COMBA TELECOM SYSTEMS HOLDINGS LIMITED

京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2003

- Turnover increased by 38.7% to HK$334.2 million
- Sustained high gross margin of 47.0%
- Net profit increased by 32.2% to HK$86.8 million
- Sustained healthy net margin of 26.0%
- Basic earnings per share was 14.46 HK cents

INTERIM RESULTS

The Board of Directors of Comba Telecom Systems Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003, together with the unaudited comparative figures for the same period in 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2003	**2002**
		(Unaudited)	*(Unaudited)*
	Notes	*HK$'000*	*HK$'000*
TURNOVER	4	334,172	240,934
Cost of sales		(176,988)	(129,594)
Gross profit		157,184	111,340
Other revenue	4	610	426
Selling and distribution costs		(18,568)	(11,817)
Administrative expenses		(38,941)	(22,848)
Other operating expenses		(6,209)	(4,480)
PROFIT FROM OPERATING ACTIVITIES	5	94,076	72,621
Finance costs	6	(1,660)	(1,322)
PROFIT BEFORE TAX		92,416	71,299
Tax	7	(8,427)	(5,650)
PROFIT BEFORE MINORITY INTERESTS		83,989	65,649
Minority interests		2,779	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		86,768	65,649
Dividends	8	—	—
Earnings per share			
- Basic (HK cents)	9	14.46	10.94
- Diluted (HK cents)	9	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2003 (Unaudited) HK$'000	31 December 2002 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		82,672	70,530
Intangible assets		2,654	2,061
Goodwill		13,435	—
		98,761	72,591
CURRENT ASSETS			
Inventories		182,003	172,945
Trade receivables	10	319,850	192,870
Notes receivable		12,900	21,489
Prepayments, deposits and other receivables		33,890	26,079
Cash and bank balances		61,029	115,202
		609,672	528,585
CURRENT LIABILITIES			
Trade payables	11	109,999	93,959
Tax payable		7,343	8,330
Other payables and accruals		71,193	91,899
Short-term bank loans		98,870	51,318
Current portion of finance lease payables		255	360
Provision for product warranties		12,976	9,655
		300,636	255,521
NET CURRENT ASSETS		309,036	273,064
TOTAL ASSETS LESS CURRENT LIABILITIES		407,797	345,655
NON-CURRENT LIABILITIES			
Long-term portion of finance lease payables		441	603
Directors' loans		—	46,500
		441	47,103
MINORITY INTERESTS		10,473	—
		396,883	298,552
CAPITAL AND RESERVES			
Issued capital	12	—	—
Reserves		396,883	298,552
		396,883	298,552

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - UNAUDITED

	Issued capital (pro forma) *HK$'000*	Capital reserve (pro forma) *HK$'000*	Statutory reserves *(Note)* *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2003	—	10	12,634	691	285,217	298,552
Capitalisation of directors' loans	—	46,500	—	—	—	46,500
Net profit for the period	—	—	—	—	86,768	86,768
Dividends paid	—	—	—	—	(35,000)	(35,000)
Exchange realignments	—	—	—	63	—	63
At 30 June 2003	—	46,510	12,634	754	336,985	396,883
At 1 January 2002	—	10	12,634	230	152,858	165,732
Net profit for the period	—	—	—	—	65,649	65,649
Dividends paid	—	—	—	—	(30,000)	(30,000)
Exchange realignments	—	—	—	(7)	—	(7)
At 30 June 2002	—	10	12,634	223	188,507	201,374

Note: Pursuant to the relevant regulations promulgated in the People's Republic of China (the "PRC"), the Company's subsidiaries established in the PRC are required to appropriate not less than 10% of the profit after tax to the statutory reserves, until the balance of the statutory reserves reaches 50% of the registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserves may be used to offset against the accumulated losses, if any, of these subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 July 2003.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the Group structure for the listing of the ordinary shares of HK$0.10 each in the share capital of the Company (the "Shares") on the Stock Exchange, the Company became the holding company of the Group formed after completion of the Reorganisation on 20 June 2003. Details of the Reorganisation are set out in the prospectus of the Company dated 3 July 2003 (the "Prospectus").

The Group Reorganisation involved companies under common control. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). Under this basis, the condensed consolidated interim financial statements for the six months ended 30 June 2003 together with the comparative figures of the corresponding period in last year and the related notes thereto have been presented in these condensed consolidated interim financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries on 20 June 2003, except that the results of WaveLab Holdings Limited and WaveLab Inc. were consolidated into the condensed consolidated financial statements since 29 January 2003, being the date of acquisition of these subsidiaries.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 have been prepared in accordance with SSAP No. 25 “Interim financial reporting” issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted by the Group in the condensed consolidated interim financial statements are consistent with those adopted in the Group’s accountants’ report as set out in the Prospectus.

3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services. All of the Group’s products are of a similar nature and subject to similar risk and returns. Accordingly, the Group’s operating activities are attributable to a single business segment and no further analysis of the Group’s turnover and operating profit by principal activities is provided.

In addition, the Group’s revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the Mainland PRC.

4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold and services rendered during the period, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

Revenue is analysed as follows:

	Six months ended 30 June	
	2003	**2002**
	(Unaudited)	*(Unaudited)*
	HK$’000	*HK$’000*
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	334,172	240,934
Other revenue		
Interest income	173	6
Others	437	420
	610	426
	334,782	241,360

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June 2003	2002
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	162,142	119,810
Depreciation	5,756	3,249
Amortisation of intangible assets	238	—
Amortisation of goodwill	1,492	—
Research and development costs	10,002	6,200
Minimum lease payments under operating leases in respect of land and buildings	5,816	2,455
Staff costs (including directors' emoluments):		
Salaries and wages	40,814	25,306
Staff welfare expenses	2,685	1,717
Pension scheme contributions	1,109	824
	44,608	27,847
Product warranty provisions	4,844	3,584
Provision for doubtful debts	4,227	4,381
Write-off of obsolete inventories*	1,126	—
Loss on disposal of fixed assets	494	191
Gain on disposal of a subsidiary	—	(364)

* *Write-off of obsolete inventories is included in "Cost of inventories and services provided" as set out above.*

6. FINANCE COSTS

	Six months ended 30 June 2003	2002
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interest expense on bank loans wholly repayable within five years	1,606	1,304
Interest on finance leases	54	18
	1,660	1,322

7. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2003	**2002**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Current period provision:		
Hong Kong	—	—
Mainland PRC	8,427	5,650
Tax charge for the period	8,427	5,650

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and the Detailed Rules for the Implementation of the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, and as approved by relevant tax authorities, Comba Telecom System (Guangzhou) Limited ("Comba Guangzhou"), a wholly-owned subsidiary of the Company operating in the PRC, was exempted from the PRC corporate income tax for the two years commencing from its first profit-making year from 1 January 2000 to 31 December 2001 and thereafter is entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2002 to 31 December 2004. During the six months periods ended 30 June 2002 and 2003, provisions for PRC corporate income tax for Comba Guangzhou have been made at the applicable reduced tax rate of 7.5% on the foregoing basis.

In addition, Comba Guangzhou was designated as an advanced technology foreign investment enterprise by the Guangzhou Foreign Trade and Economic Cooperation Bureau in December 2001. Under the current PRC tax legislation, upon expiry of its tax holiday, a foreign investment enterprise having the status of advanced technology enterprise is entitled to the preferential tax rate at 50% of the applicable standard rate, subject to a minimum rate of 10%, for another three years. If Comba Guangzhou remains an advanced technology enterprise in 2005 and the relevant PRC tax legislation remains effective, Comba Guangzhou would be entitled to a preferential PRC corporate income tax rate of 10% from 1 January 2005 to 31 December 2007.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), another subsidiary of the Company established in the PRC, is entitled to an exemption from the PRC corporate income tax for the two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years. As Comba Technology has just commenced its operation in 2003, no provision for PRC corporate income tax has been made for Comba Technology during the period.

Deferred tax has not been provided because there was no significant temporary difference at the balance sheet date.

A reconciliation of the expected tax expense with the actual tax expense is presented below:

	Six months ended 30 June	
	2003	**2002**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Profit before tax	92,416	71,299
Tax at the applicable tax rate of 15%	13,862	10,695
Expenses not deductible for tax purposes	2,277	605
Tax losses of subsidiaries	1,277	—
Tax exemptions/deductions	(8,989)	(5,650)
Actual tax expense	8,427	5,650

8. INTERIM DIVIDENDS

The directors of the Company have resolved that no interim dividend is to be declared in respect of the six months ended 30 June 2003.

9. EARNINGS PER SHARE

The calculation of earnings per share for the periods presented is based on the unaudited net profit attributable to shareholders for the six months ended 30 June 2002 and 2003 and on the assumption that 600,000,000 shares were deemed to have been in issue, comprising 1,000 shares in issue as at the date of the Prospectus and 599,999,000 shares issued pursuant to the capitalisation issue, as described more fully in the Prospectus.

No dilutive earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the periods presented.

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and a longer credit term of three to six months may be extended to customers with long term business relationships and good repayment history. The balances include retention money which is generally receivable after final verification of products by customers, performed six to twelve months after sale, or upon completion of the one to two-year warranty period granted to customers.

An aged analysis of the trade receivables as at the end of the period, based on invoice date and net of provisions, is as follows:

	30 June 2003 *(Unaudited)* *HK$'000*	31 December 2002 *(Audited)* *HK$'000*
Within 3 months	213,083	76,992
4 to 6 months	23,441	50,603
7 to 12 months	73,294	36,518
More than 1 year	20,082	34,953
	329,900	199,066
Provision for doubtful debts	(10,050)	(6,196)
	319,850	192,870

11. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the end of the period, based on invoice date, is analysed as follows:

	30 June 2003 *(Unaudited)* *HK$'000*	31 December 2002 *(Audited)* *HK$'000*
Within 3 months	84,981	58,613
4 to 6 months	9,194	22,797
7 to 12 months	6,690	8,641
More than 1 year	9,134	3,908
	109,999	93,959

12. ISSUED CAPITAL

	30 June 2003 *(Unaudited)* *HK$*	31 December 2002 *(Audited)* *HK$*
Authorised:		
5,000,000,000 (31 December 2002: 3,800,000) ordinary shares of HK$0.10 each	500,000,000	380,000
Issued fully paid or credited as fully paid: 1,000 (31 December 2002: Nil) ordinary shares of HK$0.10 each	100	—

The following changes in the Company's authorised and issued share capital took place during the period from 17 May 2002 (date of incorporation) to date of the approval of the unaudited condensed consolidated interim financial statements:

(a) As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 3,800,000 Shares. On 18 June 2002, three Shares were allotted and issued nil paid.

(b) On 20 June 2003, the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 by the creation of an additional 4,996,200,000 Shares.

(c) On 20 June 2003, as part of the Reorganisation and as consideration for the acquisition of the entire issued share capital of Comba Telecom Systems Investments Limited ("Comba BVI"), the Company: (i) allotted and issued 997 Shares credited as fully paid, and (ii) credited as fully paid the existing three nil paid Shares issued on 18 June 2002 as set out in (a) above.

Subsequent to the balance sheet date, there were the following events:

(d) On 15 July 2003, (i) a total of 200,000,000 Shares were issued at HK$1.88 each to the public by way of new issue and placement of shares upon the listing of the Company's Shares on the Main Board of the Stock Exchange; (ii) a total of 599,999,000 Shares allotted and issued as fully paid on 20 June 2003, by way of capitalisation issue of HK$59,999,900 standing to the credit of the share premium account of the Company, to the holders of Shares whose names appeared on the register of members of the Company at the close of business on 8 July 2003 conditional as a result of the new issue and placing of shares, were credited as fully paid by crediting the share premium account of the Company.

(e) On 21 July 2003, the Over-allotment Option was exercised in full and 30,000,000 Shares were issued at HK$1.88 each.

A summary of the transactions during the period from 17 May 2002 (date of incorporation) to date of the approval of the condensed consolidated interim financial statements with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of Shares in issue	**Issued share capital** *HK$*	**Share premium account** *HK$*	**Total** *HK$*
Shares allotted and issued nil paid on 17 May 2002	3	—	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Comba BVI	997	100	—	100
Issued share capital as at 30 June 2003	1,000	100	—	100
New issue on public listing	200,000,000	20,000,000	356,000,000	376,000,000
Capitalisation issue credited as fully paid by crediting the share premium account of the Company as a result of the public shares issue	599,999,000	59,999,900	(59,999,900)	—
Exercise of Over-allotment Option on 21 July 2003	30,000,000	3,000,000	53,400,000	56,400,000
Share issue expenses	—	—	(34,775,000)	(34,775,000)
Issued share capital at the date of approval of the Interim Accounts	830,000,000	83,000,000	314,625,100	397,625,100

Share options

The Company adopted a Share Option Scheme (the "Scheme") on 20 June 2003 whereby certain selected classes of participants (including without limitation directors and employees of the Company and its affiliates) may be granted options to subscribe for the Shares of the Company. The principal terms of the Scheme are summarised in Appendix V to the Prospectus.

On 15 July 2003, the Company granted options to certain Directors and employees of the Company under the Scheme and details of these options are as follows:

Name or category of participant	Number of shares subject to the options granted	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$*
Directors				
Mr. Chan Kai Leung, Clement	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
Mr. Wu Jiang Cheng	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
Mr. Yan Ji Ci	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
	6,000,000			
Other employees				
In aggregate	34,940,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
	40,940,000			

As at 15 July 2003, the number of shares issuable pursuant to the exercise of the option granted under Share Options Scheme was 40,940,000, representing approximately 5.12% of the Company's shares in issue as at that date. Up to the date of the approval of the condensed consolidated interim financial statements, none of such options granted was exercised, cancelled or lapsed.

13. CONTINGENT LIABILITIES

As at the end of the period, the Group had no significant contingent liabilities (31 December 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

It was resolved by the Board of Directors that no interim dividend for the six months ended 30 June 2003 would be declared.

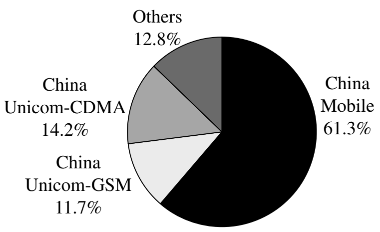
Business Review

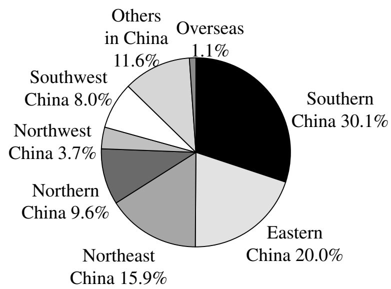
Turnover of the Group for the six months ended 30 June 2003 was HK$334.2 million, representing an increase of approximately 38.7% for the corresponding period last year. This increase was mainly attributable to overall increase in wireless coverage capital expenditure by the mobile operators in the People's Republic of China (the "PRC") to improve the quality of mobile network amid intense competition. Revenue from China Mobile increased steadily. In addition, there was a significant growth in revenue from China Unicom for the period under review.

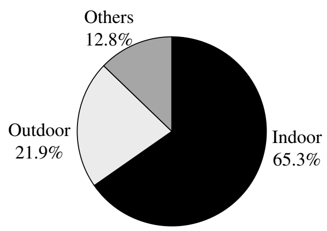
In late April 2003, there was a Severe Acute Respiratory Syndrome ("SARS") outbreak globally and the PRC was one of the countries affected. In the PRC, Beijing was the worst hit area as far as our operations are concerned. Although we were asked to provide coverage for Xiaotangshan hospital and other SARS control centres in Beijing, the level of business activities were low in the month of May in Beijing. SARS was contained in late June and our operations were back to normal. In summary, the negative effect of SARS in Beijing was short-term and was mostly mitigated by the increase in business opportunities in Southern and Eastern China as a result of keen competition among the mobile operators.

Sales analysis

Breakdown of our turnover by customers, geographical locations and types of solutions are as follows:







We achieved a significant increase in revenue from China Unicom, in respect of GSM and CDMA products, from 19% in 2002 to 26% in the first half of 2003. Sales to agents and system integrators accounted for 13% of our revenue for the period under review, up from 6% in 2002. We believe that we can expand more quickly by using agents to penetrate markets which we did not have presence previously. Due to increase in revenue contribution from China Unicom and agents and system integrators, revenue generated from China Mobile accounted for 61% of our revenue, down from 74% in 2002 in spite of steady growth in absolute terms.

Geographically, Southern China is still the major revenue contributor of the Group, accounting for 30% of the Group's revenue. Eastern branch (covering Shanghai, Jiangsu and Zhejiang) and Northeast branch (covering Liaoning, Jilin and Heilongjiang) together accounted for 36% of our revenue.

Indoor coverage solutions accounted for around 65% of the Group's revenue in the first six months of 2003, a level similar to that of 2002. The sales share of outdoor coverage solutions decreased from 28% to 22% in the first half of 2003 while pure equipment sales increased from 6% to 13%.

Margin analysis

Gross margin increased from 46.2% to 47.0% for the period under review, primarily attributable to our ability to develop and introduce new models regularly to meet market needs, increasing bargaining power with suppliers as a result of our expanding scale of operations, and continued efforts in cost control. The above offset the general pricing pressure of our products.

In order to strengthen our research and development capability, we acquired a 39.21% equity interests in WaveLab Holdings Limited in January 2003. Its wholly-owned subsidiary in the United States, WaveLab Inc, is principally engaged in the research and development of microwave transmission equipment.

Having established our leading market position in the PRC, we believe we can leverage our position to expand overseas. In January 2003, we set up our first overseas sales office in Singapore which primarily focuses on the South-east Asian market.

The above new office, coupled with the expansion of services network in the PRC, contributed to the increase in the aggregate amount of selling and distribution costs and administrative expenses from HK$34.7 million to HK$57.5 million, representing an increase of approximately 65.7%.

Profit attributable to shareholders for the period was HK$86.8 million, which represents a 32.2% increase from the corresponding period last year. Net margin decreased slightly to 26.0% from 27.2% for the same period last year.

Prospects

The wireless telecommunications industry in the PRC has experienced steady growth in the last few years. According to International Data Corporation, from 2002 to 2007, total wireless capital expenditure is expected to grow at a compound annual growth rate of 9.5% while total wireless coverage capital expenditure is expected to grow at an even faster pace of 20.6%. Given the projected stable growth of the industry and our increasing share in the wireless coverage market, we believe that we will be able to sustain the revenue growth achieved in the past years.

During the first half of 2003, the outbreak of SARS resulted in delays in the implementation of some of the capital expenditure plans of the PRC mobile operators. After the containment of SARS, these mobile operators have resumed their capital expenditure plans. Moreover, competition between China Mobile and China Unicom and from the XiaoLingTong services offered by China Telecom and China Netcom have caused the mobile operators to invest heavily in improving the quality of their mobile network in order to maintain customer loyalty and reduce churn rate.

During the first half of 2003, the Group was awarded various tenders by China Mobile and China Unicom and qualified as one of the suppliers of wireless coverage solutions of China Mobile and China Unicom in all the major provinces in the PRC. This has put us in an advantageous position to benefit from the increasing capital expenditure in wireless coverage by the mobile operators.

China Unicom is implementing the Phase III construction project for its CDMA network which aims at expanding its CDMA network coverage as well as indoor coverage, increasing wireless data capacity and optimising network quality. The Group is committed to take advantage of this business opportunity.

While it has not yet been decided as to when 3G mobile licences will be issued in the PRC, the Group has allocated resources actively to develop components and products which are compatible with 3G mobile standards. We expect that such development will enable the Group's products to meet the needs of the operators when 3G mobile communications networks are launched.

The SARS outbreak also had an impact on our overseas operations. Business travel from our Singapore office was suspended in May 2003. Nevertheless, we managed to achieve steady growth in sales to India and Thailand. Trial projects have also been carried out in Malaysia and the Philippines. Reponses have been encouraging and we expect sales to South-east Asian countries grow in the second half of this year.

As part of our strategies to enlarge our product portfolio, we decided to expand into microwave transmission equipment. The research and development of an outdoor transmission device using digital microwave transmission technology by WaveLab Inc. is at the final stage and pilot production is scheduled to commence in the second half of this year. We expect that this new product line start generating revenue for the Group in 2004.

As stated in the Prospectus, construction of our Phase II plant was completed in May 2003. This provides an extra gross floor area of 10,881 sq.m. We have relocated our research and development department and certain production facilities to the new plant. We also plan to invest in equipments to increase our production capacity in order to meet the anticipated demand from our customers in the second half of 2003 and beyond.

Looking ahead, the Group will continue to pursue the strategy of organic growth by establishing offices both in the PRC and Asia. At the same time we will also look for any opportunities which can bring synergy to our existing operations. We intend to continue focusing on our core competency in radio frequency technology. We will further consolidate our leading market position and actively pursue our growth strategy in order to maximise shareholders' value.

Liquidity, financial resources and capital structure

The Group generally finances its operations from cashflow generated internally and bank loans. As at 30 June 2003, the Group had net current assets of HK$309.0 million. Current assets comprise inventories of HK$182.0 million, trade receivables of HK$319.9 million, notes receivables of HK$12.9 million, prepayments, deposits and other receivables of HK$33.9 million, and cash and bank balances of HK$61.0 million. Current liabilities comprise trade payables of HK$110.0 million, tax payable of HK$7.3 million, other payables and accruals of HK$71.2 million, current portion of finance lease payables of HK$0.3 million, short-term bank loans of HK$98.9 million, and provision for product warranties of HK$13.0 million.

The average debtors turnover for the six months ended 30 June 2003 was 140 days, compared to 102 days for the year ended 31 December 2002. This was mainly because certain customers generally tend to plan their budgets in the first half of a year and settle receivable balances in the second half.

The inventory turnover for the six months ended 30 June 2003 was 183 days compared to 161 days for the year ended 31 December 2002. The increase in inventory turnover days was primarily attributable to the rise in stock level in anticipation of the increasing demand for the Group's products in the second half of 2003.

As at 30 June 2003, the Group's cash and bank balances were mainly denominated in Reminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB.

The Group's gearing ratio, calculated as total debts (including short-term bank loans and finance lease payables) over total assets, was 14.1% as at 30 June 2003.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the Board considers there is no significant exchange risk.

Use of new proceeds

The international placing and initial public offer of the Company has raised net proceeds of approximately HK$397.6 million (including the exercise of over-allotment option). The Group has not utilised any part of the net proceeds up to the date of this report. The net proceeds will be used in accordance with the plan as described in the Prospectus.

Employees and remuneration policies

As at 30 June 2003, the Group has approximately 1,787 employees. The total staff costs for the period under review were HK$44.6 million. The Group offers competitive remuneration schemes to its employees based on industry practices individual and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of the individual as well as the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company's shares were listed on the Stock Exchange on 15 July 2003. Save for this, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Interim Period and up to the date of the approval of this report.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules, for the purpose of reviewing and supervising the financial reporting process and internal control system of the Group. The Audit Committee comprises the three independent non-executive directors of the Company, namely, Mr. Lau Siu Ki, Kevin, Mr. Yao Yan and Mr. Liu Cai. The audit committee has reviewed and approved this interim report.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the company is not, or was not, for any part of the accounting period covered by the interim report, in compliance with Appendix 14 of the Listing Rules.

PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed interim results announcement containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) in due course.

APPRECIATION

The Company would like to thank our customers for their continuous support during the period. The Board of Directors would like to express our sincere appreciation to the Company's shareholders, suppliers, bankers and staff for their efforts and commitments.

By order of the Board
Fok Tung Ling
Chairman and Managing Director

Hong Kong, 9 September 2003

Please also refer to the published version of this announcement in The Standard.