Interim Report 2008

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

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
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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
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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
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PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

The board of directors (the "Board") of DBA Telecommunication (Asia) Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2008, together with the comparative figures of the corresponding period in 2007.

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee and the Company's external auditor in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

FINANCIAL HIGHLIGHTS

For the six months ended 30 June

	2008 (Unaudited) *RMB'000*	2007 (Unaudited) *RMB'000*	Increase %
Turnover			
Manufacturing business			
Telecommunication network extension equipment			
Public telephone booths	**140,535**	125,913	11.6
Electronic booths	**5,266**	–	N/A
	145,801	125,913	15.8
Telecommunication information terminal equipment			
Public telephones	**56,805**	47,603	19.3
Wireless business telephones	**37,989**	31,991	18.7
Digital set-top boxes	**7,497**	–	N/A
	102,291	79,594	28.5
Intelligent electronic products			
Smart card vending machines	**169,823**	143,661	18.2
Intelligent EDC systems	**4,935**	–	N/A
	174,758	143,661	21.6
Optical transmission connection products			
ODFs	**25,991**	14,209	82.9
Optical passive devices	**69,996**	47,260	48.1
	95,987	61,469	56.2
	518,837	410,637	26.3
Self-service business	**231,965**	52,016	345.9
Agency business for telecommunication products	**71,311**	45,205	57.8
	822,113	507,858	61.9
Gross Profit	**241,014**	175,418	37.4
Profits attributable to shareholders	**156,501**	118,815	31.7

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June **2008** **(Unaudited)** ***RMB'000***	 2007 (Unaudited) *RMB'000*
Turnover	5	**822,113**	507,858
Cost of sales		**(581,099)**	(332,440)
Gross profit		**241,014**	175,418
Other revenue	5	**13,542**	5,345
Selling and distribution expenses		**(33,554)**	(25,469)
General and administrative expenses		**(15,902)**	(13,752)
Other operating expenses		**–**	(45)
Operating profits		**205,100**	141,497
Finance costs		**(10,820)**	–
Profit before taxation	6	**194,280**	141,497
Taxation	7	**(37,779)**	(22,682)
Profits attributable to shareholders		**156,501**	118,815
Dividends	8	**36,228**	44,250
Earnings per share	9		
– basic		**15.08 cents**	11.45 cents
– diluted		**15.06 cents**	11.45 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2008 (Unaudited) RMB'000	At 31 December 2007 (Audited) RMB'000
Non-current assets			
Prepaid lease payments		**1,673**	1,695
Property, plant and equipment	10	**130,903**	117,840
		132,576	119,535
Current assets			
Inventories		**39,592**	30,628
Trade receivables	11	**338,890**	286,841
Prepayments, deposits and other receivables		**43,429**	43,886
Cash and bank balances		**862,652**	798,303
		1,284,563	1,159,658
Current liabilities			
Trade payables	12	**33,637**	16,702
Accruals and other payables		**39,429**	38,193
Amount due to a director		**100**	58
Tax payables		**21,508**	15,111
		94,674	70,064
Net current assets		**1,189,889**	1,089,594
Total assets less current liabilities		**1,322,465**	1,209,129
Non-current liabilities			
Convertible bonds	13	**(328,782)**	(319,632)
NET ASSETS		**993,683**	889,497
Represented by:			
SHARE CAPITAL	14	**107,900**	107,900
RESERVES		**885,783**	781,597
SHAREHOLDERS' EQUITY		**993,683**	889,497

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital *RMB'000*	Share premium *(Note a)* *RMB'000*	Merger reserve *(Note b)* *RMB'000*	General reserve *(Note c)* *RMB'000*	Exchange reserve *(Note d)* *RMB'000*	Special reserve *(Note e)* *RMB'000*	Share option reserve *(Note f)* *RMB'000*	Convertible bonds equity reserves *(Note g)* *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 January 2008 (audited)	107,900	215,491	(57,000)	141,160	(24,385)	79,201	4,170	648	422,312	889,497
Profit attributable to shareholders	–	–	–	–	–	–	–	–	156,501	156,501
Transfer to reserve	–	–	–	10,076	–	–	–	–	(10,076)	–
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(17,870)	–	–	–	–	(17,870)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	1,783	–	–	1,783
Dividend paid	–	–	–	–			–	–	(36,228)	(36,228)
As at 30 June 2008 (unaudited)	107,900	215,491	(57,000)	151,236	(42,255)	79,201	5,953	648	532,509	993,683
As at 1 January 2007 (audited)	107,900	215,491	(57,000)	99,733	(5,243)	79,201	525	–	260,701	701,308
Profit attributable to shareholders	–	–	–	–	–	–	–	–	118,815	118,815
Transfer to reserve	–	–	–	6,178	–	–	–	–	(6,178)	–
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(3,382)	–	–	–	–	(3,382)
Recognition of equity-settled share-based payment	–	–	–	–	–	–	1,474	–	–	1,474
Dividend paid	–	–	–	–	–	–	–	–	(44,250)	(44,250)
As at 30 June 2007 (unaudited)	107,900	215,491	(57,000)	105,911	(8,625)	79,201	1,999	–	329,088	773,965

Notes:

(a) 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.

(b) Merger reserve

Merger reserve represents the excess of purchase consideration paid in respect of the acquisition of a subsidiary over the amount of the paid-up capital of the subsidiary acquired.

(c) General reserve

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

(d) Exchange reserve

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

(e) 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.

(f) Share option reserve

The share option reserve arises on the grant of share options of the Company.

(g) Convertible bonds equity reserve

The convertible bonds equity reserve represents the value of the unexercised equity component of convertible bonds issued by the Company.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cash generated from operating activities	**164,906**	80,259
Tax paid	**(31,382)**	(19,107)
Net cash from operating activities	**133,524**	61,152
Net cash used in investing activities	**(13,425)**	(17,040)
Net cash used in financing activities	**(37,888)**	(44,197)
Net increase/(decrease) in cash and cash equivalents	**82,211**	(85)
Cash and cash equivalents at 1 January	**798,303**	402,445
Effect of foreign exchange rates changes	**(17,862)**	(3,375)
Cash and cash equivalents at 30 June, represented by cash and bank balances	**862,652**	398,985

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. General

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

2. Basis of preparation

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

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2008.

HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[1]
HK(IFRIC)-Int 12	Service Concession Arrangements[2]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

Notes:

[1] Effective for annual periods beginning on or after 1 March 2007.

[2] Effective for annual periods beginning on or after 1 January 2008.

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

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

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIS)-Int 13	Customer Loyalty Programmes[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

4. Segment information

(i) For the six months ended 30 June 2008 (Unaudited)

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for telecom-munication products *RMB'000*	Inter-segment elimination *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Revenue from external customers	518,837	231,965	71,311	–	–	822,113
Inter-segment revenue	7,538	–	–	(7,538)	–	–
Other revenue from external customers	–	–	–	–	13,542	13,542
Total	526,375	231,965	71,311	(7,538)	13,542	835,655
Segment results	181,752	11,650	5,627	–	–	199,029
Unallocated operating income and expenses						(4,749)
Profit before taxation						194,280
Taxation						(37,779)
Net profit for the period						156,501

(ii) *For the six months ended 30 June 2007 (Unaudited)*

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for telecom-munication products *RMB'000*	Inter-segment elimination *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Revenue from external customers	410,637	52,016	45,205	–	–	507,858
Inter-segment revenue	18,461	–	–	(18,461)	–	–
Other revenue from external customers	–	–	–	–	5,345	5,345
Total	429,098	52,016	45,205	(18,461)	5,345	513,203
Segment result	139,622	2,594	1,709	–	–	143,925
Unallocated operation income and expenses						(2,428)
Profit before taxation						141,497
Taxation						(22,682)
Net profit for the period						118,815

5. Turnover and other revenue

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

Turnover and other revenue consisted of:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Turnover		
Manufacturing business	**518,837**	410,637
Self-service business	**231,965**	52,016
Agency business for telecommunication products	**71,311**	45,205
	822,113	507,858
Other revenue		
Exchange gain	**10,462**	3,737
Interest income	**3,080**	1,608
	13,542	5,345
Total revenue	**835,655**	513,203

6. Profit before taxation

Profit before taxation is stated after charging the following:

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Amortisation of lease premium on land	**22**	22
Auditor's remuneration	**168**	148
Cost of inventories	**581,099**	332,440
Depreciation	**3,434**	1,690
Less: Amount included in research and development costs	**(49)**	(148)
	3,385	1,542
Staff costs (including directors' remuneration)		
Wages and salaries	**30,287**	38,366
Retirement scheme	**533**	503
Equity-settled share-based payment expenses	**1,337**	625
	32,157	39,494
Less: Amount included in research and development costs	**(2,331)**	(12,546)
	29,826	26,948
Effective interest expenses on convertible bonds	**10,810**	–
Research and development costs	**4,576**	2,829
Operating lease payment in respect of		
– premises	**812**	849
– plant and machinery	**631**	1

7. Taxation

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current tax – PRC enterprise income tax		
Provision for the year	**37,779**	22,682

Notes:

(a) Fujian Create State Industry Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 18% (six months ended 30 June 2007: 15%) applicable to the company on the assessable profits for the six months ended 30 June 2008.

Wozhong Intelligent System Service (China) Co., Ltd. (Formerly known as "Fuzhou Wozhong Capacity System Co., Ltd."), a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the six months ended 30 June 2008 (six months ended 30 June 2007: 33%).

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 six months ended 30 June 2008 (six months ended 30 June 2007: 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 had no assessable profits for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

(c) The Group had no significant unprovided deferred tax assets or liabilities for the period and at 30 June 2008 (2007: Nil).

8. Dividend

During the period, dividends paid and proposed to equity holders of the Company comprised:

Dividend in respect of 2007

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approval and paid during the interim period of HK 3.88 cents per shares (2007: HK4.33 cents)	**40,254**	44,924
	RMB'000	*RMB'000*
Equivalent to	**36,228**	44,250

The directors do not recommend payment of interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

9. Earnings per share

(i) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of approximately RMB156,501,000 (six months ended 30 June 2007: RMB118,815,000) and the weighted average number of 1,037,500,000 shares (2007: 1,037,500,000 shares) in issued during the period.

(ii) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity holders of the Company of approximately RMB156,501,000 (six months ended 30 June 2007: RMB118,815,000) and the weighted average number of ordinary shares of approximately 1,039,182,000 shares (2007: 1,037,684,000 shares), calculated as follows:

Weighed average number of ordinary shares (diluted)

	2008 **(Unaudited)** ***'000***	2007 (Unaudited) *'000*
Weighted average number of ordinary shares at 30 June	**1,037,500**	1,037,500
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**1,682**	184
Weighted average number of ordinary shares (diluted) at 30 June	**1,039,182**	1,037,684

The conversion of all potential ordinary shares arising from convertible bonds would have an anti-dilutive effect on earnings per share for the six months ended 30 June 2008 and the convertible bonds were issued on 8 November 2007.

10. Property, plant and equipment

During the six months ended 30 June 2008, the Group acquired property, plant and equipment with a cost of RMB20,158,000 (six months ended 30 June 2007: RMB18,648,000).

11. Trade receivables

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

The ageing analysis of trade receivables is as follows:

	At 30 June 2008 (Unaudited) *RMB'000*	At 31 December 2007 (Audited) *RMB'000*
0 to 30 days	**108,690**	108,812
31 to 60 days	**113,187**	89,428
61 to 90 days	**115,874**	87,070
91 to 180 days	**1,139**	1,531
	338,890	286,841

12. Trade payables

The ageing analysis of trade payables is as follows:

	At 30 June 2008 (Unaudited) *RMB'000*	At 31 December 2007 (Audited) *RMB'000*
0 to 30 days	**32,912**	15,877
31 to 60 days	**693**	793
61 to 90 days	**–**	–
91 to 180 days	**–**	–
181 to 365 days	**–**	–
over 365 days	**32**	32
	33,637	16,702

13. 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:

	At 30 June 2008 (Unaudited) *RMB'000*	At 31 December 2007 (Audited) *RMB'000*
Balance at 1 January	**319,632**	–
Proceeds of issue	**–**	317,047
Equity component	**–**	(648)
Liability component	**319,632**	316,399
Interest charged	**10,810**	3,233
Interest paid	**(1,660)**	–
Liability component at 30 June 2008 and 31 December 2007	**328,782**	319,632

14. Share capital

Ordinary shares of HK$0.1 each	**Number of shares** *'000*	**Amount** *HK$'000*
Authorised		
As at 31 December 2007 and 30 June 2008	4,000,000	400,000
Issued and fully paid		
As at 31 December 2007 and 30 June 2008	1,037,500	103,750

	RMB'000
Equivalent to	107,900

15. Capital commitments

Capital commitments outstanding not provided in the interim financial report:

	At 30 June 2008 (Unaudited) *RMB'000*	At 31 December 2007 (Audited) *RMB'000*
Contracted for the acquisition of property, plant and equipment	**5,727**	15,648

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2008, the Group achieved satisfactory results attributable to persistent growth of the manufacturing business and self-service business. The Group recorded a turnover of approximately RMB822 million, representing an increase of 62% against the same period last year. Gross profit increased to approximately RMB241 million, representing an increase of 37% against the same period last year. Profit attributable to shareholders amounted to approximately RMB157 million, representing an increase of 32%. Earnings per share were RMB15.08 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 six months ended 30 June 2008, turnover from sales of telecommunication network extension equipment increased by 15.8% to approximately RMB146 million, accounting for approximately 17.7% of the Group's total turnover. The increase was attributable to the replacement of public telephone booths and growing demand for public telephone booths with "surfaces for" advertisements display. To tap increasing demand for in public electronic information equipment in the non-communication sector, the Group launched its own electronic booths during the period. The electronic booths were sold to major banking customers in Fuzhou, Fujian Province. The Group intends, to capitalize on the emerging market and build a new clientele with the support of its established marketing network.

Sales of telecommunication information terminal equipment

Public telephones, wireless business telephones and newly launched digital set-top boxes are the principal products in this category. Turnover derived from the sales of telecommunication information terminal equipment increased by 28.5% to approximately RMB102 million, accounting for approximately 12.4% of the Group's total turnover. Persistent economic growth and information-driven development in the urban and rural areas in the PRC have been force driving the demand for telecommunication equipment. This plus the Group's tireless efforts to improve product quality and launch new products at the right time. All of these have contributed to the turnover growth during the period under review.

Sales of intelligent electronic products

Intelligent electronic products mainly comprise smart card vending machines, the newly launched intelligent EDC system and e-POS. For the six months ended 30 June 2008, turnover from sales of intelligent electronic products increased by 21.6% to approximately RMB175 million, accounting for approximately 21.3% of the Group's total turnover. The increase was mainly attributable to enormous card service market including telecom calling cards, and increased information and resources sharing and integration in the industry. e-POS, an equipment system that integrates communication with banking technology was launched by the Group during the period. It is expected to facilitate the development of the new market for the Group's intelligent products.

Sales of optical transmission connection products

The Group's optical transmission connection products comprise devices such as optical distribution frames ("ODFs") and optical passive devices that organize and connect different components in telecommunication channels. For the six months ended 30 June 2008, the segment's turnover increased by 56.2% to approximately RMB96 million, accounting for approximately 11.7% of the Group's total turnover. The increase in turnover was mainly attributable to the Group's efforts in improving product quality and maintaining price competitiveness of existing as well as new products.

SELF-SERVICE BUSINESS

Seeing an enormous market for communication payment services in the PRC, the Group ran a pilot program in Fuzhou, Fujian Province in December 2006, installing a number of smart card vending terminals in various residential districts and at commercial buildings, shopping arcades and university campuses to sell communication payment cards. As at 30 June 2008, the Group had a total of approximately 1,000 points-of-sale installed with an smart card vending terminal each in Fuzhou and sales of communication payment cards were satisfactory, pointing to a very promising market for the product. Thus, the Group plans to extend the self-service business across the PRC and, by increasing the registered capital of its wholly-owned subsidiary Wozhong Intelligent System Service (China) Co., Ltd. (formerly known as "Fuzhou Wozhong Capacity System Co., Ltd.") to RMB150 million, upgrade the company to an enterprise qualified to operate self-service business nationwide. The upgrade was approved by the authority on 11 April 2008. The Group is currently installing smart card vending terminals in Beijing, Shanghai, Chongqing and other Chinese cities. For the six months ended 30 June 2008, turnover from sales of communication payment cards via smart card vending terminals amounted to approximately RMB232 million, accounting for approximately 28.2% of the Group's turnover.

AGENCY BUSINESS FOR TELECOMMUNICATION PRODUCTS

With a huge sales network in the PRC and strategic mindset in product development, the Group has been able to maximize the utilization of market resources and developed a strong agency business for non-home-grown telecommunication products. The Group commenced agency business for telecommunication products in March 2007. Supported by a stable supply and a stable pricing strategy, and with products delivered by suppliers direct to the customer, the Group is able to save operation cost and inventory management cost. For the six months ended 30 June 2008, turnover from the agency business amounted to approximately RMB71 million, accounting for approximately 8.7% of the Group's total turnover. Encouraged by development of the "Mega Eyes" business of a communication operator, we launched the agency business for "Mega Eyes"-related equipment in June 2008. "Mega Eyes" can enable remote monitoring, transmission, storage and management of visual and audio files through internet, and provide decision makers of different industries with a brand new visual and audio remote management tool. The agency business is expected to thrive continuously. In addition, the Group plans to cease the mobile phone agency business in the second half of the year heeding possible changes in the mobile phone sector as a result of the restructuring of the telecommunication industry. However, such plan will not cause any impact on or losses to the Group's business and operation.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2008, the Group had total assets of approximately RMB1,417 million comprising non-current assets of approximately RMB133 million and current assets of approximately RMB1,284 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 the Bonds 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 they will mature on 8 November 2012. The Company intends to use the net proceeds to expand self-service business in the PRC.

The Group's cash and cash equivalents amounted to approximately RMB863 million as at 30 June 2008. They were mostly denominated in RMB and Hong Kong dollars.

Capital commitments

As at 30 June 2008, the Group's capital commitments in relation to prepaid lease payments and acquisition of properties, plant and equipment amounted to approximately RMB5.7 million.

OUTLOOK

The Directors remain optimistic about the Group's business outlook as the Group has a business portfolio comprising telecommunication equipment manufacturing business and intelligent self-service business both reporting strong development. The Group's businesses are expected to sustain robust growth.

For the telecommunication equipment manufacturing business, the Group will continue to keep an eye on the trends of demand in the information equipment sector in the PRC and improve the functions of its products. It will also launch new products in due course so as to maintain its competitiveness in terms of product range, quality and cost in the market. The Group will continue to enhance its marketing network and marketing efforts with the aim of maintaining and strengthening its responsiveness to market needs and market domaince. The Group expects the new production facilities which will commence operation in the year to equip it with sufficient production capacity to meet market demands.

For the intelligent self-service business, after the Beijing Branch, Shanghai Branch and Chongqing Branch are set up in 2008, the Group plans to introduce more than 3,000 points-of-sale installed with smart card vending terminals in the cities. Services advertising on terminal equipment will be expanded gradually to raise recurrent earnings from equipment resources.

Furthermore, the Group will actively participate in trade fairs and exhibitions to promote its image and products. Alive to the importance of continuous product enhancement, the Group will focus on research and development of products with more advanced and efficient features. It will seek to improve financial results by introducing measures to control, sales and distribution costs, administrative expenses and research and development expenditure. It will also strive to receivables turnover and inventory turnover days at a stable level.

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

As at 30 June 2008, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Capacity	Interests in shares as at 30 June 2008 Personal interests	Corporate interests	Total	Interests in underlying shares pursuant to share option as at 30 June 2008	Aggregate interests as at 30 June 2008	Percentage of issued share capital of the Company as at 30 June 2008
Yu Longrui	Beneficial owner	16,900,000	500,680,000 *(Note)*	517,580,000	Nil	517,580,000	49.89%
Yang Yahua	Beneficial owner	Nil	500,680,000 *(Note)*	500,680,000	Nil	500,680,000	48.26%

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

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

So far as is known to any director of the Company, as at 30 June 2008, 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 30 June 2008**	**Percentage of the Company's issued share capital as at 30 June 2008**
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%
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.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2008, were entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTIONS

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

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

As at the date of this report, altogether 44,100,000 share options (representing approximately 4.25% of the existing issued share capital of the Company at the date of this report) have been granted or committed to be granted pursuant to the Scheme.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group had approximately 721 employees for its principal activities. Recognizing the importance of retaining high caliber and competent staff, the Group provides competitive remuneration packages to employees with reference to prevailing market practices and individuals performance. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2008.

CORPORATE GOVERNANCE

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

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably possible the recommended best practices of the Code on Corporate Governance Practices (the "Code") which came into effect on 1 January 2005. In the opinion of the Board, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the accounting period ended 30 June 2008, with derivations from the Code provision A.2.1 of the Code in respect of the separate roles of the Chairman and Chief Executive Officer.

Code A.2.1 of the Code stipulates that the roles 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.

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.

In compliance with the code provisions of the Corporate Governance Code, the Company has an Audit Committee and a Remuneration Committee set up under the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company confirmed that in respect of the six months ended 30 June 2008, all Directors had complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

APPRECIATION

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

By Order of the Board
YU Longrui
Chairman and Chief Executive Officer

Hong Kong, 13 August 2008