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

Interim Report **2009**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yu Longrui
(Chairman and Chief Executive Officer)
Mr. Zheng Feng
Mr. Yu Longhui
(appointed on 1 September 2009)
Mr. Chan Wai Chuen
Ms. Yang Yahua
(resigned on 31 August 2009)
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

Mr. Chan Wai Chuen

AUDITOR

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

REGISTERED OFFICE

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Ugland House
South Church Street
George Town
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Cayman Islands

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STOCK CODE

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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.

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 2009, together with the comparative figures of the corresponding period in 2008.

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

	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000	Increase/ (decrease) %
Turnover			
Manufacturing business			
Telecommunication network extension equipment			
Public telephone booths	**42,969**	140,535	(69.4)
Electronic booths	**6,401**	5,266	21.6
	49,370	145,801	(66.1)
Telecommunication information terminal equipment			
Public telephones	**12,541**	56,805	(77.9)
Wireless business telephones	**12,043**	37,989	(68.3)
Digital set-top boxes	**8,646**	7,497	15.3
	33,230	102,291	(67.5)
Intelligent electronic products			
Smart card vending machines	**123,176**	169,823	(27.5)
Intelligent EDC systems	**19,997**	4,935	305.2
	143,173	174,758	(18.1)
Optical transmission connection products			
ODFs	**27,304**	25,991	5.1
Optical passive devices	**71,399**	69,996	2.0
	98,703	95,987	2.8
	324,476	518,837	(37.5)
Self-service business	**598,866**	231,965	158.2
Agency business for telecommunication products	**12,245**	71,311	(82.8)
	935,587	822,113	13.8
Gross Profit	**156,413**	241,014	(35.1)
Profits attributable to shareholders	**59,785**	156,501	(61.8)

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Turnover	5	**935,587**	822,113
Cost of sales		**(779,174)**	(581,099)
Gross profit		**156,413**	241,014
Other revenue	5	**1,664**	13,542
Selling and distribution expenses		**(36,317)**	(33,554)
General and administrative expenses		**(29,744)**	(15,902)
Other operating expenses		**(986)**	–
Operating profits		**91,030**	205,100
Finance costs		**(11,644)**	(10,820)
Profit before taxation	6	**79,386**	194,280
Taxation	7	**(19,601)**	(37,779)
Profits attributable to equity holders of the Company		**59,785**	156,501
		RMB cents	*RMB cents*
Earnings per share	9		
– basic		**5.76**	15.08
– diluted		**5.60**	15.06

The notes on pages 12 to 22 form part of this interim financial report. Details of dividends payable to equity holders of the Company are set out in note 8.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit for the period	**59,785**	156,501
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**991**	(17,870)
Total comprehensive income for the period	**60,776**	138,631
Attributable to:		
Equity holders of the Company	**60,776**	138,631

The notes on pages 12 to 22 form part of this interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2009 (Unaudited) *RMB'000*	At 31 December 2008 (Audited) *RMB'000*
Non-current assets			
Prepaid lease payments		**10,327**	1,652
Property, plant and equipment	*10*	**288,603**	287,181
		298,930	288,833
Current assets			
Inventories		**160,526**	52,076
Trade and other receivables	*11*	**309,708**	414,181
Cash and bank balances		**802,384**	796,765
		1,272,618	1,263,022
Current liabilities			
Trade and other payables	*12*	**55,741**	92,663
Tax payables		**9,836**	24,763
		65,577	117,426
Net current assets		**1,207,041**	1,145,596
Total assets less current liabilities		**1,505,971**	1,434,429
Non-current liabilities			
Convertible bonds	*13*	**(348,628)**	(338,634)
NET ASSETS		**1,157,343**	1,095,795
Represented by:			
SHARE CAPITAL	*14*	**107,900**	107,900
RESERVES		**1,049,443**	987,895
SHAREHOLDERS' EQUITY		**1,157,343**	1,095,795

The notes on pages 12 to 22 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	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*
Change in equity for the six months ended 30 June 2009										
As at 1 January 2009 (audited)	107,900	215,491	(57,000)	195,680	(41,800)	79,201	7,789	648	587,886	1,095,795
Total comprehensive income for the period	–	–	–	–	991	–	–	–	59,785	60,776
Transfer to reserve	–	–	–	5,395	–	–	–	–	(5,395)	–
Equity-settled share-based transaction	–	–	–	–	–	–	772	–	–	772
As at 30 June 2009 (unaudited)	107,900	215,491	(57,000)	201,075	(40,809)	79,201	8,561	648	642,276	1,157,343
Change in equity for the six months ended 30 June 2008										
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
Total comprehensive income for the period	–	–	–	–	(17,870)	–	–	–	156,501	138,631
Transfer to reserve	–	–	–	10,076	–	–	–	–	(10,076)	–
Equity-settled share-based transaction	–	–	–	–	–	–	1,783	–	–	1,783
Dividends approved in respect of the previous year	–	–	–	–			–	–	(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

The notes on pages 12 to 22 form part of this interim financial report.

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 Fujian Create State Industry Co., Ltd. over the amount of the paid-up capital of Fujian Create State Industry Co., Ltd. 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 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 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 values 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	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cash generated from operating activities	**47,775**	164,906
Tax paid	**(34,528)**	(31,382)
Net cash from operating activities	**13,247**	133,524
Net cash used in investing activities	**(6,970)**	(13,425)
Net cash used in financing activities	**(1,650)**	(37,888)
Net increase in cash and cash equivalents	**4,627**	82,211
Cash and cash equivalents at 1 January	**796,765**	798,303
Effect of foreign exchange rates changes	**992**	(17,862)
Cash and cash equivalents at 30 June, represented by cash and bank balances	**802,384**	862,652

The notes on pages 12 to 22 form part of this interim financial report.

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

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial report*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 18 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by the Company's audit committee and the Company's external auditor in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 March 2009.

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

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements.

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 4). As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

4. Segment information

Segment reporting

The Group manages its businesses through the various business executive committees. On first-time adoption of HKFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments:

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

– *Self-service business:* sales of telecommunication payment cards through smart cards vending terminals and promote, design, produce and publish advertisement.

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

Currently the above Group's activities are carried out in Mainland China.

The results of the reportable segments and the reconciliation to the corresponding consolidated totals in the accounts are shown below:

(i) ***For the six months ended 30 June 2009 (Unaudited)***

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for telecom-munication products *RMB'000*	Consolidated *RMB'000*
Revenue from external customers and reportable segment revenue	324,476	598,866	12,245	935,587
Reportable segment profit (adjusted EBITDA)	65,432	35,378	2,815	103,625
Depreciation and amortisation				(7,104)
Unallocated operating income and expenses				(17,135)
Profit before taxation				79,386
Taxation				(19,601)
Net profit for the period				59,785

(ii) 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	–	–	–	–	13,542	13,542
Reportable segment revenue	526,375	231,965	71,311	(7,538)	13,542	835,655
Reportable segment profit (adjusted EBITDA)	183,087	13,702	5,627	–	–	202,416
Depreciation and amortisation						(3,387)
Unallocated operating income and expenses						(4,749)
Profit before taxation						194,280
Taxation						(37,779)
Net profit for the period						156,501

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	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Turnover		
Manufacturing business	**324,476**	518,837
Self-service business	**598,866**	231,965
Agency business for telecommunication products	**12,245**	71,311
	935,587	822,113
Other revenue		
Exchange gain	**–**	10,462
Interest income	**1,505**	3,080
Government subsidies	**159**	–
	1,664	13,542
Total revenue	**937,251**	835,655

6. Profit before taxation

Profit before taxation is stated after charging the following:

	Six months ended 30 June 2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
(a) Finance costs		
Effective interest expenses on convertible bonds	**11,644**	10,810
Other finance costs	**–**	10
Total finance costs	**11,644**	10,820
(b) Other items		
Amortisation of lease premium on land	**52**	22
Auditor's remuneration	**156**	168
Research and development costs	**17,523**	4,576
Depreciation	**7,052**	3,434
Less: Amount included in research and development costs	**(58)**	(49)
	6,994	3,385

7. Income tax

	Six months ended 30 June 2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000
Current tax – PRC enterprise income tax		
Provision for the period	**19,601**	37,779

Notes:

(a) Fujian Create State Industry Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 20% (six months ended 30 June 2008: 18%) applicable to the company on the assessable profits for the six months ended 30 June 2009.

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% (six months ended 30 June 2008: 25%) applicable to the company on the assessable profits for the six months ended 30 June 2009.

Skyban Telecommunication (Fujian) Limited, 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 2009 (six months ended 30 June 2008: Nil).

Wozhong Advertising (Fuzhou) Co., Ltd., a PRC domestic-invested company, 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 2009. No provision for PRC enterprise income tax has been made as the company had no assessable profits for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC Issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of Fujian Create State Industry Co., Ltd. in the PRC was increased from 18% to 25% progressively and Wozhong Intelligent System Service (China) Co., Ltd. was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 20% to 25% for the six months ended 30 June 2009 (six months ended 30 June 2008: 18% to 25%).

(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 six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

(c) The Group had no significant unprovided deferred tax assets or liabilities for the period and at 30 June 2009 (2008: Nil).

8. Dividend

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

Dividend payable attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approval and paid during the interim period of HK Nil cents per shares (2008: HK3.88 cents)	–	40,254
	RMB'000	*RMB'000*
Equivalent to	–	36,228

The directors do not recommend payment of interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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 holders of the Company of approximately RMB59,785,000 (six months ended 30 June 2008: RMB156,501,0000) and the weighted average number of 1,037,500,000 shares (2008: 1,037,500,000 shares) in issued during the period.

(b) 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 RMB69,510,000 (six months ended 30 June 2008: RMB156,501,000) and the weighted average number of ordinary shares of approximately 1,241,448,000 shares (2008: 1,039,182,000 shares).

10. Property, plant and equipment

During the six months ended 30 June 2009, the Group acquired property, plant and equipment with a cost of RMB8,475,000 (six months ended 30 June 2008: RMB20,158,000).

11. Trade and other receivables

Included in trade and other receivables are debtors with the following ageing analysis:

	At 30 June 2009 (Unaudited) *RMB'000*	At 31 December 2008 (Audited) *RMB'000*
Current	**162,472**	262,263
Less than 1 month past due	**343**	–
Trade debtors, net of allowance for doubtful debts	**162,815**	262,263
Rental deposit	**276**	251
Other receivables	**1,104**	1,199
Loans and receivables	**164,195**	263,713
Deposits and prepayments	**145,513**	150,468
	309,708	414,181

Trade debtors are due within 90 days from the date of billing.

12. Trade and other payables

Trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	At 30 June 2009 (Unaudited) *RMB'000*	At 31 December 2008 (Audited) *RMB'000*
Due within 1 month or on demand	**8,302**	21,310
Total creditors	**8,302**	21,310
Other creditors and accrued changes	**47,352**	71,270
Due to a director	**87**	83
Financial liabilities measured at amortised cost	**55,741**	92,663

13. Convertible bonds

Pursuant to a bond subscription agreement dated 6 November 2007, the Company issued convertible bonds (the "Bonds") to independent investors on 8 November 2007 for an aggregate principal amount of RMB330,000,000, to be settled in US dollars. The conversion price is HK$1.67 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 are unsecured and 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 (period)/year is set out below:

	At 30 June 2009 (Unaudited) *RMB'000*	At 31 December 2008 (Audited) *RMB'000*
Balance at 1 January (Liability component)	**338,634**	319,632
Interest charged	**11,644**	22,302
Interest paid	**(1,650)**	(3,300)
Liability component at 30 June 2009 and 31 December 2008	**348,628**	338,634

14. Share capital

Ordinary shares of HK$0.1 each	**Number of shares *'000***	**Amount *HK$'000***
Authorised		
As at 31 December 2008 and 30 June 2009	4,000,000	400,000
Issued and fully paid		
As at 31 December 2008 and 30 June 2009	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 2009 (Unaudited) *RMB'000*	At 31 December 2008 (Audited) *RMB'000*
Contracted for the acquisition of property, plant and equipment	**31,356**	38,979

16. Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements,* and HKFRS 8, *Operating segments,* certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2009, the Group recorded a turnover of approximately RMB936 million, representing an increase of 13.8% against the same period last year. Gross profit amounted to approximately RMB156 million, representing a decrease of 35.1% against the same period last year. Profit attributable to shareholders amounted to approximately RMB60 million, representing a decrease of 61.8% against the same period last year. Earnings per share were RMB5.76 cents.

MANUFACTURING BUSINESS

During the first half of 2009, telecommunication operators in China focused investment on 3G network construction and development of 3G mobile businesses, which brought significant impact to the telecommunication equipment manufacturing business of the Group. For the six months ended 30 June 2009, turnover from the Group's telecommunication equipment manufacturing segment decreased by 37.5% to approximately RMB324 million, accounting for approximately 34.7% of the Group's total turnover.

Based on the findings of research and analysis of telecommunication equipment technology and market trend in China, the Group has performed a strategical restructuring of its product mix. In March 2009, the Group disposed its telephone (including public telephones and wireless business telephones) operations to an independent third party. The said disposal was completed during the period under review and will not result in any adverse impact or losses on the business and operation of the Group. Meanwhile, the Group will enhance its capability of developing optical fibre access products and multi-media intelligent technology products. For the six months ended 30 June 2009, the Group acquired 24 patents of outlook design and one patent of utility model and filed application for three patents of utility model and four patents of software copyright. Moreover, it completed development of various new products such as optic fibre splitters, intelligent self-service payment terminals for transport and hospital use, multi-media public telephone booths, pre-paid IC card water meter and network management system software, pre-paid IC card gas meter and network management system software. Agreeing with the Group's business focus and possess competitiveness both technologically and in the market, these new products promise strong and vital support to the Group for expanding market share in the technology product manufacturing industry.

SELF-SERVICE BUSINESS

During the first half of 2009, the Group's intelligent self-service business achieved continuous and rapid growth. For the six months ended 30 June 2009, turnover from intelligent self-service segment increased by 158.2% to approximately RMB599 million, accounting for approximately 64.0% of the Group's total turnover. As the Group continues to expand network coverage and service scope of the business, intelligent self-service business is set to develop into a revenue growth driver.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group had total assets of approximately RMB1,572 million comprising non-current assets of approximately RMB299 million and current assets of approximately RMB1,273 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 conversion price of HK$1.67 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 RMB802 million as at 30 June 2009. They were mostly denominated in RMB and Hong Kong dollars.

CAPITAL COMMITMENTS

As at 30 June 2009, the Group's capital commitments in relation to prepaid lease payments and acquisition of properties, plant and equipment amounted to approximately RMB31 million.

OUTLOOK

The Group will continue to optimize deployment and develop its telecommunication equipment manufacturing and intelligent self-service businesses. Through adjustment and optimization of the product mix of telecommunication equipment products, expansion of the service scope and network coverage of intelligent self-service business, the Group will be able to achieve stable and persistent overall business development.

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 keep receivables turnover and inventory turnover days stable.

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

As at 30 June 2009, 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 2009 Personal interests	Corporate interests	Total	Interests in underlying shares pursuant to share option as at 30 June 2009	Aggregate interests as at 30 June 2009	Percentage of issued share capital of the Company as at 30 June 2009
Yu Longrui	Beneficial owner	18,200,000	500,680,000 *(Note)*	518,880,000	Nil	518,880,000	50.01%
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 2009, 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 2009	Percentage of the Company's issued share capital as at 30 June 2009
Daba International Investments Limited	500,680,000 *(Note)*	48.26%
Chartered Asset Management Pte Ltd	122,756,000	11.83%
CAM-GTF Limited	73,412,000	7.08%
Sanlam Universal Funds plc	73,400,000	7.07%

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 2009, 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 2009, the Group had approximately 822 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.

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 six months ended 30 June 2009.

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 2009, 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 2009, 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. Mr. Zheng Qingchang is the chairman of the committee. 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, 18 August 2009