

# Interim Report 2007



DBA Telecommunication (Asia) Holdings Limited  
DBA電訊(亞洲)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3335)

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# CORPORATE INFORMATION

## *Board of Directors*

### **Executive Directors**

Mr. Yu Longrui  
(*Chairman and Chief Executive Officer*)  
Mr. Zheng Feng  
Mr. Chan Wai Chuen  
Ms. Yang Yahua  
Mr. Yeung Shing

### **Independent Non-executive Directors**

Mr. Zheng Qingchang  
Mr. Yu Lun  
Mr. Yun Lok Ming

### **Authorized Representatives**

Mr. Yeung Shing  
Mr. Chan Wai Chuen

### **Audit Committee**

Mr. Zheng Qingchang  
Mr. Yu Lun  
Mr. Yun Lok Ming

### **Remuneration Committee**

Mr. Zheng Qingchang  
Mr. Yu Lun  
Mr. Yun Lok Ming

### **Company Secretary and Qualified Accountant**

Mr. Chan Wai Chuen

### **Auditor**

CCIF CPA Limited  
*Certified Chartered Accountants*  
20th Floor  
Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

### **Registered Office**

P.O. Box 309 GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

### **Head Office and Principal Place of Business in Hong Kong**

Unit 2307, 23rd Floor  
Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong  
Telephone: (852) 3106 3068  
Facsimile: (852) 3106 5533

### **Stock Code**

3335

### **Website**

[www.dba-asia.com](http://www.dba-asia.com)

### **Cayman Islands Principal Share Registrar and Transfer Office**

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### ***Hong Kong Branch Share Registrar and Transfer Office***

Tricolor Investor Services Limited  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### ***Legal Advisors***

*(As to Hong Kong law)*  
Fred Kan & Co.

*(As to Cayman Islands Law)*  
Maples and Calder

*(As to the PRC law)*  
Chen & Co.

### ***Compliance Advisor***

Sun Hung Kai International Limited  
12th Floor  
One Pacific Place  
88 Queen's Way  
Hong Kong

### ***Principal Bankers***

Agricultural Bank of China  
Standard Chartered Bank (Hong Kong) Limited

### ***Investor Relations Consultant***

Strategic Financial Relations (China) Limited

The board of directors (the "Board") of DBA Telecommunication (Asia) Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2007, together with the comparative figures of the corresponding period in 2006.

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee and the Company's external auditor in accordance with the 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 ("HKICPA").

## FINANCIAL HIGHLIGHTS

For the six months ended 30 June

	<b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	2006 (Unaudited) RMB'000	Increase %
Turnover			
Sales of telecommunication products			
Communication terminal equipment			
Public telephone booths	<b>125,913</b>	105,486	19.4
Public telephones	<b>54,604</b>	53,363	2.3
Wireless business telephones	<b>24,990</b>	21,371	16.9
	<b>205,507</b>	180,220	14.0
Intelligent electronic products			
Smart card vending machines	<b>143,661</b>	103,112	39.3
	<b>143,661</b>	103,112	39.3
Communication transmission connection products			
ODFs	<b>14,209</b>	6,017	136.2
Optical passive devices	<b>47,260</b>	21,784	116.9
	<b>61,469</b>	27,801	121.1
	<b>410,637</b>	311,133	32.0
Self-service communication payment service business	<b>52,016</b>	–	N/A
Agency business for telecommunication equipments	<b>45,205</b>	–	N/A
	<b>507,858</b>	311,133	63.2
Gross Profit	<b>175,418</b>	127,845	37.2
Profits attributable to shareholders	<b>118,815</b>	83,609	42.1

# CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Turnover	5	507,858	311,133
Cost of sales		(332,440)	(183,288)
Gross profit		175,418	127,845
Other revenue		5,345	1,543
Selling and distribution expenses		(25,469)	(18,921)
General and administrative expenses		(13,752)	(10,910)
Other operating expenses		(45)	(350)
Operating profits		141,497	99,207
Finance costs		–	(184)
Profit before taxation	6	141,497	99,023
Taxation	7	(22,682)	(15,414)
Profits attributable to shareholders		118,815	83,609
Dividends	8		
Interim dividend declared and paid during the interim period		–	95,341
Interim dividend declared of Nil (2006: HK 1 cent) per share		–	10,790
		–	106,131
Earnings per share	9		
– basic		11.45 cents	10.27 cents
– diluted		11.45 cents	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2007 (Unaudited) RMB'000	At 31 December 2006 (Audited) RMB'000
	Note		
<b>Non-current assets</b>			
Lease premium on land		1,716	1,738
Property, plant and equipment	10	<u>88,872</u>	<u>71,921</u>
		<b>90,588</b>	73,659
<b>Current assets</b>			
Inventories		36,738	19,714
Trade receivables	11	281,448	219,258
Prepayments, deposits and other receivables		43,483	43,161
Cash and bank balances		<u>398,985</u>	<u>402,445</u>
		<b>760,654</b>	684,578
<b>Current liabilities</b>			
Trade payables	12	27,765	12,131
Accruals and other payables		36,564	35,486
Dividend payable		53	–
Amount due to a director		49	41
Tax payable		<u>12,846</u>	<u>9,271</u>
		<b>77,277</b>	56,929
<b>Net current assets</b>		<u><b>683,377</b></u>	<u>627,649</u>
<b>Total assets less current liabilities</b>		<u><b>773,965</b></u>	<u>701,308</u>
Represented by:			
<b>SHARE CAPITAL RESERVES</b>	13	<u><b>107,900</b></u> <u><b>666,065</b></u>	107,900 <u>593,408</u>
<b>SHAREHOLDERS' EQUITY</b>		<u><b>773,965</b></u>	<u>701,308</u>



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital	Share premium	Merger reserve	Other reserve	General reserve	Exchange reserve	Contributed surplus	Special reserve	Share option reserve	Retained profits	Total
	RMB'000	RMB'000	(Note a) RMB'000	(Note b) RMB'000	(Note c) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2007 (audited)	107,900	215,491	(57,000)	-	99,733	(5,243)	-	79,201	525	260,701	701,308
Profit attributable to shareholders	-	-	-	-	-	-	-	-	-	118,815	118,815
Transfer to reserve	-	-	-	-	6,178	-	-	-	-	(6,178)	-
Exchange differences on translation of financial statements of foreign subsidiaries	-	-	-	-	-	(3,382)	-	-	-	-	(3,382)
Recognition of equity-settled share-based payment	-	-	-	-	-	-	-	-	1,474	-	1,474
Dividend paid	-	-	-	-	-	-	-	-	-	(44,250)	(44,250)
As at 30 June 2007 (unaudited)	107,900	215,491	(57,000)	-	105,911	(8,625)	-	79,201	1,999	329,088	773,965
As at 1 January 2006 (audited)	83	-	(57,000)	87,000	71,049	(499)	-	-	-	211,134	311,767
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	6,240	-	-	-	-	-	249,912	-	-	-	256,152
Effect of the reorganisation	(83)	-	-	(87,000)	-	1,642	(249,912)	79,201	-	-	(256,152)
Issue of shares	26,780	310,648	-	-	-	-	-	-	-	-	337,428
Share issuance expenses	-	(20,277)	-	-	-	-	-	-	-	-	(20,277)
Capitalisation of share premium	74,880	(74,880)	-	-	-	-	-	-	-	-	-
Profit attributable to shareholders	-	-	-	-	-	-	-	-	-	83,609	83,609
Transfer to reserve	-	-	-	-	5,001	-	-	-	-	(5,001)	-
Exchange differences on translation of financial statements of foreign subsidiaries	-	-	-	-	-	(857)	-	-	-	-	(857)
Dividend paid	-	-	-	-	-	-	-	-	-	(95,341)	(95,341)
As at 30 June 2006 (unaudited)	107,900	215,491	(57,000)	-	76,050	286	-	79,201	-	194,401	616,329

Notes:

(a) Merger reserve

Merger reserve represents the excess of purchase consideration in respect of the acquisition of Fujian Create State over the amount of the paid-up capital of Fujian Create State.

(b) Other reserve

Other reserve represents contributions from the shareholders of Skyban in respect of the acquisition of Fujian Create State on 29 August 2003. The amount was capitalised as share capital of Skyban on 11 May 2006.

(c) General reserve

General reserve comprises statutory surplus fund and enterprise expansion fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(e) Contributed surplus

The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net assets value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to listing of the Company's shares on 11 May 2006.

(f) Special reserve

The special reserve of the Group represents the differences between the nominal value and premium of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of reorganisation.

(g) Share option reserve

The share option reserve of the Company and the Group arises on the grant of share options to directors of the Company, suppliers of goods or services to the Group and consultant of the Group.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash generated from operating activities	80,259	43,283
Tax paid	(19,107)	(14,635)
Net cash from operating activities	61,152	28,648
Net (used in)/cash from investing activities	(17,040)	1,058
Net (used in)/cash from financing activities	(44,197)	215,639
Net (decrease)/increase in cash and cash equivalents	(85)	245,345
Cash and cash equivalents at 1 January	402,445	156,456
Effect of foreign exchanges rates changes, net	(3,375)	(857)
Cash and cash equivalents at 30 June	398,985	400,944

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

## 1. General

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liabilities. The Company acts as an investment holding company. The subsidiaries of the Company are principally engaged in the design, manufacture and sale of telecommunication equipment and related products, self-service communication payment service business and agency business for telecommunication equipment in the PRC. The address of the Company's registered office is M&C Corporate Services Limited, PO Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands and the principal place of business of the Company is Unit 2307, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

## 2. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by HKICPA.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>(a)</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>(a)</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>(b)</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>(c)</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>(d)</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>(e)</sup>

Notes:

- <sup>(a)</sup> Effective for annual periods beginning on or after 1 January 2007.
- <sup>(b)</sup> Effective for annual periods beginning on or after 1 March 2006.
- <sup>(c)</sup> Effective for annual periods beginning on or after 1 May 2006.
- <sup>(d)</sup> Effective for annual periods beginning on or after 1 June 2006.
- <sup>(e)</sup> Effective for annual periods beginning on or after 1 November 2006.

The adoption of these new HKFRSs has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

### 3. Summary of the effects of the changes in accounting policies

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>(a)</sup>
HKFRS 8	Operating Segments <sup>(a)</sup>
HK (IFRIC) – Int-11	HKFRS 2: Group and Treasury Share Transactions <sup>(b)</sup>
HK (IFRIC) – Int-12	Service Concession Arrangements <sup>(c)</sup>

Notes:

- (a) Effective for annual periods beginning on or after 1 January 2009.
- (b) Effective for annual periods beginning on or after 1 March 2007.
- (c) Effective for annual periods beginning on or after 1 January 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

#### 4. Segment information

(i) For the six months ended 30 June 2007

	Sales of telecommunication products RMB'000	Self-service communication payment service business RMB'000	Agency business for telecommunication equipments RMB'000	Consolidated RMB'000
Revenue	<u>410,637</u>	<u>52,016</u>	<u>45,205</u>	<u>507,858</u>
Segment result	<u>139,622</u>	<u>2,594</u>	<u>1,709</u>	143,925
Unallocated operation income and expenses				<u>(2,428)</u>
Profit before taxation				141,497
Taxation				<u>(22,682)</u>
Net profit for the period				<u>118,815</u>

- (ii) During the six months ended 30 June 2006, more than 95% of the operating profits and assets are attributable to the Group's operations, manufacturing and sales of telecommunication products in the PRC. The Group derived its revenue from three categories of products, namely communication terminal equipment, intelligent electronic products and communication transmission connection products. As the nature of these products, their production processes and the methods used to distribute these products are similar; they are combined and reported as a single business segment. Accordingly, no analysis by geographical and business segment is presented herein.

## 5. Turnover and other revenue

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discount and sale tax.

Turnover and other revenue consisted of:

	Six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Turnover		
Sales of telecommunication products	410,637	311,133
Self-service communication payment service business	52,016	–
Agency business for telecommunication equipments	45,205	–
	<u>507,858</u>	<u>311,133</u>
Other revenue		
Interest income	1,608	1,543
Exchange gain	3,737	–
	<u>5,345</u>	<u>1,543</u>
Total revenue	<u>513,203</u>	<u>312,676</u>

## 6. Profit before taxation

Profit before taxation is stated after charging the following:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	<b>RMB'000</b>
Amortisation of lease premium on land	22	22
Auditors' remuneration	148	201
Cost of inventories	332,440	183,288
Depreciation	1,690	1,316
Less: Amount included in research and development costs	<u>(148)</u>	<u>(201)</u>
	1,542	1,115
Staff costs (including directors' remuneration)		
Wages and salaries	38,366	18,626
Retirement scheme	503	444
Equity-settled share-based payment expenses	<u>625</u>	<u>–</u>
	39,494	19,070
Less: Amount included in research and development costs	<u>(12,546)</u>	<u>(743)</u>
	26,948	18,327
Interest expenses on bank loans wholly repayable within 5 years	–	171
Research and development costs	2,829	2,420
Operating lease payment in respect of premises	<u>849</u>	<u>422</u>



## 7. Taxation

	Six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Current tax – PRC enterprise income tax provision for the year	<b>22,682</b>	15,414

### Notes:

- (a) Fujian Create State Industry Co., Ltd. (“Fujian Create State”), which was formerly a sino-foreign equity joint venture, was subject to PRC enterprise income tax at a rate of 15% (six months ended 30 June 2006: 15%) applicable to the company on the assessable profits for the six months ended 30 June 2007 and is exempted from the PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses being the year ended 31 December 2000, followed by a 50% reduction for the next three years.

Commencing from 2002, the profit generated from Fujian Create State was subject to an income tax rate of 7.5% being half of the corporate income tax rate applicable; such tax exemption was expired as at 31 December 2004.

With effect from 13 November 2003, Fujian Create State was changed from a sino-foreign equity joint venture to a wholly foreign owned enterprise, and the tax concession remains unchanged.

- (b) Fuzhou Wozhong Capacity System Co., Ltd., a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 33% applicable to the company on the assessable profits for the six months ended 30 June 2007. No provision for PRC enterprise income tax has been made as the company had no assessable profits for the six months ended 30 June 2007. (six months ended 30 June 2006: Nil).
- (c) Skyban Telecommunication (Fujian) Ltd., a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 15% applicable to the company on the assessable profits for the six months ended 30 June 2007 and is exempted from the PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. No provision for PRC enterprise income tax has been made as the company had no assessable profits for the six months ended 30 June 2007. (six months ended 30 June 2006: Nil).
- (d) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (six months ended 30 June 2006: Nil).
- (e) The Group had no significant unprovided deferred tax assets or liabilities at 30 June 2007 (2006: Nil).

## 8. Dividend

During the period, dividends paid and proposed to equity shareholders of the Company's comprised:

- (i) Dividend payable in respect of 2007

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid after the interim period of Nil per share (2006: HK 1 cent)	<u>–</u>	<u>10,375</u>
	<b>RMB'000</b>	RMB'000
Equivalent to	<u>–</u>	10,790
Skyban (Note)	<u>–</u>	<u>95,341</u>
Total	<u>–</u>	<u>106,131</u>

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2007. The interim dividend for the six months ended 30 June 2006 has not been recognised as a liability at the balance sheet date.

Note: During the six months ended 30 June 2006, Skyban International Holdings Limited ("Skyban"), a company of the Group had paid dividends to their then shareholders prior to the Group Reorganisation.

- (ii) Dividend in respect of 2006

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Final dividend in respect of the previous financial year, approval and paid during the interim period of HK4.33 cents per share (2006: Nil)	<b>44,924</b>	–
	<b>RMB'000</b>	RMB'000
Equivalent to	<b>44,250</b>	–

## 9. Earnings per share

- (i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent of approximately RMB118,815,000 (six months ended 30 June 2006: RMB83,609,000) and the weighted average number of 1,037,500,000 shares (2006: 813,382,918 shares) in issued during the period.

(ii) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB118,815,000 and the weighted average number of ordinary shares of 1,037,683,978 shares, calculated as follow:

**Weighed average number of ordinary shares (diluted)**

	<b>2007</b>	2006
	<b>(unaudited)</b>	(unaudited)
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares at 30 June	<b>1,037,500</b>	1,037,500
Effect of deemed issued under the Company's share option scheme for nil consideration	<b>184</b>	—
Weighted average number of ordinary shares (diluted) at 30 June	<b>1,037,684</b>	1,037,500

Diluted earnings per share for the six months ended 30 June 2006 are not presented as there were no diluted potential ordinary shares.

## 10. Property, plant and equipment

During the six months ended 30 June 2007, the Group acquired property, plant and equipment with a cost of RMB18,648,000 (six months ended 30 June 2006: RMB485,000).

## 11. Trade receivables

The Group normally grants credit terms of 90 days to its customers.

The ageing analysis of trade receivables is as follows:

	<b>At 30 June 2007 (Unaudited) RMB'000</b>	At 31 December 2006 (Audited) RMB'000
0 to 30 days	111,125	70,137
31 to 60 days	84,472	72,376
61 to 90 days	83,033	72,196
91 to 180 days	2,818	4,549
	<u>281,448</u>	<u>219,258</u>

## 12. Trade payables

The ageing analysis of trade payables is as follows:

	<b>At 30 June 2007 (Unaudited) RMB'000</b>	At 31 December 2006 (Audited) RMB'000
0 to 30 days	25,569	11,554
31 to 60 days	2,092	458
61 to 90 days	72	87
91 to 180 days	–	–
180 to 365 days	–	–
over 365 days	32	32
	<u>27,765</u>	<u>12,131</u>

### 13. Share capital

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised</i>		
Upon incorporation of the Company <sup>(a)</sup>	2,000	200
Increase in authorised share capital <sup>(b)</sup>	<u>3,998,000</u>	<u>399,800</u>
<b>As at 31 December 2006 and 30 June 2007</b>	<u>4,000,000</u>	<u>400,000</u>
<i>Issued and fully paid</i>		
Issue of shares upon incorporation <sup>(a)</sup>	1,000	100
Issue of shares from the Reorganisation <sup>(c)</sup>	59,000	5,900
Issue of shares through a placing and public offer <sup>(d)</sup>	257,500	25,750
Capitalisation of share premium <sup>(e)</sup>	<u>720,000</u>	<u>72,000</u>
<b>As at 31 December 2006 and 30 June 2007</b>	<u>1,037,500</u>	<u>103,750</u>
		<u>RMB'000</u>
Equivalent to		<u>107,900</u>

*Notes:*

- <sup>(a)</sup> Upon incorporation on 15 June 2004, the Company had authorised share capital of HK\$200,000, divided into 2,000,000 shares of HK\$0.10 each. On the same date and on 26 July 2004, one subscriber's share and 999,999 shares were allotted and issued as nil paid shares respectively, which were subsequently credited as fully paid at par as noted in (c) below.

- (b) Pursuant to the written resolutions passed on 14 April 2006, the Company's authorised share capital was increased from HK\$200,000 to HK\$400,000,000 of a par value of HK\$0.10 each by the creation of 3,998,000,000 additional shares each ranking pari passu with the existing shares in all respects.
- (c) In preparation of the Company's listing of its shares on the Main Board of the Stock Exchange, the Company allotted and issued 59,000,000 shares, together with the 1,000,000 shares allotted and issued on 15 June 2004 and 26 July 2004 as noted in (a) above, of HK\$0.10 each, credited as fully paid, in exchange for the acquisition by the Company of the entire share capital of Skyban, the then holding company of the Group on 14 April 2006.
- (d) In connection with the Company's initial public offering, a total of 257,500,000 shares of HK\$0.10 each were issued at a price of HK\$1.26 per share of a total cash consideration, before expenses, of approximately HK\$324,450,000. Dealings in these shares on the Stock Exchange commenced on 11 May 2006.
- (e) Pursuant to the written resolutions passed on 14 April 2006, share premium of approximately HK\$72,000,000 was capitalised for the issuance of 720,000,000 shares of HK\$0.10 each on a pro-rata basis to the Company's shareholders on 14 April 2006.

## 14. Capital commitments

Capital commitments outstanding not provided in the interim financial report:

	<b>At 30 June 2007 (Unaudited) RMB'000</b>	At 31 December 2006 (Audited) RMB'000
Contracted for		
– prepaid lease payments	<b>2,627</b>	2,627
– the acquisition of property, plant and equipment	<b>46,465</b>	42,276
	<b>49,092</b>	44,903

# MANAGEMENT DISCUSSION AND ANALYSIS

## *BUSINESS REVIEW*

For the six months ended 30 June 2007, the Group achieved satisfactory results with increased contributions from sales of intelligent electronic products. The Group recorded a turnover of approximately RMB508 million, representing an increase of 63.2% as compared with the same period last year. Gross profit increased to approximately RMB175 million, an increase of 37.2% against the same period last year. Profit attributable to shareholders increased to approximately RMB119 million, representing an increase of 42.1%. Earnings per share were RMB11.45 cents.

## *SALES OF TELECOMMUNICATION PRODUCTS*

### *Sales of communication terminal equipments*

Public telephone booths, public telephones and wireless business telephones, which are under the communication terminal equipment category, are the principal products of the Group. For the six months ended 30 June 2007, turnover derived from sales of communication terminal equipment increased by 14.0% to approximately RMB206 million, accounting for approximately 40.5% of the Group's total turnover. Of that total, turnover derived from sales of public telephone booths increased by 19.4% to approximately RMB126 million, accounting for approximately 24.8% of the Group's total turnover, and turnover derived from sales of public telephones and wireless business telephones increased by 6.5% to approximately RMB80 million, accounting for approximately 15.7% of the Group's total turnover. The increase in turnover was mainly attributable to the increase in demand for telecommunication equipment driven by economic growth and urbanization and the Group's efforts in improving product quality.

### *Sales of intelligent electronic products*

The Group's intelligent electronic products comprise primarily of self-service smart card vending machines. For the six months ended 30 June 2007, turnover derived from sales of intelligent electronic products increased by 39.3% to approximately RMB144 million,



accounting for approximately 28.3% of the Group's total turnover. The increase in turnover was mainly attributable to the growing in popularity of distribution of smart credit storage card for telecommunication service through smart card vending machines and the Group introducing new models smart card vending machines.

### ***Sales of communication transmission connection products***

The Group's communication transmission connection products are devices which organize and connect different components in telecommunication channels. They include optical distribution frames ("ODFs") and optical passive devices. For the six months ended 30 June 2007, turnover derived from sales of communication transmission connection products increased by 121.1% to approximately RMB61 million accounting for approximately 12.1% of the Group's total turnover. The increase in turnover was mainly to result of the Group's efforts in improving products quality and making sure existing products and new products are competitively designed.

### ***Self-service communication payment service business***

Since December 2006, the Group invested to install smart card vending terminal at various sites for selling smart credit storage card for various telecommunication operators. On seeing the enormous Chinese market for communication payment service, in December 2006, the Group ran a pilot programme in Fuzhou, Fujian province, installing a number of smart card vending terminal in various residential districts and at commercial buildings, shopping arcades and university student halls to sell smart credit storage card. By 30 June 2007, the Group had a total of 500 points-of-sale that has been installed a smart card vending terminal. Sales of smart card was satisfactory, signalling a very promising market for the product. For the six months ended 30 June 2007, turnover from selling telecommunication storage credit card from smart card vending terminal amounted to approximately RMB52 million accounting for approximately 10.2% of the Group's turnover.

### ***Agency business for telecommunication equipments***

As the Group owned a large market network in the PRC, we have raise the utilization rate of market resources through outsourced agency business for telecommunication equipments, thus making the business more profitable. Since March 2007, the Group commenced agency business for telecommunication equipments. The Group adopted a stable supply and stable pricing market strategy. All products provided from the suppliers will be directly channelled to the cooperative distribution network channel for sale, so that the operation cost and the inventory management cost can be reduced to a minimum. For the six months ended 30 June 2007, turnover derived from the agency business amounted to approximately RMB45 million accounting for approximately 8.9% of the Group's total turnover.

## **FINANCIAL REVIEW**

### ***Liquidity and financial resources***

As at 30 June 2007, the Group had net assets of approximately RMB774 million comprising non-current assets of approximately RMB91 million and net current assets of approximately RMB683 million.

As at 30 June 2007, the Group did not have any borrowings.

The Group's cash and cash equivalents amounted to approximately RMB399 million as at 30 June 2007. They were denominated in RMB and Hong Kong dollars.

### ***Capital commitments***

As at 30 June 2007, the Group's capital commitments in relation to prepaid lease payments, the acquisition of properties, plant and equipment amounted to approximately RMB49 million.

### ***Contingent liabilities***

The Group had no contingent liabilities as at 30 June 2007.

## OUTLOOK

The Directors are optimistic about the Group's business outlook. It expects sales from communication terminal equipment, intelligent electronic products and communication transmission connection products to be strong and continue to increase fueled by significant economic growth in the PRC. On the self-service communication payment service business front, the Group will continue the trial program in the Fuzhou area. If the result of the trial proved to be satisfactory, the Group will expand points-of-sale to other major cities in the PRC. As the Group's production facilities are already operating at relatively high utilization rates, to meet anticipated demand for the Group's products and support production of new products, new production facilities are being built to boost production capacity. Related works have been on schedule and will be completed by the end of 2007. The Group is looking into set up additional representative offices in major cities in the PRC to expand its sales and marketing network. Regarding the plan to expand into the Southeast Asia market, the Group is conducting detailed study on certain Southeast Asia countries. Furthermore, with a view to promoting its image and products, the Group will actively participate in trade fare and exhibitions. In recognition of the importance of product enhancement, the Group has put efforts in researching and developing more advanced and efficient products. The Group will also seek to improve its financial result by taking effective measures to control manufacturing cost, selling and distribution costs, administrative expenses and research and development expenditure and will strive to maintain debtors turnover days and inventory turnover days at healthy levels.

## DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in ordinary shares of the Company:

Name of Directors	Capacity	Interests in shares as at 30 June 2007			Interests in underlying shares pursuant to share option as at 30 June 2007	Aggregate interests as at 30 June 2007	Percentage of issued share capital of the Company as at 30 June 2007
		Personal interests	Corporate interests	Total			
Yu Longrui	Beneficial owner	16,544,000	500,680,000 (Note)	517,224,000	Nil	517,224,000	49.85%
Yang Yahua	Beneficial owner	Nil	500,680,000 (Note)	500,680,000	Nil	500,680,000	48.26%

Note: These 500,680,000 ordinary shares are held by Daba International Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kaifei respectively.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any director of the Company, as at 30 June 2007, other than the interests of the directors of the Company as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

<b>Name of Shareholders</b>	<b>Number of ordinary shares held as at 30 June 2007</b>	<b>Percentage of the Company's issued share capital as at 30 June 2007</b>
Daba International Investments Limited	500,680,000 (Note)	48.26%
Chartered Asset Management Pte Limited	125,140,000	12.06%
CAM-GTF Limited	73,412,000	7.08%
Atlantis Investment Management Limited	59,118,000	5.70%
Value Partners Limited	54,300,000	5.23%
Cheah Cheng Hye	54,300,000	5.23%

Note: Daba International Investments Limited is beneficially owned by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kafei as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% respectively. Mr. Yu Longrui is the spouse of Ms. Yang Yahua, brother of Mr. Yu Longhui and Mr. Yu Qiang, brother-in-law of Mr. Yang Minyong and uncle of Mr. Mo Kaifei.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XY of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2007, were entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

## **SHARE OPTIONS**

On 14 April 2006, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders. The Scheme will remain in force for 10 years from the date of its adoption.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

As at the date of this report, no option has been granted or agreed to be granted pursuant to the Scheme.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2007, the Group had approximately 692 employees for its principal activities. Recognizing the importance of retaining high caliber and competent staff, the Group provides remuneration packages to employees with reference to prevailing market practices and individuals performance. Others various benefits, such as medical and retirement benefits, are also provided. In addition, share option may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

## **PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2007.

## **CORPORATE GOVERNANCE**

The Group continues to achieve high standards of corporate governance which it believes is crucial to the development of its business and to safeguarding the interests of the Company's shareholders.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably possible the recommended best practices of the Code on Corporate Governance Practices (the "Corporate Governance Code") which came into effect on 1 January 2005. In the opinion of the Board, the Company had also fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the accounting period ended 30 June 2007.

In compliance with the code provisions of the Corporate Governance Code, the Company has an audit committee and a remuneration committee set up under the Board.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company confirmed that in respect of the six months ended 30 June 2007, all Directors had complied with the required standard set out in the Model Code.

## **AUDIT COMMITTEE**

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Corporate Governance Code and Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

## **REMUNERATION COMMITTEE**

The Company has a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee has three members, all independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the committee.



## **NOMINATION COMMITTEE**

The Company has a nomination committee (the “Nomination Committee”) with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the board of Directors on appointment of Directors and management of the succession of the board of Directors. The Nomination Committee has three members, all independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the committee.

## **APPRECIATION**

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their devoted efforts and hard work.

By Order of the Board

**YU Longrui**

*Chairman and Chief Executive Officer*

Hong Kong, 16 August 2007