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)

Annual Report

2007

Contents

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
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

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
Tricor 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
1201, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

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

Investor Relations Consultant
Strategic Financial Relations (China) Limited

Five Years Financial Summary

Following is a summary of the consolidated results and the consolidated assets and liabilities of the Group for the last five financial years prepared on a basis as stated in the notes below:

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**1,197,756**	670,471	557,883	384,470	265,252
Profits before tax	**298,238**	218,127	174,750	120,500	80,693
Income tax	**(50,950)**	(33,745)	(27,781)	(9,669)	(6,524)
Profit for the year	**247,288**	184,382	146,969	110,831	74,169

CONSOLIDATED ASSETS AND LIABILITY

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total non-current assets	**119,535**	73,659	20,643	23,523	26,458
Total current assets	**1,159,658**	684,578	357,753	248,693	164,996
Total assets	**1,279,193**	758,237	378,396	272,216	191,454
Total non-current liabilities	**(319,632)**	–	–	–	–
Total current liabilities	**(70,064)**	(56,929)	(66,629)	(42,348)	(72,417)
Total liabilities	**(389,696)**	(56,929)	(66,629)	(42,348)	(72,417)
Net assets	**889,497**	701,308	311,767	229,868	119,037

FIVE YEARS FINANCIAL SUMMARY

Notes:

1. The summary of the consolidated assets and liabilities of the Group as at end for the five financial years ended 31 December 2007 was prepared as if the current group structure had been in existence throughout these financial years.

2. The results for the two years ended 31 December 2004 were extracted from the prospectus of the Company dated 26 April 2006.

3. Assets and liabilities of the Group as at 31 December 2004 and 2003 were extracted from the prospectus of the Company dated 26 April 2006.

Financial Highlights

Year ended 31 December

	2007 **RMB'000**	2006 RMB'000	**Increase** %
Turnover			
Manufacturing business			
Telecommunication network extension equipment			
Public telephone booths	**266,153**	224,064	18.8
Electronic booths	**2,822**	–	N/A
	268,975	224,064	20.0
Telecommunication information terminal equipment			
Public telephones	**97,232**	91,278	6.5
Wireless business telephones	**81,684**	74,837	9.2
Digital set-top boxes	**5,019**	–	N/A
	183,935	166,115	10.7
Intelligent electronic products			
Smart card vending machines	**279,043**	222,760	25.3
Intelligent EDC systems	**4,092**	–	N/A
	283,135	222,760	27.1
Optical transmission connection products			
ODFs	**29,325**	10,236	186.5
Optical passive devices	**97,209**	46,968	107.0
	126,534	57,204	121.2
	862,579	670,143	28.7
Self-service business	**200,113**	328	60,910.1
Agency business for telecommunication products	**135,064**	–	N/A
	1,197,756	670,471	78.6
Gross Profit	**381,222**	276,242	38.0
Profits attributable to shareholders	**247,288**	184,382	34.1
Shareholders' Equity	**889,497**	701,308	26.8
Total Assets	**1,279,193**	758,237	68.7

	2007 **RMB cents**	2006 RMB cents	**Increase** %
Earnings per share – Basic *(Note 1)*	**23.83**	19.54	22.0
– Diluted *(Note 2)*	**20.81**	N/A	N/A
Net asset value per share *(Note 3)*	**85.73**	67.60	26.8

Notes:

1. The calculation of basic earnings per share is based on the profits attributable to ordinary equity shareholders of the Company of approximately RMB247,288,000 (2006: RMB184,382,000) and the weighted average number of 1,037,500,000 shares (2006: 943,630,000 shares) in issue during the year. Details of the calculations for the years ended 31 December 2007 and 2006 are set in note 9 to the financial statement.

2. The calculation of diluted earnings per share is based on the profits attributable to ordinary equity shareholders of the Company of approximately RMB250,521,000 and the weighted average number of ordinary shares of 1,204,031,000 shares. Diluted earnings per share for the year ended 31 December 2006 has not been presented as the exercised price of the Company's outstanding share options was higher than the average market price for shares for the year and the convertible bonds were issued in 2007. Details of the calculations for the year ended 31 December 2007 and 2006 are set in note 9 to the financial statement.

3. The calculation of net asset value per share for the year ended 31 December 2007 and 31 December 2006 is based on the shareholders' equity and the total number of ordinary shares in issue as at 31 December 2007 and 31 December 2006 respectively.

FINANCIAL HIGHLIGHTS

Year ended 31 December

	The Group	
	2007	2006
Return on equity	**27.8%**	26.3%
Return on total assets	**19.3%**	24.3%
Current ratio	**16.6**	12.0
Gearing ratio *(Note 1)*	**25.0%**	0.01%
Debt to equity ratio *(Note 2)*	**35.9%**	N/A
Gross profit margin	**31.8%**	41.2%
Net profit margin	**20.7%**	27.5%
Average inventory turnover *(Note 3)*	**7.7 days**	10.1 days
Average trade receivable turnover *(Note 4)*	**65.9 days**	88.0 days
Average trade payable turnover *(Note 5)*	**6.4 days**	10.6 days

Notes:

1. The calculation of gearing ratio is based on the total borrowings divided by total assets at the relevant year end dates;

2. Debt comprises interest-bearing loans;

3. The calculation of average inventory turnover is based on the average of opening and closing inventory balance divided by turnover and multiplied by 365 days;

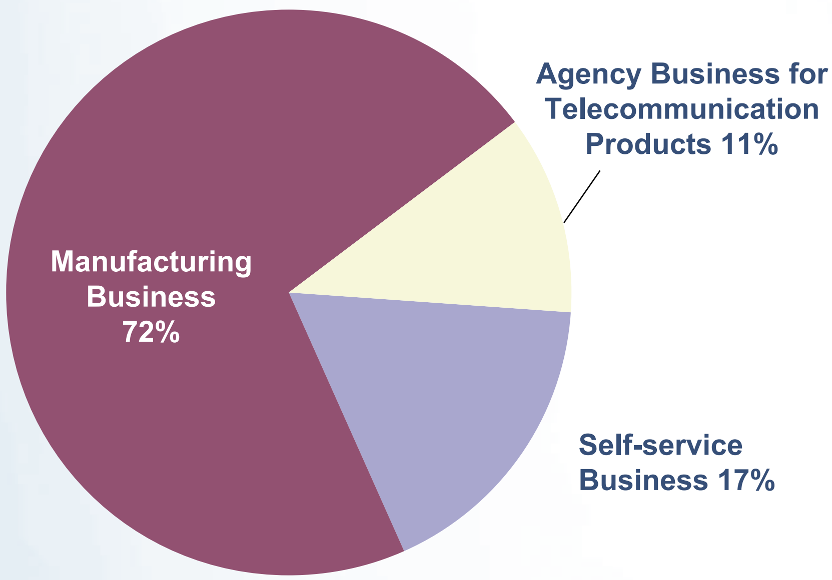
4. The calculation of trade receivable turnover is based on the average of opening and closing balance for trade receivable, net of VAT, divided by turnover and multiplied by 365 days;

5. The calculation of trade payable turnover is based on the average of opening and closing for trade payable divided by total purchases and multiplied by 365 days.

FINANCIAL HIGHLIGHTS

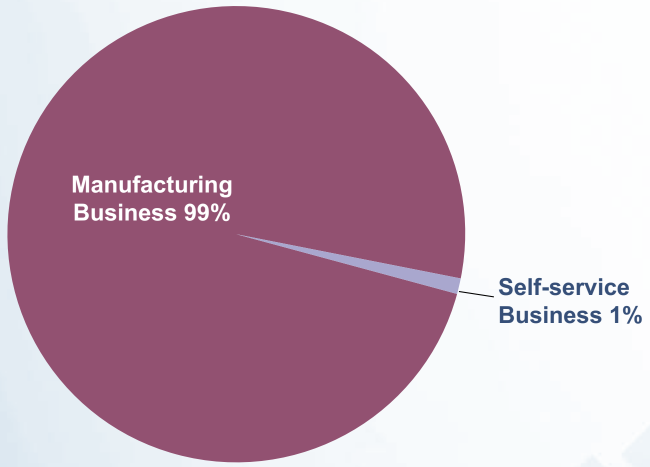
BREAKDOWN OF TURNOVER BY BUSINESS STRUCTURE

For the year ended 31 December 2007



RMB1,197.8 million

For the year ended 31 December 2006

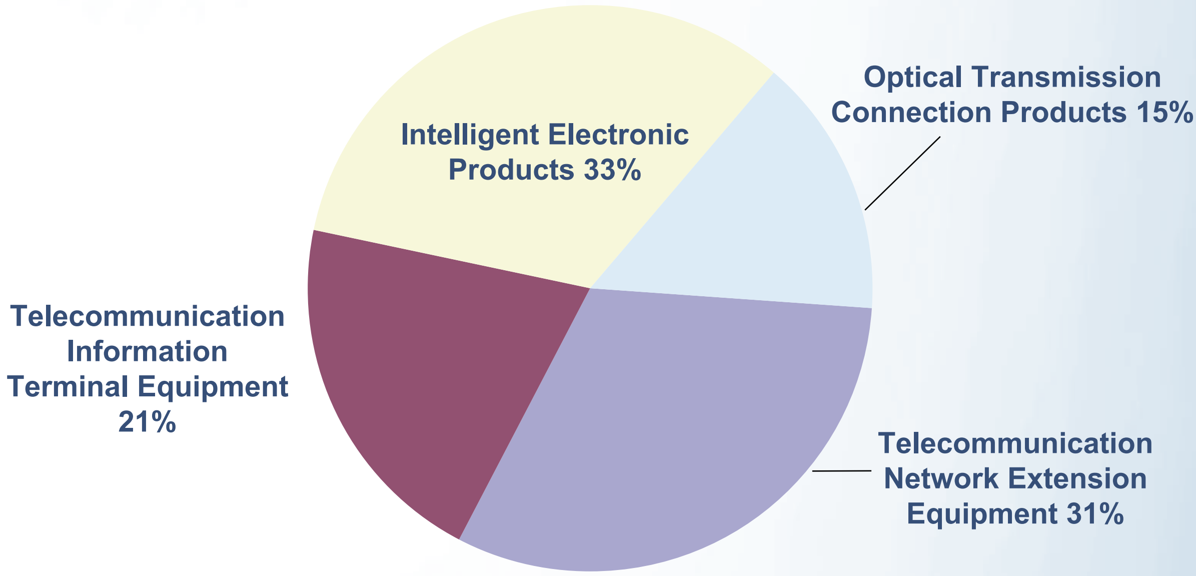


RMB670.5 million

FINANCIAL HIGHLIGHTS

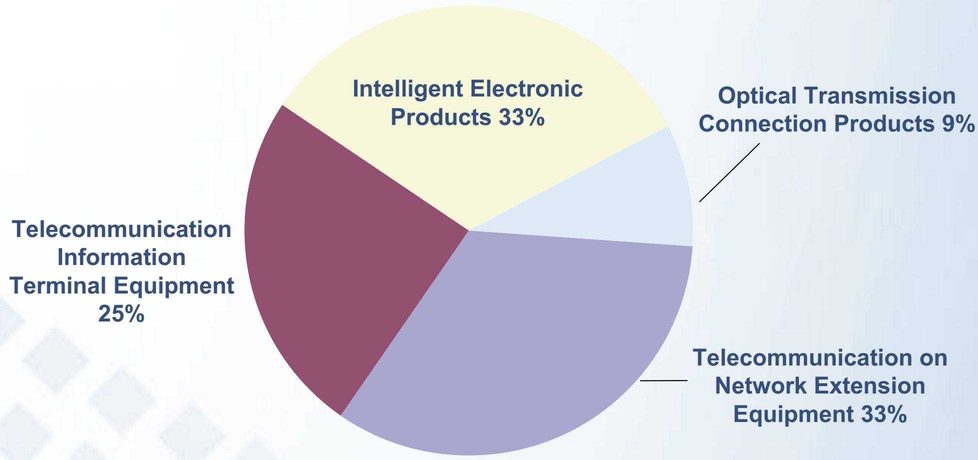
BREAKDOWN OF TURNOVER FOR MANUFACTURING BUSINESS

For the year ended 31 December 2007



RMB862.6 million

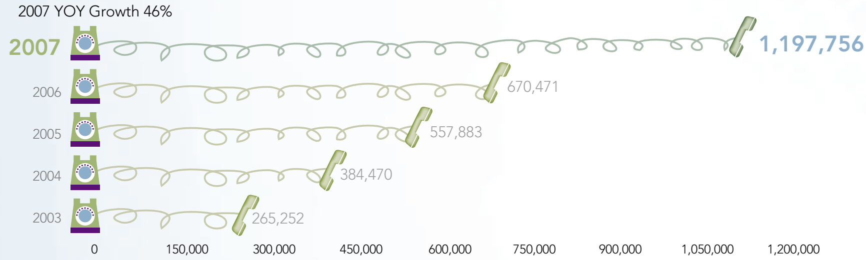
For the year ended 31 December 2006



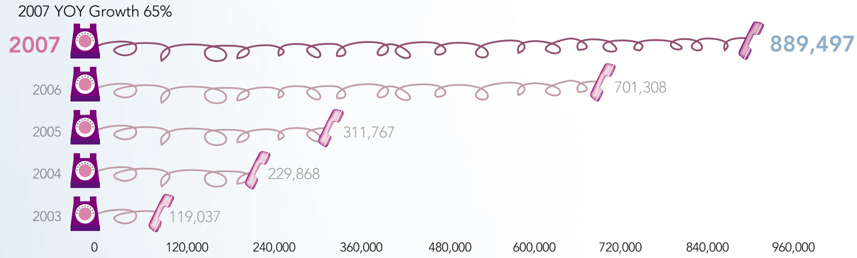
RMB670.1 million

FINANCIAL HIGHLIGHTS

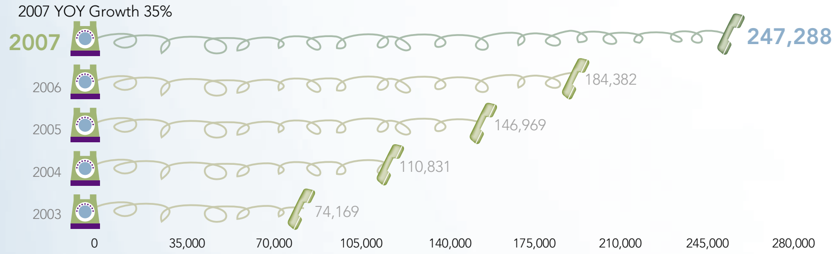
Turnover
RMB'000
2007 YOY Growth 46%



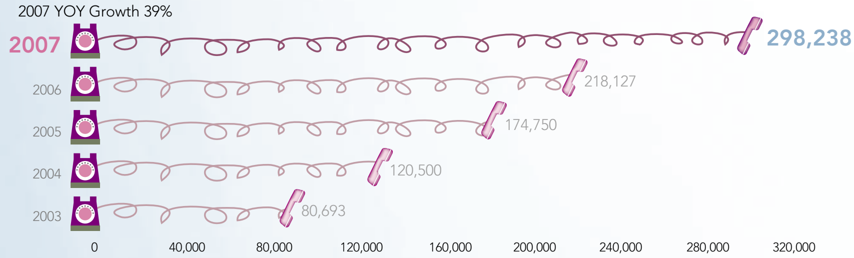
Net assets
RMB'000
2007 YOY Growth 65%



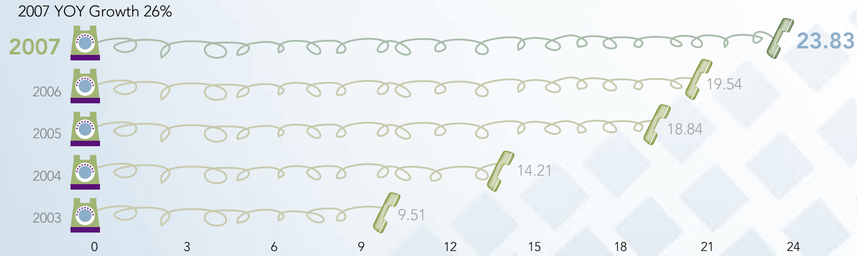
Profits attributable to shareholders
RMB'000
2007 YOY Growth 35%



Profits before taxation
RMB'000
2007 YOY Growth 39%



Basic earnings per share
RMB cents
2007 YOY Growth 26%



FINANCIAL HIGHLIGHTS

Year ended 31 December 2007

Geographical Coverage

Chairman's Statement

On behalf of the Board of Directors (the "Board" or the "Directors"), I am delighted to report that DBA Telecommunication (Asia) Holdings Limited (the "Company") and its subsidiaries (together the "Group") achieved remarkable results for the year ended 31 December 2007.

BUSINESS REVIEW

For the year ended 31 December 2007, the Group achieved satisfactory results, and recorded a turnover of approximately RMB1,198 million for the year, representing an increase of 79%. Gross profit increased to approximately RMB381 million, 38% higher than in the previous year. Profit attributable to shareholders increased to approximately RMB247 million, an increase of 34% against last year. Basic earnings per share were RMB23.83 cents. Among the above, manufacturing business keep growing at fast pace, turnover for the year was approximately RMB863 million, an increase of 29% as compared with last year. Self-service business grew significantly, turnover for the year was approximately RMB200 million, an increase of 60,910% compared with the corresponding period last year.

For the manufacturing business, the persistent economic growth, urbanization and the information technology development in the PRC have driven up demand for telecommunication equipment. Leverage on its huge marketing and service network, proper product structure and strong scientific research power, the Group is able to procure the rapid growth in the sales of its manufacturing business's products.

For the self-service business, seeing an enormous payment service market in China, and the modernization level of self-service business in China, the Group ran a pilot program in Fuzhou, Fujian province, and had installed about 1,000 units of smart self-service terminals in various residential districts and at commercial buildings, university campuses and hospitals to sell various telecommunication payment cards of different telecommunication operators. In order to promote the success of modern service model laid out by the Group's self-service pilot program, and to explore a larger market, the Group plans to roll out the business to other cities in the PRC in the next 2 to 3 years. With convertible bonds issue in November 2007 through UBS, the Group will not only be able to raise funds for the expansion of the business immediately, but can also broaden the Company's shareholder base, which is considered to be beneficial to the long term development of the Company.

In order to capitalize the Group's marketing network and implement the Group's market oriented development strategy, the Group had selectively commenced telecommunication products agency business in March 2007. Looking forward, the Group will continue to monitor the development of the business, focusing on raising its efficiency and profitability.

CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2007, the Group had total assets of approximately RMB1,279 million comprising non-current assets of approximately RMB120 million and current assets of approximately RMB1,159 million.

On 8 November 2007, the Company through the sole placing agent, UBS AG, issued 1% coupon convertible bonds in an aggregate principal amount of RMB330,000,000 due 2012 (the "Bonds") convertible into ordinary shares of the Company. The bondholders have the right to convert them into ordinary shares of the Company at any time on or after 41 days from 8 November 2007 until 7 days prior to 8 November 2012 at the initial conversion price of HK$2.08 per share. The Bonds bear interest at 1% per annum payable by the Company semi-annually in arrears and the Bonds will mature on 8 November 2012. The Company intends to use net proceeds to expand its self-service business in the PRC.

The Group's cash and cash equivalents, mostly denominated in RMB and Hong Kong dollar, were approximately RMB798 million as at 31 December 2007.

OUTLOOK

The Directors are optimistic about the Group's business outlook.

It is expected that with the rapid development of information technology and urbanization in China, the turnover from the manufacturing business of telecommunication network extension equipment, telecommunication information terminal equipment, intelligent electronic products and optical transmission connection products will keep growing. The Group will keep paying attention to the demand changes of information equipment in China, keep improving the function of its product, and will launch new products in due course, so as to maintain its competitive advantage in product range, quality and cost within the market. The Group will carry on expanding the market network, about eight new marketing offices will be established, bringing the Group's marketing offices in China to 35. The Group is also conducting research on expanding its business to certain countries in the Southeast Asia market. The first phase of the Group's new production facilities has finished, and is expected to commence operation by the end of the first quarter of 2008, enabling the Group to have abundant productivity to meet market demands.

It is expected that the self-service business will become the integral part of the core business of the Group, the turnover of which will grow immensely, and the scope of service will be enlarged gradually.

CHAIRMAN'S STATEMENT

Furthermore, to promote its image and products, the Group will actively participate in trade fairs and exhibitions. Recognizing the importance of constantly enhancing its products, the Group will continue to focus on research and development of more advanced and efficient products. It will also introduce measures to effectively control manufacturing cost, selling and distribution costs, administrative expenses and research and development expenditure and maintaining debtor's turnover days and inventory turnover days at healthy levels, with the aim of enhancing its financial results.

DIVIDENDS

Subject to approval by shareholders at the forthcoming annual general meeting on 30 April 2008, the directors recommend payment of a final dividend of HK3.88 cents per share for the year ended 31 December 2007 (2006: HK4.33 cents).

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express its gratitude to all staff for their devotion and hard work. I would also like to extend sincere thanks to our customers and shareholders for their continuous support and trust. We will continue to strive for excellence and do our very best to maximize returns to our stakeholders in the coming years.

YU Longrui
Chairman and Chief Executive Officer

Hong Kong, 18 March 2008

Management discussion and analysis

For the year ended 31 December 2007, the Group achieved satisfactory results with thanks to the introduction of self-service business and agency business for telecommunication products. The Group recorded a turnover of approximately RMB1,198 million, representing an increase of 79% as compared with last year. Gross profit increased to approximately RMB381 million, 38% higher than in the previous year. Profit attributable to shareholders increased to approximately RMB247 million, an increase of 34% against last year. Basic earnings per share were RMB23.83 cents.

MANUFACTURING BUSINESS

Sales of telecommunication network extension equipment

Public telephone booths and the newly launched electronic booths are the principal products in this category. For the year ended 31 December 2007, turnover derived from sales of telecommunication network extension equipment increased by 20% to approximately RMB269 million, accounting for approximately 22% of the Group's total turnover. The growth was attributable to the Group's effort in launching new models with advanced functions and better exterior design. In recognition of the increase in demand for electronic booths, the Group launched its own during the year. The electronic booths were sold to major banking customers in Fuzhou, Fujian Province, and the Group intend to launch new models and secure new customers so as to increase the sales of electronic booths in future.

Sales of telecommunication information terminal equipment

Public telephones, wireless business telephones and the newly launched digital set-top boxes are the principal products in this category. Turnover derived from sale of telecommunication information terminal equipment increased by 11% to approximately RMB184 million, accounting for approximately 15% of the Group's total turnover. Persistent economic growth and urbanization in the PRC have been the force behind arising demand for telecommunication equipment. That plus the Group's tireless efforts to improve product quality have contributed to the turnover growth.

Sales of intelligent electronic products

The Group's intelligent electronic products mainly include smart card vending machines, which provide self-service purchase of telecommunication payment cards to the public and the newly launched intelligent EDC systems. For the year ended 31 December 2007, turnover derived from sale of intelligent electronic products increased by 27% to approximately RMB283 million, accounting for approximately 24% of the Group's total turnover. The increase in turnover was mainly attributable to the growing popularity of telecommunication payment cards and the launch of new models of smart card vending machines by the Group during the year.

Sales of optical transmission connection products

The Group's optical transmission connection products include devices such as optical distribution frames ("ODFs") and optical passive devices that organize and connect different components in telecommunication channels. For the year ended 31 December 2007, the segment's turnover increased by 121% to approximately RMB127 million, accounting for approximately 11% of the Group's total turnover. The increase in turnover was mainly attributable to the Group's efforts in improving quality of the products and maintaining competitive prices of existing as well as new products.

MANAGEMENT DISCUSSION AND ANALYSIS

Self-service business

Seeing an enormous market for communication payment service in China, in December 2006, the Group ran a pilot program in Fuzhou, Fujian Province, installing a number of smart card vending terminals in various residential districts and at commercial buildings, shopping arcades and university campuses to sell telecommunication payment cards. By 31 December 2007, the Group had a total of 1,000 points-of-sale installed with a smart card vending terminal each. Sales of telecommunication payment cards was satisfactory, pointing to a very promising market for the product. For the year ended 31 December 2007, turnover from selling telecommunication payment cards via smart card vending terminals amounted to approximately RMB200 million, accounting for approximately 17% of the Group's turnover.

Agency business for telecommunication products

As the Group owns a large sales network in the PRC, we are able to maximize utilization of market resources by developing agency business for telecommunication products, thus make the business more profitable. Since March 2007, the Group commenced agency business for telecommunication products. The Group adopts a stable supply and stable pricing strategy for the business. All products provided by the suppliers are directly delivered to the cooperative distribution network for sale, enabling reduction of operation cost and inventory management cost. For the year ended 31 December 2007, turnover derived from the business amounted to approximately RMB135 million, accounting for approximately 11% of the Group's total turnover.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had capital commitments in relation to prepaid lease payment in respect of lease and the acquisition of properties, plant and equipment amounting to approximately RMB16 million.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2007.

CHARGE ON THE GROUP'S ASSETS

The Group had no charges on its assets as at 31 December 2007.

FINAL DIVIDEND

Subject to approval by shareholders at the forthcoming annual general meeting on 30 April 2008, the Board has proposed to pay a final dividend of HK3.88 cents per ordinary share for the year ended 31 December 2007, payable on or about 16 May 2008 to shareholders whose names appear on the register of members of the Company on 25 April 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed between 28 April 2008 and 30 April 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 25 April 2008.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had approximately 665 employees supporting its principal activities. The Group recognizes the importance of having a high caliber and competent staff; hence it continues to provide remuneration packages to employees with reference to prevailing market practices and individuals performance. Other benefits, such as medical coverage and retirement plans, are also provided. In addition, share option may be granted to eligible employees in accordance with the terms of the Group's approved share option scheme.

PURCHASE, 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 year ended 31 December 2007.

Directors' Profile

EXECUTIVE DIRECTORS

Yu Longrui (俞龍瑞), aged 45, is the chairman and chief executive officer of the Company and co-founder of the Group. Mr. Yu is responsible for overall strategic planning and formulation of corporate policies for the Group. Mr. Yu graduated from the Fujian College of Agriculture with a bachelor's degree in economics in 1986 and completed research courses for senior factory managers organised by the Economic Management Institute of Tsinghua University in 1998 and another research course on financial studies organised by the Central University of Finance and Economics in 2002. He has more than 13 years of corporate management experience in the PRC telecommunication industry. Mr. Yu was appointed as the Vice-Chairman of the Ninth Council of the Fujian Province Youth Entrepreneur Association and was accredited as the Seventh Outstanding Youth Entrepreneurs of Fujian Province in March 2002. In April 2002, he was appointed as a standing member of the Eighth Council of the Chinese Youth Entrepreneur Association. In September 2003, he was appointed as the executive director of the Seventh Board of Directors of the China Enterprise Confederation/China Enterprisers' Association with tenure from September 2003 to August 2008. In March 2004, Mr. Yu was accredited as the Ninth Ten Outstanding Youth Entrepreneur of Fujian Province. Mr. Yu was appointed a standing member of the Fujian Communication Industry Association in December 2004. Mr. Yu is the spouse of Ms. Yang Yahua.

Zheng Feng (鄭鳳), aged 44, is an executive Director and is responsible for the research and development of the Group's technology and products. Mr. Zheng graduated from Xiamen University in 1988 and obtained a bachelor's degree in engineering. He also obtained a master's degree in engineering from the Huazhong University of Science and Technology in 2000. Mr. Zheng was qualified in 2001 as a senior engineer in applied electronics technology by The Fujian Province's Board of Technicians in Senior Engineering Profession. Prior to joining the Group, Mr. Zheng worked as an engineer and a group leader of the laboratory of an enterprise from 1988 to 1996 and the quality control technology manager of a network technology company from 1997 to 2002. Mr. Zheng served as the chief technical officer of a technology company from 2002 to 2003. He has over 19 years of experience in the electronics and telecommunication product industries. Mr. Zheng joined the Group in July 2003.

Chan Wai Chuen (陳偉銓), aged 38, is an executive Director, chief financial officer and company secretary of the Company. Mr. Chan is responsible for overall financial planning and financial management of the Group. Mr. Chan graduated from the City University of Hong Kong in 1993 with a bachelor's degree in accountancy and The Hong Kong Polytechnic University in 2002 with a master's degree in corporate finance. He is a fellow of The Association of Chartered Certified Accountants and an associate of Hong Kong Society of Accountants. Mr. Chan has approximately 14 years of experience in financial control, capital market, corporate finance, and mergers and acquisitions. Since his graduation in 1993, he has worked for international accountancy firms as an auditing and advisory professional for about six years. He then started to work for investment banks in the United Kingdom and in Hong Kong. Prior to joining the Group, he had served as the chief financial officer in two Hong Kong-listed companies for about three years. Mr. Chan joined the Group in August 2004.

DIRECTORS' PROFILE

Yang Yahua (楊雅華), aged 44, is an executive Director and co-founder of the Group. Ms. Yang oversees legal compliance and corporate planning for the Group. She graduated from Fujian Normal University in 1991 with a master's degree majoring in Dialectical Materialism and Historical Materialism. Ms. Yang was qualified as an associate professor by the Appraisal Committee of Senior Teachers of the Fujian Normal University in July 1999. She has about 12 years of corporate management experience in the PRC telecommunication industry. Ms. Yang is the spouse of Mr. Yu Longrui.

Yeung Shing (楊誠), aged 45, is an executive Director and co-founder of the Group. Mr. Yeung is responsible for business development of the Group. He graduated from the Fujian Architecture and Engineering Institute in 1984 majoring in Industrial and Residential Construction. Mr. Yeung was qualified as an engineer by the Appraisal Committee for the mid-level engineering technology personnel in 1995. Mr. Yeung has over 14 years of corporate management experience in the PRC telecommunication industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zheng Qingchang (鄭慶昌), aged 55, graduated from (the Fujian College of Agriculture in 1977 majoring in agricultural machinery and completed a researcher course on Marxist philosophy in the Postgraduate College of the Xiamen University in 1998. He was qualified as a professor by the Appraisal Committee of Senior Teachers of High School of Fujian Province in 1999. Mr. Zheng is the guiding teacher for doctorate program students in professional agricultural and economic management and the deputy head of the Faculty of Arts and Social Science of the Fujian Agricultural and Forestry University. He was appointed as Deputy Head of the Economic and Social Development Research Consultative Committee of the Political Consultative Conference of Fuzhou City in 2004 and the Standing Vice-Chairman of The Research Association with Fujian Province Characteristics in 2001. Mr. Zheng is also an independent non-executive director of a listed company in Shanghai. He was appointed as an independent non-executive Director of the Group on 14 April 2006.

Yu Lun (余輪), aged 56, graduated from Fuzhou University in 1986 with a master's degree in engineering. He was qualified as a professor by the Fujian Province's Board of Senior High School Teachers in August 1997 and is a professor and the head of the Faculty of Physics and Information Engineering of Fuzhou University. Mr. Yu was appointed as a standing member of the second Council and the Chairman of the Youth Technological Exchange Association of China Graphical Round Shape Club from 1994 to 1998. He was the general manager of the Fuzhou University Science and Technology Development Company from 1996 to 2003. Mr. Yu was among the Outstanding Experts of Fujian Province selected jointly by the Fujian Provincial Committee of the Chinese Communist Party and the People's Government of Fujian Province in 1997. Mr. Yu was appointed as an expert for the "Digital Fujian" program of the Experts Team Constructing the Public Technological Information Network in 2003 and a member of the Tenth Five Year Plan and 2010 Plan regarding new and high technology industry in Fujian Province in 2000. In 2001, he was appointed as an expert member of the Debate Forum for Experts in Interconnection among Telecommunication Networks of Fujian Province for four years. The Group appointed Mr. Yu as an independent non-executive Director on 14 April 2006.

Yun Lok Ming (忻樂明), aged 39, graduated from the City University of Hong Kong in 1993 with a bachelor's degree in accountancy. He then obtained a master's degree in business administration from the University of Adelaide in 2004. He is a fellow of The Association of Chartered Certified Accountants and an associate of Hong Kong Society of Accountants. Mr. Yun has more than 14 years of experience in auditing and accounting. Mr. Yun was appointed as an independent non-executive Director of the Group on 14 April 2006.

Directors' Report

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 38.

A final dividend of HK3.88 cents (2006: 4.33 cents) per ordinary share has been proposed by the Directors and is subject to approval by shareholders in the forthcoming annual general meeting of the Company ("AGM").

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2007 amounted to approximately RMB389,880,000 (2006: RMB448,465,000).

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for each of the five years ended 31 December 2007 is set on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year and up to the date of this report were:

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

In accordance with the Article 112 of the articles of association of the Company (the "Articles of Association"), Messrs. Mr. Chan Wai Chuen, Ms. Yang Yahua and Mr. Zheng Qingchang shall retire at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of independent non-executive Directors to be independent.

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM has service contract with the Company or any of its subsidiaries not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND SHARE OPTIONS

As at 31 December 2007, the interests and short positions of the directors of the Company in the shares 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 or Short Positions in Ordinary Shares of the Company:

		Interests in shares as at 31 December 2007			Interests in underlying shares pursuant to share option as at	Aggregate interests as at	Approximate percentage of issued share capital of the Company as at
Name of Directors	**Capacity**	**Personal interests**	**Corporate interests**	**Total**	**31 December 2007**	**31 December 2007**	**31 December 2007**
Yu Longrui	Beneficial owner	16,900,000	500,680,000 *(Note)*	517,580,000	Nil	517,580,000	49.89%
Yang Yahua	Beneficial owner	–	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.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Interest in Options to subscribe for shares

Pursuant to the Company's share option schemes, the Company has granted to certain directors options to subscribe the shares, details of which as at 31 December 2007 were as follows:

Name of directors	Date of grant	Exercise period	Exercise price	Number of shares subject to outstanding options at 1 January 2007	Number of shares subject to outstanding options at 31 December 2007	Approximate percentage of issued share capital of the Company at 31 December 2007
			HK$			
Zheng Feng	14.11.2006	01.07.2007-31.12.2009	1.26	836,000	836,000	0.08%
	14.11.2006	01.07.2008-31.12.2010	1.26	832,000	832,000	0.08%
	14.11.2006	01.07.2009-31.12.2011	1.26	832,000	832,000	0.08%
				2,500,000	2,500,000	0.24%
Chan Wai Chuen	14.11.2006	01.07.2007-31.12.2009	1.26	1,280,000	1,280,000	0.12%
	14.11.2006	01.07.2008-31.12.2010	1.26	1,260,000	1,260,000	0.12%
	14.11.2006	01.07.2009-31.12.2011	1.26	1,260,000	1,260,000	0.12%
	03.09.2007	01.01.2009-31.12.2011	1.65	–	2,000,000	0.19%
	03.09.2007	01.01.2010-31.12.2012	1.65	–	2,000,000	0.19%
	03.09.2007	01.01.2011-31.12.2013	1.65	–	2,000,000	0.19%
				3,800,000	9,800,000	0.94%
Yeung Shing	03.09.2007	01.01.2009-31.12.2011	1.65	–	664,000	0.06%
	03.09.2007	01.01.2010-31.12.2012	1.65	–	668,000	0.06%
	03.09.2007	01.01.2011-31.12.2013	1.65	–	668,000	0.06%
				–	2,000,000	0.19%

DIRECTORS' REPORT

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. These options represent personal interest held by the relevant directors as beneficial owners.

3. During the year, 8,000,000 options were granted to the directors, no option was exercised by the directors and no option held by the directors was lapsed or cancelled.

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 31 December 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.

Name of Shareholders	Number of ordinary shares held as at 31 December 2007	Approximate percentage of the Company's issued share capital as at 31 December 2007
Daba International Investments Limited	500,680,000 *(Note)*	48.26%
Chartered Asset Management Pte Limited	123,204,000	11.88%
CAM-GTF Limited	73,412,000	7.08%
Sanlam Universal Funds plc	63,712,000	6.14%
Atlantis Investment Management Limited	59,118,000	5.70%
Value Partners Limited	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 XV of the SFO and the Listing Rules.

DIRECTORS' REPORT

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 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") providing incentives and rewards to eligible participants who have contributed 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 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, total 44,100,000 share options (representing approximately 4.25% of the existing issued share capital of the Company at the date of this annual report) have been granted or committed to be granted pursuant to the Scheme.

Additional information in relation to the Company's share option schemes is set out in note 24 to the financial statements.

DIRECTORS' REPORT

The following table discloses movements in the Company's share options during the year:

	Outstanding at 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2007
Category 1: Directors					
Zheng Feng	2,500,000	–	–	–	2,500,000
Chan Wai Chuen	3,800,000	6,000,000	–	–	9,800,000
Yeung Shing	–	2,000,000	–	–	2,000,000
Total for Directors	6,300,000	8,000,000	–	–	14,300,000
Category 2: Employees	7,600,000	2,800,000	–	–	10,400,000
Category 3: Suppliers	9,400,000	–	–	–	9,400,000
Category 4: Consultant	10,000,000	–	–	–	10,000,000
All categories	33,300,000	10,800,000	–	–	44,100,000

Details of specific categories of share options are as follows:

Option types	Date of grant	Exercise period	Exercise price *HK$*
2009	14.11.2006	01.07.2007-31.12.2009	1.26
2010	14.11.2006	01.07.2008-31.12.2010	1.26
2011	14.11.2006	01.07.2009-31.12.2011	1.26
2011a	03.09.2007	01.01.2009-31.12.2011	1.65
	02.10.2007	01.01.2009-31.12.2011	1.65
2012	03.09.2007	01.01.2010-31.12.2012	1.65
	02.10.2007	01.01.2010-31.12.2012	1.65
2013	03.09.2007	01.01.2011-31.12.2013	1.65
	02.10.2007	01.01.2011-31.12.2013	1.65

DIRECTORS' REPORT

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. The closing price of the Company's shares immediately before 3 September 2007 and 2 October 2007, the dates of grant of the 2011a, 2012 and 2013 options were HK$1.50 and HK$1.58 respectively.

3. During the year, 10,800,000 options were granted under the option scheme. The estimated fair value of the options granted during the year is approximately HK$0.51 per option.

4. During the year, no options were lapsed or cancelled under the share option scheme.

5. The fair value of the options granted under the option scheme in the current period measured at the date of grants (3 September 2007 and 3 October 2007) totalled approximately HK$5,492,000. The following significant assumptions were used to derive the fair value using the Binominal option pricing model:

Expected volatility:	66.45% p.a. and 60.96% p.a. for option granted on 3 September 2007 and 2 October 2007 respectively.
Expected dividend yield:	3.42% p.a.
Expected life:	4.33, 5.33 and 6.33 years for option 2011a, 2012 and 2013 respectively granted on 3 September 2007. 4.25, 5.25 and 6.25 years for option 2011a, 2012 and 2013 respectively granted 2 October 2007.
Risk free interest rate:	4.16%, 4.23% and 4.38% (being the yield of 4-, 5-, and 7-year HK Sovereign as at the Valuation Dates from Bloomberg) for option 2011a, 2012 and 2013 respectively granted on 3 September 2007. 3.98%, 4.09% and 4.16% (being the yield of 4-, 5- and 7-year HK Sovereign as at the Valuation Dates from Bloomberg) for option 2011a, 2012 and 2013 respectively granted on 2 October 2007.
Rate of leaving service:	10%

The Binomial option pricing model was applied to deriving the fair value of the option.

All the option forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of shares on the date of grant and above assumptions, the estimated fair value under the options granted on 3 September 2007 was approximately HK$0.51, HK$0.52 and HK$0.51 per option share for option 2011a, 2012 and 2013 respectively. The estimated fair value under the options granted on 2 October 2007 was approximately HK$0.48, HK$0.50 and HK$0.48 per option share for option 2011a, 2012 and 2013 respectively.

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE SHARES

Other than the share option schemes disclosed above, at no time during the year ended 31 December 2007 was the Company, its holding company, or any or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate, and none of the directors or the chief executive or any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or exercised any such right.

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract that is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed, no contract of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of year or at any time during the year.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees.

The emoluments of the Directors are decided by the Remuneration Committee with regard to the Company's operating results, individual performance and comparable market statistics. None of the directors or any of their associates, and executive is involved in deciding his own remuneration.

As at 31 December 2007, the Group had approximately 665 employees, an increase of approximately 6% from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical welfare, provident funds, bonuses and other incentives. The Group also encourages employees to pursue a balanced lifestyle and provided them with a good working environment to realize their maximum potential and contribution to the Group.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 24 to the consolidated statements and under the heading "Share Option Scheme of the Company" in this report.

PURCHASE, 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 year ended 31 December 2007.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Group continues to achieve high standards of corporate governance, which it believes is crucial to the development of the Group 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 the recommended best practices in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules. In the opinion of the Board, the Company had also fully complied with the code provisions of the Code for the year ended 31 December 2007.

In compliance with the code provisions of the Code, the Company had set up an Audit Committee and a Remuneration Committee 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 of all Directors, the Company confirmed that for the year ended 31 December 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 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. The members of the Audit Committee are Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. The Audit Committee meets regularly with the Company's senior management and auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. Mr. Zheng Qiangchang is the chairman of the Audit Committee.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Code. 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 comprising the Company's three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Remuneration Committee.

DIRECTORS' REPORT

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference in compliance with the Code as set in 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 comprising three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Nomination Committee.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 18% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 42% of its total purchases for the year. Purchase from the largest supplier accounted for about 18% of the total purchases for the year.

None of the Directors, their associates or any shareholders, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had an interest in the share capital of any of the five largest suppliers and customers of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rate basis to existing shareholders.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2007 have been audited by CCIF CPA Limited. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint CCIF CPA Limited as auditor of the Company.

On behalf of the Board

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 18 March 2008

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to establishing and maintaining high standards of corporate governance. Prior to the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 May 2006, the Company has applied the principles of all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in appendix 14 of Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices on 20 January 2006.

CORPORATE GOVERNANCE PRACTICE

The Board is in the opinion that the Company has complied with the Code since 11 May 2006.

Code Provision A.2.1. stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yu Longrui is currently the Chairman and Chief Executive Officer of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board currently consists of five executive Directors and three independent non-executive Directors. One of the independent non-executive Directors has the appropriate professional and accounting qualifications required by Rule 3.10(2) of the Listing Rules. Composition of the Board shall refer to page 2 of this annual report.

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group's businesses, strategic decisions and performance. Its principal functions are to consider and approve the strategies, financial objectives, annual budget and investment proposals of the Group.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with other executive Directors and the management team of each business division, is responsible for managing the business of the Group, including implementation of the strategies and decisions approved by the Board and assuming full responsibility to the Board for operations of the Group.

CORPORATE GOVERNANCE REPORT

The Board shall meet at least four times a year after listing on 11 May 2006 at approximately quarterly intervals and also as and when required. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. The Company Secretary and the Qualified Accountant shall attend all Board meetings to provide information on corporate governance, compliance, accounting and financial matters when necessary.

During the period from 1 January 2007 to 31 December 2007 (the "Reporting Period"), save for executive Board meetings held between executive Directors during the normal course of business of the Company, the Board had held three regular meetings on 10 January 2007, 15 March 2007 and 16 August 2007 respectively.

The members of the Board as at 31 December 2007 and the attendance of each member for the aforesaid meetings are as follows:

Executive Directors	**Number of Attendance**
Mr. Yu Longrui *(Chairman and Chief Executive Officer)*	3/3
Mr. Zheng Feng	3/3
Mr. Chan Wai Chuen	3/3
Ms. Yang Yahua	3/3
Mr. Yeung Shing	3/3
Independent Non-executive Directors	
Mr. Zheng Qingchang	3/3
Mr. Yu Lun	3/3
Mr. Yun Lok Ming	3/3

The biographies of the Directors are set out on pages 17 to 18 of this annual report.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company has received annual confirmations of independence from Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming and considers them to be independent of the Group with reference to the factors as set out in Rule 3.13 of the Listing Rules.

The members of the Board have no financial, business, family or material/relevant relationship with each other except Mr. Yu Longrui, the Chairman of the Company is the husband of Ms. Yang Yahua, the executive Director of the Company.

CORPORATE GOVERNANCE REPORT

All Directors (including independent non-executive Directors) are subject to retirement at annual general meeting of the Company by rotation at least once every three years in accordance with the Company's Articles of Association. All retiring Directors shall be eligible for re-election. All the independent non-executive Directors have been appointed for a term of three years commencing from 14 April 2006.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Yu Longrui is currently the Chairman and Chief Executive Officer of the Company.

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group. The Board has full confidence in Mr. Yu Longrui and believes that the current arrangement is beneficial to the business prospect of the Group.

REMUNERATION COMMITTEE

The Company established its remuneration committee (the "Remuneration Committee") on 14 April 2006 with written terms of reference in compliance with the Code. 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 of the Company. The Remuneration Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year after listing on 11 May 2006. The Remuneration Committee has held two meetings during the Reporting Period on 15 March 2007 and 16 August 2007 respectively and held a meeting on 18 March 2008, all of which were attended by all members.

NOMINATION COMMITTEE

The Company established nomination committee (the "Nomination Committee") on 14 April 2006 with written terms of reference in compliance with the Code. 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 comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

The Nomination Committee shall meet at least once a year after listing on 11 May 2006. The Nomination Committee has held two meetings during the Reporting Period on 15 March 2007 and 16 August 2007 respectively and held a meeting on 18 March 2008, all of which were attended by all members.

AUDITOR'S REMUNERATION

During the year ended 31 December 2007, the remuneration paid to the Company's auditor, CCIF CPA Limited, is set out as follows:

	Fee paid/payable
	RMB'000
Services rendered	
Audit services	
Annual audit of accounts for the year ended 31 December 2007	802

AUDIT COMMITTEE

The Company has established its audit committee (the "Audit Committee") on 14 May 2006 with written terms of reference in compliance with the Code. The Primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Audit Committee.

The Audit Committee shall meet at least twice a year after listing on 11 May 2006. The Audit Committee has held three meetings on 10 January 2007, 15 March 2007 and 16 August 2007 respectively.

All members of the Audit Committee possess in-depth experience in their own profession. One of the committee members, Mr. Yun Lok Ming, possesses appropriate professional and accounting qualifications which meet the requirements of Rule 3.10(2) of the Listing Rules.

Full minutes of Audit Committee are kept by the secretary of the Audit Committee. Draft and final version of minutes of the Audit Committee meetings are set to all members of the Audit Committee for their comment and records respectively, in both cases, within a reasonable time after the meeting.

Since 1 January 2007, the Audit Committee met with the external auditor, CCIF CPA Limited, twice on 15 March 2007 and 16 August 2007 respectively to discuss any areas of concerns during the audit. The meeting between the external auditor and the Audit Committee on 18 March 2008 was held without the presence of the management of the Company.

The Audit Committee has reviewed the audit plan of the external auditor during the course of their audit at the meeting held on 18 March 2008.

CORPORATE GOVERNANCE REPORT

At the meeting on 18 March 2008, the Audit Committee reviewed the annual report with the external auditor without the presence of the management before submission to the Board. The Committee focus not only on the impact of the adoption of new accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements by the Group in review of the Company's annual report.

ACCOUNTABILITY

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group.

In preparing the accounts for the year ended 31 December 2007, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

CCIF CPA Limited, the auditor of the Company, acknowledges their reporting responsibilities in the auditor's report on the financial statements of the Group for the year ended 31 December 2007.

INTERNAL CONTROLS

The Board has overall responsibility for the Group's internal control systems and through the Audit Committee, conducts review on the effectiveness of these systems covering the financial, operational, procedural compliance and risk management functions. The process used in reviewing the effectiveness of these internal control systems includes discussion with management on risk areas identified by management. The purpose of the Group's internal control system is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Group's objectives can be achieved.

CORPORATE COMMUNICATION

The Company is committed to a policy of open and regular communication and fair disclosure of information to the shareholders. The Company acknowledges that accurate and fair disclosure is necessary for the shareholders to form their own judgment on the operation and performance of the Group.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

During the year ended 31 December 2007, the Group had actively participated in investor forums and road shows held in Hong Kong and abroad. It also arranged briefings and meetings with analysts and fund managers to enhance their understanding of the Group. The Group also received regular investor audit reports from our investor relations consultant after such events; so that the management could internally discuss and review its investor relations program and communicate strategies.

Investors and the public have access to up-to-date corporate information of the Group through the corporate website of www.dba-asia.com. The website enables them to obtain information on the Group's financial performance and latest business developments.

On behalf of the Board

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 18 March 2008

Independent Auditor's Report

CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DBA TELECOMMUNICATION (ASIA) HOLDINGS LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of DBA Telecommunication (Asia) Holdings Limited (the "Company") set out on pages 38 to 90, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 18 March 2008

Consolidated Income Statement

For the year ended 31 December

	Notes	2007 RMB'000	2006 RMB'000
Turnover	4	**1,197,756**	670,471
Cost of sales		**(816,534)**	(394,229)
Gross profit		**381,222**	276,242
Other revenue	4	**13,850**	5,349
Selling and distribution expenses		**(54,445)**	(40,189)
General and administrative expenses		**(39,156)**	(22,903)
Other operating expenses		**–**	(168)
Profit from operations		**301,471**	218,331
Finance costs	5	**(3,233)**	(204)
Profit before taxation	6	**298,238**	218,127
Income tax	7	**(50,950)**	(33,745)
Profit for the year		**247,288**	184,382
Attributable to:			
Equity shareholders of the Company		**247,288**	184,382
Dividends	8	**44,250**	106,131
Earnings per share	9		
– basic		**23.83 cents**	19.54 cents
– diluted		**20.81 cents**	N/A

The notes on pages 42 to 90 form part of these financial statements.

Balance Sheets

At 31 December

		The Group		The Company	
	Note	**2007**	2006	**2007**	2006
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current assets					
Prepaid lease payments	*15*	**1,695**	1,738	**–**	–
Property, plant and equipment	*16*	**117,840**	71,921	**–**	–
Investment in subsidiaries	*17*	**–**	–	**687,489**	537,335
		119,535	73,659	**687,489**	537,335
Current assets					
Inventories	*18*	**30,628**	19,714	**–**	–
Trade receivables	*19*	**286,841**	219,258	**–**	–
Prepayments, deposits and other receivables		**43,886**	43,161	**2,098**	172
Cash and bank balances		**798,303**	402,445	**67,720**	358
		1,159,658	684,578	**69,818**	530
Current liabilities					
Trade payables	*21*	**16,702**	12,131	**–**	–
Accruals and other payables		**38,193**	35,486	**1,154**	930
Amount due to a director		**58**	41	**–**	–
Amount due to a subsidiary		**–**	–	**1,455**	1,560
Tax payables		**15,111**	9,271	**–**	–
		70,064	56,929	**2,609**	2,490
Net current assets/(liabilities)		**1,089,594**	627,649	**67,209**	(1,960)
Total assets less current liabilities		**1,209,129**	701,308	**754,698**	535,375
Non current liabilities					
Convertible bonds	*22*	**(319,632)**	–	**(319,632)**	–
NET ASSETS		**889,497**	701,308	**435,066**	535,375
Represented by:					
SHARE CAPITAL	*23*	**107,900**	107,900	**107,900**	107,900
RESERVES	*23*	**781,597**	593,408	**327,166**	427,475
SHAREHOLDERS' EQUITY		**889,497**	701,308	**435,066**	535,375

Approved and authorised for issue by board of directors on 18 March 2008.

On behalf of the Board

Yu Longrui — *Director*

Yeung Shing — *Director*

The notes on pages 42 to 90 form part of these financial statements.

Consolidated Statement Of Changes In Equity

For the year ended 31 December

	Share capital	Share premium	Merger reserve	Other reserve	General reserve	Exchange reserve	Contri-buted surplus	Special reserve	Share option reserve	Convertible bonds equity reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2006	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	–	–	–	–	–	–	–	–	–	–	184,382	184,382
Transfer to reserve	–	–	–	–	28,684	–	–	–	–	–	(28,684)	–
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(6,386)	–	–	–	–	–	(6,386)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	525	–	–	525
Dividend paid	–	–	–	–	–	–	–	–	–	–	(106,131)	(106,131)
As at 31 December 2006 and 1 January 2007	107,900	215,491	(57,000)	–	99,733	(5,243)	–	79,201	525	–	260,701	701,308
Issue of convertible bonds	–	–	–	–	–	–	–	–	–	648	–	648
Profit attributable to shareholders	–	–	–	–	–	–	–	–	–	–	247,288	247,288
Transfer to general reserve	–	–	–	–	41,427	–	–	–	–	–	(41,427)	–
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(19,142)	–	–	–	–	–	(19,142)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	3,645	–	–	3,645
Dividend paid	–	–	–	–	–	–	–	–	–	–	(44,250)	(44,250)
As at 31 December 2007	107,900	215,491	(57,000)	–	141,160	(24,385)	–	79,201	4,170	648	422,312	889,497

The notes on pages 42 to 90 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December

	2007 RMB'000	2006 RMB'000
Cash flows from operating activities		
Profit before taxation	**298,238**	218,127
Adjustments for:		
Interest income	**(4,144)**	(4,289)
Interest expenses	**3,233**	171
Depreciation	**4,377**	2,696
Amortisation of prepaid lease payments	**43**	43
Share-based payment expenses	**3,645**	525
Operating profit before working capital changes	**305,392**	217,273
Increase in prepayments, deposits and other receivables	**(725)**	(18,207)
Increase in inventories	**(10,914)**	(2,470)
Increase in trade receivables	**(67,583)**	(60,159)
Increase in trade payables	**4,571**	2,209
Increase in accruals and other payables	**2,707**	3,193
Increase in amounts due to a director	**17**	25
Decrease in amounts due to a related company	**–**	(10,968)
Cash generated from operation	**233,465**	130,896
PRC enterprise income tax paid	**(45,110)**	(31,904)
Net cash generated from operating activities	**188,355**	98,992
Cash flows from investing activities		
Purchase of property, plant and equipment	**(50,311)**	(55,773)
Interest received	**4,144**	4,289
Net cash used in investing activities	**(46,167)**	(51,484)
Cash flows from financing activities		
Repayment of bank loan	**–**	(6,000)
Issuance of share capital	**–**	337,428
Share issuance expenses	**–**	(20,277)
Net proceeds from the issue of convertible bonds	**317,047**	–
Interest paid	**–**	(171)
Dividend paid	**(44,250)**	(106,131)
Net cash generated from financing activities	**272,797**	204,849
Net increase in cash and cash equivalents for the year	**414,985**	252,357
Cash and cash equivalents at beginning of year	**402,445**	156,456
Effect of foreign exchange rate changes, net	**(19,127)**	(6,368)
Cash and cash equivalents at end of the year *(Note 20)*	**798,303**	402,445

The notes on pages 42 to 90 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Renminbi, which is the functional currency of the Group.

The subsidiaries of the Company are principally engaged in the design, manufacture and sales of telecommunication equipment and related products, self-service business and agency business for telecommunication products.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting periods of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(s)).

(d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(s)), if any.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, on a straight-line basis over their estimated useful lives. The principal annual rates are as follows:

Buildings situated on leasehold land	Over the shorter of the term of the lease or 20 years
Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	20%
Smart card vending machine	20%

The residual value and the useful life of an asset are reviewed at each financial year-end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

Gain or loss arising from the derecognition of an item of property, plant and equipment is included in income statement when the item is derecognised and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

(e) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(f) Prepaid lease payments

Prepaid lease payments are up-front payments to acquire long-term interests in lessee-occupied properties under an operating lease. The payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(g) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(s)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Convertible bonds

Convertible bonds issued by the Company that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible bonds and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded conversion option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, equity and early redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identified and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, starting from the time when the product is put into commercial production.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(o) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in income statement over the remaining vesting period, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are expensed on a straight-line basis over the vesting period unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

(s) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

(i) Impairment of receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 27.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 23(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. 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:

	2007 *RMB'000*	2006 *RMB'000*
Turnover		
Manufacturing business	**862,579**	670,143
Self-sevice business	**200,113**	328
Agency business for telecommunication products	**135,064**	–
	1,197,756	670,471
Other revenue		
Exchange gain	**9,706**	1,060
Interest income	**4,144**	4,289
	13,850	5,349
Total revenue	**1,211,606**	675,820

5. FINANCE COSTS

	2007 *RMB'000*	2006 *RMB'000*
Bank charges	**–**	33
Interests on bank loan wholly repayable within 5 years	**–**	171
Effective interest expenses on convertible bonds	**3,233**	–
	3,233	204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2007	2006
	RMB'000	*RMB'000*
Amortisation of lease premium on land	**43**	43
Auditor's remuneration	**996**	811
Cost of inventories *(Note 1)*	**816,534**	394,229
Depreciation *(Note 1)*	**4,377**	2,696
Less: Amount included in research and development costs	**(199)**	(407)
	4,178	2,289
Staff costs (including directors' remuneration)		
Wages and salaries	**57,939**	40,314
Retirement scheme	**1,046**	877
Equity-settled share-based payment expenses	**2,162**	223
	61,147	41,414
Less: Amount included in research and development costs	**(7,054)**	(2,264)
	54,093	39,150
Research and development costs *(Note 2)*	**14,818**	5,191
Operating lease payment in respect of premises	**2,085**	728

Notes:

1. Cost of inventories includes RMB8,252,000 (2006: RMB7,281,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

2. Included in research and development costs were depreciation of RMB199,000 (2006:RMB407,000) and staff costs of RMB7,054,000 (2006: RMB2,264,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX

	2007	2006
	RMB'000	*RMB'000*
Current tax – PRC enterprise income tax		
Provision for the year	**50,950**	33,745

(a) Fujian Create State Industry Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 15% (2006: 15%) applicable to the company on the assessable profits for the year.

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 year (2006: Nil).

Skyban Telecommunication (Fujian) Ltd., a wholly-foreign-owned enterprise 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 year (2006: Nil).

By a legislation passed by the National People's Congress in 2007, a uniform enterprise income tax of 25% will become generally applicable to all domestic and foreign investment enterprises in the PRC, subject to certain exceptions or exemptions with effect from 1 January 2008.

(b) No provision for Hong Kong profits tax has been made as the Group did not earn any income subject to Hong Kong profits tax during the year (2006: Nil).

(c) The Group had no significant unprovided deferred tax assets or liabilities at 31 December 2007 (2006: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX *(Continued)*

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**298,238**	218,127
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**45,953**	32,567
Tax effect of non-deductible expenses	**–**	16,174
Tax effect of non-deductible income	**(1,872)**	(16,800)
Others	**3,793**	64
Tax effect of unrecognised tax losses	**3,076**	1,740
Actual tax expense	**50,950**	33,745

8. DIVIDENDS

During the year, dividends paid and proposed to equity shareholders of the Company comprised:

(a) Dividend payable in respect of 2007

	2007	2006
	HK$'000	*HK$'000*
Interim dividend declared and paid during the year of Nil per share (2006: HK1 cent)	**–**	10,375
	RMB'000	*RMB'000*
Equivalent to	**–**	10,790
Skyban *(Note)*	**–**	95,341
Total	**–**	106,131
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK3.88 cents per share (2006: HK4.33 cents per share)	**40,255**	44,924
	RMB'000	*RMB'000*
Equivalent to	**37,542**	44,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS *(Continued)*

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Note: During the year ended 31 December 2006, Skyban International Holdings Limited ("Skyban") a company of the Group had paid dividends to their then shareholders prior to the Group Reorganisation.

(b) Dividend paid in respect of 2006

	2007	2006
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approval and paid during the year of HK4.33 cents per share (2006: Nil)	**44,924**	–
	RMB'000	*RMB'000*
Equivalent to	**44,250**	–

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB247,288,000 (2006: RMB184,382,000) and the weighted average number of 1,037,500,000 shares (2006: 943,630,000 shares) in issue during the year.

Weighted average number of ordinary shares

	2007	2006
	'000	*'000*
Issued ordinary shares at 1 January	**1,037,500**	780,000
Issue of shares *(Note 23(c)(v))*	**–**	163,630
Weighted average number of ordinary shares at 31 December	**1,037,500**	943,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. EARNINGS PER SHARE *(Continued)*

(b) 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 approximately RMB250,521,000 and the weighted average number of ordinary shares of 1,204,031,000 shares, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2007	2006
	RMB'000	*RMB'000*
Profit attributable to ordinary equity shareholders	**247,288**	184,382
After tax effect of effective interest on the liability component of convertible bonds	**3,233**	–
Profit attributable to ordinary equity shareholders (diluted)	**250,521**	184,382

(ii) Weighted average number of ordinary shares (diluted)

	2007	2006
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,037,500**	943,630
Effect of deemed issue of shares under the Company's share option scheme for nil consideration *(Note 24)*	**2,785**	–
Effect of conversion of convertible bonds *(Note 22)*	**163,746**	–
Weighted average number of ordinary shares (diluted) at 31 December	**1,204,031**	943,630

Diluted earnings per share for the year ended 31 December 2006 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price for shares for that year and the convertible bonds were issued in 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group comprises the following main business segments:

Manufacturing business: the design, manufacture and sales of telecommunication equipment and related products.

Self-services business: sales of telecommunication payment cards through smart cards vending terminals.

Agency business for telecommunication products: act as an agent of the supplier to sell telecommunication products to the cooperative distribution network.

(a) For the year ended 31 December 2007

Business segments

	Manufacturing business	Self-service business	Agency business for telecommunication products	Inter-segment elimination	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	862,579	200,113	135,064	–	–	1,197,756
Inter-segment revenue	37,692	–	–	(37,692)	–	–
Other revenue from external customers	–	–	–	–	13,850	13,850
Total	900,271	200,113	135,064	(37,692)	13,850	1,211,606
Segment result	288,786	10,272	6,592	–	–	305,650
Unallocated operating income and expenses						(7,412)
Profit before taxation						298,238
Taxation						(50,950)
Net profit for the year						247,288
Depreciation and amortisation for the year	2,527	1,751	–	–	142	4,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. SEGMENT REPORTING *(Continued)*

(a) For the year ended 31 December 2007 *(Continued)*

	Manufacturing business	Self-service business	Agency business for telecommunication products	Inter-segment elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	908,885	59,814	–	(18,809)	949,890
Unallocated assets					329,303
Total assets					1,279,193
Segment liabilities	(67,217)	(1,620)	–	–	(68,837)
Unallocated liabilities					(320,859)
Total liabilities					(389,696)
Capital expenditure incurred during the year	24,149	26,162	–	–	50,311

All of the operating profits and assets are attributable to the Group's operations in the PRC. Accordingly, no analysis by geographical segment is presented herein.

(b) During the year ended 31 December 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 mainly from four categories of products, namely telecommunication network extension equipment, telecommunication information terminal equipment, intelligent electronic products and optical 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. STAFF RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan managed by independent trustees. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan, which is a defined contribution retirement plan operated by the local government in the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiary are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

The contributions paid for the year were approximately RMB1,046,000 (2006: RMB877,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors at the beginning of the earliest period presented, directors remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 31 December 2007					
Name of director	**Directors' fees**	**Bonuses**	**Salaries, allowances and benefit in kind**	**Contributions to retirement scheme**	**Share-based payment** *(Note)*	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Executive directors						
Mr. Yu Longrui	**–**	**–**	**1,934**	**25**	**–**	**1,959**
Mr. Zheng Feng	**–**	**22**	**184**	**1**	**221**	**428**
Mr. Chan Wai Chuen	**–**	**1,449**	**1,348**	**25**	**824**	**3,646**
Ms. Yang Yahua	**–**	**15**	**123**	**1**	**–**	**139**
Mr. Yeung Shing	**–**	**–**	**232**	**25**	**163**	**420**
Independent non-executive directors						
Mr. Yu Lun	**–**	**6**	**66**	**–**	**–**	**72**
Mr. Zheng Qingchang	**–**	**6**	**66**	**–**	**–**	**72**
Mr. Yun Lok Ming	**–**	**–**	**95**	**–**	**–**	**95**
	–	**1,498**	**4,048**	**77**	**1,208**	**6,831**

	For the year ended 31 December 2006					
Name of director	Directors' fees	Bonuses	Salaries, allowances and benefit in kind	Contributions to retirement scheme	Share-based payment *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Yu Longrui	–	5	1,429	19	–	1,453
Mr. Zheng Feng	–	4	133	1	40	178
Mr. Chan Wai Chuen	–	1,664	925	24	61	2,674
Ms. Yang Yahua	–	2	89	1	–	92
Mr. Yeung Shing	–	3	195	19	–	217
Independent non-executive directors						
Mr. Yu Lun	–	–	42	–	–	42
Mr. Zheng Qingchang	–	–	42	–	–	42
Mr. Yun Lok Ming	–	–	67	–	–	67
	–	1,678	2,922	64	101	4,765

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emolument, four (2006: all) are directors whose emoluments are disclosed in note 12. During the year ended 31 December 2007, the aggregate of the emoluments in respect of the other one individual are as follows:

	2007	2006
	RMB'000	*RMB'000*
Basic salaries and allowances	**291**	–
Bonuses	**116**	–
Contributions to retirement scheme	**25**	–
Share-based payments	**81**	–
	513	–

During the year ended 31 December, 2007, no emolument was paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation of loss of office (2006: Nil).

14. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB14,335,000 (2006: loss of RMB6,148,000) which has been dealt with in the financial statements of the Company.

15. PREPAID LEASE PAYMENTS

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Net book value at 1 January	**1,738**	1,781
Amortisation	**(43)**	(43)
Net book value at 31 December	**1,695**	1,738

All the prepaid lease payments are for land situated in the PRC under medium-term leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Smart card vending machine	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost								
As at 1/1/2006	18,583	518	10,326	4,637	2,872	–	–	36,936
Exchange adjustments	–	(20)	–	(10)	–	–	–	(30)
Additions	–	–	5,171	567	537	394	49,104	55,773
As at 31/12/2006 and 1/1/2007	18,583	498	15,497	5,194	3,409	394	49,104	92,679
Exchange adjustments	–	(34)	–	(16)	–	–	–	(50)
Additions	–	–	4,958	310	485	25,797	18,761	50,311
As at 31/12/2007	18,583	464	20,455	5,488	3,894	26,191	67,865	142,940
Accumulated depreciation								
As at 1/1/2006	5,400	208	6,662	3,322	2,482	–	–	18,074
Exchange adjustments	–	(8)	–	(4)	–	–	–	(12)
Charge for the year	836	100	1,013	620	127	–	–	2,696
As at 31/12/2006 and 1/1/2007	6,236	300	7,675	3,938	2,609	–	–	20,758
Exchange adjustment	–	(24)	–	(11)	–	–	–	(35)
Charge for the year	836	96	1,269	326	122	1,728	–	4,377
As at 31/12/2007	7,072	372	8,944	4,253	2,731	1,728	–	25,100
Net book value								
As at 31/12/2007	11,511	92	11,511	1,235	1,163	24,463	67,865	117,840
As at 31/12/2006	12,347	198	7,822	1,256	800	394	49,104	71,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	*RMB'000*
Unlisted shares at cost	**231,652**	246,683
Due from subsidiaries	**455,837**	290,652
	687,489	537,335

Amounts due from subsidiaries are unsecured, non-interest bearing and with no fixed repayment terms.

Details of subsidiaries as at 31 December 2007 and 2006 are as follows:

Name	Country of incorporation and operation	Class of share held	Issued/ registered and paid-up capital	Proportion of nominal value of issued/registered capital held by the Company Directly	Indirectly	Principal activities
Skyban International Holdings Ltd.	British Virgin Islands/ Hong Kong	Ordinary	US$10,000	100%	–	Investment holding
Fujian Create State Industry Co., Ltd.*	PRC/PRC	Ordinary	RMB96,000,000	–	100%	Design, manufacture and sales of telecommunication equipment and related products and agency business for telecommunication products
International Intelligent System Ltd.	British Virgin Islands/ Hong Kong	Ordinary	US$10,000	100%	–	Investment holding
Fuzhou Wozhong Capacity System Co., Ltd.**	PRC/PRC	Ordinary	RMB10,000,000	–	100%	Self-service business
Skyban Telecommunication (Fujian) Ltd.***	PRC/PRC	Ordinary	RMB73,000,000	–	100%	Design, manufacture and sales of telecommunication equipment and related products and agency business for telecommunication products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

* *Fujian Create State Industry Co., Ltd. was incorporated in the PRC on 5 April 1997 as a sino-foreign equity joint venture with a registered capital of RMB30,000,000. Effective from 13 November 2003, Fujian Create State Industry Co., Ltd. was changed from a sino-foreign equity joint venture to a wholly-foreign-owned enterprise. Fujian Create State Industry Co., Ltd. has an operating period of 50 years from 5 April 1997 to 4 April 2047.*

** *Fuzhou Wozhong Capacity System Co., Ltd. was incorporated in the PRC on 30 November 2006 as a wholly-foreign-owned enterprise. Fuzhou Wozhong Capacity System Co., Ltd. has an operating period of 50 years from 30 November 2006 to 29 November 2056.*

*** *Skyban Telecommunication (Fujian) Ltd. was incorporated in the PRC on 26 September 2006 as a wholly-foreign-owned enterprise. Skyban Telecommunication (Fujian) Ltd. has an operating period of 50 years from 26 September 2006 to 25 September 2056.*

18. INVENTORIES

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	**8,082**	5,145
Work in progress	**629**	794
Finished goods	**17,027**	13,571
General merchandise	**4,890**	204
Total	**30,628**	19,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. TRADE RECEIVABLES

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

The ageing analysis of trade receivables is as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
0 to 30 days	**108,812**	70,137
31 to 60 days	**89,428**	72,376
61 to 90 days	**87,070**	72,196
91 to 180 days	**1,531**	4,549
	286,841	219,258

The Group's credit policy is set out in note 27(b).

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**798,303**	402,445	**67,720**	358

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE PAYABLES

The ageing analysis of accounts payables is as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
0 to 30 days	**15,877**	11,554
31 to 60 days	**793**	458
61 to 90 days	**–**	87
Over 365 days	**32**	32
	16,702	12,131

22. CONVERTIBLE BONDS

Pursuant to a bond subscription agreement dated 6 November 2007, the Company issued convertible bonds (the "Bonds") for an aggregate principal amount of RMB330,000,000, settled in US dollars to independent investors on 8 November 2007. The conversion price is HK$2.08 per ordinary share. The bondholders have the right to convert them into ordinary shares of the Company at any time on or after 41 days from 8 November 2007 until 7 days prior to 8 November 2012.

The Bonds bear interest at 1% per annum payable by the Company semi-annually in arrears and unsecured, the Bonds will mature on 8 November 2012.

On the maturity date, the outstanding convertible bonds will be redeemed by the Company at 128.66% of the outstanding principal amount. Early redemption is provided for under specific circumstances.

Interest expense on the Bonds is calculated using the effective interest method by applying the effective interest rate of 6.00% per annum to the liability component.

The movement of the liability component of the convertible bonds for the year is set out below:

	The Group and Company
	RMB'000
Proceeds of issue	317,047
Equity component	(648)
Liability component at date of issue	316,399
Interest charged	3,233
Liability component at 31 December 2007	319,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES

(a) The Group

	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	Other reserve *RMB'000*	General reserve *RMB'000*	Exchange reserve *RMB'000*	Contri-buted surplus *RMB'000*	Special reserve *RMB'000*	Share option reserve *RMB'000*	Convertible bonds equity reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 January 2006	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	–	–	–	–	–	–	–	–	–	–	184,382	184,382
Transfer to reserve	–	–	–	–	28,684	–	–	–	–	–	(28,684)	–
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(6,386)	–	–	–	–	–	(6,386)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	525	–	–	525
Dividend paid	–	–	–	–	–	–	–	–	–	–	(106,131)	(106,131)
As at 31 December 2006 and 1 January 2007	**107,900**	**215,491**	**(57,000)**	**–**	**99,733**	**(5,243)**	**–**	**79,201**	**525**	**–**	**260,701**	**701,308**
Issue of convertible bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**648**	**–**	**648**
Profit attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**247,288**	**247,288**
Transfer to general reserve	**–**	**–**	**–**	**–**	**41,427**	**–**	**–**	**–**	**–**	**–**	**(41,427)**	**–**
Exchange differences on translation of financial statements of foreign operations	**–**	**–**	**–**	**–**	**–**	**(19,142)**	**–**	**–**	**–**	**–**	**–**	**(19,142)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,645**	**–**	**–**	**3,645**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(44,250)**	**(44,250)**
As at 31 December 2007	**107,900**	**215,491**	**(57,000)**	**–**	**141,160**	**(24,385)**	**–**	**79,201**	**4,170**	**648**	**422,312**	**889,497**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital	Share premium	Exchange reserve	Contributed surplus	Share option reserve	Convertible bonds equity reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2006	–	–	–	–	–	–	–	–
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	6,240	–	–	249,912	–	–	–	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)	–	–	–	–	–	–
Loss attributable to shareholders	–	–	–	–	–	–	(6,148)	(6,148)
Exchange differences arising from consolidation	–	–	(21,515)	–	–	–	–	(21,515)
Recognition of equity-settled share-based payment	–	–	–	–	525	–	–	525
Dividends paid	–	–	–	–	–	–	(10,790)	(10,790)
As at 31 December 2006 and 1 January 2007	**107,900**	**215,491**	**(21,515)**	**249,912**	**525**	**–**	**(16,938)**	**535,375**
Issue of convertible bonds	**–**	**–**	**–**	**–**	**–**	**648**	**–**	**648**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(14,335)**	**(14,335)**
Exchange differences arising from consolidation	**–**	**–**	**(46,017)**	**–**	**–**	**–**	**–**	**(46,017)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**3,645**	**–**	**–**	**3,645**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(44,250)**	**(44,250)**
As at 31 December 2007	**107,900**	**215,491**	**(67,532)**	**249,912**	**4,170**	**648**	**(75,523)**	**435,066**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

(i) Authorised and issued share capital

Ordinary shares of HK$0.10 each	**Number of shares** '000	**Amount** HK$'000
Authorised		
Upon incorporation of the Company *(Note 23(c)(ii))*	2,000	200
Increase in authorised share capital *(Note 23(c)(iii))*	3,998,000	399,800
As at 31 December 2006 and 2007	4,000,000	400,000
Issued and fully paid		
Issue of shares upon incorporation *(Note 23(c)(ii))*	1,000	100
Issue of shares on Reorganisation *(Note 23(c)(iv))*	59,000	5,900
Issue of shares through a placing and public offer *(Note 23(c)(v))*	257,500	25,750
Capitalisation of share premium *(Note 23(c)(vi))*	720,000	72,000
As at 31 December 2006 and 2007	1,037,500	103,750
		RMB'000
Equivalent to		107,900

(ii) Upon incorporation on 15 June 2004, the Company had an 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 (iv) below.

(iii) 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 by the creation of 3,998,000,000 additional shares of a par value of HK$0.10 each ranking pari passu with the then existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

(iv) In preparation of the Company's listing of its shares on the Main Board of the Hong Kong Stock Exchange Limited, the Company allotted and issued 59,000,000 shares of HK$0.10 each which, together with the 1,000,000 shares allotted and issued on 15 June 2004 and 26 July 2004 as noted in (ii) above, were credited as fully paid at par, in exchange for the acquisition by the Company of the entire issued share capital of Skyban, the then holding company of the Group, on 14 April 2006.

(v) 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 for 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.

(vi) Pursuant to the written resolutions passed on 14 April 2006, share premium of approximately HK$72,000,000 was capitalised for the issue of 720,000,000 shares of HK$0.10 each on a prorata basis to the Company's shareholders on 14 April 2006.

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Merger reserve

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

(iii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iv) General reserve

General reserve comprises statutory surplus fund and enterprise expansion fund which are nondistributable. 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 their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issues. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issues.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(vi) Contributed surplus

The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset 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.

(vii) Special reserve

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

(viii) Share option reserve

The share option reserve of the Company and the Group arises on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in note 2(q).

(ix) Convertible bonds equity reserve

The convertible bonds equity reserve represents the value of the unexercised equity component of convertible bonds issued by the Company. The reserve is dealt with in accordance with accounting policies set out in note 2(j).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES *(Continued)*

(e) Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2007, the Company's reserves available for distribution to shareholders amounted to approximately RMB389,880,000 (2006: RMB448,465,000), computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB215,491,000 (2006: RMB215,491,000), and contributed surplus of RMB249,912,000 (2006: RMB249,912,000), less accumulated losses of RMB75,523,000 (2006: RMB16,938,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide a satisfactory return to its shareholders.

The management actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure through the amount of dividend payment to shareholders or raise new debt financing. No changes were made in the objectives or policies during the year.

The management monitors the Group's capital structure on the basis of a debt-to-equity ratio. For this purpose the Group defines debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) plus unaccrued proposed dividends.

During 2007, the Group's debt-to-equity ratio has been increased due to the issue of convertible bonds to increase the working capital of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. CAPITAL AND RESERVES *(Continued)*

(f) Capital management *(Continued)*

The debt-to-equity ratio at 31 December 2007 and 2006 was as follows:

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current liabilities:					
Trade payables		**16,702**	12,131	**–**	–
Accruals and other payables		**38,193**	35,486	**1,154**	930
Amount due to a director		**58**	41	**–**	–
Amount due to a subsidiary		**–**	–	**1,455**	1,560
Tax payable		**15,111**	9,271	**–**	–
		70,064	56,929	**2,609**	2,490
Non-current liabilities					
Convertible bonds		**319,632**	–	**319,632**	–
		389,696	56,929	**322,241**	2,490
Add: Proposed dividends		**37,542**	44,250	**37,542**	44,250
Total debt		**427,238**	101,179	**359,783**	46,740
Total equity		**889,497**	701,308	**435,066**	535,375
Debt-to-equity ratio		**48.03%**	14.43%	**82.70%**	8.73%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 14 April 2006 whereby the directors of the Company were authorised, at their discretion, to invite 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, to take up options at HK$1.00 consideration to subscribe for shares of the Company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of shares issuable under option	**Exercisable period**
Option granted to directors:		
– On 14 November 2006	2,116,000	1 July 2007 to 31 December 2009
– On 14 November 2006	2,092,000	1 July 2008 to 31 December 2010
– On 14 November 2006	2,092,000	1 July 2009 to 31 December 2011
– On 3 September 2007	2,664,000	1 January 2009 to 31 December 2011
– On 3 September 2007	2,668,000	1 January 2010 to 31 December 2012
– On 3 September 2007	2,668,000	1 January 2011 to 31 December 2013
	14,300,000	
Option granted to employees:		
– On 14 November 2006	2,560,000	1 July 2007 to 31 December 2009
– On 14 November 2006	2,520,000	1 July 2008 to 31 December 2010
– On 14 November 2006	2,520,000	1 July 2009 to 31 December 2011
– On 3 September 2007	330,000	1 January 2009 to 31 December 2011
– On 3 September 2007	330,000	1 January 2010 to 31 December 2012
– On 3 September 2007	340,000	1 January 2011 to 31 December 2013
– On 2 October 2007	580,000	1 January 2009 to 31 December 2011
– On 2 October 2007	580,000	1 January 2010 to 31 December 2012
– On 2 October 2007	640,000	1 January 2011 to 31 December 2013
	10,400,000	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

	Number of shares issuable under options	**Exercisable period**
Option granted to suppliers:		
– On 14 November 2006	3,160,000	1 July 2007 to 31 December 2009
– On 14 November 2006	3,120,000	1 July 2008 to 31 December 2010
– On 14 November 2006	3,120,000	1 July 2009 to 31 December 2011
	9,400,000	
Option granted to consultant:		
– On 14 November 2006	3,300,000	1 July 2007 to 31 December 2009
– On 14 November 2006	3,300,000	1 July 2008 to 31 December 2010
– On 14 November 2006	3,400,000	1 July 2009 to 31 December 2011
	10,000,000	
	44,100,000	

(b) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price	**Number of options** ***'000***	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	**HK$1.26**	**33,300**	–	–
Granted during the year	**HK$1.65**	**10,800**	HK$1.26	33,300
Outstanding at the end of the year	**HK$1.36**	**44,100**	HK$1.26	33,300
Exercisable at the end of the year	**1.26**	**11,136**	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

(i) *Fair value of share options exercisable from 1 July 2007 to 31 December 2009 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.13**	HK$0.13
Share price	**HK$0.80**	HK$0.80
Exercise price	**HK$1.26**	HK$1.26
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**53.26%**	53.23%
Option life (expressed as weighted average life used in the modelling under binomial lattice model	**2.13 years**	3.13 years
Expected dividends	**5.07%**	5.07%
Risk-free interest rate (based on Exchange Fund Notes)	**3.72%**	3.72%

(ii) *Fair value of share options exercisable from 1 July 2008 to 31 December 2010 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.16**	HK$0.16
Share price	**HK$0.80**	HK$0.80
Exercise price	**HK$1.26**	HK$1.26
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**53.23%**	53.23%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**3.13 years**	4.13 years
Expected dividends	**5.07%**	5.07%
Risk-free interest rate (based on Exchange Fund Notes)	**3.75%**	3.75%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) *(Continued)*

(iii) *Fair value of share options exercisable from 1 July 2009 to 31 December 2011 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.19**	HK$0.19
Share price	**HK$0.80**	HK$0.80
Exercise price	**HK$1.26**	HK$1.26
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**53.26%**	53.23%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**4.13 years**	5.13 years
Expected dividends	**5.07%**	5.07%
Risk-free interest rate (based on yield of Exchange Fund Notes)	**3.78%**	3.78%

(iv) *Fair value of share options exercisable from 1 January 2009 to 31 December 2011 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.51**	N/A
Share price	**HK$1.56**	N/A
Exercise price	**HK$1.65**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**66.45%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**4.33 years**	N/A
Expected dividends	**3.42%**	N/A
Risk-free interest rate (based on yield of 4-, 5- and 7- year HK Sovereign)	**4.16%**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) *(Continued)*

(v) *Fair value of share options exercisable from 1 January 2010 to 31 December 2012 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.52**	N/A
Share price	**HK$1.56**	N/A
Exercise price	**HK$1.65**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**66.45%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**5.33 years**	N/A
Expected dividends	**3.42%**	N/A
Risk-free interest rate (based on yield of 4-, 5- and 7- year HK Sovereign)	**4.23%**	N/A

(vi) *Fair value of share options exercisable from 1 January 2011 to 31 December 2013 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.51**	N/A
Share price	**HK$1.56**	N/A
Exercise price	**HK$1.65**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**66.45%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**6.33 years**	N/A
Expected dividends	**3.42%**	N/A
Risk-free interest rate (based on yield of 4-, 5- and 7- year HK Sovereign)	**4.38%**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) *(Continued)*

(vii) *Fair value of share options exercisable from 1 January 2009 to 31 December 2011 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.48**	N/A
Share price	**HK$1.57**	N/A
Exercise price	**HK$1.65**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**60.96%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**4.25 years**	N/A
Expected dividends	**3.42%**	N/A
Risk-free interest rate (based on yield of 4-, 5- and 7- year HK Sovereign)	**3.98%**	N/A

(viii) *Fair value of share options exercisable from 1 January 2010 to 31 December 2012 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.50**	N/A
Share price	**HK$1.57**	N/A
Exercise price	**HK$1.65**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**60.96%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**5.25 years**	N/A
Expected dividends	**3.42%**	N/A
Risk-free interest rate (based on yield of 4-, 5- and 7- year HK Sovereign)	**4.09%**	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) *(Continued)*

(ix) *Fair value of share options exercisable from 1 January 2011 to 31 December 2013 and assumptions*

	2007	2006
Fair value at measurement date	**HK$0.48**	N/A
Share price	**HK$1.57**	N/A
Exercise price	**HK$1.65**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**60.96%**	N/A
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**6.25 years**	N/A
Expected dividends	**3.42%**	N/A
Risk-free interest rate (based on yield of 4-, 5- and 7- year HK Sovereign)	**4.24%**	N/A

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

25. RELATED PARTY TRANSACTION

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Key management personnel are directors of the Company. Remuneration for key management personnel is disclosed in note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Contracted for		
– prepaid lease payments	**–**	2,627
– the acquisition of property, plant and equipment	**15,648**	32,524
	15,648	35,151

(b) Lease commitment

The Group as lessee

As at 31 December 2006 and 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within one year	**974**	724
After one year but within five years	**243**	799
	1,217	1,523

Significant leasing arrangements in respect of land held under operating leases are described in note 15.

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. None of the leases includes contingent rentals.

27. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL INSTRUMENTS *(Continued)*

(a) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 because of the short maturity of these instruments except that the carrying amounts and the fair value of convertible bonds as at 31 December 2007 is approximately RMB319,632,000 and RMB322,475,000 respectively. The fair value of convertible bonds is determined by reference to the discounted future cash flow as revalued by an independent valuer, adjusted for interest charged and deduction for transaction costs.

(b) Credit risk

The Group is exposed to credit risk that any single counter party or group of counter parties having similar characteristics will be unable to pay amounts in full when due. Credit risks associated with these transactions are closely monitored by management of the Group. The Group's customers are established telecommunication services providers in the PRC which the Group believes have reliable credit standing. Taking into account the creditworthiness of the Group's customers and the past history of settlement, the credit risk measures and the historical levels of the bad debts, the Directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The carrying amount of cash and bank deposits, trade and other receivables, deposits and prepayments, and balances with related parties represents the Group's maximum exposure to credit risk in relation to financial assets.

(c) Interest rate risk

(i) Exposure to interest rate risk

The Group's interest rate risk arises from fixed rate convertible bonds issued. The Group's convertible bonds issued at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of repayment of the convertible bonds of the Group are disclosed in Note 22.

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's profit after tax and retained profits by approximately RMB3,300,000 (2006: Nil).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL INSTRUMENTS *(Continued)*

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from bank to meet its liquidity requirements in the short and longer term. The contractual maturities of financial liabilities are disclosed in note 22.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group and the Company can be required to pay.

	2007					2006		
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
The Group								
Convertible bonds	**319,632**	**(424,578)**	**(3,300)**	**(3,300)**	**(417,978)**	–	–	–
Trade payable	**16,702**	**(16,702)**	**(16,702)**	**–**	**–**	12,131	(12,131)	(12,131)
Accruals and other payables	**38,193**	**(38,193)**	**(38,193)**	**–**	**–**	35,486	(35,486)	(35,486)
Amount due to a director	**58**	**(58)**	**(58)**	**–**	**–**	41	(41)	(41)
	374,585	**(479,531)**	**(58,253)**	**(3,300)**	**(417,978)**	47,658	(47,658)	(47,658)
The Company								
Convertible bonds	**319,632**	**(424,578)**	**(3,300)**	**(3,300)**	**(417,978)**	–	–	–
Accruals and other payables	**1,154**	**(1,154)**	**(1,154)**	**–**	**–**	930	(930)	(930)
Amount due to a subsidiary	**1,455**	**(1,455)**	**(1,455)**	**–**	**–**	1,560	(1,560)	(1,560)
	322,241	**(427,187)**	**(5,909)**	**(3,300)**	**(417,978)**	2,490	(2,490)	(2,490)

In order to manage the above liquidity demands, the Group held cash and cash equivalents amounted to approximately RMB798,303,000 as at 31 December 2007 (2006: RMB402,445,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL INSTRUMENTS *(Continued)*

(e) Foreign exchange risk

The Group's presentation currency and the functional currency for the operations to which they relate are primarily Renminbi (RMB). The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Prepayments, deposits and other receivables	**2,380**	302
Cash and bank balances	**221,821**	18,964
Other payables and accruals	**(1,240)**	(1,004)
Amount due to a director	**(63)**	(41)
Overall net exposure	**222,898**	18,221

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Prepayments, deposits and other receivables	**2,250**	172
Cash and bank balances	**72,614**	358
Other payables and accruals	**(1,238)**	(930)
Overall net exposure	**73,626**	(400)

(ii) Sensitivity analysis

During the year ended 31 December 2007, if RMB has strengthened/weakened by 5% against the HK$, with all other variable held constant, equity would have been approximately RMB10,394,000 (2006: RMB1,004,000), lower and higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that can significantly affect the amounts recognised in the financial statements are disclosed below.

Key sources of estimation uncertainty

a) *Useful lives of property, plant and equipment*

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) *Estimated provision for impairment of trade, prepayments, deposits and other receivables*

The Group makes impairment loss for doubtful debts based on an assessment of the recoverability of trade, prepayments, deposits and other receivables. Provisions are applied to trade, prepayments, deposits and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

c) *Estimated net realizable value of inventories*

The Group makes provision for slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Provisions are applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and provisions of inventory expenses in the period in which such estimate has been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

HKAS 1	Presentation of financial statements[1]
HKAS 23(revised)	Borrowing cost[1]
HKFRS 8	Operating segments[1]
HK(IFRIC)–Int11	HKFRS 2 – Group and treasury share transactions[2]
HK(IFRIC)–Int12	Service concession arrangements[3]
HK(IFRIC)–Int13	Customer loyalty programmes[4]
HK(IFRIC)–Int14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.