Interim Report 2010

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. Yu Longhui
Mr. Chan Wai Chuen
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 *(Chairman)*
Mr. Yu Lun
Mr. Yun Lok Ming

REMUNERATION COMMITTEE

Mr. Zheng Qingchang *(Chairman)*
Mr. Yu Lun
Mr. Yun Lok Ming

COMPANY SECRETARY

Mr. Chan Wai Chuen

AUDITOR

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
34/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

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STOCK CODE

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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

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 2010, together with the comparative figures of the corresponding period in 2009.

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

	2010 *RMB'000* (Unaudited)	2009 *RMB'000* (Unaudited)	Increase %
Turnover			
Manufacturing business	**363,988**	324,476	12.2
Self-service business	**1,164,670**	598,866	94.5
Agency business	**14,991**	12,245	22.4
	1,543,649	935,587	65.0
Gross Profit	**210,924**	156,413	34.9
Profits attributable to shareholders	**91,305**	59,785	52.7
	RMB	*RMB*	
Earnings per share			
– basic	**8.80 cents**	5.76 cents	52.8
– diluted	**8.58 cents**	5.60 cents	53.2

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

Crowe Horwath

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

TO THE BOARD OF DIRECTORS OF
DBA TELECOMMUNICATION (ASIA) HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 8 to 29, which comprise the condensed consolidated balance sheet of DBA Telecommunication (Asia) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 31 August 2010

Betty P.C. Tse
Practising Certificate Number P03024

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	5	**1,543,649**	935,587
Cost of sales		**(1,332,725)**	(779,174)
Gross profit		**210,924**	156,413
Other revenue	5	**3,805**	1,664
Selling and distribution expenses		**(37,686)**	(36,317)
General and administrative expenses		**(33,425)**	(29,744)
Other operating expenses		**–**	(986)
Profit from operations		**143,618**	91,030
Finance costs	6	**(22,991)**	(11,644)
Profit before taxation	6	**120,627**	79,386
Taxation	7	**(29,322)**	(19,601)
Profit for the period attributable to equity owners of the Company		**91,305**	59,785
		RMB	*RMB*
Earnings per share	9		
– basic		**8.80 cents**	5.76 cents
– diluted		**8.58 cents**	5.60 cents

The notes on pages 14 to 29 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**91,305**	59,785
Other comprehensive (loss)/income for the period (after tax and reclassification adjustments):		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**(696)**	991
Total comprehensive income for the period	**90,609**	60,776
Attributable to:		
Equity owners of the Company	**90,609**	60,776

The notes on pages 14 to 29 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Non-current assets			
Prepaid lease payments		9,869	9,984
Property, plant and equipment	10	409,987	413,375
Intangible assets		5,557	–
		425,413	423,359
Current assets			
Inventories		272,486	98,094
Trade receivables	11	383,260	279,085
Prepayments, deposits and other receivables	12	147,929	208,694
Cash and bank balances	13	745,424	760,832
		1,549,099	1,346,705
Current liabilities			
Trade and bills payables	14	63,865	58,705
Accruals and other payables	15	82,907	61,575
Amount due to a director	16	52	62
Bank loans	17	30,000	20,000
Bonds payable	18	373,791	–
Tax payables		16,208	13,727
		(566,823)	(154,069)
Net current assets		982,276	1,192,636
Total assets less current liabilities		1,407,689	1,615,995
Non-current liabilities			
Bank loans	17	110,000	50,000
Convertible bonds	18	–	358,966
		(110,000)	(408,966)
NET ASSETS		1,297,689	1,207,029
Represented by:			
SHARE CAPITAL	19	107,900	107,900
RESERVES		1,189,789	1,099,129
SHAREHOLDERS' EQUITY		1,297,689	1,207,029

The notes on pages 14 to 29 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital RMB'000	Share premium RMB'000 (Note a)	Merger reserve RMB'000 (Note b)	General reserve RMB'000 (Note c)	Exchange reserve RMB'000 (Note d)	Special reserve RMB'000 (Note e)	Share option reserve RMB'000 (Note f)	Convertible bonds equity reserve RMB'000 (Note g)	Retained profits RMB'000	Total RMB'000
Changes in equity for the six months ended 30 June 2010										
As at 1 January 2010 (audited)	**107,900**	**215,491**	**(57,000)**	**226,939**	**(41,173)**	**79,201**	**9,330**	**648**	**665,693**	**1,207,029**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(696)**	**-**	**-**	**-**	**91,305**	**90,609**
Transfer to reserve	**-**	**-**	**-**	**10,817**	**-**	**-**	**-**	**-**	**(10,817)**	**-**
Redemption of convertible bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(648)**		**(648)**
Cancellation of share options	**-**	**-**	**-**	**-**	**-**	**-**	**(1,421)**	**-**	**1,421**	**-**
Equity-settled share-based transaction	**-**	**-**	**-**	**-**	**-**	**-**	**699**	**-**	**-**	**699**
As at 30 June 2010 (unaudited)	**107,900**	**215,491**	**(57,000)**	**237,756**	**(41,869)**	**79,201**	**8,608**	**-**	**747,602**	**1,297,689**
Changes 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

The notes on pages 14 to 29 form an integral part of these condensed consolidated interim financial statements.

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 outstanding convertible bonds issued by the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(unaudited)
Cash (used in)/generated from operating activities	**(55,006)**	47,775
Tax paid	**(39,138)**	(34,528)
Net cash (used in)/generated from operating activities	**(94,144)**	13,247
Net cash used in investing activities	**(7,053)**	(6,970)
Net cash generated from/(used in) financing activities	**86,485**	(1,650)
Net (decrease)/increase in cash and cash equivalents	**(14,712)**	4,627
Cash and cash equivalents at 1 January	**740,832**	796,765
Effect of foreign exchange rates changes	**(696)**	992
Cash and cash equivalents at 30 June, represented by cash and bank balances	**725,424**	802,384

The notes on pages 14 to 29 form an integral part of these condensed consolidated interim financial statements.

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 condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the "Group"). 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 Company's registered office at 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

These interim financial statement have 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).

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of interim financial statements 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.

These interim financial statements contain 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 from the 2009 annual financial statements.

The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the HKICPA.

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

The condensed consolidated financial statements have been prepared on the historical cost basis except as otherwise set out in the accounting policies.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

- HKFRSs (Amendments) Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
- HKFRSs (Amendments) Improvements to HKFRSs (2009)
- HKAS 27 (Revised) Consolidated and separate financial statements
- HKAS 39 (Amendment) Eligible hedged items
- HKFRS 1 (Amendment) Additional exemptions for first-time adopters
- HKFRS 2 (Amendment) Group cash-settled share-based payment transactions
- HK(IFRIC) – INT 17 Distributions of non-cash assets to owners

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related party disclosures[4]
HKAS 32 (Amendment)	Classification of rights issues[2]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[4]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. Segment information

Segment results, assets and liabilities

The Group manages its businesses through various business executive committees. On adoption of HKFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker 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 payment cards including telecommunication value-added cards, insurance prepaid cards and online game value-added cards through intelligent self-service terminals and promote, design, produce and publish advertisement through intelligent self-service terminals.

– Agency business: trading of telecommunication products.

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 financial statements are shown below:

(a) For the six months ended 30 June 2010 (Unaudited)

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business *RMB'000*	Inter-segment elimination *RMB'000*	Consolidated *RMB'000*
Revenue from external customers	363,988	1,164,670	14,991	–	1,543,649
Inter-segment revenue	–	–	–	–	–
Reportable segment revenue	363,988	1,164,670	14,991	–	1,543,649
Reportable segment profit (adjusted EBITDA)	81,201	87,185	3,446	–	171,832
Unallocated operating income and expenses					(21,645)
Finance costs					(22,991)
Depreciation and amortisation					(6,569)
Profit before taxation					120,627
Income tax					(29,322)
Profit for the period					91,305
Interest income from bank deposits from reportable segments	1,060	511	–	–	1,571
Unallocated interest income bank deposits					–
					1,571
Interest expenses from reportable segments	–	22,991	–	–	22,991
Unallocated interest expenses					–
					22,991
Depreciation and amortization for the period from reportable segments	1,216	5,354	–	–	6,570
Unallocated depreciation and amortization					–
					6,570
Income tax expenses	17,196	12,126	–	–	29,322
At 30 June 2010 (Unaudited)					
Reportable segment assets	1,202,919	878,233	–	(107,719)	1,973,433
Unallocated assets					1,079
Total assets					1,974,512
Reportable segment liabilities	(80,858)	(203,689)	–	–	(284,547)
Unallocated liabilities					(392,276)
Total liabilities					(676,823)
Additions to non-current segment assets during the period	1,858	6,766	–	–	8,624

(b) For the six months ended 30 June 2009 (Unaudited)

	Manufacturing business RMB'000	Self-service business RMB'000	Agency business RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Revenue from external customers	324,476	598,866	12,245	–	935,587
Inter-segment revenue	–	–	–	–	–
Reportable segment revenue	324,476	598,866	12,245	–	935,587
Reportable segment profit (adjusted EBITDA)	65,432	47,023	2,815	–	115,270
Unallocated operating income and expenses					(17,136)
Finance costs					(11,644)
Depreciation and amortisation					(7,104)
Profit before taxation					79,386
Income tax					(19,601)
Profit for the period					59,785
Interest income from bank deposits from reportable segments	1,469	36	–	–	1,505
Unallocated interest income bank deposits					–
					1,505
Interest expenses from reportable segments	–	11,644	–	–	11,644
Unallocated interest expenses					–
					11,644
Depreciation and amortization for the period from reportable segments	1,293	5,811	–	–	7,104
Unallocated depreciation and amortization					–
					7,104
Income tax expenses	13,583	6,018	–	–	19,601
At 31 December 2009 (Audited)					
Reportable segment assets	1,372,797	504,210	–	(107,719)	1,769,288
Unallocated assets					776
Total assets					1,770,064
Reportable segment liabilities	(65,219)	(483,342)	–	–	(548,561)
Unallocated liabilities					(14,474)
Total liabilities					(563,035)
Additions to non-current segment assets during the year	35,195	117,248	–	–	152,443

5. Turnover and other revenue

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

Turnover and other revenue consisted of:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Turnover		
Manufacturing business: the design, manufacture and sales of telecommunication equipment and related products	**363,988**	324,476
Self-service business: sales of telecommunication value-added cards, insurance prepaid cards and online game value added cards etc. through intelligent self-service terminals and revenue from the display of advertisements on intelligent self-service terminals	**1,164,670**	598,866
Agency business: trading of telecommunication products	**14,991**	12,245
	1,543,649	935,587
Other revenue		
Exchange gain	**2,201**	–
Interest income on financial assets not at fair value through profit or loss – bank interest income	**1,571**	1,505
Sundry income	**33**	159
	3,805	1,664
Total revenue	**1,547,454**	937,251

6. Profit before taxation

Profit before taxation is arrived at after charging the following:

		Six months ended 30 June	
		2010	2009
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	Finance costs		
	Effective interest expenses on convertible bonds wholly repayable within five years	**13,638**	11,644
	Interest accrued on convertible bonds overdue sum	**2,242**	–
	Interest on bank advances wholly repayable within five years	**3,271**	–
	Debt extinguishment loss on convertible bonds	**3,840**	–
		22,991	11,644
(b)	Other items		
	Amortisation of lease premium on land	**115**	52
	Auditor's remuneration	**415**	156
	Research and development costs	**15,088**	17,523
	Depreciation	**6,455**	7,052
	Less: Amount included in research and development costs	**(65)**	(58)
		6,390	6,994

7. Income tax

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – PRC enterprise income tax		
Provision for the period	**29,322**	19,601

Notes:

(a) The Group had five PRC subsidiaries.

A subsidiary, Fujian Create State Industry Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 22% (six months ended 30 June 2009: 20%) on its assessable profits for the six months ended 30 June 2010.

A subsidiary, 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 2009: 25%) on its assessable profits for the six months ended 30 June 2010.

A subsidiary, 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. The Company was under the 50% reduction period during the period ended 30 June 2010.

A subsidiary, Wozhong Advertising (Fuzhou) Co., Ltd., a PRC domestic-invested company, was subject to PRC enterprise income tax at a rate of 25% on its assessable profits for the six months ended 30 June 2010 (six months ended 30 June 2009: 25%).

A subsidiary, Wozhong e-Payment Technology Service (Fujian) Co., Ltd. a PRC domestic-invested company, was subject to PRC enterprise income tax at a rate of 25% on its assessable profits for the six months ended 30 June 2010 (six months ended 30 June 2009: 25%).

On 16 March 2007, the PRC government 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 2009 onwards.

(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 2010 (six months ended 30 June 2009: nil).

(c) The Group had no significant unprovided deferred tax assets or liabilities for the six months ended 30 June 2010 and 2009 and at 30 June 2010 (31 December 2009: nil).

8. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Company of approximately RMB91,305,000 (six months ended 30 June 2009: RMB59,785,000) and the weighted average number of 1,037,500,000 shares (2009: 1,037,500,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity owners of the Company of approximately RMB101,315,000 (six months ended 30 June 2009: RMB69,510,000) and the weighted average number of ordinary shares of approximately 1,181,396,000 (2009: 1,241,448,000) shares, calculated as follows:

i) Profit attributable to ordinary equity owners of the company (diluted)

	30 June 2010	30 June 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity owners	**91,305**	59,785
After tax effect of effective interest on the liability component of convertible bonds	**10,010**	9,725
Profit attributable to ordinary equity owners (diluted)	**101,315**	69,510

ii) Weighted average number of ordinary shares (diluted)

	30 June 2010 *RMB'000* (Unaudited)	30 June 2009 *RMB'000* (Unaudited)
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	**–**	–
Effect of conversion of convertible bonds	**143,896**	203,948
Weighted average number of ordinary shares (diluted) at 30 June	**1,181,396**	1,241,448

10. Property, plant and equipment

During the six months ended 30 June 2010, the Group acquired property, plant and equipment having a total costs of RMB3,067,000 (six months ended 30 June 2009: RMB8,475,000).

11. Trade receivables

The self-service business of the Group is cash sales. For the manufacturing business and agency business, the Group normally grants credit terms of 180 days to its customers after evaluating the business relationship with and creditworthiness of the customers.

The ageing analysis of trade receivables is as follows:

	At 30 June 2010 *RMB'000* (Unaudited)	At 31 December 2009 *RMB'000* (Audited)
0 to 30 days	**83,151**	53,973
31 to 60 days	**81,832**	54,190
61 to 90 days	**89,161**	53,189
91 to 180 days	**129,116**	117,733
	383,260	279,085

12. Prepayments, deposits and other receivable

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Advances to staff	**1,774**	1,578
Deposits for acquisition of property, plant and equipment	**62,777**	62,511
Other deposits	**525**	307
Prepayments to suppliers	**69,870**	143,360
Prepaid expenses	**457**	709
Prepaid lease payments	**229**	229
VAT recoverable	**12,297**	–
	147,929	208,694

13. Cash and cash equivalents

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Cash and cash equivalents in the consolidated balance sheet	**745,424**	760,832
Less: pledged deposits	**(20,000)**	(20,000)
Cash and cash equivalents in the condensed consolidated statement of cash flows	**725,424**	740,832

14. Trade and bills payables

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
Trade payables *(note (a))*	**13,865**	8,705
Bills payables *(note (b))*	**50,000**	50,000
Total	**63,865**	58,705

Notes:

(a) The ageing analysis of trade payables is as follows:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
0 to 30 days	**13,865**	8,559
31 to 60 days	**–**	113
61 to 90 days	**–**	–
91 to 180 days	**–**	–
181 to 365 days	**–**	–
Over one year	**–**	33
	13,865	8,705

(b) The ageing analysis of bills payables is as follows:

	At 30 June 2010 RMB'000 (Unaudited)	At 31 December 2009 RMB'000 (Audited)
0 to 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	40,000
91 to 180 days	**50,000**	10,000
	50,000	50,000

At 30 June 2010, the bills payable of approximately RMB50,000,000 (31 December 2009: RMB50,000,000) were secured by pledging the Group's bank deposit of RMB20,000,000 (31 December 2009: RMB20,000,000), construction in progress and prepaid lease payments totalling RMB126,152,000 (31 December 2009: RMB124,645,000) and the personal guarantee not exceeding RMB80,000,000 (31 December 2009: RMB80,000,000) put up by Mr Yu Longrui, a director of the Company.

15. Accrual and other payables

	At 30 June 2010 ***RMB'000*** **(Unaudited)**	At 31 December 2009 *RMB'000* (Audited)
Staff salaries payable	**1,691**	1,873
Provision for staff welfare	**46,232**	42,296
Accrued expenses	**22,605**	10,256
VAT payable	**12,379**	7,150
	82,907	61,575

16. Amount due to a director

The amount is unsecured, non-interest-bearing and repayable on demand.

17. Bank loans

At 30 June 2010, the borrowings were carried at amortised cost and repayable as follows:

	At 30 June 2010 ***RMB'000*** **(Unaudited)**	At 31 December 2009 *RMB'000* (Audited)
Within 1 year *(note (a))*	**30,000**	20,000
After 2 years but within 5 years *(note (b))*	**110,000**	50,000
	140,000	70,000

Notes:

(a) As at 30 June 2010, the bank loan of RMB30,000,000 bears interest at 5.58% per annum and is repayable on 9 April 2011. This loan is secured by the investment securities of a related company having a carrying amount of RMB42,000,000 and guarantee to an extent of RMB29,820,000 put up by Fujian Dongya New Material Technology Co., Ltd. (福建東亞新材料科技有限公司), a subsidiary of the same related company, Mr. Yu Longrui, the managing director and controlling shareholder of the Group is also a director of that related company being Fujian Deban Group Co., Ltd. (福建締邦集團有限公司).

As at 31 December 2009, bank loans with a total amount of RMB20,000,000 were unsecured, bored interest at 0.5531% to 0.6416% per month and repayable on 20 January 2010.

(b) As at 30 June 2010, bank loans of RMB20,000,000 (31 December 2009: nil) in total bear interest at 0.5531% to 0.6416% per month are repayable on 13 January 2013 and are secured by prepaid lease payments and buildings of Fujian Create State Industry Co., Ltd. with an aggregate carrying value of approximately RMB9,422,000 (2009: nil).

As at 30 June 2010, a bank loan of RMB50,000,000 (31 December 2009: RMB50,000,000) bears interest at 5.94% per annum and is repayable on August 2012. This loan is secured by the construction in progress and prepaid lease payments of the Group having a total carrying amount of approximately RMB126,152,000 (2009: RMB124,645,000) and the personal guarantee not exceeding RMB80,000,000 (2009: RMB80,000,000) put up by Mr. Yu Longrui, the managing director and controlling shareholder of the company.

As at 30 June 2010, the bank loan of RMB40,000,000 (31 December 2009: nil) bears interest at 5.67% per annum and is repayable on 26 February 2013. This loan is guaranteed to an extent of RMB29,820,000 put up by Fujian Dongya New Material Technology Co., Ltd. (福建東亞新材料科技有限公司), a subsidiary of the related company of which Mr. Yu Longrui is also a director.

18. Bonds payable/Convertible bonds

Pursuant to a bond subscription agreement dated 6 November 2007 (the "Agreement"), 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. After considering the market price, the conversion price was adjusted from HK$2.08 to HK$1.67 per ordinary share with effect from 27 April 2009. 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 calculated at 1% per annum, payable by the Company semi-annually in arrears and 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 permitted under specified 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.

On 8 April 2010, the Company received early redemption notices from the Trustee of the bondholders to redeem all outstanding bonds on 8 May 2010 at the US dollar equivalent of its RMB principal amount multiplied by 113.27%. The early redemption gave rise to a debt extinguishment loss of RMB3,840,000 *(Note 6)*.

The principal amount of all the outstanding Bonds due for payment on 8 May 2010 was RMB330,000,000 and the aggregate redemption amount ("Redemption Amount"), including interests and other amounts payable to the bondholders, is RMB375,441,000. The Company filed to the PRC State Administration of Foreign Exchange ("SAFE") foreign exchange remittance application for purpose of paying the redemption amount. As at the date of this report, the Company has settled a partial payment of USD15,238,000 (approximately RMB103,629,000) in respect of the Redemption Amount upon obtaining the approvals for some of the foreign exchange remittance applications. The rest of the remittance applications with SAFE are still in process. The Company is currently in discussion with the bondholders with respect to a possible extension of the payment schedule.

a) *Convertible Bonds*

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

	At 30 June 2010 *RMB'000* **(Unaudited)**	At 31 December 2009 *RMB'000* (Audited)
Balance at 1 January (Liability component)	**358,966**	338,634
Interest charged	**13,638**	23,632
Interest paid	**(1,650)**	(3,300)
Redemption and classified as bonds payable during the period/year	**(370,954)**	–
Liability component at 30 June 2010/ 31 December 2009	**–**	358,966

b) *Bonds Payable*

As at 30 June 2010, all outstanding bonds repayable to the bondholders are classified as current liabilities.

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bonds payable	**373,791**	–

19. Share capital

Ordinary shares of HK$0.1 each	**Number of shares** ***'000***	**Amount** ***HK$'000***
Authorised:		
As at 31 December 2009 and 30 June 2010	4,000,000	400,000
Issued and fully paid:		
As at 31 December 2009 and 30 June 2010	1,037,500	103,750
		RMB'000
Equivalent to		107,900

20. Capital commitments

Capital commitments outstanding but not provided for in these interim financial statements:

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted for the acquisition of property, plant and equipment	**27,832**	27,552

21. Comparative figures

For the purpose of consistent financial statements presentation, certain comparative figures have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2010, the Group recorded a turnover of approximately RMB1,544 million, representing an increase of 65.0% against the same period last year. Gross profit amounted to approximately RMB211 million, representing an increase of 34.9% against the same period last year. Profit attributable to shareholders amounted to approximately RMB91 million, representing an increase of 52.7% against the same period last year. Earnings per share were RMB8.8 cents.

MANUFACTURING BUSINESS

Given the strategic restructuring of its product mix and the modification of its marketing strategies in 2009, coupled with the comparative advantage in resource centralization, in the first half of 2010, the telecommunication equipment manufacturing business of the Group resumed growth and attained satisfactory results. For the six months ended 30 June 2010, turnover from the telecommunication equipment manufacturing segment of the Group increased by 12.2% to approximately RMB364 million, accounting for approximately 23.6% of the total turnover of the Group.

Leverage on the marketing strategies of the Group to consolidate and enhance its premier products, the negative impacts of the economic environment and industry consolidation on its business operation were effectively minimized. The Group achieved new breakthroughs in its research and development through shifting its focus from hardware development to software design, system solution development and its application, which represented a new highlight for the research and development of the Group. Leverage on the synergies from hardware and software development and its applications, the overall technology development level was further enhanced. In addition, the Group endeavoured to strengthen the R&D of new technologies and new products that combine telecommunication and telecommunication technology with industry applications, such as electric power wireless payment system solution and pre-paid IC cards and systems for water meters with a view to expanding the product lines of the Company and the market foundation of the Group. Meanwhile, the Group continued to step up its efforts in the development of optical fibre access products and multi-media intelligent technology products. For the six months ended 30 June 2010, two new patents of utility model have been granted and the application for another two patents of outlook design and three patents of utility model has been filed. The production permit for "pre-paid IC cards intelligent gas meters" (IC卡預付費智能燃氣錶) and "pre-paid IC cards rechargeable water meters" (IC卡預付費充值水錶) have also been granted by the government. Moreover, the Group has completed development of various new products that are in line with the business direction of the Group and compatible with the premier products in the market, 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, network management system software, providing a strong driving force for the growth of the manufacturing business of the Group in terms of technology and product.

With the launch of new products and to cater for the future increase in customers' demand, the Group has gradually migrated its manufacturing business to the new plant. This not only can further enhance the production efficiency, but also allow the Group to enjoy the preferential tax treatment, which significantly increases the profitability of the Group.

SELF-SERVICE BUSINESS

In the first half of 2010, the intelligent self-service business of the Group continued its fast growth momentum. For the six months ended 30 June 2010, turnover from the intelligent self-service segment increased by 94.5% to approximately RMB1,165 million, accounting for approximately 75.4% of the total turnover of the Group. As at 30 June 2010, the Group had a total of 6,000 intelligent self-service terminals as marketing platform in Fujian, Beijing, Chongqing, Hubei, Shandong and Jiangsu and the sales of payment cards including communication payment cards were satisfactory, pointing to a very promising market for such product. As the Group continues to expand network coverage and service scope of the business, intelligent self-service business will further grow.

In addition, the Group endeavoured to explore the potential value of the intelligent self-service terminals and expand the scope of services, including the introduction of the LED advertising business into self-service terminals and the sales of network access prepaid cards. At the same time, the Group introduced additional service modes and extended the servicing industry. In December 2009, Wozhong e-Payment Technology Service (Fujian) Co., Ltd., a wholly owned subsidiary of Wozhong Intelligent System Service (China) Co., Ltd., entered into a strategic cooperation agreement with a provincial branch of Unionpay E-Commerce Co., Ltd. (銀聯商務有限公司). The Group began to work together with Unionpay E-Commerce Co., Ltd. on the launch of electronic payment and settlement services in the commercial and other sectors. In May 2010, the Group acquired a retail customer E-POS project jointly operated on an online basis by an independent third party and Unionpay E-Commerce Co., Ltd., Fujian Branch. The total consideration was approximately RMB6.75 million. As at 30 June 2010, the Group had approximately 2,000 electronic payment service terminals (E-POS) with approximately 2,000 retail customers in Shandong and Fujian. As the operation takes effect, the Group plans to gradually increase the number of service terminals. Through cooperation with commercial partners, the customer base of intelligent self-service business and the scope of services of the Group have been further expanded from only residents in the community and payment services originally to retail customers and electronic payment services. In terms of operation mode and benefits, the partnership can generate complementary strengths and a win-win condition. With expanded network coverage and extended service scope of the business, coupled with widely recognized excellent quality of service, the intelligent self-service business of the Group will see further growth in future.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had total assets of approximately RMB1,975 million comprising non-current assets of approximately RMB426 million and current assets of approximately RMB1,549 million.

On 8 April 2010, the Company has received from the trustee early redemption notices from the Bondholders to redeem all the outstanding Bonds on 8 May 2010. As at the date of the redemption, the principal amount of all the outstanding Bonds is RMB330,000,000 and the aggregate redemption amounts, including interests or other amounts payable to the Bondholders, amount to RMB375,441,000 (the "Redemption Amount").

The Company will satisfy the payment of the Redemption Amount by the Group's internal resources. As required under the PRC laws and regulations, on 8 April 2010, the Company filed to the SAFE foreign exchange remittance applications for the payment of the Redemption Amount to the Bondholders. Subsequently, upon obtaining the approvals for some of the foreign exchange remittance applications, the Company has settled a partial payment of USD15,238,000 (approximately RMB103,629,000) in respect of the Redemption Amount. As at the date of this report, the rest of the remittance applications with SAFE are still in process. Currently, the Company is in discussion with the Bondholders with respect to a possible extension of payment schedule of the remaining Redemption Amount, which shall be made by the Company immediately upon obtaining the relevant approvals from the SAFE. The Company will issue a further announcement on the development of the payment of Redemption Amount in due course.

The Group's cash and cash equivalents amounted to approximately RMB745 million as at 30 June 2010. They were mostly denominated in RMB and Hong Kong dollars.

CAPITAL COMMITMENTS

As at 30 June 2010, the Group's capital commitments in relation to prepaid lease payments and acquisition of properties, plant and equipment amounted to approximately RMB28 million.

OUTLOOK

In 2010, the increased efforts in state's economic structural adjustment to drive domestic demand and boost consumption have provided a sound operating environment for the electronic and information technology industry. The Group will continue the overall development and expansion of the telecommunication equipment manufacturing business and intelligent self-service business. The Group believes that, in 2010, the economy of China and the industry that the Group is engaged in will flourish. It is expected that the overall operating scale and efficiency of the Group will grow further.

TELECOMMUNICATION EQUIPMENT MANUFACTURING BUSINESS

Amid the general trend of widespread application of information technology on various aspects in the community, the Group will place more resources in the development and operation of technologically compatible and advantageous products and items through adjusting the product mix and market structure. Apart from consolidating and enhancing product function and quality, customer service capabilities, the Group will also implement advanced administrative system and superior management capabilities; maintain a sound business development and ongoing growth of business. The Group is confident and expects that the telecommunication equipment manufacturing business will continue to grow.

In addition, the Group has commenced operation of the newly constructed plants and facilities in 2010. It will not only further enhance the production efficiency, but also allow the Group to enjoy the preferential tax treatment, which significantly increases the profitability of the Group.

INTELLIGENT SELF-SERVICE BUSINESS

The Group will expand the functions of intelligent self-service terminals and commence the similar financial electronic payment integrated services that cover vendoring, recharging and self-service payment, and self-service information services that include advertising with a view to developing itself into the largest BTL financial electronic service provider in China.

Moreover, the Group will insist on improving and enhancing the level of corporate governance and strengthening the recruitment and training of high-calibre professionals to cater for the operational and management needs of business and branch expansion. The Group will also endeavour to improve a number of areas including brand building, marketing, R&D and control of finance costs with a view to enhancing the integrated competitiveness of the Group. In strengthening the internal control and internal supervision, the Group will focus on the hot topics and difficulties in the course of operation and management. The Group will comprehensively monitor the internal audit on the operating activities and internal control of the Company and assess the roles and functions; facilitate the refined management to avoid risks. At the same time, the Group will further improve the audit system and quality control system in order to promote the long-term, sustainable and healthy development of the Company.

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

As at 30 June 2010, 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:

		Interests in shares as at 30 June 2010					
Name of Directors	Capacity	Personal interests	Corporate interests	Total	Interests in underlying shares pursuant to share option as at 30 June 2010	Aggregate interests as at 30 June 2010	Percentage of issued share capital of the Company as at 30 June 2010
Yu Longrui	Beneficial owner	24,816,000	500,680,000 *(Note)*	525,496,000	Nil	525,496,000	50.65%
Yu Longhui	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 2010, 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 2010	Percentage of the Company's issued share capital as at 30 June 2010
Daba International Investments Limited	500,680,000 *(Note)*	48.26%
Chartered Asset Management Pte Ltd	113,700,000	10.96%
Sanlam Universal Funds plc	84,138,880	8.11%
CAM-GTF Limited	73,412,000	7.08%

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 2010, 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 34,444,000 share options (representing approximately 3.32% 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 2010, the Group had approximately 763 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 2010.

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 2010, 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 2010, 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, 31 August 2010