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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2016

The Board of Directors (the ''Directors'' and the "Board" respectively) of Fittec International Group Limited ("Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 30 June 2016 together with comparative figures for the previous year as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	NOTES	**2016 HK$'000**	2015 HK$'000
Revenue	3	**461,922**	726,771
Cost of sales		**(436,280)**	(743,856)
Gross profit (loss)		**25,642**	(17,085)
Other income		**4,987**	6,360
Other gains and losses		**(2,129)**	(137)
Change in fair value of derivative financial instruments		**(12,743)**	7,844
Distribution costs		**(10,514)**	(9,634)
General and administrative expenses		**(48,398)**	(51,875)
Impairment loss recognised in respect of property, plant and equipment		**(7,674)**	(13,234)
Finance costs		**–**	(17)
Loss before tax		**(50,829)**	(77,778)
Income tax expense	4	**(849)**	(52)
Loss for the year	5	**(51,678)**	(77,830)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(9,102)**	(1,558)
Cumulative exchange differences reclassified to profit or loss upon deregistration of a subsidiary		**2,901**	–
		(6,201)	(1,558)
Total comprehensive expense for the year		**(57,879)**	(79,388)
Basic loss per share	7	**(HK$0.05)**	(HK$0.08)

Consolidated Statement of Financial Position

At 30 June 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**110,681**	148,457
Prepaid lease payments		**3,168**	3,358
Deposit paid for acquisition of property, plant and equipment		**–**	715
		113,849	152,530
Current assets			
Inventories		**25,524**	39,204
Trade and other receivables	8	**143,042**	165,608
Prepaid lease payments		**90**	96
Bank balances and cash		**148,487**	192,737
		317,143	397,645
Current liabilities			
Trade and other payables	9	**65,725**	44,681
Derivative financial instruments		**877**	9,885
Tax liabilities		**1,981**	1,981
		68,583	56,547
Net current assets		**248,560**	341,098
		362,409	493,628
Capital and reserves			
Share capital		**107,712**	96,839
Share premium and reserves		**254,697**	396,789
		362,409	493,628

Notes to the Consolidated Financial Statements

For the year ended 30 June 2016

1. General

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 24 November 2015, China Base Group Limited entered into a conditional sales and purchase agreement to acquire a total of 720,000,000 ordinary shares of the Company from Fittec Holdings Limited, which represents 74.35% of total issued share capital of the Company. The transaction was completed in January 2016 and the Company's immediate and ultimate holding company was changed from Fittec Holdings Limited to China Base Group Limited. The ultimate controlling party is Ms. Lo Ching ("Ms. Lo"), an Executive Director and the Chairman of the Board.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), while the functional currency of the Company is United States dollars ("USD"). The Directors have selected HKD as the presentation currency because the shares of the Company are listed on the Stock Exchange.

2. Application of Hong Kong Financial Reporting Standards ("HKFRSs")

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 by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based, Payment Transactions[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to HKAS 7	Disclosure Initiative[6]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[6]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods beginning on or after 1 January 2019
6 Effective for annual periods beginning on or after 1 January 2017

2. Application of Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases", introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash payments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and these lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The Directors will assess the impact of application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detail review.

The Directors anticipate that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. Revenue and segment information

Revenue

Revenue represents revenue arising on sales of printed circuit boards and related products and rendering of services on assembly, repair and maintenance for the year. An analysis of the Group's revenue for the year is as follows:

	2016	2015
	HK$'000	HK$'000
Sales of goods	**285,346**	556,819
Rendering of services	**176,576**	169,952
	461,922	726,771

3. Revenue and segment information (Continued)

Segment information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The chief operating decision maker is the Company's executive directors.

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 reported to the executive directors to allocate resources and to assess the performance.

	2016	2015
	HK$'000	HK$'000
Results		
Segment revenue		
Pure assembly services	**173,318**	164,937
Procurement and assembly services	**285,346**	556,819
Repair and maintenance services	**3,258**	5,015
	461,922	726,771
Segment results		
– Pure assembly services (Note 1)	**4,720**	(49,232)
– Procurement and assembly services (Note 2)	**13,199**	17,876
– Repair and maintenance services (Note 2)	**109**	936
	18,028	(30,420)
Unallocated corporate expenses	**(58,912)**	(61,509)
Other income	**4,987**	6,360
Unallocated other gains and losses	**(2,189)**	(36)
Change in fair value of derivative financial instruments	**(12,743)**	7,844
Finance costs	**–**	(17)
Loss before tax	**(50,829)**	(77,778)

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

Notes:

1. The segment result of the pure assembly services segment for the year ended 30 June 2016 included the impairment loss recognised on property, plant and equipment of approximately HK$7,674,000 (2015: HK$13,234,000), the gain on disposals of property, plant and equipment of approximately HK$390,000 (2015: loss of HK$48,000) and the loss on write-off of property, plant and equipment of approximately HK$235,000 (2015: HK$53,000) for the year ended 30 June 2016.

2: The segment result of the procurement and assembly services segment for the year ended 30 June 2016 included the write-down of certain categories of inventory of approximately HK$129,000 (2015: HK$167,000). The segment result of the repair and maintenance services segment for the year ended 30 June 2016 included the loss on disposals of property, plant and equipment of approximately HK$95,000 (2015: nil).

3. Revenue and segment information (Continued)

Segment information (Continued)

Segment profit (loss) represents the profit earned (loss from) by each segment without allocation of other income, other gains and losses (excluding the items described in the above note), change in fair value of derivative financial instruments, distribution costs, general and administrative expenses and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's revenue from its major products and services:

	2016	2015
	HK$'000	HK$'000
HDD Controllers	**264,333**	538,271
Desktop and notebook PC Motherboards	**115,275**	145,716
Others	**82,314**	42,784
	461,922	726,771

Geographical segments

An analysis of the Group's revenue by geographical market of the customers, irrespective of the origins of the goods, is presented based on the shipment destination as below:

	2016	2015
	HK$'000	HK$'000
Japan	**269,097**	554,792
Taiwan	**114,753**	141,260
The People's Republic of China (the "PRC")	**78,072**	30,719
	461,922	726,771

Analysis of segment assets and liabilities has not been presented as it is not regularly reviewed by the chief operating decision maker.

The Group's non-current assets by geographical location of the assets is detailed below:

	2016	2015
	HK$'000	HK$'000
PRC	**65,135**	97,296
Hong Kong	**5,397**	9,329
Vietnam	**43,317**	45,905
	113,849	152,530

3. Revenue and segment information (Continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	Year ended 2016 HK$'000	2015 HK$'000
Customer A[1]	**264,333**	538,271
Customer B[2]	**112,410**	141,260

1 Revenue derived from the procurement and assembly services segment was approximately HK$264,333,000 (2015: HK$538,271,000).

2 Revenue derived from the pure assembly services segment was approximately HK$109,152,000 (2015: HK$136,245,000) and the repair and maintenance services segment was approximately HK$3,258,000 (2015: HK$5,015,000) respectively.

4. Income tax expense

	2016 HK$'000	2015 HK$'000
The income tax expense comprises:		
Current tax:		
PRC Enterprise Income Tax	**107**	41
Underprovision in prior years:		
PRC Enterprise Income Tax	**742**	–
Thailand income tax	**–**	11
	849	52

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the Group for both years. No provision for Hong Kong Profits Tax has been made as the Group had estimated assessable loss arising in Hong Kong for the year ended 30 June 2016 (2015: the assessable profits arising in Hong Kong were wholly absorbed by tax losses brought forward).

PRC

Under the Enterprise Income Tax Law of the PRC (the "EIT Law"), the PRC income tax rate for the Group's subsidiaries established in the PRC was 25% for both years.

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 a corporate income tax exemption for three years from its first profit making year and a reduction of 50% for seven years thereafter. No provision for Vietnam corporate income tax has been made as the assessable profits arising are wholly absorbed by tax losses brought forward for both years.

4. Income tax expense (Continued)

Thailand

In accordance with the relevant rules and regulations in Thailand, Fittec Electronics (Thailand) Company Limited, the Company's subsidiary incorporated in Thailand, was entitled to income tax exemption for a period of eight years from the date it first generates income. Due to Fittec Thailand had applied for dissolution from the prior year and no longer entitled to the tax exemption. Thailand income tax was calculated at 20% of the estimated assessable profit for both years. No provision for Thailand income tax has been made as the subsidiary incurred loss for the year ended 30 June 2016.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	HK$'000	HK$'000
Loss before tax	**(50,829)**	(77,778)
Tax at the Hong Kong Profit Tax rate of 16.5%	**(8,387)**	(12,833)
Tax effect of expenses not deductible for tax purposes	**4,590**	5,566
Tax effect of income not taxable for tax purposes	**(766)**	(421)
Tax effect of tax losses not recognised	**8,518**	14,239
Utilisation of tax losses not recognised previously	**(2,668)**	(210)
Underprovision in prior years	**742**	11
Effect of different tax rate of group entities operating in jurisdictions other than Hong Kong	**(1,180)**	(6,300)
Income tax expense for the year	**849**	52

5. Loss for the year

	2016	2015
	HK$'000	HK$'000
Loss for the year has been arrived at after charging (crediting):		
Directors' emoluments	**4,481**	7,427
Other staff costs	**109,313**	133,949
Retirement benefit scheme contributions (excluding contributions in respect of the Directors)	**8,114**	9,875
Total staff costs	**121,908**	151,251
Auditor's remuneration		
– audit services	**1,521**	1,444
– non-audit services[1]	**423**	299
Depreciation of property, plant and equipment	**24,347**	29,905
Release of prepaid lease payments	**90**	96
Cost of inventories recognised as an expense (including write-down of inventories of approximately HK$129,000 (2015: HK$167,000))	**262,979**	611,663
Allowance for doubtful debts recovered	**(190)**	–
Interest income	**(195)**	(1,101)
Rework charges to customers (included in other income)	**(722)**	(600)
Insurance compensation received (included in other income)	**(1,893)**	(1,572)

6. Dividend

A special dividend of HK$0.198 per ordinary share amounting to approximately HK$191,742,000 in aggregate was paid to the ordinary shareholders during the year ended 30 June 2016.

No interim and final dividend was proposed during 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

7. Basic loss per share

The calculation of the basic loss per share for the year ended 30 June 2016 is based on the loss attributable to owners of the Company of approximately HK$51,678,000 (2015: HK$77,830,000) and 972,553,000 (2015: 968,394,000) shares in issue.

Diluted loss per share is not presented for the years ended 30 June 2016 and 2015 as there is no potential ordinary shares outstanding during the year or at the end of the reporting period.

8. Trade and other receivables

	2016	2015
	HK$'000	HK$'000
Trade receivables	**123,251**	145,283
Less: allowance for doubtful debts	**(39)**	(229)
	123,212	145,054
Prepayments	**6,922**	11,344
Deposits and other receivables	**12,908**	9,210
Trade and other receivables	**143,042**	165,608

The Group allows credit periods ranging from 30 to 120 days to its trade customers. 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 which approximated the respective revenue recognition dates:

	2016	2015
	HK$'000	HK$'000
0-30 days	**52,187**	36,787
31-60 days	**46,184**	43,605
61-90 days	**22,937**	31,219
91-120 days	**1,868**	33,443
Over 365 days	**36**	–
Trade receivables	**123,212**	145,054

At the end of the reporting period, the Group's trade and other receivables that were denominated in currencies other than the functional currency of the relevant entities are set out below:

	2016	2015
	HK$'000	HK$'000
HKD	**4,808**	48
USD	**11,905**	10,442
	16,713	10,490

8. Trade and other receivables (Continued)

Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Limits attributed to customers are reviewed regularly. 99.9% (2015: 100%) trade receivables were neither past due nor impaired at 30 June 2016 and had good repayment history.

Included in the Group's trade receivables balance, approximately HK$36,000 (2015: nil) were past due at the end of the reporting period but for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which were past due but not impaired

	2016	2015
	HK$'000	HK$'000
Over 365 days	**36**	–

The above trade debtors are related to customers that have good repayment history. Management believes that no allowances for impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these customers and the balances are still considered to be fully recoverable.

Movement in the allowance for doubtful debts

	2016	2015
	HK$'000	HK$'000
At beginning of the year	**229**	304
Amounts written off as uncollectible	**–**	(75)
Amounts recovered during the year	**(190)**	–
At end of the year	**39**	229

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of trade receivable from the date credit was initially granted up to the end of the reporting period.

9. Trade and other payables

	2016	2015
	HK$'000	HK$'000
Trade payables	**42,549**	28,288
Accruals and other payables (note)	**23,176**	16,393
	65,725	44,681

Note: Included in accruals and other payables, approximately HK$1,000 (2015: nil) and approximately HK$280,000 (2015: nil), respectively, are due to Ms. Lo and a related company in which Ms. Lo has significant influence. The balances are unsecured, interest-free and repayable on demand and have been fully repaid subsequent to the end of the reporting period.

The credit periods 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 is as follows:

	2016	2015
	HK$'000	HK$'000
0 – 30 days	**40,332**	23,121
31 – 60 days	**1,346**	3,403
61 – 90 days	**515**	195
91 – 180 days	**326**	1,542
Over 181 days	**30**	27
	42,549	28,288

At the end of the reporting period, the Group's trade and other payables that were denominated in currencies other than the functional currency of the relevant entities are set out below:

	2016	2015
	HK$'000	HK$'000
HKD	**3,270**	896
JPY	**42**	36
RMB	**3,693**	528
	7,005	1,460

Management Discussion and Analysis

Financial Review

Global economic growth in 2016 is similar to that seen in 2015. The growth of developed countries is expected to remain modestly above trend, with improving unemployment rates and these economies are expected to recover. The recovery process is much more advanced in the United States and Britain which are both embarking on a rate-hiking cycle, whereas in Japan and the Eurozone all people should focus on its ongoing loosening measures. For a number of emerging economies, Year 2015 was terrible, and Year 2016 will likely need some time before economy reaches meaningful growth.

There are many Emerging Market ("EM") economics facing significant structural challenges, ranging from unwinding the credit bubble and reforming the Chinese economy to adjusting to lower commodity prices. Tackling these challenges is similar to losing weight, easier in theory than in practice. Material progress has been made in improving competitiveness in some countries, but at the cost of higher unemployment and very weak economic growth. Although this weak economic growth is a necessary part of the adjustment phase, it increases the risk of a financial crisis such as corporate defaults.

China remains the other significant source of risk to the relatively benign economic outlook. The likely outcome is a gradual slowing of the Chinese economy as it rebalances toward domestic consumption. However the robust growth in debt within the private sector over prior years is unsustainable and it need considerable faith in the government to achieve a successful deleveraging.

The slowdown in China has also heightened risks in other EM economies since they are becoming highly dependent on Chinese demand. Brazil looks especially fragile given its domestic political problems, and an accident on one economy could have repercussions for financial conditions across the developing world. Actually, China and the EM economics now have significant impacts on global growth and financial markets. Terrorism and geopolitical risks also linger more over the worldwide economy and market.

It is generally anticipated that the worldwide economy will grow 3.4% during 2016-2017 versus an estimated 3.1% this year. Beneath this dull headline hides material differences for the larger regions. The US & Europe seems set for modestly stronger growth; though Asia, led by China, appears to be heading towards weaker growth. The significant difference between these regions is the degree to which private sector balance sheets have deleveraged. Deleveraging is an essential condition for credit cycles to accelerate and lift domestic demand. The US has deleveraged the most since the global crisis, Europe less so, and China not at all. Thus, domestic demand in the latter slows and improves in the former. Finally, this situation caused global trade to slightly improve during 2015, but we anticipate it to remain relatively weak compared to pre-crisis trends and to global manufacturing capacity.

According to International Monetary Fund ("IMF"), the baseline projection for global growth in 2016 is a modest 3.2 percent, broadly in line with last year, and a 0.2 percentage point downward revision relative to the January 2016 World Economic Outlook Update. The recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging markets and developing economies, as conditions in stressed economies start progressively to recover. However uncertainty has increased, and risks of weaker growth scenarios are becoming more tangible. The fragile conjuncture increases the urgency of a broad-based policy response to raise growth and manage vulnerabilities.

Major macroeconomic realignments are affecting prospects differentially across regions and nations. These include the slowdown and rebalancing in China; a further decrease in commodity prices, especially for oil, with sizable redistributive consequences across countries and sectors; a related slowdown in investment and trade; and declining capital steams to emerging market and developing economies. These realignments-together with a group of noneconomic factors, including geopolitical tensions and political discord-are creating significant uncertainty. On the whole, they are consistent with a subdued outlook for the global economy-but risks of much weaker global growth have also risen.

The life cycles of electronic products keep on shortening and together with consumers demanding devices with more functions at lower costs, original equipment manufacturers (OEMs) are challenged to diminish production costs and streamline manufacturing. Thus, they are outsourcing manufacturing to specialized companies providing electronic manufacturing services (EMS). Lately, EMS in the US has grown steadily. In 2016 it is expected to reach US$4.2 billion. With year-on-year growth of 1.06%, US EMS revenue will reach US$5.3 billion by 2020. The consumption of domestic appliances in the US, Canada and Latin America now surpasses production, representing huge export opportunities for EMS companies.

The EMS industry is also undergoing substantial consolidation, in spite of the fact that this is not deterring new participants from entering the business sector. The financial and structural advantages of outsourcing have been well demonstrated for many years, as evidenced by very rare OEM companies planning or investing in manufacturing automation, thus leaving the expertise of electronics production to EMS companies. More recently, this pattern is beginning to apply to new Asian OEM companies as original design manufacturers and EMS companies line up to secure contracts to manufacture new hardware innovations from established OEMs.

North American manufacturers that outsource the non-core tasks, the outsourcing strategy is slowly moving from offshoring to near-shoring of electronic assemblies and precision machined parts. This is happening because of the rising wages in emerging economies like China. In addition, the transportation cost and complex supply chain of offshoring can never again be neglected, especially when precision is demanded and the total cost of ownership is considered.

For the fiscal year ended 30 June 2016, the Group recorded revenue of HK$462 million (for the year ended 30 June 2015: HK$727 million). The turnover slipped from last year due to the decrease of the hard disk drive "HDD" orders which include a large amount of procurement income, and decrease in global demand of desktop motherboards.

	Revenue			
	FY2015/16		FY2014/15	
	Amounts (HKD million)	**%**	Amounts (HKD million)	%
HDD Controllers	**264**	**57**	538	74
Desktop & Notebooks Motherboards	**115**	**25**	146	20
Others	**83**	**18**	43	6
	462	**100**	727	100

The HDD companies, Seagate, Western Digital and Toshiba, have reported their Calendar Quarter ("Q") 1, 2016 results. Overall HDD shipments dropped 12.3% over the prior quarter (100.6 M units versus 114.7 M units). The unit shipment decline was across the board for all HDD applications including Notebook Computers (down about 15%), Consumer Electronics (down about 14%), Branded Products (down about 14%), Desktop Computers (down about 10%), Near-Line Enterprise Storage (down about 3%) and High Performance Enterprise Storage (down about 12%).

At the same time that the HDD unit shipment volumes declined, average HDD capacities increased quarter over quarter.

To understand what the future has in store it is necessary for us to know the market dynamics in this industry as well as where HDDs could lose ground to flash memory and where they may have an enduring value. In light of late history, it is far-fetched that we will see normal growth in HDD shipped units of 15% or more in the foreseeable future, which was common several years ago. On the other hand it is unlikely that we will see a total displacement of HDD either, as long as the storage capacity of HDDs can advance by at least 30% annually and thus in line with the average increase in demand for flash memory. We believe that HDDs will continue to decline for client computer applications as the price of a useful flash amount of memory storage capacity decreases. For some individuals that keep their data in the cloud or in local external storage implies the amount of storage they need resident in their computers is not developing at the rate it was, say 10 years ago. So, for many people HDD will be gradually be replaced by flash memory.

HDDs and other storage for consumer electronic applications, such as DVRs will decay with the introduction into more markets of cloud driven network DVR where the recording is done in a data center instead of a set top box. Network DVRs will enhance the demand for near-line HDD storage in the cloud.

Facing weakening worldwide PC demand, Taiwan-based motherboard players have been expanding their businesses into new industries such as industrial PC (IPC), healthcare, car electronics and embedded products to strive for orders, according to sources from the upstream supply chain.

At Japan IT Week Spring 2016 being held in Tokyo from May 11-13, Taiwan-based IPC players including Advantech, Adlink, Innodisk, DFI, VIA and Aaeon, a subsidiary of Asustek Computer, are showcasing their latest products.

Taiwan-based motherboard and barebones vendors including Gigabyte Technology, ASRock, Micro-Star International (MSI) and Shuttle are also displaying their embedded motherboards and system solutions.

At the show, Gigabyte is displaying a mini PC which supports H.265 decoding and is able to output image to four Ultra HD monitors. ASRock is showcasing embedded motherboards and new HPC servers.

Motherboard vendors' customization ability is anticipated to be greatly challenged if they hope to land orders from IPC and embedded solution vendors. However, since the product lines are able to contribute higher gross margins than their branded motherboard segment, entering the new markets has become an important strategy for them to maintain profitability.

The U.S. market witnesses a healthy jump in growth in the second quarter of 2016. Despite uncertainty in various parts of the market, the competitive environment, strength of the U.S. compared to other markets, strong gains in Chrome shipments, and a relatively easy comparison to year-ago shipments contributed to year-on-year growth of almost 5%.

In Europe, Middle East, and African (EMEA) regions, results are expected to be in line with forecast. Mobility demands keep on pushing interest towards notebooks, which supported overall volumes. This is the first recent quarter of comparison that was not impacted by Bing promotions (that inflated shipments through Q1 2015). Subsequently, second quarter of 2016 shipments represent a more normalized growth trend – still confirming long-term market erosion for traditional PCs, but showing hints of short-term stabilization. Currency fluctuations in the EMEA region, localized political developments in Western Europe, and ongoing instabilities in the Middle East are also compelling shipment growth.

The Asia-Pacific (excluding Japan) PC market saw a decline in line with expectations. Decline in consumer demand continued in most countries across the region: Ramadhan observance affected consumer spending, while high inventory inhibited new shipments. Also, a number of commercial projects in India, Thailand, and the Philippines have been put off until the following quarter.

The Japan market performed better than industry forecast and posted strong year-on-year growth. However, a slowing economic outlook, weaker Yen, and sluggish consumer spending further dampened demand.

The Group recorded a net loss of HK$58 million for the year (for the year ended 30 June 2015; HK$79 million). The decrease in loss was primarily due to (A) less impairment loss for the property, plant and equipment recognised in 2016 amounting to HK$7.7 million compared to HK$13.2 million in 2015; (B) success of cost saving in 2016, the gross margin improved; and (C) offset by loss of HK$12.7 million on changes in fair value of the derivative financial instrument in 2016 as compared to a HK$7.8 million gain in 2015.

The decrease in the turnover in the computer motherboard and hard disk drive controller business, are mainly attributable to (i) weakening global demand of computer motherboard and hard disk drive which are the key products of the Group; (ii) the increase in the cost of raw materials and labour in China; and (iii) 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 Vietnam Factory was torched and looted by rioters on 13 May 2014 and the Vietnam Factory had since been suspended from operation. The factory will fully resume operation on 1 October 2014. The Group maintains insurance coverage that provides property coverage in the event of losses arising from riot. The claim process is in process and we are unable to predict how much of our losses will be covered by insurance. The Group also cannot estimate the timing of the proceeds that will be ultimately received under the insurance policies, and there may be a substantial delay between our incurrence of losses and our recovery under our insurance policies. As at 30 June 2016, the Group had received the accumulated advance of compensation amount HK$3,720,000 from insurance company (30 June 2015: HK$1,827,000).

Despite these difficulties, the Group was in a healthy financial position with net cash, being total cash less total debt, being positive. Cash and Cash equivalents as at 30 June 2016 was HK$148 million (30 June 2015: HK$193 million).

Business Review

During the review period, the Group focuses on top-tier clients and products with high growing potential to diversify the client base and product mix. Although the Group maintained focus on HDD controllers and PC motherboards (including desktop, Tablet PC and notebook PC), which are still the core products of the Group, their contribution of the total turnover decreased from 94% to 82%. Other products, such as the controller board of professional quadcopter which is a professional aerial filmmaking platform, mainboard of wearable device and mainboard of scanner are growing consistently during the year.

While nobody is writing off the PC market entirely, since its prime almost 10 years ago, the PC market has been decreasing moderately some time, and that decline has yet to bottom out. Sales of personal computers decreased by roughly 25 – 30 million units year-over-year, reaching an eight-year low in 2015 mainly due to economic trends, weak international currencies, and competition from tablets and smartphones in some markets. Shipments of PC components naturally decreased in line with weak PC sales, but hard drive sales in particular have made for an interesting observation: for 2015, decrease of HDD sales greatly outpaced the regression of the PC market. It is essentially a given fact that SSDs are gaining popularity in notebooks and high-end gaming systems at the expense of HDDs.

HDD Controllers

The Information Network reported that HDD shipments dropped 17% in 2015 to 469 million units and will drop below 400 million units in 2019, all three leading manufacturers – Western Digital, Seagate, and Toshiba saw shipments drop at least 18% compared to 2014. Western Digital saw its lead over Seagate decrease to a share of 43.6% in 2015 from 44.2% in 2014.

Further, HDD unit shipments for 3.5 inches desktops and 2.5 inches mobile HDDs were weaker in FY2016 than FY2015, which was mainly due to lower PC market demand. Since enterprise HDD customers' demand keeps mixing up to higher-capacity, performance-optimized HDD products and capacity-optimized HDD products, the enterprise HDD petabyte shipments for enterprise applications did increase slightly during the year.

HDD shipments have been adversely affected in the past few quarters, driven by declining sales in the PC market. According to Storage Newsletter, worldwide HDD shipments are expected to be 99.5 million-102.5 million units. That's a year-on-year decline of 7.2% to 9.9% for fiscal of the second quarter of 2016.

Dr. Robert Castellano, president of The Information Network noted that the PC market downturn together with advances and lower prices of Solid State Devices (SSDs) has crippled the Hard Disk Drive industry to the extent that manufacturers as well as vendors in the supply chain were operating at only 67% of their capacity at the end of 2015.

The top three players in the HDD segment are Western Digital, Seagate Technology, and Japan-based Toshiba, with market shares of 42%, 37%, and 21%, respectively.

According to StorageNewsletter.com, the worldwide HDD shipments are anticipated to be between 99.5 and 102.5 million units, representing a year-on-year decrease in the range of 7.2% to 9.9% for fiscal fourth quarter of 2016.

This decline is a concern for Toshiba, as it has a share of over 21% in the HDD market. Toshiba shipped 50.6 million 2.5" drives in calendar 2015 out of a total 75.8 million, so 67% of the total. 2.5-inch units are directly competing with its SSDs where Toshiba owns only 5% of the worldwide market but in a sector growing rapidly and the advantage to manufacture its own flash chips.

Due to the global economic trends, rivalry from SSDs, and many other factors, it is improbable that there will be significant changes in the HDD market in the future. In a bid to win market share, manufacturers of hard disk drives would have to sacrifice already thin margins, something they are unlikely to do. Therefore, the positioning of HDD makers has all chances to continue as before in the coming quarters.

This segment decline resulted from (i) the reducing global Notebook PC shipment volumes and (ii) the customer, Toshiba reducing its outsourcing production. Thus the revenue was down by 51% to HK$264 million from last year's HK$538 million. The Group is the major provider of PCB assembly service in China for Toshiba's 2.5-inch and 1.8-inch HDD controller.

Looking to the future, Toshiba is planning to spend 4 billion yen in restructuring costs in 2016 to reduce fixed costs in its HDD business by at least 10 billion yen. The target is to improve profitability in 2017.

Toshiba will remain active in the notebook market that accounts for 50% of its shipments, but will streamline its operations and minimize the number of models available. It will scale back its focus on notebook and external drives and will intensify its focus on higher-margin enterprise and near-line drives.

In general, HDD vendors continued to overwhelm the personal storage segment (representing 80% of unit share) and gained shipment share in the entry-level segment (capturing 26% unit share). Both HDD and mainstream non-HDD players have been struggling in the Personal Entry Level Storage ("PELS") market. Under estimation, Western Digital acquired SanDisk can gain more opportunities in the SSD market. Toshiba has been experiencing shipment decline and will have to go through restructuring to enhance its HDD business.

While historically Seagate outsold Western Digital on the desktop HDD market, in Q4 2015 the latter managed to become the world's largest supplier of 3.5" hard drives with 12.458 million desktop HDDs shipped (versus Seagate's 11.7 million). Eventually, time will tell whether it will stay on peak for long, but considering weak demand for PCs as well as measures to maintain profitability, it remains to be seen whether Seagate, Toshiba and Western Digital will fiercely compete for desktop market share at all.

Desktop & Notebooks Motherboards

Global PC market seems to have fallen into a peculiar circle – manufacturers complain about extended upgrade circle of consumers, while consumers believe new PC products bring no material performance lift, which results in manufacturers' hesitance to invest funds and energy in development of new designs. The motherboard shipments have seen a 20-30% decline in the second quarter of 2016. As a result, some brands quit, and some others turned to other businesses.

According to Digitimes, some motherboard players have seen over 20% decreases and some around 30%. Orders from the retail channel for the third quarter remain weak, which will continue to impact motherboard players' shipment performance in 2016.

Improvement in channel inventories seems to have contributed to the stronger results, along with an easier year-on-year comparison and easing of component supply. Unfortunately, these types of supply-side drivers cannot reflect a change in consumer purchases. Indeed, even PC channels are still fairly cautious following challenges over the previous year, so the results are not likely to raise the forecast.

Nevertheless, enhanced inventory levels put the business sector on a better footing for the second half of 2016, and the expiration of free Windows 10 upgrades may transition some users to buying new instead of updating older systems. Moreover, commercial evaluations of Windows 10 remain healthy and a near-term driver that could likewise add to the relative strength in shipments, particularly US market.

ASRock shipped over four million motherboards worldwide in 2015 and about 1.3 million units to China. And Asus and Gigabyte shipped 17.8 and 17.1 million motherboards in 2015, respectively. With motherboard demand estimated to remain weak in the second half of 2016 and issues including exchange rate fluctuations, political uncertainties and delay of Intel's Kaby Lake platform, Asus and Gigabyte are expected to see over 5% on-year declines in 2016 shipments.

China-based Jwele has chosen to leave the motherboard market, and some others plan to concentrate on other businesses, such as Onda, ECS and Biostar. As for those who want to stay, they shall have to slash prices to boost sales.

Undoubtedly, the Global brand motherboard market is now in fierce price competition, and in China, which represent almost 50% of global shipments, the competition is even fiercer with Asustek Computer and Gigabyte Technology together having a 70% share. Thus, our customer, ASRock has not been performing well in China as shipments of its motherboards declined. Apart from its unsuccessful strategy for the entry-level to mid-range segments, its brand recognition is also inferior to its Taiwan-based competitors. However, ASRock has performed rather steadily in Europe, North America, Japan and Korea because of its mid-range to high-end product lines.

ASRock has lost to ASUS and Gigabyte both which together hold 70% market share in motherboard shipments. The China market is largely consumed by the these two major brands but ASRock is still able to enjoy stability in market share in North America, Europe, Japan and Korea due to its mid to high end products.

As an OEM motherboard manufacturer, ASRock might need to evolve to more than a motherboard company to survive in this throat cutting business as PC sales in general are declining.

The revenue contributed by this customer was reduced by 20% to HK$112.4 million from last year's HK$141.3 million.

Prospect

The Worldwide Electronics Manufacturing Services Market estimated that total electronics assembly value was US$1.3 trillion in 2014 and will grow to approximately US$1.8 trillion in 2019 – a 5.7 percent compounded annual growth rate. Fueled by the demand for EMS services, this research indicates that the EMS industry will grow from US$460 billion in 2014 to US$621 billion in 2019 – approximately at a 6.2 percent CAGR.

Printed circuit board (PCB) and electronics manufacturing services (EMS) industries in North America continued to report positive growth in June 2016, based on three-month rolling averages. Semiconductor shipments continued to show signs of recovery in June, despite the fact that year-on-year sales growth remains negative, based on a three-month rolling average. The turnaround for semiconductor sales started in April 2016 after a steep decline that traversed 12 months.

Two leading indicators, the U.S. Purchasing Managers' Index (PMI) and U.S. new orders for computer and electronic products, were mixed in June. The PMI reinforced and remained in positive territory, while U.S. new orders strengthened slightly in June yet stayed negative. The PMI typically leads sales by three to six months and U.S. new orders for electronic products tend to lead sales by one to two months.

Another leading indicator, IPC's PCB book-to-bill ratio, is based on three-month rolling averages of orders and sales, and normally leads PCB sales by three to six months. The ratio was positive during the first five months of 2016, but declined to negative territory to 0.98 in June due to declines in order in April and May. Ratios above parity (1.00) demonstrate greater demand than supply, which may be an antecedent of strengthening sales for electronics manufacturers. These indicators point to a possible slowdown in electronics industry sales this summer, followed by slow growth in subsequent months.

According to Loren Loverde, vice president, Worldwide PC Trackers & Forecasting, the PC market continues to struggle and wait for replacements to accelerate, along with some return of spending from phones, tablets, and other IT. The long-term outlook of the PC market remains cautions. However, the robust results in the U.S. offer a glimpse of what the market could look like with pockets of growth and a stronger overall environment. It's not dramatic growth, but it could push the market into positive territory slightly ahead of our forecast for 2018.

The market considers that the larger story remains whether an early wave of enterprise shift to Windows 10 could help close out a 2016 that is increasingly appearing stronger in the U.S. In Europe, market sentiment remain quiet. A research manager, IDC Worldwide PC Tracker reported that even the best case scenario calls for PCs to face significant challenges, with a somewhat fragile stabilization in the long run. The preliminary results did not capture the potential repercussions from the Brexit vote, which is expected to affect the timing and scope of spending plans in Europe.

Despite the fact that worldwide motherboard shipments will keep dropping, our customer, ASRock expects its shipments to remain flat or grow slightly and will see its China motherboard business return to profitability.

As per IDC's five-year forecast for the worldwide hard disk drive market, the Enterprise market demand for HDDs is more complex and distinguishing than other HDD markets. Demand for HDD petabytes by enterprise customers is expected to grow steadily through 2020, although year-over-year growth petabyte shipment growth rates are expected to slow somewhat in the latter years of the forecast period. Yet for HDD, suppliers realize that for enterprise market revenue to grow beyond 2016, it will require a concomitant paradigm shift by enterprise HDD customers to expect and accept slowing enterprise HDD price-per-gigabyte declines.

"The HDD industry is in the process of concentrating and directing its resources on the enterprise HDD market segment given that nearly 60% of HDD industry petabyte shipments and more than 50% of HDD industry revenue will be derived from the enterprise market by 2020. At the same time, the commercialization of new HDD technologies that could radically increase HDD storage capacities without increasing the number of disks and heads in the drive remains elusive. As a result, HDD customers, and above all enterprise HDD customers, should expect slowing year-over-year HDD price-per-gigabyte declines." – John Rydning, research vice president, Worldwide Hard Disk Drives.

As an EMS provider assembly service for top tier leading electronic and computer customers, the company faces a lot of industry difficulties. In general, there are abundant opportunities for EMS providers as a result of increases in complexity and developing markets, for example: the Internet of Things space. Unfortunately, like other EMS providers, the company is challenged by the rising manufacturing costs and increasing original equipment manufacturer (OEM) price pressures.

The labor shortage and the minimum wage increase in China creates a tough operation environment for EMS in China. Looking forward, the Group believes the Chinese business environment would become even tougher as the minimum wages in the PRC would climb up continuously, partially resulting from the sustaining labor shortage, and partially as the government administration's goal to offset the raising local CPI.

This has forced EMS to look internally for cost-saving strategies that also act as technology enablers. Nowadays, Electronics design, functionality, and component sizes have advanced quickly. These advancements will have a direct effect on manufacturing skill and techniques during the production process. Although the company is known for its assembling ability, one must be diligent about maintaining flexible and responsive production. Furthermore, the volume forecasting mismatches and dynamic OEM orders also pose serious difficulties to the companies' resource planning and optimization strategies.

Recently, EMS service providers also face ever-increasing pressure for fully automated manufacturing sites, zero-tolerance for defects, and converging OEM and contract manufacturing models. Hence, it is a trend that EMS service provider will be adaptive, flexible, have scalable manufacturing with smaller production runs, and have increased reliance on artificial intelligence and robotic technology.

The smart plants and increased automation are becoming regular in the EMS market due to many manufacturers taking in hard lessons from keeping excess stocks or having long lead times. Neither situation bodes well for EMS providers' competitive positioning or profit margins. Many EMS providers are automating and using robotics to reduce labor costs and to create smart factories.

A reliable EMS provider also need to demonstrate that they can meet stringent financial business requirements in order to compete effectively in an increasingly competitive environment. Given the competition, EMS providers are looking to exhibit growth strategies and to offer a variety of smart services for the constantly changing needs of its client base.

According to Frost & Sullivan's research, customer loyalty is established best by gaining OEM trust. Therefore, OEMs in these markets in particular are looking for EMS providers with strong financial models. EMS providers with the necessary skills and expertise, not just in the manufacturing process but also with regard to financial stability, will be in the most ideal position to address OEM needs.

As one of top tier EMS service providers, we will try our best to tackle all these EMS Industry challenges.

The 11 May 2014 riot in Vietnam imposed certain impact to the Vietnam operation. Unfortunately, in July 2016, the Vietnamese gathered for anti-China protest in central Hanoi as they tried to rally support for an international tribunal's ruling rejecting Beijing's claims in the South China Sea. These political unstable issues caused certain negative impact to our business directly. Our customers are reluctance to increase the orders for this factory due to the uncertain environment. We foresee that a long time is required to re-build their confidence towards our production in Vietnam. Looking forward, the Group expects the overall EMS industry will maintain a minimum growth rate together with the slowly recovering global economy. In addition, the drastic increase in labor cost would bring in more serious impact to the overall EMS daily operations. Overseeing the trend, the Group will continue with diversification of its production facilities outside of China, as well as to improve its production efficiency by developing semi-automatic equipment, which would improve its competitive edge in the long run.

Since the Group's current businesses had been unprofitable for six consecutive years and facing the unstable political and social environment in Vietnam, the Board will consider any investment opportunities. 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 view of the funding position of the Group and the overall market condition and taking into consideration of, among others, the expertise possessed by the management of the Company in the field of intellectual property ("IP") licensing, management and operation, subsequent to the reporting date, the Group commenced new business activities involving pan-entertainment industry, which may include IP authorization, branded products distribution, IP promotion and entertainment and sports event organization etc. The Group intends to finance these new business activities by its own internal resources.

In July 2016, the Group completed its acquisition of Camsing Brand Management (Group) Company Limited. The acquisition will be beneficial for the Group's cooperation with a number of renowned international companies (such as Global Merchandising Services Inc. and Hasbro International, Inc. which own famous brands including "Real Madrid" and the "Transformers" respectively), and will facilitate the Group's development of global IP licensing and management business. In August 2016, Guangzhou Bingxun Sports Development Company Limited, an indirect wholly-owned subsidiary of the Group, received commercial sponsorship from the high-end brand Mercedes-Benz and successfully organised a series of family running events in major cities in the PRC. Such family running events are the major sports and entertainment events planned by the Group. The cooperation with Mercedes-Benz has fully demonstrated the Group's capability and experience in IP promotion and management and holding sports events, and provides strong confidence for the Group to develop pan-entertainment business.

In summary, the Group believes the worst recession is improving and is of the view that the commencement of the new business activities will be in the interest of the Company and its shareholders as a whole.

Staffs

As of 30 June 2016, the Group employed a total of 1,580 staffs, of which 752 were employed in China, 801 were employed in Vietnam, 26 were employed in Hong Kong and 1 was employed in Thailand (for the year ended 30 June 2015: Total: 1,758 staffs; China: 828 staffs; Vietnam: 901 staffs; Hong Kong: 28 staffs; Thailand: 1 staffs). The Group has implemented remuneration package, bonus and share option scheme which were 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

A special dividend of HK$0.198 per ordinary share of the company for the year, amounting to approximately HK$191,742,000, has been declared and approved by the shareholders of the Company and was paid in January 2016.

The Board did not recommend the payment of final dividend for the year ended 30 June 2016 (for the year ended 30 June 2015: NIL).

Purchase, Sale or Redemption of Shares

During the year ended 30 June 2016, there was no purchase, redemption or disposal of the Group's listed securities by the Group.

Events After the End of the Reporting Period

(a) Acquisition of 深圳市貿隆興貿易有限公司 ("貿隆興")

On 25 July 2016, an indirect wholly-owned subsidiary of the Company entered into acquisition agreements with two independent third parties of the Group. Pursuant to the acquisition agreements, the Group agreed to acquire and the counterparties agreed to sell respectively 95% and 5% of the equity interest in 貿隆興, a company established in the PRC with limited liability, principally engages in investment holding and its subsidiary, a company established in the PRC with limited liability, principally engages in supply chain management, import and export goods, wholesale of equipment supplies. The cash consideration of the acquisition is RMB10,000,000 (equivalent to approximately HK$11,670,000). The acquisition was completed on 27 July 2016.

(b) Acquisition of Camsing Brand Management (Group) Company Limited

On 1 July 2016, an indirect wholly-owned subsidiary of the Company entered into an acquisition agreement with Guangzhou Camsing Limited Company 廣州承興營銷管理有限公司 ("Guangzhou Camsing"), a company under the control of Ms. Lo. Pursuant to the acquisition agreement, the Group agreed to acquire and Guangzhou Camsing agreed to sell 100% of the equity interest in Camsing Brand Management (Group) Company Limited 香港承興品牌管理有限公司, a company incorporated in Hong Kong with limited liability, and principally engages in the intellectual properties and brand licensing and management business. The cash consideration of the acquisition is approximately HK$1,785,000. The acquisition was completed on 25 July 2016.

(c) Material borrowing agreement with Guangzhou Camsing

On 17 August 2016, an indirect wholly-owned subsidiary of the Company entered into a RMB60,000,000 6-month non-interest bearing borrowing agreement with Guangzhou Camsing, The borrowing is used to finance the subsidiary's daily operations which has been fully repaid subsequent to the end of the reporting period.

Significant investment held

Save as disclosed under ''Prospect'' on P. 17 to P. 20, during the financial year and up to the date of this announcement, the Group did not hold any significant investment.

Foreign Exchange exposure

The Group's exposure to currency risk mainly arises from fluctuation of foreign currencies against the functional currency of the relevant group entities, including HKD, USD, Japanese Yen ("JPY") and Renminbi ("RMB"). During both years, the Group entered into forward foreign exchange contracts to cover the anticipated foreign currency exposures. These contracts were arranged mainly to hedge the currency fluctuation of RMB against USD of a group entity. These contracts were arranged with maturities spread over the months during 2016.

Charge on Group's Asset

During the financial year and up to the date of this announcement, none of the assets of the Group was pledged or charged.

Contingent Liabilities

During the financial year and up to the date of this announcement, the Group had no contingent liabilities.

Gearing Ratio

The Gearing ratio is calculated on the basis of net borrowing over the equity attributable to Shareholders. Up to the date of this announcement, the Group had no short-term or long-term bank borrowings and its gearing ratio is nil.

Corporate Governance

The Board confirms that the Group has complied with all material code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") (previous known as Code on Corporate Governance Practices (''Former CG Code'')) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange except for the deviations as stated herein. Code provision A.2.1 provides that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Mr. Lam Chi Ho was both the Chairman and the Chief Executive Officer of the Group up to 4 February 2016 who was responsible for managing the Board and as businesses of the Group. Upon the resignation of Mr. Lam Chi Ho on 4 February 2016, Ms. Lo Ching took up his role. 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 members of the Board, which include three Independent Non-Executive Directors who offers independent views. Therefore, while the responsibilities of the Chairman and Chief Executive Officer are vested in the some person, the Board is of the view that there is adequate impartiality and safeguards in place.

Code provision A.6.7 of the CG Code provides that Independent Non-Executive Directors and other Non-Executive Directors should attend the general meetings and develop a balance understanding of the views of shareholders. Mr. Chung Wai Kwok, Jimmy and Mr. Tam Wing Kin were not able to attend the annual general meeting of the Company on 26 November 2015 and the extraordinary general meeting of the Company held on 28 December 2015 respectively due to their respective business engagements. Other Board members who attended the above mentioned meetings were already of sufficient caliber and numbers for answering questions raised by the shareholders at the relevant meetings.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 year ended 30 June 2016, 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, internal control and risk management systems of the Company. The existing committee comprises Mr. Ross Yu Limjoco as chairman, Mr. Lei Jun, and Mr. Zheng Yilei, 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 reviews their reports.

During the financial year, the audit committee held two meetings with respect to discussing 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 Group for the year ended 30 June 2016.

Remuneration Committee

The Board established the remuneration committee comprising all of Independent Non-Executive Directors, which meets at least once per year. It is chaired by Mr. Zheng Yilei and comprises two other members, namely, Mr. Lei Jun, and Mr. Ross Yu Limjoco. All remuneration committee members 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 per year. It is chaired by Mr. Lei Jun and comprises two other members, namely, Ms. Lo Ching and Mr. Zheng Yilei. All nomination committee members, with the exception of Ms. Lo Ching, 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.

Annual Report

The 2015/16 annual report containing all the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website www.hkexnews.hk and the Company's website www.fittecn.com and copies will be sent to the Shareholders in due course.

Board of Directors

As at the date of this announcement, the Board comprises Ms. Lo Ching and Ms. Liu Hui as Executive Directors and Mr. Lei Jun, Mr. Ross Yu Limjoco and Mr. Zheng Yilei as the Independent Non-Executive Directors.

By order of the Board of
Fittec International Group Limited
Lo Ching
Chairman and Executive Director

Hong Kong, 29 September 2016