



Capitalise on
Emerging Business
Opportunities

Interim Report 2007



DVN (Holdings) Limited

天地數碼(控股)有限公司

(Stock Code 0500)

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CORPORATE INFORMATION

Board of Directors

Executive directors

Mr Ko Chun Shun, Johnson (*Chairman*)
Mr Lui Pan (*President*)
Mr Luo Ning
Mr Qiu Yiyong
Mr Jin Wei
Mr Wang Daoyi
Mr Hu Qinggang (*Chief Financial Officer*)

Non-executive directors

Mr Shaw Sun Kan, Gordon
Mr Jerry Sze

Independent non-executive directors

Mr Chu Hon Pong
Mr Liu Tsun Kie
Mr Yap Fat Suan, Henry

Audit Committee

Mr Liu Tsun Kie (*Chairman*)
Mr Chu Hon Pong
Mr Yap Fat Suan, Henry

Remuneration Committee

Mr Liu Tsun Kie (*Chairman*)
Mr Chu Hon Pong
Mr Yap Fat Suan, Henry

Company Secretary

Mr Chan Kam Kwan, Jason

Qualified Accountant

Mr Fung Man Yin, Sammy

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisers

Baker & McKenzie
Kelvin Cheung & Co.

Principal Bankers

Bank of Communications Co., Limited, Hong Kong Branch
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Registered Office

Clarendon House
2 Church Street West
Hamilton HM11
Bermuda

Principal Place of Business

Rooms 1304-05
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Share Registrars and Transfer Office

Principal registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong branch share registrars and transfer office

Tricor Tengis Limited (formerly Tengis Limited)
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Listing Information

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 0500
Board lot: 1,000 shares

Investor Relations

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MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Board”) of DVN (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2007, together with the comparative figures for the corresponding period in 2006. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

Operating Review and Prospects

Overall Performance

The Group recorded an unaudited consolidated profit after income tax and preference dividends for the six months ended 30 June 2007 of HK\$36.2 million (2006: HK\$38.3 million). The Group’s consolidated revenue for the six months ended 30 June 2007 amounted to HK\$317.3 million, representing a decrease of 51.4% as compared to that for the six months ended 30 June 2006 of HK\$652.8 million. The Group’s gross profit margin improved from 20.7% in 2006 to 30.5% in 2007 as a result of the change in sales mix of the set top boxes and the implementation of cost saving exercise. Despite the substantial increase in headcount as a result of the expansion of the Group’s operations, the marketing, selling and distribution costs and the administrative costs were more or less maintained at 2006 level.

Digital broadcasting business

The turnover of the digital broadcasting business of the Group for the six months ended 30 June 2007 decreased by 52.2% to HK\$307.8 million (2006: HK\$644.3 million). With the implementation of effective cost control measures and the significant decrease in the provisions for inventories and trade receivables, the results of the digital broadcasting business sector for the six months ended 30 June 2007 recorded a profit of HK\$45.0 million (2006: HK\$42.0 million).

Digital cable TV subscribers in the PRC do not have to buy the set top boxes they require in order to receive digital TV broadcasts. These are provided to them at no cost. However, subscribers are charged a subscription fee for digital service that is significantly higher than that for analogue service. Upon digitalisation, the analogue service ceases. As a result some subscribers have complained that they have been given no choice and have been forced to pay the higher subscription fee. Some lobbied for the continuation of analogue service. At the beginning of 2007, subscriber objections to being not given a choice between analogue and digital resulted in a hiatus in the migration to digital TV in the PRC. There was concern subscribers may not be willing to pay the higher digital subscription fees and the roll out of digital service was adversely affected in the first half of the year as cable TV operators adopted a “wait and see” attitude. The State Administration of Radio, Film and Television (“SARFT”) has now ruled that on digitalisation 6 analogue TV channels should be retained for subscribers who do not wish to subscribe the digital service. With only 6 analogue TV channels available after digitalisation, it is felt that this ruling by SARFT will not materially impact the migration of subscribers to digital service and sales of set top boxes began to recover in the second quarter.

Another factor that affected sales is the fact that sales of set top boxes for the corresponding period in 2006 were mainly generated from Guangxi Province. As the migration to digital becomes more complete, shipments to Guangxi Province slowed down materially as compared to the first half of 2006.

Provision of financial information

The turnover of the provision of financial information business of the Group for the six months ended 30 June 2007 increased by 10.8% to HK\$9.5 million (2006: HK\$8.5 million) while its segmental results reported a profit of HK\$0.7 million (2006: HK\$0.3 million) for the period.

The primary business of this business sector is the provision of online financial information through internet in Hong Kong and other parts of Asia. The operation of this business sector recorded a moderate growth in 2007 as compared to 2006.

Employees and Remuneration Policies

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. Employees are offered discretionary year-end bonus based on individual merit.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the success of the Group. In February 2007 and May 2007, the Group granted 1,000,000 and 58,202,000 share options respectively to its qualified persons under the share option scheme.

As at 30 June 2007, the Group had approximately 630 (31 December 2006: 490) employees. These employees almost all work in the Mainland China.

Prospects

In the first half of 2007, the Group was appointed the sole supplier of systems integration services, providing a total digital cable TV solution in Hainan Province for China Cable Television ("China CATV"). China CATV is held by China Central Television ("CCTV") and is the largest and the only nationwide cable TV operator in the PRC. Our project in Hainan Province is the first fully interactive digital cable TV migration project and is a good start of a long-term cordial business cooperation between the Group and China CATV, and will bring about more business opportunities to the Group's future development. Hainan Province is the first province that will have its whole network offering fully interactive digital cable TV services. We expect Hainan Province will be the precedent for other cable TV operators to upgrade to two-way digital cable TV networks.

The cable TV networks held or invested by CITIC Group, the largest shareholder of the Company, will gradually migrate to digital and we expect orders from these networks to the Group will increase steadily. The provincial cable TV operator in Henan Province, the largest province in the PRC with a population of 100 million, is planning the launch of digital TV services. We expect to start the distribution of set top boxes towards the end of 2007 in Henan Province, and this will be the major customer for the sales of set top boxes of the Group in 2008.

After the slowdown in the early part of this year, the development of digital TV in the PRC is expected to speed up, and more networks will start interactive digital services. The Group is well placed to benefit from interactive digital cable networks. The Group is equipped with the latest and highly cost effective cable network interactive upgrade technology and we are developing value-added services. We are thus able to provide cable operators with more comprehensive network services. As a result, the Group will be able to leverage on more potential business opportunities, and subscribers will be able to use our various interactive value-added services, thus keeping the Group at the top of the industry.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2007, the Group recorded total assets of HK\$1,130.0 million which were financed by liabilities of HK\$214.5 million, minority interests of HK\$117.8 million and shareholders' equity of HK\$797.7 million. The Group's net asset value per share as at 30 June 2007 amounted to HK\$0.70 (31 December 2006: HK\$0.56).

As part of the share placement exercise in December 2006 and subsequent to the approval of shareholders given in February 2007, 50 million ordinary shares were issued by the Company on 5 March 2007 raising HK\$135.9 million. In addition, 6,410,000 ordinary shares were issued by the Company in relation to the exercise of its share options during the period ended 30 June 2007.

The Group had a total cash and bank balance of HK\$610.8 million as at 30 June 2007 (31 December 2006: HK\$526.4 million). The Group did not have any material borrowings and its gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, as at 30 June 2007 was negligible. The Group has sufficient banking facilities available from its bankers for its daily operations.

Treasury Policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short to medium term deposits and highly liquid investments in light of the Group's funding requirements.

Exposure to Fluctuations on Exchange Rates and Related Hedges

The Group operates mainly in Hong Kong and the Mainland China. For the operations in Hong Kong, most of the transactions are denominated in Hong Kong dollars and United States dollars. The exchange rate of United States dollars against Hong Kong dollars is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in Renminbi. Given the appreciation of Renminbi against Hong Kong dollars and United States dollars during the period under review, no financial instruments have been used for hedging purposes as it is expected that the appreciation of Renminbi would bring a favourable impact on the Group.

Material Acquisitions and Disposals of Subsidiaries and Associates

The Group had no material acquisitions or disposals of subsidiaries and associates during the period ended 30 June 2007.

Charges on Assets

As at 30 June 2007, the Group had bank deposits amounting to approximately HK\$6 million pledged to banks as securities for general banking facilities.

Future Plans for Material Investments or Capital Assets

The establishment of two wholly owned subsidiaries in the Mainland China by the Group was in progress at 30 June 2007. The total capital contributions to these two subsidiaries amount to approximately HK\$181 million, which are expected to be financed by the Group's internal resources.

Capital Commitments

The Group did not have any material capital expenditure commitments as at 30 June 2007.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2007

	Notes	Six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	3	317,264	652,825
Cost of sales		(220,637)	(517,676)
Gross profit		96,627	135,149
Other income	4	19,484	1,529
Marketing, selling and distribution costs		(23,289)	(24,246)
Administrative expenses		(45,518)	(46,625)
Other operating expenses		(5,832)	(25,223)
Operating profit		41,472	40,584
Finance costs	5	(4)	(51)
Share of loss of a jointly controlled entity		-	(1)
Share of profits of associates		127	6
PROFIT BEFORE INCOME TAX		41,595	40,538
Income tax credit/(expenses)	7	(3,898)	658
PROFIT AFTER INCOME TAX		37,697	41,196
Dividends on preference shares	8	(1,453)	(2,906)
PROFIT FOR THE PERIOD		36,244	38,290
Attributable to:			
Ordinary equity holders of the Company		36,244	38,290
Minority interests		-	-
		36,244	38,290
EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	9	HK\$0.032	HK\$0.065
Diluted	9	HK\$0.032	HK\$0.063

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	11,592	10,284
Intangible assets		50,828	42,082
Interest in a jointly controlled entity		3,285	3,285
Interests in associates		2,992	2,291
Total non-current assets		68,697	57,942
CURRENT ASSETS			
Inventories		107,596	69,530
Deferred income tax assets		6,120	6,120
Amounts due from related companies		–	475
Trade receivables	11	273,127	129,117
Prepayments, deposits and other receivables		63,652	190,185
Pledged bank deposits		6,000	10,007
Cash and cash equivalents		604,787	516,413
Total current assets		1,061,282	921,847
CURRENT LIABILITIES			
Trade payables	12	133,663	138,745
Other payables and accruals		70,281	108,557
Tax payables		10,534	7,664
Obligations under finance leases, current portion	13	27	36
Total current liabilities		214,505	255,002
Net current assets		846,777	666,845
TOTAL ASSETS LESS CURRENT LIABILITIES		915,474	724,787
NON-CURRENT LIABILITIES			
Obligations under finance leases	13	–	8
Net assets		915,474	724,779
EQUITY			
Capital and reserves attributable to the			
Company's equity holders			
Ordinary shares	14	113,808	108,167
Reserves		683,907	498,854
Minority interests		797,715	607,021
Total equity		1,177,599	1,114,042

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2007

Unaudited									
Attributable to equity holders of the Company									
Notes	Ordinary shares	Share premium	Contributed surplus	Exchange reserve	Accumulated losses	Share-based	Sub-total	Minority interests	Total equity
						compensation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2007	108,167	1,380,992	222,122	7,187	(1,127,255)	15,808	607,021	117,758	724,779
Exchange differences	-	-	-	6,879	-	-	6,879	1	6,880
Profit for the period	-	-	-	-	36,244	-	36,244	-	36,244
Total recognised income and expenses for the period	-	-	-	6,879	36,244	-	43,123	1	43,124
Share option scheme:									
- share-based compensation	-	-	-	-	-	3,052	3,052	-	3,052
- proceeds from shares issued	14	641	7,946	-	-	-	8,587	-	8,587
- transfer upon options exercised	-	-	4,055	-	-	(4,055)	-	-	-
Issue of ordinary shares, net of issuing expenses	14	5,000	130,932	-	-	-	135,932	-	135,932
	5,641	142,933	-	-	-	(1,003)	147,571	-	147,571
Balance at 30 June 2007	113,808	1,523,925	222,122	14,066	(1,091,011)	14,805	797,715	117,759	915,474
Balance at 1 January 2006	58,342	264,019	222,122	2,631	(495,330)	3,998	55,782	117,761	173,543
Exchange differences	-	-	-	992	-	-	992	-	992
Profit for the period	-	-	-	-	38,290	-	38,290	-	38,290
Total recognised income and expenses for the period	-	-	-	992	38,290	-	39,282	-	39,282
Share option scheme:									
- share-based compensation	-	-	-	-	-	2,879	2,879	-	2,879
- proceeds from shares issued	860	7,318	-	-	-	-	8,178	-	8,178
	860	7,318	-	-	-	2,879	11,057	-	11,057
Balance at 30 June 2006	59,202	271,337	222,122	3,623	(457,040)	6,877	106,121	117,761	223,882

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2007

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	(48,746)	114,586
Net cash used in investing activities	(7,523)	(2,131)
Net cash generated from/(used in) financing activities	144,643	(14,591)
NET INCREASE IN CASH AND CASH EQUIVALENTS	88,374	97,864
Cash and cash equivalents at beginning of the period	516,413	81,669
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	604,787	179,533

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 GENERAL INFORMATION

DVN (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) are principally engaged in the design, development, integration and sales of digital set top boxes, digital broadcasting systems and the related software, and the provision of international financial market information and selective customer data.

The Company is a limited liability company incorporated in Bermuda. The address of its principal place of business is Rooms 1304-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (HK\$’000), unless otherwise stated.

These condensed consolidated interim financial statements were approved for issue by the board of directors of the Company on 14 September 2007.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company’s audit committee.

These condensed consolidated interim financial statements have been prepared under historical cost convention. The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2006 except that, in the current period, the Group has adopted certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA.

Adoption of new/revised HKFRSs

The following new and revised HKFRSs are adopted for the first time for the current period’s condensed consolidated interim financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 7	Applying the Reinstatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK (IFRIC) – Int 8	Scope of HKFRS 2
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements

The adoption of these new and revised HKFRSs has had no material impact on the accounting policies of the Group and the preparation of these condensed consolidated interim financial statements.

3 SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) Digital broadcasting business ("DVB Business") – The design, development, integration and sales of digital set top boxes, digital broadcasting systems and related software;
- (ii) Other – Provision of international financial market information and selective consumer data; and
- (iii) Corporate – Corporate income and expenses.

An analysis of the Group's revenue and results for the six months ended 30 June 2007 and 2006 by business segments is as follows:

	DVB Business		Other		Corporate		Unallocated		Total	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue	307,797	644,282	9,467	8,543	-	-	-	-	317,264	652,825
Segment results	45,031	41,989	738	289	(4,297)	(1,694)	-	-	41,472	40,584
Finance costs							(4)	(51)	(4)	(51)
Share of loss of a jointly controlled entity	-	(1)							-	(1)
Share of profits of associates	127	6							127	6
Profit before income tax									41,595	40,538
Income tax credit/(expenses)									(3,898)	658
Profit after income tax									37,697	41,196
Dividends on preference shares									(1,453)	(2,906)
Profit for the period									36,244	38,290

4 OTHER INCOME

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income on bank deposits	9,783	1,302
Value-added tax refund	7,694	–
Short-term investment income	1,474	–
Gain on disposal of property, plant and equipment	–	195
Others	533	32
	19,484	1,529

5 FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank and other borrowings	–	47
Interest element of finance leases	4	4
	4	51

6 EXPENSES BY NATURE

Expenses included in cost of sales, marketing, selling and distribution costs, administrative expenses and other operating expenses are analysed as follows:

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	218,724	515,621
Cost of provision of financial market information and consumer data	1,913	2,055
Depreciation:		
Owned property, plant and equipment	2,338	5,080
Leased property, plant and equipment	11	22
Net exchange loss	–	19
Other operating expenses including:		
Amortisation of deferred development costs	4,594	2,405
Provision for inventories	576	13,488
Provision for impairment of trade receivables	115	9,330
Provision for impairment of goodwill	547	–

7 INCOME TAX CREDIT/(EXPENSES)

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current – outside Hong Kong	(3,898)	(337)
Deferred tax income	–	995
	(3,898)	658

No provision for Hong Kong profits tax has been made as the operations in Hong Kong either did not have any assessable profit for the period or had sufficient tax losses brought forward to offset against the assessable profit arising during the period.

Taxes on overseas profits have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8 DIVIDENDS

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Dividends on preference shares	1,453	2,906

The directors of the Company do not recommend any payment of interim dividend on ordinary shares for the six months ended 30 June 2007 (2006: Nil).

9 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to the ordinary equity holders of the Company of approximately HK\$36,244,000 (2006: HK\$38,290,000) and the weighted average number of 1,118,538,282 (2006: 588,340,590) ordinary shares in issue during the period.

The calculation of the diluted earnings per share is based on the Group's profit attributable to the ordinary equity holders of the Company of approximately HK\$36,244,000 (2006: HK\$38,290,000) and the weighted average number of ordinary shares during the period assuming the exercise of the outstanding share options, the dilutive potential ordinary shares of the Company. A calculation is made to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's ordinary shares over the period) based on the monetary value of the subscription rights attached to the outstanding share options. The weighted average number of ordinary shares for the calculation of the diluted earnings per share is set out as follows:

	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
Weighted average number of ordinary shares in issue	1,118,538,282	588,340,590
Adjustment for share options	14,820,848	15,107,671
Weighted average number of ordinary shares for diluted earnings per share	1,133,359,130	603,448,261

10 PROPERTY, PLANT AND EQUIPMENT

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Opening net carrying amount	10,284	20,404
Exchange differences	184	378
Additions	3,473	5,596
Disposals	–	(513)
Depreciation	(2,349)	(9,960)
Impairment losses	–	(5,621)
Closing net carrying amount	11,592	10,284

11 TRADE RECEIVABLES

An aging analysis of the trade receivables as at the balance sheet date is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
1 – 6 months	239,445	123,144
7 – 12 months	30,271	5,973
Over 12 months	3,411	–
	273,127	129,117

The Group's trading terms with its customers are payment in advance or on credit. The credit period is generally for a period of one month, extending up to three months for major customers. The Group seeks to maintain strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers. The Group believes that no significant credit risk exists as credit losses, when realised, have been within the range of management's expectation. Trade receivables are non-interest bearing.

12 TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
1 – 6 months	114,513	123,360
7 – 12 months	3,409	1,325
Over 12 months	15,741	14,060
	133,663	138,745

13 OBLIGATIONS UNDER FINANCE LEASES

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Wholly repayable within five years	27	44
Current portion	(27)	(36)
Non-current portion	–	8

14 ORDINARY SHARES

	Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
Authorised		
At 30 June 2007 and 31 December 2006	3,000,000,000	300,000
Issued and fully paid		
At 1 January 2007	1,081,671,432	108,167
Issue of shares on 5 March 2007	50,000,000	5,000
Exercise of share options	6,410,000	641
At 30 June 2007	1,138,081,432	113,808

Pursuant to a share subscription agreement entered into between the Company and Mr Ko Chun Shun, Johnson ("Mr Ko") on 14 December 2006 to subscribe 50,000,000 new ordinary shares of the Company at HK\$2.85 per share by Mr Ko, which was subsequently approved by the independent shareholders of the Company in a special general meeting held on 28 February 2007, the Company issued 50,000,000 new ordinary shares to Mr Ko at a total consideration of HK\$142.5 million on 5 March 2007.

15 CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the balance sheet date.

16 COMMITMENTS

(a) Capital commitments

Neither the Group nor the Company had any significant capital commitments at 30 June 2007 and 31 December 2006.

(b) Operating lease commitments

The Group leases certain of its office, warehouse properties and staff quarters under operating lease arrangements, which are negotiated for terms ranging from one to five years.

As at 30 June 2007, the Group had total future minimum lease payments under the non-cancellable operating leases as follows:

	Land and buildings	
	30 June 2007	31 December 2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Not later than one year	5,811	5,071
Later than one year and not later than five years	9,762	8,200
	15,573	13,271

(c) Financial commitments

As at 30 June 2007, the Group had financial commitments in respect of registered capital contributions to a subsidiary, an associate and a jointly controlled entity in the PRC as described below:

	30 June 2007	31 December 2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Subsidiary (Note (i))	9,611	9,279
Jointly controlled entity (Note (ii))	30,950	29,880
Associate (Note (iii))	1,161	1,121
	41,722	40,280

Notes:

- (i) Included in the financial commitment in respect of the registered capital contribution to a subsidiary is an amount of RMB5,316,000 (equivalent to approximately HK\$5,484,000) (2006: RMB5,316,000 equivalent to approximately HK\$5,039,000) that was paid in 1999 but the capital verification process has not been completed. The remaining balance has been overdue for capital injection (2006: same).
- (ii) The financial commitment in respect of the registered capital contribution to a jointly controlled entity of RMB30,000,000 (equivalent to approximately HK\$30,950,000) has been overdue for capital injection (2006: RMB30,000,000 equivalent to approximately HK\$29,880,000).
- (iii) The financial commitment in respect of the registered capital contribution to an associate has been overdue for capital injection since 17 March 2007.

17 RELATED PARTY TRANSACTIONS

The following transactions were carried out by the Group with related parties:

(a) Purchases of goods and services

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Purchases of goods		
– Group companies of a shareholder	39,342	20,912
Dividends on preference shares		
– A group company of a shareholder	1,453	2,906

The purchases of goods were negotiated with related parties on normal commercial terms or in accordance with the agreements governing those transactions.

(b) Details of key management compensation of the Group

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	6,133	3,713
Post-employment benefits	24	36
Share-based payments	1,620	–
	7,777	3,749

(c) Period-end/year-end balances arising from sales/purchases and services rendered

	30 June 2007	31 December 2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade receivables		
– Group companies of a shareholder	–	754
Trade payables		
– Group companies of a shareholder	43,563	58,319
– A jointly controlled entity	4,434	4,281

17 RELATED PARTY TRANSACTIONS *(continued)*

(d) Other period-end/year-end balances

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Amounts due from related companies		
– Group companies of a shareholder	–	475
Prepayments, deposits and other receivables		
– A jointly controlled entity	1,530	996

18 EVENTS AFTER THE BALANCE SHEET DATE

There has been no material event subsequent to the period end which requires adjustment of or disclosure in the interim financial statements.

19 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

OTHER INFORMATION

Directors' Interests and Short Positions in Shares and Underlying Shares of the Company or any Associated Corporations

As at 30 June 2007, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO or as 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 shares and underlying shares of the Company

Ordinary shares of HK\$0.10 each in the Company

Name of director	Note	Number of ordinary shares held			Total	% of the issued share capital of the Company
		Personal interests	Family interests	Corporate interests		
Mr Ko Chun Shun, Johnson ("Mr Ko")	(i)	–	2,040,816	51,976,719	54,017,535	4.75%
Mr Lui Pan		2,698,000	2,300,000	–	4,998,000	0.44%
Mr Shaw Sun Kan, Gordon		550,000	–	–	550,000	0.05%
Mr Chu Hon Pong		450,000	–	–	450,000	0.04%

Note:

- (i) Mr Ko was deemed to be interested in the 1,976,719 ordinary shares and 50,000,000 ordinary shares of the Company held by Techral Holdings Limited and First Gain International Limited respectively under the SFO as both companies are controlled by Mr Ko.

The interests of the directors in the share options of the Company as at 30 June 2007 are disclosed under the section "Share option scheme" below.

Save as mentioned above, as at 30 June 2007, none of the directors had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which had been recorded in the register to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares

Saved as disclosed under the section "Directors' interests and short positions in shares and underlying shares of the Company or any associated corporations" above and the section "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

On 26 June 2002, the Company adopted a share option scheme (the "Scheme") in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the period ended 30 June 2007, 1,000,000 share options, 29,101,000 share options and 29,101,000 share options were granted under the Scheme with fair values estimated to be HK\$0.8798, HK\$0.5196 and HK\$0.5994 respectively using the Black-Scholes option pricing model with the following input variables:

Date of grant of share options	Number of share options	Closing price of shares before the date of grant of share options HK\$	Exercise period of share options	Date of appraisal	Risk-free interest rate	Expected dividend yield per share	Expected volatility	Expected life
12/2/2007	500,000	1.99	12/8/2007 to 11/2/2017	12/2/2007	4.29%	0%	45.93%	12/2/2007 to 11/2/2017
12/2/2007	500,000	1.99	12/2/2008 to 11/2/2017	12/2/2007	4.29%	0%	45.93%	12/2/2007 to 11/2/2017
25/5/2007	29,101,000	1.77	26/5/2008 to 25/5/2010	25/5/2007	4.11%	0%	53.67%	25/5/2007 to 25/5/2010
25/5/2007	29,101,000	1.77	26/5/2009 to 25/5/2010	25/5/2007	4.11%	0%	53.67%	25/5/2007 to 25/5/2010

Share Option Scheme (continued)

Movements in the number of outstanding share options and their related weighted average exercise prices are as follows:

	Six months ended 30 June			
	2007		2006	
	Weighted average exercise price per share (Unaudited) HK\$	Number of options (Unaudited)	Weighted average exercise price per share (Unaudited) HK\$	Number of options (Unaudited)
At beginning of period	1.40	35,211,001	1.03	37,371,338
Granted and accepted	1.88	59,202,000	1.50	23,500,000
Exercised	1.34	<u>(6,410,000)</u>	0.94	<u>(9,799,334)</u>
At end of period	1.73	<u>88,003,001</u>	1.26	<u>51,072,004</u>

Out of the 88,003,001 outstanding options as at 30 June 2007 (30 June 2006: 51,072,004), 28,801,001 options (30 June 2006: 27,572,004) were exercisable. Options exercised during the period ended 30 June 2007 resulted in 6,410,000 (2006: 9,799,334) shares being issued at HK\$1.34 (2006: HK\$0.94) each.

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

Expiry date	Six months ended 30 June		
	Exercise price per share HK\$	2007	2006
		Number of options (Unaudited)	Number of options (Unaudited)
31 December 2007	1.500	19,070,000	23,500,000
23 July 2008	1.470	6,548,000	10,018,000
31 December 2008	0.824	3,183,001	17,554,004
25 May 2010	1.880	58,202,000	–
11 February 2017	1.990	1,000,000	–

Share Option Scheme (continued)

The details of movements of the outstanding share options are as follows:

Date of share options granted	27 January 2006
Exercise price	HK\$1.500
Exercise period	1 January 2007 – 31 December 2007

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by employees						
In aggregate	23,500,000	–	(4,430,000)	–	19,070,000	1.955

Date of share options granted	23 July 2002
Exercise price	HK\$1.470
Exercise period	24 July 2002 – 23 July 2008

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by directors						
Mr Ko Chun Shun, Johnson	3,000,000	–	–	–	3,000,000	–
Mr Lui Pan	1,500,000	–	–	–	1,500,000	–
Held by employees						
In aggregate	2,528,000	–	(480,000)	–	2,048,000	2.170
Total	7,028,000	–	(480,000)	–	6,548,000	

Share Option Scheme (continued)

Date of share options granted	10 December 2003
Exercise price	HK\$0.824
Exercise period	1 January 2004 – 31 December 2008

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by directors						
Mr Ko Chun Shun, Johnson	450,000	-	-	-	450,000	-
Mr Jerry Sze	183,334	-	-	-	183,334	-
Held by employees						
In aggregate	4,049,667	-	(1,500,000)	-	2,549,667	2.200
Total	4,683,001	-	(1,500,000)	-	3,183,001	

Date of share options granted	25 May 2007
Exercise price	HK\$1.880
Exercise period	26 May 2008 – 25 May 2010

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by directors						
Mr Ko Chun Shun, Johnson	-	1,400,000	-	-	1,400,000	-
Mr Lui Pan	-	3,750,000	-	-	3,750,000	-
Mr Lui Pan (Note (i))	-	1,750,000	-	-	1,750,000	-
Mr Hu Qinggang	-	4,650,000	-	-	4,650,000	-
Mr Shaw Sun Kan, Gordon	-	300,000	-	-	300,000	-
Mr Jerry Sze	-	300,000	-	-	300,000	-
Mr Chu Hon Pong	-	300,000	-	-	300,000	-
Mr Liu Tsun Kie	-	300,000	-	-	300,000	-
Mr Yap Fat Suan, Henry	-	300,000	-	-	300,000	-
Held by employees						
In aggregate	-	16,051,000	-	-	16,051,000	-
Total	-	29,101,000	-	-	29,101,000	

Share Option Scheme (continued)

Date of share options granted	25 May 2007
Exercise price	HK\$1.880
Exercise period	26 May 2009 – 25 May 2010

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by directors						
Mr Ko Chun Shun, Johnson	-	1,400,000	-	-	1,400,000	-
Mr Lui Pan	-	3,750,000	-	-	3,750,000	-
Mr Lui Pan (Note (i))	-	1,750,000	-	-	1,750,000	-
Mr Hu Qinggang	-	4,650,000	-	-	4,650,000	-
Mr Shaw Sun Kan, Gordon	-	300,000	-	-	300,000	-
Mr Jerry Sze	-	300,000	-	-	300,000	-
Mr Chu Hon Pong	-	300,000	-	-	300,000	-
Mr Liu Tsun Kie	-	300,000	-	-	300,000	-
Mr Yap Fat Suan, Henry	-	300,000	-	-	300,000	-
Held by employees						
In aggregate	-	16,051,000	-	-	16,051,000	-
Total	-	29,101,000	-	-	29,101,000	

Share Option Scheme (continued)

Date of share options granted	12 February 2007
Exercise price	HK\$1.990
Exercise period	12 August 2007 – 11 February 2017

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by supplier of service						
In aggregate	-	500,000	-	-	500,000	-

Date of share options granted	12 February 2007
Exercise price	HK\$1.990
Exercise period	12 February 2008 – 11 February 2017

	Outstanding options as at 1 January 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30 June 2007	Weighted average closing price before dates of exercise HK\$
Held by supplier of service						
In aggregate	-	500,000	-	-	500,000	-

Note:

- (i) Options were held by the spouse of Mr Lui Pan, who is also an employee of the Group.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Number of ordinary shares held			% of the issued share capital of the Company
		Directly beneficially owned	Through controlled corporations	Total	
Easy Flow Investments Limited		237,592,607	–	237,592,607	20.88%
CITIC United Asia Investments Limited	(i)	–	237,592,607	237,592,607	20.88%
CITIC Group	(ii)	–	243,891,607	243,891,607	21.43%
Motorola-Dragon Investment, Inc.		175,500,000	–	175,500,000	15.42%
Motorola, Inc.	(iii)	–	175,500,000	175,500,000	15.42%
Fidelity International Limited		68,627,240	–	68,627,240	6.03%

Notes:

- (i) CITIC United Asia Investments Limited was deemed to be interested in the 237,592,607 ordinary shares of the Company held by Easy Flow Investments Limited under the SFO by virtue of its interest in Easy Flow Investments Limited.
- (ii) CITIC Group was deemed to be interested in the 243,891,607 ordinary shares of the Company held by certain subsidiaries, including Easy Flow Investments Limited, under the SFO by virtue of its interest in those subsidiaries.
- (iii) Motorola, Inc. was deemed to be interested in the 175,500,000 ordinary shares of the Company held by Motorola-Dragon Investment, Inc. under the SFO by virtue of its interest in Motorola-Dragon Investment, Inc.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report, except for the following deviations:

- (i) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election. Not all of the existing non-executive directors (including independent non-executive directors) of the Company were appointed for a specific term when they were appointed, which constitutes a deviation from code provision A.4.1 of the Code. However, they are subject to retirement by rotation according to the Bye-laws of the Company.
- (ii) Under code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to the Bye-law 98 of the Bye-laws of the Company, at the annual general meeting in each year, one-third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office, which may in some cases constitute a deviation from code provision A.4.2 of the Code. To comply with code provision A.4.2 of the Code, relevant amendments to the Bye-laws of the Company were approved by the shareholders of the Company in the annual general meeting held on 16 August 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the directors’ securities transactions. Following specific enquiry by the Company, all directors have confirmed that they have complied with the Model Code regarding directors’ securities transactions throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 of the Group now reported have been reviewed by the audit committee.

By order of the Board
DVN (HOLDINGS) LIMITED
Lui Pan
President