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)

(Stock Code: 2342)

Interim results announcement
for the six months ended 30 June 2005

FINANCIAL HIGHLIGHTS

- Turnover decreased by 7.5% to HK$413 million
- Gross profit decreased by 21.2% to HK$161 million
- Profit attributable to shareholders decreased by 67.2% to HK$36 million
- Basic earnings per share was 4.32 HK cents

INTERIM RESULTS

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Notes	**2005**	**2004**
		(Unaudited)	(Unaudited) (Restated)
		HK$'000	*HK$'000*
REVENUE	4	413,013	446,403
Cost of sales		(251,794)	(241,932)
Gross profit		161,219	204,471
Other income and gains	4	4,352	5,351
Selling and distribution costs		(43,768)	(26,025)
Administrative expenses		(73,551)	(62,837)
Other operating expenses		(265)	(5,795)
PROFIT FROM OPERATING ACTIVITIES	5	47,987	115,165
Finance costs	6	(9,197)	(4,281)
PROFIT BEFORE TAX		38,790	110,884
Tax	7	(4,534)	(4,983)
PROFIT FOR THE PERIOD		34,256	105,901
Attributable to:			
Equity holders of the parent		35,941	109,469
Minority interests		(1,685)	(3,568)
		34,256	105,901
EARNINGS PER SHARE	8		
Basic (HK cents)		4.32	13.19
Diluted (HK cents)		4.25	12.86
DIVIDEND PER SHARE (HK cents)	9	Nil	4.00

CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) (Restated) *HK$'000*
NON-CURRENT ASSETS		
Fixed assets:		
Property, plant and equipment	156,436	135,943
Prepaid land lease payments	12,946	13,090
Intangible assets	3,213	3,807
Goodwill	21,916	21,916
Total non-current assets	194,511	174,756
CURRENT ASSETS		
Inventories	599,639	516,650
Trade receivables	555,013	495,176
Notes receivable	24,319	52,921
Prepayments, deposits and other receivables	134,664	86,453
Pledged deposits	102,000	102,000
Cash and cash equivalents	377,149	414,299
Total current assets	1,792,784	1,667,499
CURRENT LIABILITIES		
Trade and notes payables	292,641	292,409
Tax payable	—	2,495
Other payables and accruals	265,505	262,741
Short term bank loans	298,104	157,782
Current portion of finance lease payable	180	180
Provision for product warranties	10,160	14,200
Total current liabilities	866,590	729,807
NET CURRENT ASSETS	926,194	937,692
TOTAL ASSETS LESS CURRENT LIABILITIES	1,120,705	1,112,448

	30 June 2005	31 December 2004
	(Unaudited)	(Audited) (Restated)
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Long-term portion of finance lease payable	90	180
Total non-current liabilities	90	180
	1,120,615	1,112,268
CAPITAL AND RESERVES		
Equity attributable to equity holders of the parent		
Share capital	83,302	83,273
Reserves	1,027,716	976,076
Proposed dividend	—	41,637
	1,111,018	1,100,986
Minority interests	9,597	11,282
	1,120,615	1,112,268

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 24, 27, 33, 37 and 38 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKAS and HKFRSs is summarised as follows:

(a) HKAS 17 - Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(b) **HKFRS 2 - Share-based Payment**

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by directors using a Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 January 2005 are summarised in note 2 to the condensed consolidated financial statements. Comparative amounts have been restated in accordance with HKFRS 2.

(c) **HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets**

In prior periods, goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustments are summarised as follows:

(a) **Effect on opening balance of total equity at 1 January 2005**

Effect of new policies (Increase/(decrease))	*Notes*	**Capital reserve**	**Retained earnings**	**Total**
		(Unaudited)	(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*	*HK$'000*
Prior period adjustments:				
HKFRS 2				
Employee share option scheme	1(b)	28,355	(28,355)	—

(b) **Effect on opening balance of total equity at 1 January 2004**

Effect of new policies (Increase/(decrease))	*Notes*	**Capital reserve**	**Retained earnings**	**Total**
		(Unaudited)	(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*	*HK$'000*
Prior period adjustments:				
HKFRS 2				
Employee share option scheme	1(b)	6,748	(6,748)	—

The following tables summarise the impact on profit after tax, and income or expenses recognised directly in equity for the six-month periods ended 30 June 2005 and 2004 upon the adoption of the new HKFRSs.

(c) **Effect on profit after tax for the six months ended 30 June 2005 and 2004**

Effect of new policies (Increase/(decrease))	*Notes*	**For the six months ended 30 June 2005 Equity holders of the parent (Unaudited)** *HK$'000*	**For the six months ended 30 June 2004 Equity holders of the parent (Unaudited)** *HK$'000*
Effect on profit after tax:			
HKFRS 2			
Employee share option scheme	1(b)	(11,902)	(8,802)
HKFRS 3			
Discontinuation of amortisation of goodwill	1(c)	3,010	—
		(8,892)	(8,802)
Effect on earnings per share:			
Basic (HK cents)		(1.07)	(1.06)
Diluted (HK cents)		(1.05)	(1.03)

(d) **Effect on income or expenses recognised directly in equity for the six months ended 30 June 2005 and 2004**

Effect of new policies (Increase/(decrease))	*Notes*	**For the six months ended 30 June 2005 Equity holders of the parent (Unaudited)** *HK$'000*	**For the six months ended 30 June 2004 Equity holders of the parent (Unaudited)** *HK$'000*
HKFRS 2			
Employee share option scheme	1(b)	11,902	8,802

3. SEGMENT INFORMATION

The Group is principally engaged in the research, development, 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 INCOME AND GAINS

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:

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	413,013	446,403

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Other income and gains		
Interest income	3,208	5,031
Others	1,144	320
	4,352	5,351

5. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities was determined after charging/(crediting) the followings:

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	**(Unaudited) (Restated)**
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	225,144	219,791
Depreciation	11,859	8,910
Amortisation of prepaid land lease payments	144	144
Amortisation of intangible assets	528	649
Research and development costs#	21,682	15,370
Minimum lease payments under operating leases in respect of land and buildings	13,681	11,248
Staff costs (including directors' emoluments)		
Salaries and wages	72,222	53,057
Staff welfare expenses	6,765	5,789
Pension scheme contributions	6,865	2,424
Share-based payments	11,902	8,802
	97,754	70,072
Product warranty provisions	4,968	6,771
(Reversal of)/provision for doubtful debts	(219)	3,205
Loss on disposal of property, plant and equipment	292	151

Research and development costs of HK$12,833,173 is included in "staff costs (salaries and wages)" as set out above.

6. FINANCE COSTS

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	**(Unaudited) (Restated)**
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	3,928	3,113
Interest on finance leases	10	13
Finance costs on the factored trade receivables	5,259	1,155
	9,197	4,281

7. TAX

	For the six months ended 30 June	
	2005	**2004**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Current - PRC corporate income tax ("CIT")	4,534	4,983
Current - Hong Kong profits tax	—	—
Total tax charge for the period	4,534	4,983

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.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, the applicable tax rate for the Group's subsidiaries operating in the Mainland China is 15%. As approved by relevant tax authorities, certain of the subsidiaries in Mainland China are exempted from PRC corporate income tax for the two years commencing from their respective first profit-making year and thereafter are entitled to a 50% reduction in PRC corporate income tax for the subsequent three years. During the period, provisions for PRC corporate income tax for these subsidiaries have been made at the applicable reduced tax rate on the foregoing basis.

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

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit attributable to equity holders of the parent of HK$35,941,000 (six months ended 30 June 2004: HK$109,469,000 (as restated)), and the weighted average number of 832,815,790 (six months ended 30 June 2004: 830,000,000) ordinary shares in the issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the parent of HK$35,941,000 (six months ended 30 June 2004: HK$109,469,000 (as restated). The weighted average number of ordinary shares used in the calculation is the 832,815,790 (six months ended 30 June 2004: 830,000,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 13,443,863 (six months ended 30 June 2004: 21,262,790) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

9 DIVIDEND

At a meeting of the board of directors held on 15 September 2005, the directors resolved not to pay an interim dividend to shareholders (six months ended 30 June 2004: HK$33,200,000.)

10. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the People's Bank of China announced the reform of the Renminbi exchange rate regime with effect from 22 July 2005. Due to the fluctuation of Renminbi, the Group may be exposed to exchange losses or gains on the assets and liabilities denominated in foreign currencies.

11. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The wireless telecommunications industry in the People's Republic of China (the "PRC") has been experiencing steady growth. Number of mobile subscribers exceeded 360 million by the end of June 2005, representing a penetration rate of approximately 28%.

However, the first half of 2005 was a challenging period for wireless subsystems and solutions providers in the PRC. Given the uncertainties surrounding the possible reorganisation of the business operations of the telecommunications operators in the PRC, certain mobile operators were cautious in rolling out their network optimisation plans. This had an adverse impact on the business of the Company and its subsidiaries (the "Group").

BUSINESS AND FINANCIAL REVIEW

Turnover

Turnover of the Group for the six months ended 30 June 2005 was HK$413,013,000, representing a decrease of approximately 7.5% compared to the same period in the previous year (the "Prior Year Period"). This decrease was mainly attributable to the slowdown in the implementation of capital expenditure plans on wireless enhancement solutions in CDMA network in the PRC.

Revenue generated from China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group") dropped slightly by 4.2% and accounted for 48.0% of the Group's turnover for the period under review (the "Period").

During the Period, revenue from the CDMA network of China United Telecommunications Corporation and its subsidiaries (the "China Unicom Group") decreased by 43.9% and accounted for 22.6% of the Group's turnover. The directors of the Company (the "Directors") believe that such decrease was largely due to the uncertainties surrounding the possible industry reorganisation mentioned in the section headed "Industry Overview" above. On the other hand, revenue from the GSM network of the China Unicom Group increased by 38.5% and accounted for 15.9% of the Group's turnover after a slow down in its GSM wireless enhancement capital expenditure in 2004.

In order to broaden its customer base, the Group has strategically developed businesses with customers other than the mobile operators in the PRC. Revenue from other customers increased by 117.0% in the Period.

Revenue from indoor coverage solutions accounted for 68.6% of the Group's turnover during the Period, compared to 75.2% in the Prior Year Period. Revenue from outdoor coverage solutions accounted for 15.8% of the Group's turnover during the Period compared to 15.3% in the Prior Year Period.

Revenue from the subsystems and antennas business grew by 51.1%, accounted for 4.7% of the Group's turnover compared to 2.9% in the Prior Year Period. Revenue from the wireless coverage equipment for the PHS network accounted for 4.9% of the Group's turnover in the Period, after the Group commenced this line of business in the second half of 2004. In addition, revenue from extended maintenance services accounted for 1.2% of the Group's turnover during the Period.

In respect of the PRC market, over 85% of the Group's revenue was generated from various coastal and developed regions. Southern region remained as the major revenue contributor, accounting for 36.8% of the Group's turnover in the Period. Northern region, Eastern region and Northeast region accounted for 20.3%, 14.6% and 14.2% respectively of the Group's turnover in the Period.

Since the first half of 2004, the Group has continued to expand its business in the international market by setting up sales offices in Sweden and Thailand. Nevertheless, the development of some of these markets is still at an early stage, they have yet to make the expected impact in terms of revenue contribution to the Group. Export sales accounted for 3.6% of the Group's turnover in the Period.

Gross profit

The Group is facing continued pressure on the average selling price and gross profit margin of its products and solutions for the 2G mobile communications market in the PRC as such market has become relatively mature. Although the Group managed to negotiate better pricing in materials and implemented cost saving measures such as improvements in production technology and product redesign, these were not sufficient to compensate the effect brought by the downward trend in selling prices in the short term. The Group also increased its resources in the provision of project management and technical support services nationwide in the PRC for the increase in number of projects which resulted in an increase in project costs. In addition, the Group has increased its resources considerably in the research and development ("R&D") of its products and solutions including those related to 3G. R&D expenses accounted for 5.2% of turnover in the Period compared to 3.4% in the Prior Year Period.

Gross profit of the Group for the Period was HK$161,219,000, representing a decrease of 21.2% over the Prior Year Period, while gross profit margin was 39.0% in the Period compared to 45.8% in the Prior Year Period.

Operating expenses

Selling, general and administrative expenses were HK$117,319,000, representing an increase of 32% over the Prior Year Period. Such increase was primarily attributable to the following factors:

(a) Facing with the 3G business opportunities, the Group has expanded its nationwide sales network in the PRC to provide better services to mobile operators. However, the Group has not been able to realise full benefit of such nationwide network expansion as a result of the slow down in capital expenditure investment as described under the section headed "Industry Overview" above.

(b) Since the first half of 2004, the Group has increased its sales efforts outside the PRC. The costs involved in this connection are material when compared to the revenue generated from its international business. The operating expenses of its international business were HK$13,794,000 in the Period, compared to HK$6,291,000 in the Prior Year Period;

(c) The Group has started the production of its Digital Microwave Systems ("DMS") products. However, market development is at an early stage and the revenue generated was not sufficient to cover the costs involved. Operating costs for the DMS business were around HK$6,441,000 for the Period compared to HK$3,983,000 in the Prior Year Period;

(d) As a result of the recent changes to the Hong Kong Financial Reporting Standards, the cost of share options granted by the Company to its employees has to be accounted for by the Company as an expense in its income statement starting from accounting periods commencing after 1 January 2005. As such, option expense amounting to HK$11,902,000 was charged to the income statement in the Period, compared to HK$8,802,000 in the Prior Year Period as restated.

Net profit

Profit attributable to shareholders ("Net Profit") for the six months ended 30 June 2005 was HK$35,941,000, representing a decrease of 67.2% from the Prior Year Period. Net Profit margin was 8.7% compared to 24.5% in the Prior Year Period.

PROSPECT

Businesses — product lines

Wireless enhancement solutions

The Directors believe that the future development of the Group's 3G operations represents an excellent business opportunity to the Company. The Group is well prepared for 3G in all aspects and has proceeded with trial runs with customers in various regions and a number of 3G solutions have been deployed. This enables the Group to meet the demand of operators immediately upon the granting of 3G licences. The Directors also believe that 2G and 3G networks will coexist for a long period of time, operators will still need to invest in the construction of 2G network. Both the China Mobile Group and the China Unicom Group indicated recently that they would increase capital expenditure in their respective GSM networks in 2005 compared to 2004. Apart from investing in core network equipment to provide a larger capacity, the mobile operators are also required to invest in the optimisation of network quality and resources. As such, the Group has launched various new solutions and products to fulfil the demand. The continued investment made by the Group has made its products even more cost effective and competitive in the industry. For instance, the Group was ranked first by the China Mobile Group in its recent central procurement programme for outdoor repeaters. This has strengthened the Group's leading position in the industry. While the possible reorganisation of the telecom industry and the timing of 3G licence grant are still uncertain, the Group believes that the impact is only temporary from a long term perspective.

Antennas and subsystems

The Group has actively expanded its capabilities on antennas and subsystems. This expansion aligns with its consolidated effort in international and core equipment vendor market expansion. The Group's continuous investment in R&D has enabled it to provide a complete product portfolio. In addition, the Group has recently completed development and launched various new solutions including smart antennas, multi-band antennas with 3G capabilities, camouflaged antennas and a full range of tower top solutions. This effort drastically increases its core competencies in base station antennas, enabling the Group to rank number 1 by the China Mobile Group in its recent central procurement programme for base station antennas. With respect to the international market, the Group has started gaining traction and has won multiple projects. The Directors believe that this market segment is going to provide strong growth momentum for the Group.

Digital Microwave Systems ("DMS")

The Group has launched its DMS solution into the international market under the brand name of MASELink. It currently has a complete DMS solution that is capable of operating across all frequency bands from 7GHz to 26GHz and ranges from the traditional PDH-based microwave solution with capacities of up to 16 E-1 (32Mbps) to SDH microwave solution at an STM-1 (155Mbps) capacity. With the MASELink Super PDH solution, the Group is one of the few companies that is able to offer a true 100Mbps IP radio solution. With a feature-rich and competitively positioned DMS solution, the Group believes that it will make headway in what is currently a fragmented market that is expected to grow from US$4 billion to US$7 billion by 2009 (Visant Strategies 2005).

Extended maintenance services

The Group has accumulated a growing installed base over the years which serve as a solid base for recurring income. Upon expiry of the free warranty period of the optimisation projects undertaken by the Group in previous years, the Group expects to generate more revenue from extended maintenance services.

Businesses - markets

International market

The Directors view the international market expansion as the most important strategic avenue for future growth opportunities for the Group. The Group had been focusing on the PRC market and concurrently building up its core technical and manufacturing competence to get ready for this expansion. Since 2004, the Group has started actively to expand its presence in the overseas markets. The initial expansion plan was fine tuned to include not only the establishment of distribution channels in various regions but more importantly the realignment and acquisition of various resources to ensure long term success.

The Group has established the EMEA (Europe, Middle East & Africa) regional headquarters in Stockholm, Sweden and has also established direct presence in the following markets: Thailand, Singapore and India which are coordinated from the corporate headquarters located in Hong Kong. The Group has established and will continually expand its distributor programme in order to extend its reach into key markets throughout the world.

In addition to the expansion of its network, the Group has established dedicated marketing organisation with employees around the globe. Coupled with a Global Service & Support Team ("GSST") in Singapore, the Group is now in a position to address different market requirements as well as to offer a complete solution from consultation to post-sales support and maintenance.

International business has shown robust growth over the third quarter of 2005, with international bookings so far this year already exceeding the annual international revenue in 2004.

The Directors are committed to the international expansion and believe that it will provide substantial growth for the Group in 2005 and beyond. In order to meet and adapt to customer and market needs, the Group is continually restructuring and adding to the technical and human resources required to address the international market effectively.

Core equipment vendor market

The Directors also view the core equipment vendor market as an important strategy for expansion. With established R&D and manufacturing capabilities, the Group's product line has matured to the point where there is a natural synergistic progression to supplying to the core equipment vendor markets both inside and outside of the PRC. The core equipment vendor market is synergistic to the Group's overall product expansion plan. Its products will be integrated to base station equipment and this effectively expands the Group's addressable market.

The Group has made a concerted move into the core equipment vendor market over the past year and has already gained traction with certain key domestic vendors. The global core equipment vendor market is expected to grow with equipment vendors increasingly outsourcing some of the components. The PRC itself is expected to be a powerful contributor to the core equipment vendor market over the next 3 years driven by 3G licence issuance and the subsequent network upgrades and installations. Currently, the global core equipment vendor market is extremely fragmented and the top 2 suppliers are estimated to comprise less than 25% of the total market. Given the Group's capabilities, the Directors believe that it will be able leverage its production base and international network to gain share in the core equipment vendor market.

Operations

In an attempt to improve its operating efficiency, the Group is currently implementing a new ERP system, phase one of which was on line in June 2005. A high level of integration of logistics management is achieved. The new ERP system is expected to be fully launched by the end of 2005. The Group expects that its operating efficiency will be improved in the areas of materials procurement and inventory control, overall production management, project coordination management and working capital management.

The construction of the new PRC headquarters of the Group in Guangzhou Science City, Guangzhou, the PRC is in good progress and is expected to be completed by early 2006. The Group expects to relocate the sales and marketing and the R&D departments to the new headquarters in the first half of 2006. After that, the existing plant in the Guangzhou Economic and Technology Development District will mainly be used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

While expanding its product portfolio and penetrating new markets to facilitate long term growth, in the light of the current difficult market conditions, the Group is reviewing various possible measures to further improve the overall efficiency in the utilisation of resources and to reduce operating costs.

Conclusion

The Group remains optimistic about the opportunities that the future development of the 3G telecommunications market in the PRC will bring. As and when the 3G licences are granted to telecommunications operators in the PRC, the Group expects significant business opportunities from both existing and new customers. Based on its preparation so far, the Group believes that it will be ready to face the challenges and benefit from the opportunities in the 3G mobile market.

On the other hand, in order to fuel its long term growth, the Group is committed to developing international and core equipment vendor markets, which are its strategic areas of expansion. Being the market leader in the PRC in terms of market share, R&D and production capabilities, the Group is well positioned to provide quality products and services in these markets. The Group is also committed to allocating resources to pursue this growth strategy to achieve a more balanced customer base.

The Group continues to focus on its core competency in radio frequency technology. To cope with the changes in market needs, it will continue to invest in products and technology based research and development and to enlarge its production platform to meet expected growth in demand for its products and solutions. Such capital expenditure of the Group is expected to be funded partly by the net proceeds from its initial public offering in 2003 and partly by other means of financing. Finally, the Group will endeavour to maintain a solid and healthy financial position, consolidate its leading market position, and pursue a balanced and carefully planned growth strategy, in order to maximise the 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 2005, the Group had net current assets of HK$926,194,000. Current assets comprised of inventories of HK$599,639,000, trade receivables of HK$555,013,000, notes and other receivables of HK$158,983,000, and cash and bank balances of HK$479,149,000. Current liabilities comprised of trade and notes payables of HK$292,641,000, tax payable of HK$ Nil, other payables and accruals of HK$265,505,000, current portion of finance lease payables of HK$180,000, short-term bank loans of HK$298,104,000, and provision for product warranties of HK$10,160,000.

The average debtors turnover for the six months ended 30 June 2005 was 230 days, compared to 165 days for the corresponding six months last year. The Group's trading terms with its customers are mainly on credit. The contractual credit period is generally for a period of three to six months. The average payable turnover for the period ended 30 June 2005 was 210 days compared to 181 days for the period ended 30 June 2004. The inventory turnover for the six months ended 30 June 2005 was 401 days compared to 267 days for the period ended 30 June 2004.

As at 30 June 2005 , the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB and HK$. The interest rate on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the Directors consider there is no significant exchange risk.

The Group's gearing ratio, calculated as total debts (including short-term bank loans and finance lease payables) over total assets, was approximately 15% as at 30 June 2005 (as at 30 June 2004: approximately 8%).

CHARGE ON ASSETS

The Group's bank borrowings were secured by a charge on time deposits amounted to HK$102,000,000 (31 December 2004: HK$102,000,000).

CONTINGENT LIABILITIES

As at 30 June 2005 , the Group had no significant contingent liabilities (31 December 2004: HK$Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005 , the Group had over 3,200 staff. The total staff costs for the Period was HK$97,754,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employee's and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible employees based on the performance of each such employee as well as the Group.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in July 2003, after deduction of related issuance expenses, amounted to approximately HK$396 million. These proceeds were partly applied during the period from July 2003 to 30 June 2005 in respect of the proposed applications set out in the Company's listing prospectus, as follows:

(i) approximately HK$80,000,000 was used for long term research and development, including 3G-enabled products;

(ii) approximately HK$39,000,000 was used for the expansion of product and service portfolio;

(iii) approximately HK$80,000,000 was used for the enlargement of production facilities;

(iv) approximately HK$60,000,000 was used for the expansion in sales network and market coverage; and

(v) the balance of HK$137,000,000 was applied as additional working capital of the Group.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 to the Main Board Listing Rules throughout the accounting period for the six months ended 30 June 2005, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. The Company currently has no intention to comply with Code Provision A.2.1 as the Company considers that through the supervision of its Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

AUDIT COMMITTEE

The unaudited interim results of the Group for the six months ended 30 June 2005 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

A copy of interim report containing all information required by relevant paragraphs of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (htpp://www.hkex.com.hk) in due course.

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

Hong Kong, 15 September 2005

As at the date of this announcement, the Board comprises the following executive Directors: Mr FOK Tung Ling, Mr ZHANG Yue Jun, Mr CHAN Kai Leung, Clement, Mr WU Jiang Cheng, Mr YAN Ji Ci, Mr ZHENG Guo Bao and Mr YEUNG Pui Sang, Simon; and the following independent non-executive Directors: Mr YAO Yan, Mr LAU Siu Ki, Kevin and Mr LIU Cai.

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