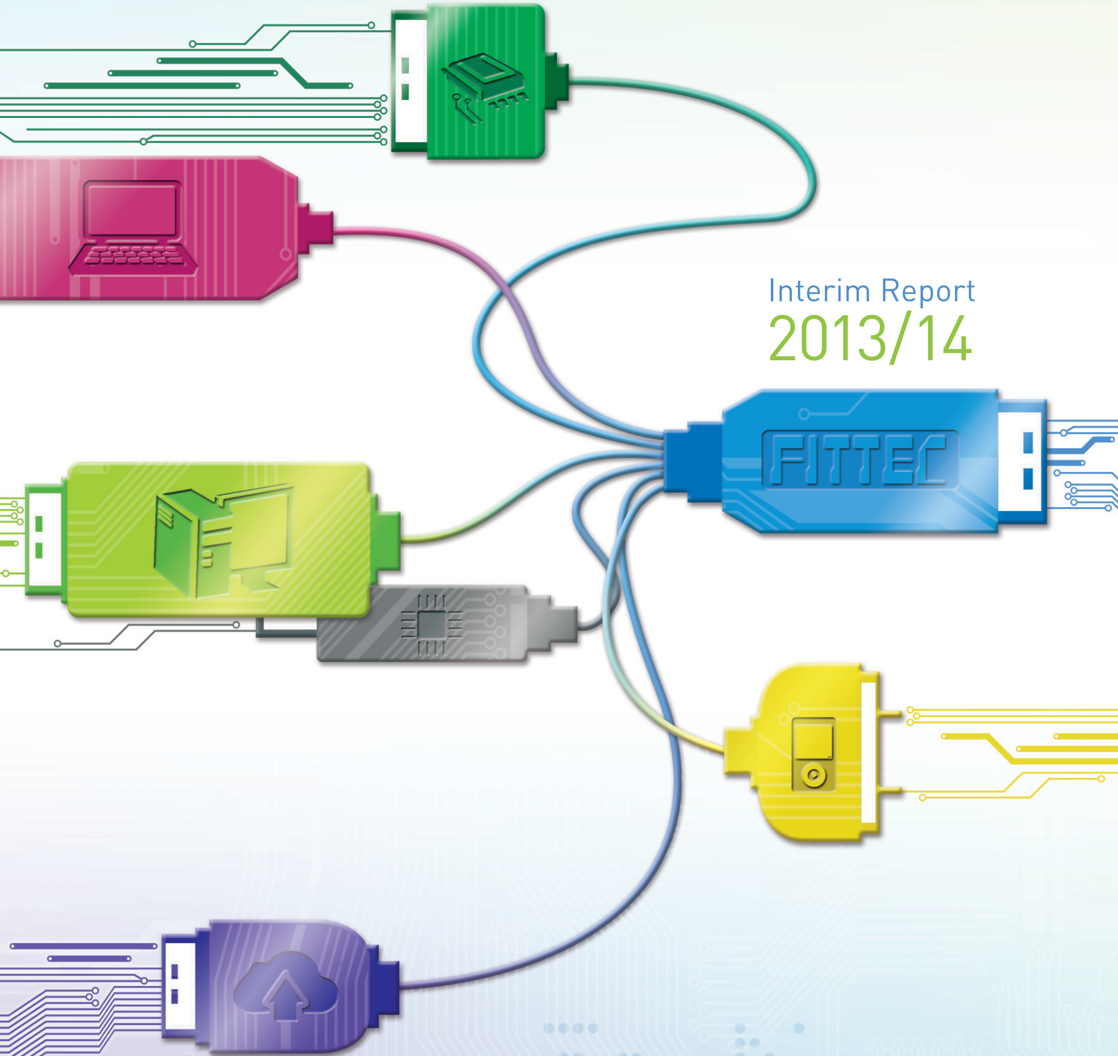
FITTEC

FITTEC INTERNATIONAL GROUP LIMITED
奕達國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2662

Interim Report 2013/14



CHAIRMAN'S STATEMENT

Dear Shareholders,

During the period under review, the overall global economy shows mixed signals of recovery from world leading economies. Once the strongest developing country, the China market starts to slow down its growing trend as its Gross domestic product ("GDP") growth rate felt to below 8% for the first time in 14 years. Furthermore, many economists predicted that cooldown will be inevitable in 2014 as officials and investors hunker down for difficult reform. The slowing down of China economy serves as the most alarming signal of the world economy, and pushed down global commodities price significantly. US GDP rose 3.6% in the third quarter of 2013, which was mainly benefited from the record-breaking Federal Reserve System ("FED") a third round of Quantitative easing ("QE3") stimulus program. Thus, the QE3 does increase liquidity in the US markets and pump up US GDP growth. It does, however, aggravate the inflation rate further, especially in the emerging countries like India and Southern America which already in deep trouble.

After the long freeze, a slow thaw is under way for the European economy. Across the 28-strong European Union ("EU"), GDP stagnated in 2013 and may expand by 1.4% in 2014, according to new forecasts from the European Commission on 5 November, 2013. However, the recovery will bring little joy for the jobless. Unemployment in the euro zone is expected to stay at 12.2% in 2014. In EU, as a whole, it will dip only slightly, from 11.1% 2013 to 11.0% in 2014. After a surprising spurt of strong growth in the first half of 2013, the Japanese economy seems to be running out of steam as exports and consumer spending show signs of weakening in second half of 2013. Preliminary figures released indicated that growth in Japan's GDP slowed to an annualized rate of 1.9 percent in the third quarter of 2013, down from 3.8 percent in the second quarter. The slowing down indicates the aggressive policies could only brought in short term gains to the decades-long lagging Japanese economy. Fully recovery of the Japanese economy might need much longer time to achieve.

All those mixed signals make consumers to be more conservative and shop for budgetary goods, which drive down the prices of all consumer electronics products inevitably. Furthermore, overly expanded global aggregated manufacturing capacities before the 2008 Financial Tsunami induced more severe competition among EMS companies for shrinking demands and inevitably price erosion that worsen industry bottom lines.

On the other hand, China government had continuous strategy to increase labors minimum wages steadily to offset the impact on the record high CPI rising trend. Shenzhen announced to raise its labors minimum wage around 7% from the March of 2013, with many other provinces/regions followed suite later. In the mean time, Renminbi ("RMB") also keeps on slow but steady appreciation trend. During the period under review, RMB had appreciated a total of 3% in 2013. However, the steady arising base salary and appreciation of RMB over the past decade, together with the continuous soften worldwide economy, eventually lead to the slowing down of China GDP growth.

One of the leading market research firms, the IDC released its research data, and announced that the 2013 worldwide personal computer ("PC") market size fell 10.1%, which was even worse than its previous estimated 9.7%. Similar announcement was made by the Forbes in its statement made on 9 January 2014, it mentioned that PC sales continued their downward spiral in 2013. According to tech research group Gartner, the 10% decline throughout 2013 is the worst in history for the worldwide market. The contracted PC market together with the uncertain global economy situation hammered the whole EMS industry further during the period under review, and therefore led to quite unsatisfactory result.

The Group analyzed the global economy recovering trend and PC industry carefully, and made proper strategic moves accordingly. Ever since the 2008 financial tsunami, the Group had set up an offshore production bases in Vietnam to diversify our sole focus in China. The Vietnam operation is running smoothly during the period under review. With the weak global economy and the reduced global demand for motherboards, our revenue has declined almost 8% to HK$557 million for the six months ended 31 December 2013 (six months ended 31 December 2012: HK$604 million).

Due to the low capacity utilization rate together with shortage of labor, unfavored labor wage and currency exchange rate, as well as the increasing material costs, the Group recorded a gross loss HK$ 12.4 million and net loss HK$147.5 million (six months ended 31 December 2012: gross profit HK$7.7 million and net profit HK$ 7.5 million).

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 arising from the continuously increasing operational costs in China, as well as the cloudy global economic outlook and the decreasing demand for motherboard. On the other hand, the Group is actively targeting the rapid growing businesses and products, and is working hard to bring in new business partners in the future. This positive development will help to push up the utilization rate eventually.

Besides, the Group is taking proactive actions to control the operational costs of its China factory in order to offset the increasing operational expenses. Those actions include taking more strict headcounts control, squeezing manufacturing and office spaces, investing in the semi-automatic production and testing equipment. The Group firmly believes that the manufacturing efficiencies and effectiveness will be drastically improved after those actions are taken in the near future.

In the mid- to long-term, we remain conservative about the development of the overall EMS industry and our business. The Group believes the EU economy will take at least few more years to recovery from its prime. Slowing down China GDP growth rate indicates less domestic consumptions, and therefore less demands across the board. That will eventually drive down the overall utilization rate of aggregate factories' capacities, and induce more severe price erosion while trying to compete for fewer orders. Thus the Group is implementing some cost control measures to make sure that the Group can conserve enough resources to sustain normal operation until the recession is over, and regain growth.

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, 2014

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

For the six months ended 31 December 2013, the Group's unaudited consolidated turnover amounted to approximately HK$557 million (2012: HK$604 million). The revenue decrease of 7.8% in the first half of fiscal year 2014 is due to the decrease the hard disk drive ("HDD") orders which include a large amount of Procurement income, reduction the orders of notebook motherboard from a Korean customer and decrease in global demand of desktop motherboard. The Group recorded net loss of approximately HK$147.5 million for the six months ended 31 December 2013 (2012: Profit: HK$7.5 million). Basic loss per share for the six months ended 31 December 2013 was HK$0.15 (2012: basic earnings per share: HK$0.01).

The Group provides primarily two types of service: Pure Assembly and Procurement & Assembly. During the period, revenue from Procurement & Assembly decreased by 3.1%, mainly due to decrease the order of a hard disk drives customer. Shipments for desktop PCs were slipping slightly this period from 3.9 to 3.6 million pieces from last year, while notebook sales were almost dropped as a client moved its operation out of China. The declining price of Solid Stated Disk ("SSD") also allowed them to take away some market share from conventional HDDs as many notebook PC switched from HDD to SSD. The total shipment of HDDs dropped from 7.6 million to 7 million pieces this period from last year. The Group has been providing both assembly services and procurement services to this Japanese customer for its hard disk drive products. Procurement income is generated when the Group helps the customers to purchase materials to use in production.

The PC motherboard shipment dropped during the 1st half of FY2014 which mainly due to the demand of the worldwide market decreased more than 8%, which was the largest drop since 2008. The notebook motherboard shipment was reducing during the period since a Korean customer had opened its new plant in Vietnam. Both accounted for the 22% decreased in revenue of Pure Assembly.

While the overall gross loss stood at HK$12.4 million (six months ended 31 December 2012: gross profit HK$7.7 million), gross margin decreased from 1.3% to negative 2.2%. The Group record a net loss for the six months ended 31 December 2013 as compared with the profit attributable to owners of the Company for the corresponding period in 2012. This was primarily due to the decrease in the turnover and gross profit margin in the computer motherboard and hard disk drive controller business, which is believed to be mainly attributable to weakening global demand of computer motherboard and hard disk drive which are the key products of the Group; the increase in the cost of raw materials and labour in China; the continual slow growth of the global economy and the economic downturn of the United States of America, the European countries and Japan which prolonged the refresh cycles for PCs; the appreciation of Renminbi; written off of leasehold improvement of HK$32 million that certain plants no longer rented; impairment losses for the revaluation of machines approximately HK$71 million; and a once-off other income of approximately HK$37 million was received in 2012 from the settlement of the final installment of insurance due to the damages incurred from the Thailand flooding.

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 2013 was HK$258 million (30 June 2013: HK$279 million).

Business Review

During the review period, the Group maintained continuous focus on top-tier clients and products. 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 territories dispute between Japan and China. The HDD for desktop PC, PC motherboard and notebook motherboard were gradually slipping this six months period as consumers continued to favor smartphones and tablets.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

HDD Controllers

Facing a relentless onslaught from tablets, smartphones and SSD, global HDD market revenue in 2013 declined by about 12%, according to an IHS iSuppli Storage Space market brief from information and analytics provider IHS.

Although our customer, Toshiba is the third largest global HDD supplier, the company still cannot escape the decrease in orders of HDD during the period. The revenue was down by 9.4% to HK$410 million from last year's HK$453 million. The Group is the major provider of PCB assembly service in China for Toshiba's 2.5-inch and 1.8-inch HDD controllers.

The Group believes that HDDs will maintain market dominance because of their cost advantage over SSDs, particularly when higher densities are involved and dollars per gigabyte are calculated. HDD costs and pricing are significantly lower than SSDs. Moreover, HDDs will continue to be part of storage solutions even in Ultrabooks that make use of an SSD component. The Group also agreed that the growth area for HDDs will be the use of HDDs in the business sector spanning the enterprise space, cloud storage, big data and big-data analytics. The lowest cost of any storage medium now on the market, HDDs will remain the final destination for the majority of digital content that need to be filed away.

This segment showed decline as shipments for desktop PCs slipped this year, while notebook sales were under pressure as consumers continued to favor smartphones and tablets. The declining price of SSDs also will allow them to take away some market share from conventional HDDs.

PCs, Notebooks and Tablet Motherboards

Global brand motherboard shipments reached 75 million units in 2013, decreased slightly from 80 million in 2012, while shipments in China fell slightly to about 30 million units.

Our Taiwanese customer is the third largest PC motherboard supplier in the world. Although, the Group is the sole provider of PCB assembly service in China for its motherboard, the Group still suffers from its shipment drops in Latin America and Europe. The drop in Latin America markets was due to decreased demand especially from Brazil. The Europe's volume drop was because of instability in the Middle East and the weak economic performances of Eastern European countries.

Our PC motherboard customer, ASRock shipped 7.6 million own-brand motherboards in 2013, slipping 1.3% year on year and 15.6% short of the target of 9 million units. The revenue contributed by this customer was reduced by 7.9% to HK$97.5 million from last year's HK$105.9 million. It was due to the dropping sales of desktop PC's and dwindling demand for motherboards in the enthusiast sector.

It is a trend that consumers are becoming more open to Windows alternatives. Android is now the most popular OS in the tablet segment and PC vendors are showing a keen interest in Chromebooks, which are carving out a niche, especially in the education 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.

Commercial demand for PCs is improving as businesses face up to the need to migrate from Windows XP, according to Market research firm Canalys. But Windows 8 will not be a major beneficiary as many businesses will take the safer option of moving to Windows 7. This provides an opportunity for vendors with strong enterprise sales and an established B2B channel in 2014.

Global notebook shipments dropped 13% year on year in 2013 and expected to decline further by 6.6% in 2014 to reach only 159 million units, as tablets continue to outshine notebooks.

Vendors heavily exposed to the consumer notebook market still face an uncertain future, said Canalys. The Group believes that Windows 8 uptake remains weak and the PC refresh cycle shows no sign of improvement.

Samsung raised its investment in northern Bac Ninh Province by two-thirds, to US$2.5 billion, according to a report by the Vietnam News Service. It is also building a US$2 billion-plus factory in Thai Nguyen Province near Hanoi to make mobile phones, cameras, and notebooks — the first of two plants that will eventually make up a US$3.2 billion manufacturing complex. Samsung is moving much of its manufacturing base in China to Vietnam. Some models are shifting from our Suzhou plant to its Vietnam plant. This decision combined with decreasing demand of notebooks that seriously affects our notebook motherboard and tablet motherboard orders from Samsung. The Group recorded a decrease in turnover of notebook segment from HK$36.8 million to HK$10 million.

The Group agreed that notebook's selling prices for 2014 are expected to remain the same as those in 2013. Although touchscreen notebooks' proportion in total notebook shipments is expected to rise from 8.2% in 2013 to 16.5% in 2014, the growth is still far below vendors' expectation. Vendors will also release more 2-in-1 models in 2014, but due to factors such as concerns over Windows 8.1's user interface, touch panels' high costs and difficulties in reducing overall costs, 2-in-1 devices' proportion in total notebook shipments will account for only less than 2% in 2014.

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. One of the sectors that the Group is looking into Chinese domestic TV Set Top Box (STB) market. The STB market is a very closed market to foreign firms, and thus can have steady growth. The Group has started to work with a Chinese domestic leading STB provider to provide its controller board assembly service. The Group expects this market can sustain stable growth in the remaining FY2014 and years to come.

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

Production Facilities

During the review period, the Group has 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 relocated to its offshore factories were in the setting up process. As of 31 December 2013, it had 45 SMT lines and a production capacity of 78.93 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. That trend will help the Group to push up its overall equipment utilization rate eventually.

Prospect

Although the world economy seems has more momentum than it did same period of last year, there's clearly still uncertainty given slow job growth, the weak economy in Europe and a controversial U.S. government budget.

The world's major economies still face many policy constraints and structural flaws that hinder more investment and faster productivity growth, making the medium-term outlook for a significantly faster path of global growth more uncertain.

The global electronics market is sliding into low growth or even negative growth territory with many of the industry's bellwether manufacturers rolling out fourth quarter revenue guidance that have largely fallen short of analysts' consensus estimate. And while almost nobody is trotting out the dreaded "downturn" word yet, concerns are building up in the industry over signs of end-of-year sales could be sluggish in addition to the poor visibility into medium and long-term demand at end markets.

Although a downturn was forecast for the final quarter of 2013, the decline was more significant than originally predicted as OEMs pushed back into 2014, or even cancelled orders, on the back of a weak economy and poor consumer confidence. 2013 so far has followed a similar path to 2012 and as we look forward to 2014 and beyond the EMS industry continues to face a period of uncertainty with limited visibility.

The prospects for the next two years continue to be challenging, fraught with major uncertainties and risks slanted towards the downside. 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. Some EMS shift the manufacturing to other countries as the onetime factory to the world becomes less competitive because of a persistent labor shortage and sharply rising minimum wages. The moves allow the companies to keep consumer prices in check, although competition for labor in places such as Vietnam and Cambodia is pushing up wages in those countries as well. Some migration of electronics manufacturing from China is expected, and even encouraged by the government, as the country's economy matures. As other Asian countries become efficient at mass manufacturing, China must embrace research and high-technology production to transform its economy as South Korea and Japan once did.

Wage inflation in Shenzhen, Suzhou and other prime business locations, particularly along the eastern seaboard, has remained in the double digits for roughly a decade, with no apparent relief in sight. At the same time, other costs are rising too. China may no longer be the cheapest place for EMS companies. Real estate costs have risen at near-manic rates following the institution of government-mandated minimum land prices. Electricity rates are also rising, although the same is true in many other countries. And corporate income tax rates for most foreign companies have increased from 15% to 25%, while tax-related incentives are disappearing or becoming increasingly difficult to obtain.

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

The Group is moving much of its production base to Vietnam because of increasing difficulties in finding cheap labor in China, which is pricing itself out of low-cost electronics assembly. Vietnam offers tax exemption for three years from its profit making year and a reduction of 50% for seven years thereafter — the Group will pay 11% corporate income tax (50% of 22%) versus a standard 25% rate — relative political stability, and a young and increasingly well-educated workforce. Thus, in order to maintain competitive, the Group will shift more labor intensive order to the Group's factory in Vietnam which is one of growing popularity of cost competitive countries.

Furthermore economists expect RMB to continue rising against US dollar this year, even as it strengthens against other major currencies. The RMB will rise 2 per cent to 5.93 per US dollar by the end of this year, according to the median estimate of nine economists polled by the South China Morning Post. The combined factors of higher salary multiple 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 2014 due to the sluggish global economy and the uncertainties over the euro. The Group expected that the result of greater demand from the consumer and enterprise PC segments, both of which continue to clamor for disk space in order to hold storage-intensive media like music, videos and other forms of social media content. Another major contributor to HDD growth is the Windows 8 operating system, which was launched in October 2013, 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.

The Group predicts the worldwide PC motherboard shipments will slightly decrease due to shrinking motherboard demand on increasing competition from notebooks, tablets and smartphones. While there is large demand for motherboards in the China market, and demand is still increasing, growth is not enough to offset the decline in the Europe and Latin America.

Since the Group's current businesses had been unprofitable for three consecutive years, the Board will consider any investment opportunities, including but not limited to businesses of similar nature and technological know-hows, which will enable the Group to generate profit and shareholders' value in the future. The Board will also review the future profitability of the Group's current businesses and may consider disposing any businesses with declining operating results.

In summary, the Group believes the worst recession is improving, but far from over, which has reflected in its performance. 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. Oversees 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 enable its competitive edge in the long run.

Liquidity and Financial Resource

The Group had bank balances and cash of approximately HK$258 million as at 31 December 2013. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 December 2013, the Group had net current assets of approximately HK$431 million (30 June 2013: HK$438 million) and a current ratio of 3.9 (30 June 2013: 4.2). The Group's net asset value was HK$696 million, decreasing from HK$841 million at 30 June 2013.

All unsecured bank loan were utilized in financing the Group's machineries and daily operation. As at 31 December 2013, the unsecured bank loan decreased from HK$8.8 million as at 30 June 2013 to HK$6.3 million as at 31 December 2013. Total debt to total assets ratio was 18% (30 June 2013: 14%).

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 2013, the Group did not have any material contingent liabilities.

Staffs

As at 31 December 2013, the Group employed a total of 2,919 staffs, of which 1,655 were employed in Mainland China, while 34 were employed in Hong Kong, 1,230 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.

Dividend

The Board of Directors did not recommend the payment of an interim dividend (six months ended 31 December 2012: NIL).

Purchase, Sale or Redemption of Shares

During the six months ended 31 December 2013, 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 2013, 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 2013.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31 December 2013, 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 2013.

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 2013, 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 2013.

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 one time per 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 2014

REPORT ON REVIEW OF CONDENSED CONSOLIDATION FINANCIAL STATEMENTS

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 19 to 36, which comprises the condensed consolidated statement of financial position as of 31 December 2013 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 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2013

	Notes	Six months ended 31.12.2013 HK$'000 (unaudited)	31.12.2012 HK$'000 (unaudited)
Revenue	3	**557,271**	604,456
Cost of sales		**(569,673)**	(596,797)
Gross (loss) profit		**(12,402)**	7,659
Other income		**3,687**	38,953
Other gains and losses		**(35,133)**	(533)
Change in fair value of derivative financial instruments	8	**6,989**	2,687
Distribution expenses		**(5,815)**	(5,559)
Administrative expenses		**(33,649)**	(35,440)
Impairment loss recognised in respect of property, plant and equipment	9	**(71,085)**	—
Finance costs		**(97)**	(232)
(Loss) profit before tax		**(147,505)**	7,535
Income tax expense	4	**—**	—
(Loss) profit for the period attributable to owners of the Company	5	**(147,505)**	7,535
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**1,580**	285
Exchange differences on long-term advances to a foreign operation		**(339)**	(936)
Reclassified to profit or loss upon deregistration of subsidiaries		**(7,250)**	—
Other comprehensive expense for the period		**(6,009)**	(651)
Total comprehensive (expense) income for the period attributable to the owners of the Company		**(153,514)**	6,884
Basic (loss) earnings per share	7	**HK$(0.15)**	HK$0.01

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	31.12.2013 HK$'000 (unaudited)	30.6.2013 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**261,622**	398,904
Prepaid lease payments		**3,626**	3,714
		265,248	402,618
CURRENT ASSETS			
Inventories		**90,603**	77,213
Trade and other receivables	10	**230,561**	219,092
Prepaid lease payments		**96**	96
Derivative financial instruments	8	**501**	—
Bank balances and cash		**258,339**	278,564
		580,100	574,965
CURRENT LIABILITIES			
Trade and other payables	11	**141,891**	105,429
Derivative financial instruments	8	**—**	3,684
Tax liabilities		**828**	18,624
Unsecured bank borrowings	12	**6,348**	8,783
		149,067	136,520
NET CURRENT ASSETS		**431,033**	438,445
TOTAL ASSETS LESS CURRENT LIABILITIES		**696,281**	841,063
CAPITAL AND RESERVES			
Share capital	13	**96,839**	96,839
Share premium and reserves		**599,278**	752,792
Equity attributable to owners of the Company		**696,117**	849,631
Non-controlling interests		**164**	(8,568)
Total equity		**696,281**	841,063

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

	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 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
At 1 July 2013 (audited)	**96,839**	**450,739**	**11,478**	**6,400**	**33,052**	**251,123**	**849,631**	**(8,568)**	**841,063**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(147,505)**	**(147,505)**	**–**	**(147,505)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**1,580**	**–**	**1,580**	**–**	**1,580**
Exchange differences on long-term advances to a foreign operation	**–**	**–**	**–**	**–**	**(339)**	**–**	**(339)**	**–**	**(339)**
Reclassified to profit or loss upon deregistration of subsidiaries	**–**	**–**	**–**	**–**	**(7,250)**	**–**	**(7,250)**	**–**	**(7,250)**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**(6,009)**	**(147,505)**	**(153,514)**	**–**	**(153,514)**
Release upon deregistration of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,732**	**8,732**
At 31 December 2013 (unaudited)	**96,839**	**450,739**	**11,478**	**6,400**	**27,043**	**103,618**	**696,117**	**164**	**696,281**

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 2013

	Six months ended	
	31.12.2013 HK$'000 (unaudited)	31.12.2012 HK$'000 (unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(18,012)**	9,223
NET CASH FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment	**1,535**	51
Interest received	**1,370**	1,086
Purchase of property, plant and equipment	**(2,123)**	(6,482)
Insurance compensation received in respect of property, plant and equipment	**—**	37,017
Withdrawal of fixed bank deposits	**—**	15,854
Placement of fixed bank deposits	**—**	(12,195)
	782	35,331
NET CASH USED IN FINANCING ACTIVITIES:		
Repayment of bank borrowings	**(2,435)**	(2,400)
Interest paid	**(97)**	(232)
Repayment of obligations under finance leases	**—**	(11,321)
	(2,532)	(13,953)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(19,762)**	30,601
CASH AND CASH EQUIVALENTS AT 1 JULY	**278,564**	240,307
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(463)**	(243)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**258,339**	270,665

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

For the six months ended 31 December 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as 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").

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
(Continued)
For the six months ended 31 December 2013

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 13 "Fair Value Measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad. The fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the condensed consolidated financial statements.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
(Continued)

For the six months ended 31 December 2013

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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:

HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, with early application permitted.

3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

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.

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 31.12.2013 HK$'000	Six months ended 31.12.2012 HK$'000
Segment revenue		
— Pure assembly services	**115,206**	147,625
— Procurement and assembly services	**438,665**	452,537
— Repair and maintenance services	**3,400**	4,294
	557,271	604,456
Segment results		
— Pure assembly services (note)	**(89,980)**	(7,992)
— Procurement and assembly services	**5,286**	14,794
— Repair and maintenance services	**1,207**	857
	(83,487)	7,659
Unallocated corporate expenses	**(74,597)**	(41,532)
Unallocated other income	**3,687**	38,953
Change in fair value of derivative financial instruments	**6,989**	2,687
Finance costs	**(97)**	(232)
(Loss) profit before tax	**(147,505)**	7,535

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 2013 included the impairment loss recognised on property, plant and equipment of approximately HK$71,085,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (Continued)

For the six months ended 31 December 2013

3. SEGMENT INFORMATION (Continued)

Segment (loss) profit represents the (loss from) profits earned by each segment without allocation of other income, other gains and losses, change in fair value of derivative financial instruments, distribution expenses, administrative expenses 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

Hong Kong

No provision of Hong Kong Profits Tax has been made as the Group incurred tax loss for both periods. 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, a subsidiary of the Company, is entitled to 50% relief from Hong Kong Profits Tax.

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.

4. INCOME TAX EXPENSE (Continued)

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

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 incurred loss for the period ended 31 December 2013 and, had generated profit for the first time during the period ended 31 December 2012 which the subsidiaries still enjoy 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 2013 and 2012. However, no provision for Vietnam corporate income tax was made for the period ended 31 December 2013 as it enjoys corporate income tax exemption.

Thailand

In accordance with the relevant rules and regulations in Thailand, Fittec Electronics (Thailand) Company Limited, 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 due to the insurance compensation received and incurred loss for the period ended 31 December 2013. 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 2013

5. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2013 HK$'000	31.12.2012 HK$'000
(Loss) profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**32,413**	32,858
Release of prepaid lease payments	**47**	48
Net exchange (gain) loss	**(226)**	495
Loss on disposal of property, plant and equipment	**33,877**	38
Written-down on inventories (included in cost of sales)	**45**	570
Interest income	**(1,370)**	(1,086)
Insurance compensation received (included in other income)	**—**	(37,017)
Loss on deregistration of subsidiaries (note 14)	**1,482**	—

6. DIVIDEND

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

7. BASIC (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the six months period ended 31 December 2013 is based on the loss for the period attributable to owners of the Company of approximately HK$147,505,000 (profit for six months ended 31 December 2012: approximately HK$7,535,000) and the number of 968,394,000 ordinary shares in issue during both periods.

Diluted (loss) earnings per share is not presented for the period ended 31 December 2013 and 2012 as there is no potential ordinary shares outstanding during the period or at the end of the reporting period.

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 2013, fair value gain of approximately HK$6,989,000 (Six months ended 31 December 2012: approximately HK$2,687,000) was recognised directly in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
(Continued)
For the six months ended 31 December 2013

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2013, the Group acquired property, plant and equipment of approximately HK$2,123,000 (Six months ended 31 December 2012: approximately HK$6,482,000).

In light of the changes in technologies and market conditions, management critically reviewed the Group's plant and machinery and determined that a number of those assets were impaired due to segment loss was noted for the pure assembly services. Accordingly, impairment loss of HK$71,085,000 has been recognised in respect of certain plant and equipment, which are used in the pure assembly service segment. The recoverable amounts of these plant and machinery, whose value in use amounts are determined to be insignificant, have been determined as the assets' fair value less costs to sell by reference to valuations of their market values which are higher than the value in use amounts. These valuations are performed by independent qualified professional valuers from Malcolm & Associates Appraisal Limited, who are members of the Institute of Valuers and not connected with the Group.

Management also assessed the potential for impairment of the Group's remaining property, plant and equipment and is satisfied that no objective evidence of impairment loss existed for these assets.

10. 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:

	31.12.2013 HK$'000	30.6.2013 HK$'000
0–30 days	91,525	85,207
31–60 days	90,930	93,340
61–90 days	25,817	16,639
91–120 days	1,009	136
121–180 days	—	—
181–365 days	14	—
Over 365 days	112	119
	209,407	195,441

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:

	31.12.2013 HK$'000	30.6.2013 HK$'000
0–30 days	94,672	74,343
31–60 days	5,326	2,482
61–90 days	7,933	1,980
91–180 days	10,386	1,495
181–365 days	129	21
Over 365 days	493	880
	118,939	81,201

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

(Continued)

For the six months ended 31 December 2013

12. 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 2013 is 2.4% (six months ended 31 December 2012: 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 2013 and 31 December 2013	3,000,000,000	300,000
Issued and fully paid:		
At 30 June 2013 and 31 December 2013	968,394,000	96,839

14. DEREGISTRATION OF SUBSIDIARIES OF THE COMPANY

Two subsidiaries of the Company, Fittec Electronics (Shenzhen) Company Limited ("Fittec Shenzhen") and Suzhou Toprich Electronics Technology Limited ("Suzhou Toprich") was deregistered on 12 November 2013 and 26 November 2013, respectively.

14. DEREGISTRATION OF SUBSIDIARIES OF THE COMPANY (Continued)

The net loss of Fittec Shenzhen and Suzhou Toprich at the date of deregistration are as follows:

	HK$'000
Exchange reserve released	(7,250)
Non-controlling interests	8,732
Loss on deregistration of subsidiaries	1,482

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial instrument are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instrument are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT (Continued)

For the six months ended 31 December 2013

15. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value as 31.12.2013 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Financial Assets			
Foreign currency forward contracts (note 8)	501	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in condensed consolidated financial statements approximate their fair values.

16. RELATED PARTY DISCLOSURES

The compensation of the Group's key management personnel for the six months ended 31 December 2013 was approximately HK$3,719,000 (Six months ended 31 December 2012: approximately HK$3,719,000).