Interim Report 2010

Z-OBEE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Hong Kong Stock Code: 948
Singapore Stock Code: D5N

INDEPENDENT REVIEW REPORT

RSM! Nelson Wheeler

中瑞岳華(香港)會計師事務所

Certified Public Accountants

TO THE BOARD OF DIRECTORS OF Z-OBEE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 19 which comprises the condensed consolidated statement of financial position of the Company as at 30 September 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 International Accounting Standard 34 "Interim Financial Reporting". The directors are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34. Our responsibility is to express a conclusion on this interim financial information 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 International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information 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 International 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 information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

5 November 2010

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

	Note	2010 US$ (Unaudited)	2009 US$ (Audited)
Revenue	*3(a)*	**63,478,230**	54,780,243
Cost of goods sold		**(56,928,982)**	(49,873,560)
Gross profit		**6,549,248**	4,906,683
Other income		**1,027,532**	244,639
Selling and distribution costs		**(68,383)**	(12,239)
Administrative expenses		**(2,789,180)**	(2,606,322)
Profit from operations		**4,719,217**	2,532,761
Finance costs	*4*	**(301,239)**	(183,899)
Profit before tax		**4,417,978**	2,348,862
Income tax expense	*5*	**(909,310)**	(347,500)
Profit for the period attributable to owners of the Company	*6*	**3,508,668**	2,001,362
Earnings per share			
Basic (US cents)	*8*	**0.59**	0.40

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	2010 US$ (Unaudited)	2009 US$ (Audited)
Profit for the period	**3,508,668**	2,001,362
Other comprehensive income:		
Reclassification adjustment arising from release of foreign currency translation reserve directly associated with disposal of disposal group classified as held for sale	–	64,366
Exchange differences on translating foreign operations	**466,755**	–
Other comprehensive income for the period, net of tax	**466,755**	64,366
Total comprehensive income for the period attributable to owners of the Company	**3,975,423**	2,065,728

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	Note	**30 September 2010 US$ (Unaudited)**	31 March 2010 US$ (Audited)
Non-current assets			
Property, plant and equipment	*9*	**9,723,148**	8,253,504
Intangible assets		**1,446,943**	1,852,640
Goodwill		**1,503,086**	1,480,086
Financial assets at fair value through profit or loss		**13,016,218**	642,673
Available-for-sale financial asset		**2,212,357**	2,178,663
		27,901,752	14,407,566
Current assets			
Inventories		**18,461,763**	6,579,607
Trade receivables	*10*	**40,353,385**	32,463,514
Prepayments, deposits and other receivables		**3,807,864**	13,911,240
Derivative financial instruments		**50,000**	226,000
Restricted bank balances		**4,284,503**	3,727,328
Time deposits with original maturity over three months		**18,215,071**	15,686,375
Bank and cash balances		**10,827,283**	22,419,496
		95,999,869	95,013,560
Current liabilities			
Trade and bills payables	*11*	**20,289,360**	11,582,526
Accruals and other payables		**2,378,756**	1,902,982
Bank loans		**3,422,411**	4,983,421
Other loans		**–**	435,733
Trust receipt loans		**11,206,859**	7,753,752
Finance lease payables		**1,115,269**	1,232,325
Current tax liabilities		**1,549,765**	1,988,515
		39,962,420	29,879,254

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	30 September 2010 US$ (Unaudited)	31 March 2010 US$ (Audited)
Net current assets	**56,037,449**	65,134,306
Total assets less current liabilities	**83,939,201**	79,541,872
Non-current liabilities		
Finance lease payables	**1,406,980**	636,521
Bank loans	**1,190,008**	1,538,561
	2,596,988	2,175,082
NET ASSETS	**81,342,213**	77,366,790
Capital and reserves		
Share capital	**4,764,590**	4,764,590
Reserves	**76,577,623**	72,602,200
TOTAL EQUITY	**81,342,213**	77,366,790

Approved by the Board of Directors on 5 November 2010

Wang Shih Zen
Director

Lu Shangmin
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Attributable to owners of the Company					
	Share capital US$	Share premium US$	Foreign currency translation reserve US$	Reserve funds US$	Retained profits US$	Total equity US$
At 1 April 2009 (audited)	3,980,590	28,254,965	1,828,097	1,576,162	18,297,244	53,937,058
Total comprehensive income for the period (audited)	–	–	64,366	–	2,001,362	2,065,728
Changes in equity for the period (audited)	–	–	64,366	–	2,001,362	2,065,728
At 30 September 2009 (audited)	3,980,590	28,254,965	1,892,463	1,576,162	20,298,606	56,002,786
At 1 April 2010 (unaudited)	**4,764,590**	**45,974,768**	**1,552,463**	**1,512,349**	**23,562,620**	**77,366,790**
Total comprehensive income for the period (unaudited)	**–**	**–**	**466,755**	**–**	**3,508,668**	**3,975,423**
Transfer to reserve funds (unaudited)	**–**	**–**	**–**	**161,048**	**(161,048)**	**–**
Changes in equity for the period (unaudited)	**–**	**–**	**466,755**	**161,048**	**3,347,620**	**3,975,423**
At 30 September 2010 (unaudited)	**4,764,590**	**45,974,768**	**2,019,218**	**1,673,397**	**26,910,240**	**81,342,213**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	Note	2010 US$ (Unaudited)	2009 US$ (Audited)
Net cash used in operating activities		**(2,403,072)**	(5,053,289)
Purchase of property, plant and equipment	*12*	**(574,982)**	(119,679)
Proceeds from disposal of property, plant and equipment		**6,143**	–
Other net investing cash flows		**(9,030,525)**	3,675,351
Net cash (used in)/generated from investing activities		**(9,599,364)**	3,555,672
Net bank and other loans (repaid)/raised		**(2,418,573)**	478,475
Repayment of finance lease payables		**(630,512)**	(582,540)
Increase in trust receipt loans		**3,453,107**	557,716
Net cash generated from financing activities		**404,022**	453,651
Net decrease in cash and cash equivalents		**(11,598,414)**	(1,043,966)
Effect of foreign exchange rate changes		**6,201**	–
Cash and cash equivalents at beginning of period		**22,419,496**	12,479,669
Cash and cash equivalents at end of period		**10,827,283**	11,435,703
Analysis of cash and cash equivalents			
Bank and cash balances		**10,827,283**	11,435,703

1. GENERAL INFORMATION

The Company (Registration No. 39519) was incorporated in Bermuda on 30 January 2007 under the Companies Act 1981 of Bermuda as an exempted company with limited liability. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Its principal place of business is located at Room 401, Building 14, West Park of Software Park Hi-Tech Park, Second Road Nanshan, Shenzhen, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are provision of design and production solution services for mobile handset, assembly of mobile handset and surface mounting technology of printed circuit board and distribution and marketing of mobile handset and mobile handset components.

The Company's shares have been dual primary listed on the mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") since 21 November 2007 and 1 March 2010, respectively.

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the applicable disclosures required by the Rules Governing the Listing of Securities on HKSE.

These condensed financial statements should be read in conjunction with the financial statements for the year ended 31 March 2010. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the financial statements for the year ended 31 March 2010.

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Adoption of new/revised International Financial Reporting Standards

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 April 2010. IFRSs comprise International Financial Reporting Standards; International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior periods.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

	For the six months ended 30 September	
	2010	2009
	US$	US$
	(Unaudited)	(Audited)
Distribution and marketing of mobile handset and mobile handset components	**33,342,975**	37,372,727
Provision of design and production solution services for mobile handset	**2,394,973**	1,886,536
Assembly of mobile handset and surface mounting technology of printed circuit board	**27,740,282**	15,520,980
	63,478,230	54,780,243

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

(b) Segment information

The Group has three reportable segments as follows:

Distribution and Marketing	–	distribution and marketing of mobile handset and mobile handset components
Solution	–	provision of design and production solution services for mobile handset
Assembly	–	assembly of mobile handset and surface mounting technology of printed circuit board

The Group's reportable segments are strategic business units that offer different products and services.

Segment profits and losses do not include the following items:

– Interest income and other income

– Corporate administrative expenses

– Finance costs

– Income tax expense

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

	Distribution and Marketing US$ (Unaudited)	Solution US$ (Unaudited)	Assembly US$ (Unaudited)	Consolidated US$ (Unaudited)
Six months ended 30 September 2010				
Revenue from external customers	33,342,975	2,394,973	27,740,282	63,478,230
Segment profits	624,827	1,761,477	3,996,415	6,382,719
Interest income				179,049
Other income (excluding interest income)				848,483
Corporate administrative expenses				(2,691,034)
Finance costs				(301,239)
Income tax expense				(909,310)
Profit for the period				3,508,668
Depreciation and amortisation	416,666	69,748	513,777	1,000,191

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

	Distribution and Marketing US$ (Audited)	Solution US$ (Audited)	Assembly US$ (Audited)	Consolidated US$ (Audited)
Six months ended 30 September 2009				
Revenue from external customers	37,372,727	1,886,536	15,520,980	54,780,243
Segment profits	1,386,257	1,452,541	1,981,035	4,819,833
Interest income				168,672
Other income (excluding interest income)				75,967
Corporate administrative expenses				(2,531,711)
Finance costs				(183,899)
Income tax expense				(347,500)
Profit for the period				2,001,362
Depreciation and amortisation	416,666	46,296	464,653	927,615

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

(b) Segment information (Cont'd)

Geographical information:

	For the six months ended 30 September	
	2010	2009
	US$	US$
	(Unaudited)	(Audited)
Revenue		
The PRC except Hong Kong	**39,104,948**	43,791,302
Hong Kong	**24,373,282**	10,988,941
	63,478,230	54,780,243

4. FINANCE COSTS

	For the six months ended 30 September	
	2010	2009
	US$	US$
	(Unaudited)	(Audited)
Interest on bank loans	**250,128**	125,940
Finance lease charges	**41,178**	56,638
Others	**9,933**	1,321
	301,239	183,899

5. INCOME TAX EXPENSE

	For the six months ended 30 September	
	2010	2009
	US$	US$
	(Unaudited)	(Audited)
Current tax – Hong Kong Profits Tax		
Provision for the period	**140,000**	250,000
Current tax – PRC Enterprise Income Tax		
Provision for the period	**769,310**	97,500
	909,310	347,500

Hong Kong Profits Tax has been provided at a rate of 16.5% (six months ended 30 September 2009: 16.5%) based on the estimated assessable profit for the period.

PRC Enterprise Income Tax is calculated at the applicable rates based on estimated taxable income earned by the companies with certain tax preference, based on existing legislation, interpretation and practice in respect thereof.

Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

6. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging/(crediting) the following:

	For the six months ended 30 September	
	2010	2009
	US$	US$
	(Unaudited)	(Audited)
Depreciation of property, plant and equipment	**651,800**	576,728
Fair value gains on financial assets at fair value through profit or loss	**(848,483)**	–
Amortisation of intangible assets	**443,082**	427,796
Loss on disposal of property, plant and equipment	**57,366**	27,379
Loss on disposal of disposal group classified as held for sale	**–**	64,366

7. DIVIDENDS

The Board did not recommend any payment of interim dividend for the six months ended 30 September 2010 (six months ended 30 September 2009: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of US$3,508,668 (six months ended 30 September 2009: US$2,001,362) and the weighted average number of ordinary shares of 595,573,662 (six months ended 30 September 2009: 497,573,662) in issue during the period.

As there were no dilutive potential ordinary shares during the period, no diluted earnings per share is presented.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of US$2,043,213 (six months ended 30 September 2009: US$119,679).

10. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days, depending on the creditworthiness of customers and the existing relationships with the Group.

An aging analysis of trade receivables, based on invoice dates, is as follows:

	30 September 2010 US$ (Unaudited)	31 March 2010 US$ (Audited)
0 to 30 days	**12,546,053**	15,524,203
31 to 60 days	**9,431,948**	7,268,173
61 to 90 days	**8,948,049**	8,924,191
More than 90 days	**9,427,335**	746,947
	40,353,385	32,463,514

11. TRADE AND BILLS PAYABLES

	30 September 2010 US$ (Unaudited)	31 March 2010 US$ (Audited)
Trade payables	**18,840,660**	11,582,526
Bills payables	**1,448,700**	–
	20,289,360	11,582,526

An aging analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	30 September 2010 US$ (Unaudited)	31 March 2010 US$ (Audited)
0 to 30 days	**13,696,377**	7,367,453
31 to 60 days	**4,513,460**	1,427,048
More than 60 days	**2,079,523**	2,788,025
	20,289,360	11,582,526

Trade payables generally have credit terms ranging from 15 to 30 days.

12. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

i) During the six months ended 30 September 2010, additions of property, plant and equipment of US$1,283,915 were financed by finance leases.

ii) During the six months ended 30 September 2010, additions of property, plant and equipment of US$184,316 and financial assets at fair value through profit or loss of US$4,332,390 were transferred from prepayments, deposits and other receivables.

iii) During the six months ended 30 September 2009, additions of intangible assets of US$2,500,000 were transferred from prepayments, deposits and other receivables.

13. RELATED PARTY TRANSACTION

The Group had the following transaction with its related party during the period:

	For the six months ended 30 September	
	2010	2009
	US$	US$
	(Unaudited)	(Audited)
Consultancy fees paid to a related company	**65,739**	7,289

Amounts represented legal services provided by Messrs David Lim & Partners, a law firm in Singapore of which one of the directors, Mr. David Lim Teck Leong, is a partner.

14. CAPITAL COMMITMENTS

As at 30 September 2010, the Group did not have any material capital commitments. As at 31 March 2010, the capital commitments of the Group in respect of the purchase of financial asset at fair value through profit or loss and purchase of property, plant and equipment, which had been contracted for but not provided in the financial statements were in the total amount of US$6,498,585 and US$1,650,749, respectively.

15. EVENT AFTER THE REPORTING PERIOD

PhoneLink Communication Technology Co., Ltd ("PhoneLink"), a subsidiary of the Company, had applied for deregistration and in-principle approval was given by the Shanghai Business Administration Bureau for Industry and Commerce, in China, on 9 October 2010. The principal activity of PhoneLink was to develop software and solution for mobile appliances in relation to 3G mobile handsets. Zeus Telecommunication Technology Holding Ltd, the immediate holding company of PhoneLink, located in Shenzhen, is the Group's main research and development centre.

Following the successful launch of the Group's first 3G mobile handsets in 2010, PhoneLink had served its function and purpose and its existence would no longer be necessary. The deregistration of PhoneLink will streamline the operations of the Group and save recurring administrative costs. The deregistration of PhoneLink will not affect the business development of the Group and will not have any significant impact on the core business and operations of the Group.

16. APPROVAL OF THE INTERIM REPORT

The interim report was approved and authorised for issue by the Board of Directors on 5 November 2010.

RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

BUSINESS REVIEW:

The China mobile handset industry in 2010 is considered to be a fruitful year. During the first eight months of this year, it is generally believed that approximately 547 million mobile handsets were sold in China, representing an approximately 36% increase over the same period last year.

In China, the number of mobile handset subscribers reached approximately 833.3 million as at 30 September 2010 which represented an increase by approximately 86 million in the first three quarters of 2010. Such data revealed that China ranked as number one in the world for the usage of the mobile handset.

The China telecommunications industry encompasses a lot of technology-related businesses. Apart from the traditional telephone services, telecommunications nowadays also include wireless communications, internet services, fiber optics networks, cable TV network and satellite communications. Information technology, telecommunication, internet and consumer electronics industry have now assimilated into a new era of integrated information industry. The significant increase in demand for mobile data and other value-added services has stimulated the high growth in the China telecommunications industry. The major thrust for the China telecommunications industry is due to the continuous network and product upgrade and invention by industry players. The need for telecommunication in both urban and especially the rural areas and massive growth of smartphones will contribute to both the short and long term growth of the China telecommunications industry.

The Group will continue to exercise due care in the pursuance of its existing business and furtherance of its development plans. It will closely monitor the latest development in the global economy and handset industry and adjust its business strategies from time to time if required.

FINANCIAL REVIEW:

The details of financial review of the condensed consolidated interim results of Z-Obee Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2010 ("FY2011 6M") with comparative figures for the corresponding period in 2009 ("FY2010 6M") is as follows:

Condensed consolidated income statement

Revenue
Revenue increased by approximately 15.88% from approximately US$54,780,000 in FY2010 6M to approximately US$63,478,000 in FY2011 6M. The increase was due mainly to the increase in the Solution and Assembly segments as a result of the recovery in the demand for mobile handsets in China which more than offset the decrease in the Distribution and Marketing segment, which is the least profitable in the Group, as the Group had trimmed down this segment.

Cost of goods sold
Cost of goods sold increased by approximately 14.15% from approximately US$49,874,000 in FY2010 6M to approximately US$56,929,000 in FY2011 6M. The increase was in line with the increase in revenue.

Gross profit
Gross profit increased by approximately 33.48% from approximately US$4,907,000 in FY2010 6M to approximately US$6,549,000 in FY2011 6M. The increase was due mainly to the increase in contribution from the Solution and Assembly segments.

Gross profit margin increased from approximately 8.96% in FY2010 6M to approximately 10.32% in FY2011 6M. The increase in gross profit margin was due mainly to the increase in contribution from the Solution and Assembly segments for the current period which more than offset the decrease in contribution from the Distribution and Marketing segment for the current period.

Other income
Other income increased by approximately 320.02% from approximately US$245,000 in FY2010 6M to approximately US$1,028,000 in FY2011 6M. The increase was due mainly to the increase in fair value gains on financial assets at fair value through profit or loss for the current period.

Administrative expenses
Administrative expenses increased by approximately 7.02% from approximately US$2,606,000 in FY2010 6M to approximately US$2,789,000 in FY2011 6M. The increase was due mainly to the increase in the general operational costs of the Group for the current period.

Finance costs
Finance costs increased by approximately 63.81% from approximately US$184,000 in FY2010 6M to approximately US$301,000 in FY2011 6M. The increase was due mainly to the increase in business operations of the Group for the current period.

Income tax expense
Income tax expense increased by approximately 161.67% from approximately US$348,000 in FY2010 6M to approximately US$909,000 in FY2011 6M. The increase was due mainly to the increase in profits of the Group in the PRC for the current period.

Net profit for the period
As a result of the above, net profit for the period amounted to approximately US$3,509,000 for FY2011 6M, compared to approximately US$2,001,000 for FY2010 6M.

Condensed consolidated statement of financial position

Set out below are the major changes in the items of the condensed consolidated statements of financial position as at 30 September 2010 and 31 March 2010:

Property, plant and equipment : The increase from approximately US$8,254,000 as at 31 March 2010 to approximately US$9,723,000 as at 30 September 2010 was due mainly to the acquisition of a property for administrative and sales and marketing purposes by means of a finance lease.

Intangible assets : The decrease from approximately US$1,853,000 as at 31 March 2010 to approximately US$1,447,000 as at 30 September 2010 was due mainly to the amortisation provided for in FY2011 6M.

Financial assets at fair value through profit or loss	:	The increase from approximately US$643,000 as at 31 March 2010 to approximately US$13,016,000 as at 30 September 2010 was due mainly to (i) the acquisition of 15% (diluted to approximately 14.66% as at 30 September 2010) equity interest in Yoho King Limited and its subsidiaries (collectively the "Yoho King Group") which was completed on 31 May 2010 and disclosed in the Company's announcement dated 31 May 2010; and (ii) the acquisition of an approximately 1% equity interest in a listed company in Taiwan for strategic alliance purpose in Taiwan.
Inventories	:	The increase from approximately US$6,580,000 as at 31 March 2010 to approximately US$18,462,000 as at 30 September 2010 was due mainly to an increase in the activities of the Assembly segment.
Trade receivables	:	The increase from approximately US$32,464,000 as at 31 March 2010 to approximately US$40,353,000 as at 30 September 2010 was due mainly to lower collection received from customers as a result of the China National holiday.
Prepayments, deposits and other receivables	:	The decrease from approximately US$13,911,000 as at 31 March 2010 to approximately US$3,808,000 as at 30 September 2010 was due mainly to (i) a decrease in deposits paid for the acquisition of Yoho King Group as mentioned above; (ii) a decrease in deposits paid for acquisition of property, plant and equipment as mentioned above; and (iii) a decrease in a receivable arising from settlement of the remaining proceeds of the disposal of a jointly controlled entity classified as held for sale.
Bank and cash balances	:	The decrease from approximately US$22,419,000 as at 31 March 2010 to approximately US$10,827,000 as at 30 September 2010 was due mainly to (i) the net cash used in operations; (ii) the cash used in purchases of financial assets at fair value through profit or loss; and (iii) the increase in time deposits.

Trade and bills payables	:	The increase from approximately US$11,583,000 as at 31 March 2010 to approximately US$20,289,000 as at 30 September 2010 was due mainly to the increase in the activities of the Assembly segment.
Accruals and other payables	:	The increase from approximately US$1,903,000 as at 31 March 2010 to approximately US$2,379,000 as at 30 September 2010 was due mainly to the continuous increase in activities of the Group.
Borrowings and debts	:	The increase from approximately US$16,580,000 as at 31 March 2010 to approximately US$18,342,000 as at 30 September 2010 was due mainly to (i) more trust receipt loans drawn-down for trade finance purpose; (ii) more finance lease payables drawn down for the acquisition of a property for administrative and sales and marketing purposes as mentioned above; and (iii) repayment of the principal amount of the finance lease payables and bank loans in FY2011 6M.
Current tax liabilities	:	The decrease from approximately US$1,989,000 as at 31 March 2010 to approximately US$1,550,000 was due mainly to tax paid in the PRC for FY2011 6M.
Net assets	:	As a result of the above, the net assets increased from approximately US$77,367,000 as at 31 March 2010 to approximately US$81,342,000 as at 30 September 2010.

OPERATIONS REVIEW

The Group had the following material transactions during the period under review:

Acquisition of Yoho King Limited

On 23 March 2010, the Group entered into a share purchase deed, conditionally to acquire 7,500 shares of Yoho King Limited ("Yoho King") which represented approximately 15% of the existing equity interests in Yoho King Group as at the date of the share purchase deed at the consideration of US$10,830,975 by cash.

The board (the "Board") of directors (the "Directors") consider that the acquisition represents a good opportunity for the Group to expand into the high-tech products, such as netbooks, computer chips and other IT communication devices and terminals through a formation of strategic alliance with Yoho King Group. Apart from the opportunity for possible expansion to another new business segment, the Directors also considered that there may be synergy effect in the future as the Group and Yoho King Group are both principally engaged in the electronics products business. As a result, both the Group and Yoho King Group could have mutual benefits arising from the formation of the strategic alliance.

The acquisition was approved by the independent shareholders of the Company in the special general meeting held on 18 May 2010.

After the completion of the acquisition, several investors joined Yoho King. As such, the percentage owned by the Group was diluted to approximately 14.66%. On 23 September 2010, Yoho King Group, via Kada Technology Holdings Limited, made an application to the Securities Commission of Malaysia for the initial public offering and listing of its shares on the Main Market of Bursa Malaysia Securities Berhad. Kada Technology Holdings Limited has yet to obtain the required approval from the Securities Commission of Malaysia for the initial public offering and listing of its shares on the Main Market of Bursa Malaysia Securities Berhad.

Co-operation agreements

The Group has entered into a co-operation agreement with Shenzhen Jinzunzhe Technology Limited ("SJTL") on 25 May 2010 to provide not less than 200,000 units of CDMA mobile handsets and another one with SJTL on 8 July 2010 to provide not less than 200,000 units of 3G netbooks as end products to one of the telecommunications operators in the PRC (the "Telecom Operator") through SJTL in the next two years. The Directors believe that it is a good opportunity to enhance the customer portfolio of the Group and build up a good business relationship with SJTL and indirectly, the Telecom Operator. Subject to the final results, the Board believes that the co-operations will contribute positively to the Group's revenue and net profit in the next two years.

Proposed listing of Taiwan Depository Receipts

The Company made an application to the Taiwan Stock Exchange Corporation (the "Taiwan Stock Exchange"), The Central Bank of the Republic of China (the "Taiwan Central Bank") and the Taiwan Financial Supervisory Commission, Securities and Futures Bureau (the "Taiwan Securities and Futures Bureau") for the proposed offering and listing of not more than 80 million units of Taiwan Depository Receipts (the "TDR"), representing not more than 40 million new shares of the Company to be issued and not more than 40 million existing shares of the Company to be transferred by certain vendors and Mr. Lu Shangmin, one of the Directors, to a depository bank in Taiwan for the TDRs, on the Taiwan Stock Exchange.

The Company obtained the required approvals from the Taiwan Central Bank, the Taiwan Stock Exchange and the Taiwan Securities and Futures Bureau in respect of the application for the offering and listing of the TDRs on the Taiwan Stock Exchange on 18 August 2010, 1 October 2010 and 4 November 2010, respectively. The Directors believe that the proposed listing of TDRs is an attractive alternative for international investors, particularly potential investors in Taiwan, to invest and deal in the securities of the Company. This will further increase the liquidity for the shares and broaden and diversify the shareholder base of the Company. The Directors consider that the proposed listing of TDRs will also increase public awareness of the Group and will promote the Group's corporate image in Taiwan. This will enhance the Group's competitiveness in Taiwan and be beneficial to the Group's business development in Taiwan in the future.

INTERIM DIVIDEND

The Board did not recommend any payment of interim dividend for FY2011 6M.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2010, the Group had current assets of US$95,999,869 (31 March 2010: US$95,013,560) and current liabilities of US$39,962,420 (31 March 2010: US$29,879,254) and total bank and cash balances (excluding restricted bank balances) of US$29,042,354 (31 March 2010: US$38,105,871). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 2.40 (31 March 2010: 3.18). The Group's gearing ratio, being a ratio of total debts to total assets, was approximately 14.80% (31 March 2010: 15.15%).

The Group will constantly review its financial resources and will consider various plans to enhance its financial capabilities.

CAPITAL COMMITMENTS

As at 30 September 2010, the Group did not have any material capital commitments. As at 31 March 2010, the capital commitments of the Group in respect of the acquisition of 15% equity interest in Yoho King Group and purchase of property, plant and equipment, which had been contracted for but not provided in the financial statements were in the total amount of US$6,498,585 and US$1,650,749, respectively.

CHARGE ON ASSETS

As at 30 September 2010, certain bank deposits of approximately US$4,285,000 (31 March 2010: US$3,727,000) were placed with banks in Hong Kong and the PRC as the pledge for general banking facilities and bank loans.

As at 30 September 2010, the Group's finance lease payables are secured by the lessor's title to the leased assets and corporate guarantees executed by three subsidiaries of the Company and the Company.

CONTINGENT LIABILITIES

As at 30 September 2010, the Group did not have any material contingent liabilities (31 March 2010: Nil).

EMPLOYEE INFORMATION

As at 30 September 2010, the Group has 191 full time employees whose salary and benefit levels are maintained at competitive levels. Employees are rewarded on a performance related basis within the general policy and framework of the Group's salary scheme, and discretionary bonus schemes based on the performance of the Group, which are regularly reviewed. Other benefits are also provided including medical insurance and pension funds, and social and recreational activities are arranged around the world.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 30 September 2010, the interests and short positions of the Directors in the share capital and underlying shares and debentures of the Company or its associated corporations (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 as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

		Number of shares held, capacity and nature of interest			
Name of Director	*Note*	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Wang Shih Zen	*(a)*	–	168,110,250	168,110,250	28.23
Ms. Wang Tao		91,206,500	–	91,206,500	15.31
Mr. Lu Shangmin		5,300,000	–	5,300,000	0.89

Note:

(a) The 168,110,250 shares of the Company are held by Wise Premium Limited, a company beneficially owned by Mr. Wang Shih Zen.

In accordance with the Bye-laws of the Company (the "Bye-Laws"), each of the Directors is required to have registered in his name at least one qualification share. All Directors have complied with this requirement.

Save as disclosed above, as at 30 September 2010, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company, the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares and debentures" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "SOS") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to SOS, employees of the Group (including Group's Executive Directors and Group's Non-executive Directors) and who are not undischarged bankrupts and have not entered into a composition with their respective creditors on or prior to the relevant offer date, shall be eligible to participate in SOS at the absolute discretion of the remuneration committee.

SOS shall be valid and effective for a period of 10 years from 11 February 2010, after which period no further share options will be granted but in respect of all share options which remain exercisable at the end of such period, the provisions of SOS shall remain in full force and effect.

The grant of a share option shall be deemed to have been accepted when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of shares in respect of which the offer is accepted clearly stated therein together with a payment or remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within 21 days from the offer date.

Subject to the provisions of the SOS, the Bermuda Companies Act, the Listing Manual of the SGX-ST and Rules Governing the Listing of Securities on HKSE , the remuneration committee may, when making the offer, impose any conditions, restrictions or limitations in relation thereto as it may at its absolute discretion think fit.

The total number of shares which may be allotted and issued upon exercise of all share options to be granted under this SOS and any other share option scheme of the Company must not exceed the aggregate of 59,557,366 shares, representing 10% of the ordinary shares in issue immediately following the completion of the dual primary listing on the Main Board of HKSE unless the Company obtains a fresh approval from the shareholders of the Company in general meeting.

No share options have been granted or agreed to be granted by the Company since the adoption date of the SOS .

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

At 30 September 2010, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Wise Premium Limited	*(a)*	Directly beneficially owned	168,110,250	28.23
Ms. Kang Ling Hoi	*(b)*	Deemed interest	168,110,250	28.23

Notes:

(a) The ordinary shares are held by Wise Premium Limited, which is legally and beneficially owned by Mr. Wang Shih Zen.

(b) Ms. Kang Ling Hoi is deemed to be interested in the shares held by Mr. Wang Shih Zen as spouse.

Save as disclosed above, as at 30 September 2010, no person, other than the Directors, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CODE ON CORPORATE GOVERNANCE PRACTICES

Compliance with the Code on Corporate Governance Practices

The Board and senior management of the Company are committed to maintaining a high standard of corporate governance by complying, where possible, with the principles and guidelines of the Code of Corporate Governance 2005 (the "Singapore Code") issued by the Council Corporate Disclosure and Governance, Singapore and the Code on Corporate Governance Practices (the "Hong Kong Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Hong Kong Listing Rules") on the HKSE.

Other than those minor deviations which are explained below, the Company has complied with the principles of both the Singapore Code and Hong Kong Code during the period under review.

Segregation of role of Chairman and Chief Executive Officer

Currently, Mr. Wang Shih Zen, is the Chairman and the Chief Executive Officer ("CEO") of the Company. He is responsible for managing the Board, business strategy and direction, formulation of the Group's corporate plans and policies including executive decision-making and the day-to-day business operations of the Group. He also ensures that the Board is kept updated and informed of the Group's business.

Although there is a deviation from the recommendation of both the Singapore Code and Hong Kong Code, the Board believes that vesting the roles of both Chairman and CEO on the same person provides the Group with a strong and consistent leadership and allows for more effective planning execution of long-term business strategies. In addition, there is a strong element of independence of the Board as half of the current Board comprises Independent Non-executive Directors. All major decisions made by the Chairman and CEO are reviewed by the Board. His performance and re-appointment to the Board are reviewed by the Nominating Committee (the "NC") and his remuneration package are reviewed by the Remuneration Committee (the "RC"). Both the NC and RC are chaired by Independent Non-executive Directors. The Board believes that there are adequate safeguards and checks in place to ensure that the process of decision making by the Board is independent and based on collective decision making without Mr. Wang Shih Zen being able to exercise considerable concentration of power or influence. As such, the Board does not consider segregating the role of Chairman and CEO at this moment. The NC will review the need to separate the roles from time to time and make its recommendation accordingly. As Chairman of the Board, Mr. Wang Shih Zen is responsible for the effective working of the Board such as ensuring that Board meeting are held when necessary, assisting in ensuring compliance with the Company's guidelines on corporate governance, acting as a facilitator at Board meetings and maintaining regular dialogue with Management on all operational matters. The Company Secretaries assist the Chairman in scheduling the Board and Board Committee meeting respectively in consultation with the Chief Financial Officer.

Mr. Chan Kam Loon was appointed as the Lead Independent Director to co-ordinate and lead Independent Non-executive Directors to provide a non-executive perspective and to contribute a balanced viewpoint to the Board. He is also available to address shareholders' concerns on issues that cannot be appropriately dealt with by the Chairman/CEO or the Chief Financial Officer.

Specific term for the appointment of Non-executive Directors

Pursuant to the Hong Kong Code, the Non-executive Directors should be appointed with a fixed term. However, there is no fixed term for the appointment of Independent Non-executive Directors and Non-executive Director. The Independent Non-executive Directors and Non-executive Director are re-appointed in accordance with the provision of the Bye-Laws.

The Directors are of the view that there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent and based on collective decision-making without the controlling shareholders being able to exercise considerable concentration of power or influence. The Bye-Laws also provide that each Director shall retire from office at least once every three years. A retiring Director shall be eligible for re-election.

Minimum number of Independent Directors resident in Singapore

Pursuant to the Rule 221 of the Listing Manual of SGX-ST, a foreign issuer must have at least two independent directors, resident in Singapore. After the re-designation of Mr. Lim Teck Leong David as a Non-executive Director on 3 February 2010, the Company has only one Independent Director resident in Singapore. The Board appointed another Independent Director resident in Singapore, Mr. Tham Wan Loong, Jerome, to re-comply with the Listing Manual of SGX-ST on 3 May 2010.

Audit Committee

The audit committee (the "AC") currently comprises four Independent Non-executive Directors and one Non-executive Director.

The AC has reviewed the interim report for the six months ended 30 September 2010, in conjunction with the Company's external auditor.

Remuneration Committee

The RC currently comprises four Independent Non-executive Directors, one Non-executive Director and the Chairman.

Securities Transactions by Directors

The Group had adopted a policy for dealings in securities of the Company by the Directors and officers. All Directors and officers of the Company and of the Group are not allowed to deal in the Company's shares while in possession of unpublished material price-sensitive information, and during the period commencing from 30 days and 60 days before the announcement of the Company's quarterly and full-year results respectively and ending on the date of the announcement of the respective results. All Directors and officers confirmed that they had complied with the required standards as set out in the Model Code for Securities Transaction by Directors of Listed Issuers and Code of Best Practices on Securities Transactions By the Company and its Officers issued by the HKSE and the SGX-ST during the period under review.

REVIEW OF THE CONDENSED FINANCIAL STATEMENTS

These condensed financial statements have been reviewed by the Company's external auditor, RSM Nelson Wheeler, in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

USE OF HONG KONG INITIAL PUBLIC OFFERING ("HKIPO") PROCEEDS

Usage	Net HKIPO proceeds US$	Utilised US$	Balance as at 31 March 2010 and 1 April 2010 US$	Utilised US$	Balance as at 30 September 2010 US$
Recruit additional professionals to join research and development team and improve research and development team's equipment	1,519,000	–	1,519,000	–	1,519,000
Invest in research on the application and solutions of 3G technologies and operating platform of mobile handset	6,762,000	–	6,762,000	(36,000)	6,726,000
Strengthen the brand awareness of "VIM" or in Chinese "偉恩" in the mobile handset market in the PRC	6,762,000	–	6,762,000	(643,000)	6,119,000
For working capital and other general corporate purpose	1,653,000	(1,653,000)	–	–	–
Total	16,696,000	(1,653,000)	15,043,000	(679,000)	14,364,000

CORPORATE INFORMATION

Director	:	Executive: Wang Shih Zen, *Chairman and Chief Executive Officer* Wang Tao Lu Shangmin Non-executive: David Lim Teck Leong Independent Non-executive: Chan Kam Loon Guo Yanjun Lo Hang Fong Tham Wan Loong, Jerome
Audit committee	:	Chan Kam Loon *(Chairman)* Guo Yanjun Lo Hang Fong Tham Wan Loong, Jerome David Lim Teck Leong
Nominating committee	:	Lo Hang Fong *(Chairman)* Chan Kam Loon Guo Yanjun Tham Wan Loong, Jerome Wang Shih Zen David Lim Teck Leong
Remuneration committee	:	Guo Yanjun *(Chairman)* Chan Kam Loon Lo Hang Fong Tham Wan Loong, Jerome Wang Shih Zen David Lim Teck Leong

Authorised representative	:	Wang Shih Zen Shum Hoi Luen
Compliance advicer	:	SinoPac Securities (Asia) Limited 21st Floor One Peking 1 Peking Road Tsimshatsui Hong Kong
Joint company secretaries	:	Busarakham Kohsikaporn, FCIS Shirley Lim Keng San, FCIS Shum Hoi Luen
Registered office	:	Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Headquarters and principal place of business in China	:	Room 401, Building 14 West Park of Software Park Hi-Tech Park, Second Road Nanshan, Shenzhen, PRC Telephone No: 86-755 8633 6366 Facsimile No: 86-755 8633 6345 Email Address: enquiry@z-obee.com
Principal bankers	:	Standard Chartered Bank (Hong Kong) Limited DBS Bank (Hong Kong) Limited Dah Sing Bank Nanyang Commercial Bank Limited Citibank Shanghai Pudong Development Bank Guangdong Development Bank

Auditor	:	RSM Nelson Wheeler Certified Public Accountants 29th Floor, Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong Partner-in-charge: Wong Poh Weng (With effect from year ended 31 March 2007)
Stock code	:	Singapore : D5N Hong Kong : 948
Corporate website	:	http://www.z-obee.com