developing infrastructure and growing consumer market, have led to fledgling clusters in the areas of Sichuan, Chongqing and Henan. It further increases the production cost in Shenzhen and Eastern China. The Group not only struggling to cope with rapidly growing wages in Shenzhen and Suzhou, but also challenges to ramping up and maintaining production due to labor shortages especially before and after the Chinese New Year holidays and the increasing demands of a more industrially evolved workforce.

The Group also believes that EMS companies, typically with global operations have continued to migrate the remaining production of 3C products to lower cost countries.

There has been an increase in the number of EMS companies operating lower cost manufacturing plants as they seek to provide greater value to their customers. Thus, in order to maintain competitive, the Group will shift more labor intensive order to Group's factory in Vietnam which is one of growing popularity of cost competitive countries.

Furthermore, piling up Chinese foreign reserves could again lead to the steadily appreciation of the Renminbi, as China government already imposed new approach to loosen up RMB tight link with the US dollars. The combined factors of higher salary multipled by the RMB appreciation will eventually drive up the overall operational costs much higher at an alarming pace in the coming years in China.

The demand for HDD would be relatively flat in the first-half of 2013 due to the sluggish global economy and the uncertainties over the euro. The Group expected that the increasing popularity of cloud storage and computing and the release of Windows 8 will stimulate demand by mid-2013.

While there is large demand for motherboards in the China market, and demand is still increasing, growth is not enough to cover the total decline in the rest of the global market. The Group predicts the worldwide motherboard shipments slight decrease due to shrinking motherboard demand on increasing competition from notebooks and tablets.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

In summary, the Group believes the worst recession is improving, but far from over, which has reflected in its performance. The flooding in Thailand imposed even server short term impacts to its Thailand operation. Looking forward, the Group expects the overall EMS industry will maintain moderate grow rate together with the recovering global economy. However, the drastic increasing labor cost and steadily currency appreciation in China would bring in more serious impact to the overall EMS daily operation. Coping with the trend, the Group will keep on diversification of its production facilities outside of China, as well as to improve its production efficiency by developing semi-automatic equipment, which would enhance its competitive edge in the long run.

LIQUIDITY AND FINANCIAL RESOURCE

The Group had bank balances and cash of approximately HK$271 million as at 31 December 2012. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 December 2012, the Group had net current assets of approximately HK$446 million (30 June 2012: HK$420 million) and a current ratio of 3.46 (30 June 2012: 3.23). The Group's net asset value was HK$888 million, increasing from HK$881 million at 30 June 2012.

All finance leases and unsecured bank loan were utilized in financing the Group's machineries and daily operation. As at 31 December 2012, the Group's total obligation under finance lease was fully repaid (at 30 June 2012: HK$11.3 million). The unsecured bank loan decreased from HK$13.6 million as at 30 June 2012 to HK$11.2 million as at 31 December 2012. Total debt to total assets ratio was 18% (30 June 2012: 19%).

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 and VND. 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 2012, the Group did not have any material contingent liabilities.

STAFFS

As at 31 December 2012, the Group employed a total of 3,713 staffs, of which 2,529 were employed in Mainland China, while 36 were employed in Hong Kong, 1,148 were employed in Vietnam. 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.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

DIVIDEND

The Board of Directors did not recommend the payment of an interim dividend (six months ended 31 December 2011: NIL).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2012, 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 2012, 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, neither 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 2012.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO show that, as at 31 December 2012, 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

Name of shareholders	Capacity	Number of issued ordinary shares held: 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 2012.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

CORPORATE GOVERNANCE PRACTICES

The Group commits to maintain and ensure a high level of corporate governance standards and continuously reviews and improves our corporate governance and internal controls practices. We believe that corporate governance in a commercial and profit-making organization is about promoting fairness, transparency, accountability and responsibility. Therefore, it is necessary to direct greater or additional efforts towards enhancing managerial transparency by improving and strengthening disclosure requirements, in order to have better and stronger corporate governance. The following paragraphs set out the principles of corporate governance as adopted by the Group during the reporting year. The Board confirms that the Group has complied with most of the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") previously known as Code on Corporate Governance Practices (Former "CG Code") 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 is 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 2012, 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 2012.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

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.

NOMINATION COMMITTEE

The Board established the nomination committee comprising a majority of Independent Non-Executive Directors, which meets at least once a year. It is chaired by Mr. Xie Bai Quan and comprises two other members, namely, Mr. Chung Wai Kwok, Jimmy and Mr. Lam Chi Ho. All nomination committee members, with the exception of Mr. Lam Chi Ho, are Independent Non-Executive Directors. The duties of the nomination committee are to review the structure, size and composition of the Board, to identify individuals suitably qualified to become Board members, to assess the independence of independent non-executive directors, to select or make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the Chairmen and CEO.

INTERNAL CONTROL

The Board has conducted annual review on the system of internal control of the Group and its effectiveness covering the financial, operational, human resources and administration, compliance controls and risk management functions. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets.

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 2013

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF FITTEC INTERNATIONAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Fittec International Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 15 to 28, which comprises the condensed consolidated statement of financial position as of 31 December 2012 and the related condensed consolidated statement of profit or loss and other 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25 February 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	NOTES	Six months ended 31.12.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (unaudited)
Revenue	3	**604,456**	807,045
Cost of sales		**(596,797)**	(767,670)
Gross profit		**7,659**	39,375
Other income		**38,953**	2,092
Other gains and losses		**(533)**	585
Change in fair value of derivative financial instruments	8	**2,687**	42
Distribution expenses		**(5,559)**	(6,629)
Administrative expenses		**(35,440)**	(44,821)
Loss arising from misappropriation of funds	9	**–**	(14,717)
Impairment loss recognised in respect of property, plant and equipment	10	**–**	(68,685)
Finance costs		**(232)**	(438)
Profit (loss) before tax		**7,535**	(93,196)
Income tax expense	4	**–**	(565)
Profit (loss) for the period attributable to owners of the Company	5	**7,535**	(93,761)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**285**	2,249
Exchange differences on long-term advances to a foreign operation		**(936)**	1,764
		(651)	4,013
Total comprehensive income (expense) for the period attributable to the owners of the Company		**6,884**	(89,748)
Basic earnings (loss) per share	7	**HK$0.01**	HK$(0.10)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	**31.12.2012 HK$'000 (unaudited)**	30.6.2012 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**446,996**	473,859
Prepaid lease payments		**3,762**	3,820
		450,758	477,679
CURRENT ASSETS			
Inventories		**101,373**	76,572
Trade and other receivables	*11*	**229,309**	260,340
Prepaid lease payments		**96**	96
Derivative financial instruments	*8*	**358**	–
Tax recoverable		**14,300**	14,300
Fixed bank deposits	*12*	**12,195**	15,854
Bank balances and cash		**270,665**	240,307
		628,296	607,469
CURRENT LIABILITIES			
Trade and other payables	*13*	**130,050**	129,024
Derivative financial instruments	*8*	**–**	1,111
Tax liabilities		**40,580**	39,752
Obligations under finance leases			
– due within one year	*14*	**–**	4,443
Unsecured bank borrowings	*15*	**11,202**	13,602
		181,832	187,932
NET CURRENT ASSETS		**446,464**	419,537
TOTAL ASSETS LESS CURRENT LIABILITIES		**897,222**	897,216
NON-CURRENT LIABILITIES			
Obligations under finance leases			
– due after one year	*14*	**–**	6,878
Deferred taxation		**9,250**	9,250
		9,250	16,128
		887,972	881,088
CAPITAL AND RESERVES			
Share capital	*16*	**96,839**	96,839
Share premium and reserves		**799,464**	792,580
Equity attributable to owners of the Company		**896,303**	889,419
Non-controlling interests		**(8,331)**	(8,331)
Total equity		**887,972**	881,088

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	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)	Exchange reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2011 (audited)	96,839	450,739	11,478	6,400	21,140	403,001	989,597	(7,636)	981,961
Loss for the period	–	–	–	–	–	(93,761)	(93,761)	–	(93,761)
Exchange differences arising on translation of foreign operations	–	–	–	–	2,249	–	2,249	–	2,249
Exchange differences on long-term advances to a foreign operation	–	–	–	–	1,764	–	1,764	–	1,764
Total comprehensive income (expense) for the period	–	–	–	–	4,013	(93,761)	(89,748)	–	(89,748)
At 31 December 2011 (unaudited)	96,839	450,739	11,478	6,400	25,153	309,240	899,849	(7,636)	892,213
At 1 July 2012 (audited)	**96,839**	**450,739**	**11,478**	**6,400**	**25,295**	**298,668**	**889,419**	**(8,331)**	**881,088**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**7,535**	**7,535**	**-**	**7,535**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**-**	**285**	**-**	**285**	**-**	**285**
Exchange differences on long-term advances to a foreign operation	**-**	**-**	**-**	**-**	**(936)**	**-**	**(936)**	**-**	**(936)**
Total comprehensive (expense) income for the period	**-**	**-**	**-**	**-**	**(651)**	**7,535**	**6,884**	**-**	**6,884**
At 31 December 2012 (unaudited)	**96,839**	**450,739**	**11,478**	**6,400**	**24,644**	**306,203**	**896,303**	**(8,331)**	**887,972**

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 2012

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**9,223**	(99,002)
NET CASH FROM (USED IN) INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	**(6,482)**	(15,760)
Placement of fixed bank deposits	**(12,195)**	–
Insurance compensation received in respect of property, plant and equipment	**37,017**	–
Withdrawal of fixed bank deposits	**15,854**	–
Interest received	**1,086**	685
Proceeds from disposal of property, plant and equipment	**51**	–
Withdrawal of restricted bank deposit	**–**	2,678
	35,331	(12,397)
NET CASH (USED IN) FROM FINANCING ACTIVITIES:		
Repayment of obligations under finance leases	**(11,321)**	(2,163)
Repayment of bank borrowings	**(2,400)**	(2,369)
Interest paid	**(232)**	(438)
New bank borrowings raised	**–**	19,450
	(13,953)	14,480
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**30,601**	(96,919)
CASH AND CASH EQUIVALENTS AT 1 JULY	**240,307**	245,696
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(243)**	4,802
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**270,665**	153,579

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

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 "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements for the six months period ended 31 December 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2012 except as stated below.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA which are effective for the Group's financial year beginning on 1 July 2012.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset;
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income" *(continued)*

Other than disclosed above, the adoption of the above amendments has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.

The directors of the Company do not expect that the application of the above new and revised HKFRSs will have material impact on the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

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	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
Segment revenue		
Pure assembly services	**147,625**	194,185
Procurement and assembly services	**452,537**	606,269
Repair and maintenance services	**4,294**	6,591
	604,456	807,045
Segment results		
– Pure assembly services *(note)*	**(7,992)**	(45,434)
– Procurement and assembly services	**14,794**	14,586
– Repair and maintenance services	**857**	1,539
	7,659	(29,309)
Unallocated corporate expenses	**(41,532)**	(51,515)
Unallocated other income	**38,953**	2,741
Change in fair value of derivative financial instruments	**2,687**	42
Loss arising from misappropriation of funds	**–**	(14,717)
Finance costs	**(232)**	(438)
Profit (loss) before tax	**7,535**	(93,196)

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 2011 included the impairment loss recognised on property, plant and equipment of HK$68,685,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

3. SEGMENT INFORMATION *(continued)*

Segment profit (loss) represents the profits earned by (loss from) each segment without allocation of other income, other gains and losses, change in fair value of derivative financial instruments, distribution expenses, administrative expenses, loss arising from misappropriation of funds and finance costs. This is the measure reported to the executive directors for the purposes of resources allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax	–	565

Hong Kong

No provision of Hong Kong Profits Tax has been made as the Group has assessable loss arising in Hong Kong for the period ended 31 December 2012. Hong Kong Profits Tax is calculated at 16.5% of the assessable profit for period ended 31 December 2011. In the opinion of the directors of the Company, based on the Departmental Interpretation Practice Notes No. 21 issued by the Inland Revenue Department of Hong Kong (the "IRD"), Fittec Electronics Company Limited ("Fittec Electronics"), a subsidiary of the Company, is entitled to 50% relief from Hong Kong Profits Tax.

One of the subsidiaries in Hong Kong has tax dispute with the IRD regarding taxability of its certain profits. In the opinion of the directors of the Company, certain profits generated by the subsidiary involved did not conduct any sales or manufacturing activities in Hong Kong and no Hong Kong Profits Tax should be payable by that subsidiary. Accordingly, the directors of the Company believe that no additional tax provision is required. The subsidiary lodged objections with the IRD and the IRD agreed to holdover the tax claimed on the basis that the tax reserve certificates in the amount of HK$14,300,000 were purchased by the subsidiary of which the purchase was made during the year ended 30 June 2012. Subsequent to 31 December 2012, the subsidiary further purchased additional tax reserve certificate amounting to HK$15,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

4. INCOME TAX EXPENSE *(continued)*

The 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, Fittec Electronics (Suzhou) Company Limited ("FESCL") and Suzhou Toprich Electronics Technology Limited ("STETL"), are entitled to full exemption from the 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 the PRC Enterprise Income Tax for the following three years. As FESCL and STETL had incurred losses for the period ended 31 December 2011 and generated profit for the first time during the period ended 31 December 2012 which enjoys full exemption from the PRC Enterprise Income Tax, no provision for PRC Enterprise Income Tax on FESCL and STETL was made for both periods.

Vietnam

In accordance with the relevant tax rules and regulations in Vietnam, Mega Step Electronics (Vietnam) Company Limited, the Company's subsidiary incorporated in Vietnam, is entitled to corporate income tax exemption for three years from its first profit making year and a reduction of 50% for seven years thereafter. This subsidiary has generated assessable profit for both periods ended 31 December 2012 and 2011. However, no provision for Vietnam corporate income tax was made for the period ended 31 December 2012 as it enjoys corporate income tax exemption.

Thailand

In accordance with the relevant rules and regulations in Thailand, Fittec Electronics (Thailand) Company Limited ("FETCL"), the Company's subsidiary incorporated in Thailand, is entitled to income tax exemption for a period of eight years from the date it first generates income. The subsidiary generated assessable income for the period ended 31 December 2012 and 2011. However, no provision for Thailand income tax has been made for the period ended 31 December 2012 as it enjoys income tax exemption.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

5. PROFIT (LOSS) FOR THE PERIOD

	Six months ended	
	31.12.2012	31.12.2011
	HK$'000	HK$'000
Profit (loss) for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**32,858**	40,795
Release of prepaid lease payments	**48**	48
Net exchange loss (gain)	**495**	(649)
Loss on disposal of property, plant and equipment	**38**	64
Written-down on inventories (included in cost of sales)	**570**	714
Interest income	**(1,086)**	(685)
Insurance compensation received (note 10 for details and included in other income)	**(37,017)**	–

6. DIVIDEND

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

7. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share for the six months period ended 31 December 2012 is based on the profit for the period attributable to owners of the Company of HK$7,535,000 (loss for six months ended 31 December 2011: HK$93,761,000) and the number of 968,394,000 ordinary shares in issue during both periods.

Diluted earnings (loss) per share is not presented for the period ended 31 December 2012 and 2011 as there is no potential ordinary shares outstanding during the period or at the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

8. CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into forward foreign exchange contracts to cover the anticipated foreign currency exposures. The Group is a party to number of forward foreign exchange contracts in the management of its exchange rate exposures. All contracts are settled in net with the counterparties.

For the six months period ended 31 December 2012, fair value gain of approximately HK$2,687,000 (Six months ended 31 December 2011: HK$42,000) was recognised directly in profit or loss.

9. LOSS ARISING FROM MISAPPROPRIATION OF FUNDS

As set out in the Company's announcement dated 17 November 2011, a finance manager and a senior cashier of the Company's subsidiaries established in the PRC, had embezzled some of subsidiaries' funds ("Misappropriation of Funds").

The Company has carried out an internal investigation to enquire into the incident and quantify the financial impact on those subsidiaries in relation to the Misappropriation of Funds. The internal investigation report concluded that the financial impact in relation to the Misappropriation of Funds was estimated as approximately RMB12,068,000 (approximately HK$14,717,000) and that the embezzlements occurred from July to November 2011 and accordingly, there is no financial impact for the year ended 30 June 2011 or prior periods.

The bank balances and cash have been adjusted downwards by approximately RMB12,068,000 in the books of subsidiaries during the six months ended 31 December 2011 to reflect the loss arising from the Misappropriation of Funds and recognised as a loss directly in profit or loss.

The matter was reported to the PRC police and both the finance manager and senior cashier have been arrested for criminal investigation. On 2 August 2012, the PRC court issued a final verdict, which stated the finance manager was found liable to repay the financial damage of RMB12,068,000 (approximately HK$14,717,000) to the Company's subsidiaries. In December 2012, the Company has commenced to take civil proceeding to sue the finance manager related to the financial damage of the Company's subsidiaries. Up to the date of these condensed consolidated financial statements and to the best of the knowledge of the management of subsidiaries and directors of the Company, the recoverability of this amount from the finance manager is still remote.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2012, the Group acquired property, plant and equipment of approximately HK$6,482,000 (Six months ended 31 December 2011: approximately HK$16,722,000).

As set out in the Company's announcement dated 20 October 2011, the flooding in Thailand have caused damage to the property, plant and equipment of FETCL. The Group has suspended all of its production at the Group's facility in Thailand since 18 October 2011. The facility's property, plant and equipment were significantly damaged by the flooding and as a result, the facility was not able to resume production. The directors of the Company consider that the damaged assets have no further value in use other than disposal value. Accordingly, the carrying amount of the affected property, plant and equipment of approximately HK$68,685,000 was considered to be impaired during the period ended 31 December 2011, but these assets were subsequently disposed for aggregate consideration of approximately HK$4,432,000. Accordingly, impairment loss of approximately HK$64,253,000 was recognised in respect of these property, plant and equipment during the year ended 30 June 2012.

The Group has purchased an insurance policy that insures all of the affected assets of FETCL against physical damage caused by the flood. The Group has submitted an insurance claim. During the six months ended 31 December 2012, the insurance claim has been finalised and settled, and insurance recovery of HK$37,017,000 (six months ended 31 December 2011: Nil) has been recognised in the profit or loss for the six months ended 31 December 2012.

As at 31 December 2012, the management carried out impairment assessment of the Group's plant and machinery and considered that no impairment should be recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

11. TRADE AND OTHER RECEIVABLES

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:

	31.12.2012 HK$'000	30.6.2012 HK$'000
0–30 days	**83,894**	110,217
31–60 days	**106,634**	113,516
61–90 days	**21,409**	18,943
91–120 days	**113**	640
121–180 days	**–**	–
181–365 days	**–**	653
Over 365 days	**125**	223
	212,175	244,192

12. FIXED BANK DEPOSITS

Fixed bank deposits carry fixed interest rate ranged from 3% to 3.15% (30 June 2011: 2.5% to 3%) per annum and will be matured within one year from the end of the reporting period.

13. 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:

	31.12.2012 HK$'000	30.6.2012 HK$'000
0–30 days	**88,575**	83,767
31–60 days	**2,801**	3,307
61–90 days	**3,390**	3,002
91–180 days	**1,601**	4,173
181–365 days	**124**	185
Over 365 days	**737**	906
	97,228	95,340

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

14. OBLIGATIONS UNDER FINANCE LEASES

During the six months ended 31 December 2012, the Group's obligations under finance leases are fully repaid.

15. UNSECURED BANK BORROWINGS

The Group's variable-rate bank borrowings carry interest at Hong Kong Interbank Offered Rate plus 2% to 2.5% per annum. The effective interest rate for the period ended 31 December 2012 is 2.5% (six months ended 31 December 2011: 2.2%) per annum. The bank borrowings are repayable by monthly instalments up to 2015.

16. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 30 June 2012 and 31 December 2012	3,000,000,000	300,000
Issued and fully paid:		
At 30 June 2012 and 31 December 2012	968,394,000	96,839

17. RELATED PARTY DISCLOSURES

The compensation of the Group's key management personnel for the six months ended 31 December 2012 was approximately HK$3,719,000 (Six months ended 31 December 2011: approximately HK$3,707,000).