Comba Telecom Systems
京信通信系統

無線天地 連接無間
Keep Connected in the Wireless World

京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited

年報 | 2003 Annual Report

Contents

Corporate Information

Registered office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong

1503-1510, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

Company secretary

Chan Kai Leung, Clement *ACA, AHKSA*

Audit Committee

Lau Siu Ki, Kevin
Yao Yan
Liu Cai

Authorised representative

Fok Tung Ling
Chan Kai Leung, Clement *ACA, AHKSA*

Cayman Islands principal share registrar and transfer office

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Room 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited
10th Floor, HSBC Building, Tsim Sha Tsui
82-84 Nathan Road
Tsim Sha Tsui
Kowloon
Hong Kong

Bank of China
1 Garden Road
Central
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
ICBC Tower
122-126 Queen's Road
Central
Hong Kong

Citic Ka Wah Bank Limited
9th Floor, Tower 1, Lippo Centre
89 Queensway
Hong Kong

Bank of China
GETD District Branch
2 Qingnian Road
GETD District
Guangzhou
PRC

Industrial and Commercial Bank of China
GETD District Sub-branch
719 Xiagang High Road
GETD District
Guangzhou
PRC

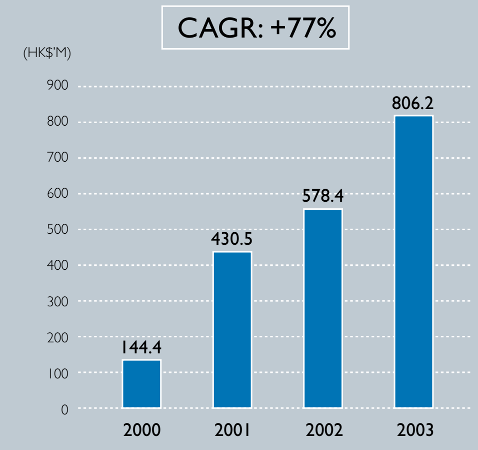
Agricultural Bank of China
Guangdong Branch Beixiu Sub-branch
133 Xiaobei Road
Guangzhou
PRC

Financial Highlights

Financial Summary

	2003 HK$'000	2002 HK$'000	change
Turnover	806,232	578,366	+39.4%
Gross profit	374,225	269,497	+38.9%
Profit attributable to shareholders	211,162	162,359	+30.1%
Basic earnings per share (HK cents)	29.91	27.06	+10.5%
Dividend per share (HK cents)	5	N/A	N/A

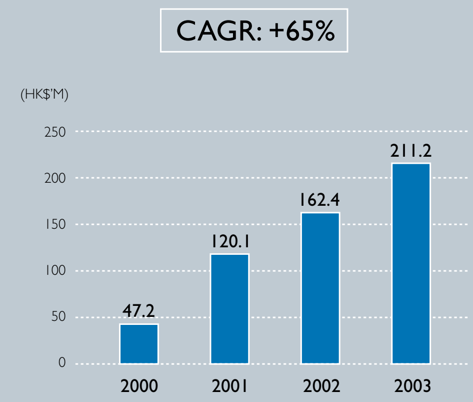
Turnover



Key Financial Figures

	31 Dec 2003 HK$'000	31 Dec 2002 HK$'000
Total assets	1,317,930	601,176
Net assets	918,503	298,552
Cash and bank balances	587,011	115,202
Current ratio	3.1X	2.1X
Inventory turnover days	173	161
Receivables turnover days	116	102

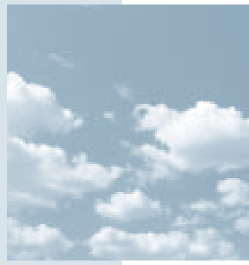
Net Profit



"Comba

- **Leader in the wireless coverage market**
- **Ideal technology partner for our customers"**

Fok Tung Ling
Chairman and Managing Director



The year of 2003 witnessed a year of challenges for the Group. There was an SARS outbreak globally and particularly in the PRC in the first half of the year. This not only affected our operations in certain parts of the PRC and our overseas business in South East Asia, but also delayed the IPO exercise of the Group. Nevertheless, as a result of our active measures in ensuring the impact on our business was kept to a minimum, we managed to overcome this challenge with satisfactory results for the whole year. In addition, the importance of localized sales and services network was again highlighted during the SARS outbreak. For instance, our prompt reponse to providing wireless coverage to Xiaotongshan hospital, the SARS specialized hospital in Beijing, has enhanced customer satisfaction while reinforcing our leadership position in the wireless coverage market in the PRC. The Company was successfully listed on the main board of the Hong Kong Stock Exchange on 15 July 2003. This marked another chapter of the development of the Group and has laid a good foundation for our future growth.

Business Review

Amid intense competition in the PRC market, we achieved a growth of 39.4% in turnover and 30.1% in net profit for the year ended 31 December 2003. More importantly, we have provided our customers with low-cost, high-efficiency wireless coverage solutions in order to help them to enhance the quality of their mobile network.

As a leader in the wireless coverage market, we endeavour to provide new products and new solutions which meet the needs of ever-changing mobile market. During the year, we launched numerous new products, including frequency shifting repeaters, BTS antennas, tower mounted amplifiers and tower mounted boosters. We also provided new and innovative services and solutions such as WLAN solutions, residential estate coverage solutions and solutions for railway and sea routes.

As a result of our business progress, we have strengthened our brandname in the wireless coverage market in the PRC with well-regarded reputation as the market leader. We are also well trusted by our customers nationwide as one of their technology partners.

We have implemented a series of cost control measures including regularly improving our production technology, optimising our supply chain thereby getting better terms from suppliers and employing tools like value engineering and just in time management. Coupled with our strong R&D capabilities in developing new products which provide our customers with value added services while benefiting our revenue, our gross margin in 2003 was sustained at a satisfactory level.

As far as the PRC market is concerned, while we have deepened our penetration in the markets where we already have a strong presence, we have diversified into inland and western provinces in order to tap the underserved markets and to broaden our customer base. As for the overseas market, since the establishment of the first overseas sales office in Singapore in early 2003, despite the SARS outbreak, we managed to more than triple our overseas sales in Southeast Asia and India in 2003.

Business Outlook

On the product development front, while we continue to improve and expand our product line in wireless coverage to meet market needs, we will continue to devote resources in 3G mobile communication related products and services. In the second half of 2003, we developed a WCDMA repeater which is currently in the stage of product trial.

Since the acquisition of WaveLab in 2003, the Group has successfully developed certain models of digital microwave systems including outdoor units and indoor units in various frequency bands. Pilot production has started and field trials are being conducted in the PRC.

On the market side, we will continue to expand by strengthening our existing markets and penetrating into new markets domestically especially in the inland and western provinces. With the possible grant of 3G mobile licences in the foreseeable future, we see a tremendous potential with the new mobile operators.

As for the international market, we expect to be benefited from the global telecom market recovery and the high growth in the emerging markets. We will actively strengthen our overseas marketing efforts to introduce our quality products to our customers and potential customers worldwide. We are confident that overseas sales will achieve a substantial growth in 2004.

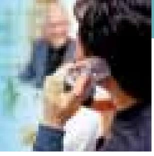
In addition to organic growth, we would also look at any M&A opportunities which can help our Group to expand our overseas markets, vertically integrate our supply chain effectively and enhance our R&D capabilities.

Last but not least, I would like to thank our customers for their continuous support during the year. I would also like to express our sincere appreciation to the Company's shareholders, business partners, bankers, fellow directors and our staff for their efforts and commitments. I am looking forward to another year of success in 2004.

Fok Tung Ling

Chairman and Managing Director

Hong Kong, 31 March 2004



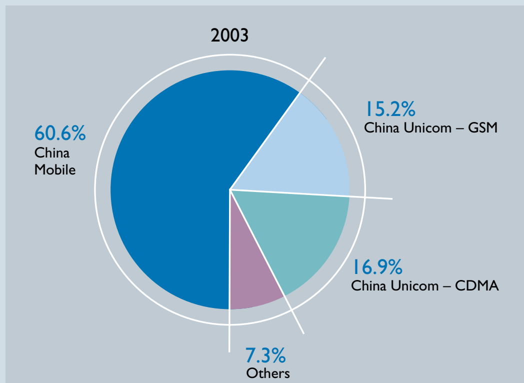
Management Discussion and Analysis

Business Review

Turnover of the Group for the year ended 31 December 2003 was HK$806,232,000, representing an increase of approximately 39.4% from the previous year. This increase was mainly attributable to overall increase in wireless coverage capital expenditure by the mobile operators to improve the quality of mobile network, thereby providing better services to the mobile subscribers amid fierce competition. While our revenue from China Mobile increased steadily by around 13.9%, we experienced a tremendous growth in revenue of 130.2% from China Unicom in 2003.

Revenue generated from China Unicom accounted for 32.1% of our revenue in 2003, up from 19.4% in 2002. We recorded revenue growth in both of the GSM and CDMA networks operated by China Unicom. As a result, revenue generated from China Mobile accounted for 60.6% of our revenue in 2003, down from 74.2% in 2002 in spite of a steady growth of 13.9% in absolute terms. Sales to agents and system integrators accounted for 7.3% of our revenue in 2003, up from 6.4% in 2002.

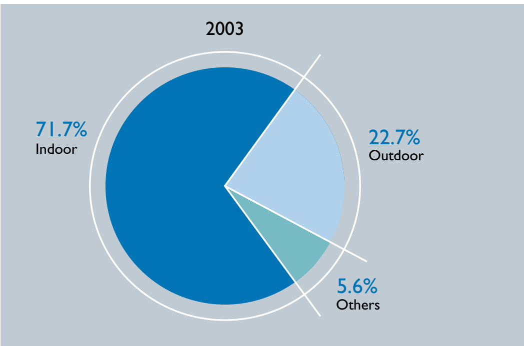
Turnover Breakdown by Customers



Management Discussion and Analysis

Indoor coverage solutions accounted for around 71.7% of the Group's revenue in 2003, compared to 65.8% in 2002. The share of outdoor coverage solutions decreased from 27.8% in 2002 to 22.7% in 2003.

Turnover Breakdown by Solutions



Geographically, Southern branch including Guangdong province is still the major revenue contributor of the Group, accounting for 32.1% of the Group's revenue. Eastern branch (covering Shanghai, Jiangsu and Zhejiang) and Northeast branch (covering Liaoning, Jilin and Heilongjiang) together accounted for 36.8% of our revenue.

Turnover Breakdown by Locations

Gross margin was 46.4% in 2003 compared to 46.6% in 2002. We were able to sustain the gross margin at this level thanks to our ability to develop and introduce new models regularly to meet market needs, increasing bargaining power with suppliers as a result of increased scale of operations, and continued efforts in exercising cost control. The above offset the general pricing pressure of our products.

In order to strengthen our R&D capability, we acquired a 51.8% interest in WaveLab Holdings Limited in 2003. Its wholly-owned subsidiary in the United States, WaveLab Inc, is principally engaged in the research and development of microwave transmission equipment. Development of digital microwave systems progressed steadily during 2003 although no revenue was generated from this product line yet.

Having established the market leader position in the PRC, 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 Southeast Asian market. As a result of increasing marketing efforts, we more than tripled our revenue from overseas markets.

The establishment of our new office in Singapore, coupled with the expansion of our services network in the PRC as well as an increase in headcount, contributed to the increase in the aggregate amount of selling and distribution costs and administrative expenses from HK$83,723,000 to HK$140,699,000, representing an increase of approximately 68.1%.

Profit attributable to shareholders for the year was HK$211,162,000, which represents a 30.1% increase from the previous year. However, due to the increase in operating expenses described above, net margin decreased to 26.2% from 28.1% in the previous year.

Prospects

The wireless telecommunications industry in the PRC has been experiencing steady growth. 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 market share in the wireless coverage market, we believe that we will be able to sustain the revenue growth achieved in the past years.

Due to the continued growth in the PRC's economy, the number of mobile subscribers has been rapidly increasing in the PRC. Mobile subscribers demand better and better services, the two mobile operators in the PRC therefore continue to invest in network optimisation to improve the network quality.

The Group has benefited from the increasing capital expenditure in wireless coverage by the mobile operators. By the end of 2003, we had 47 provincial level customers and out of which 5 were new customers in 2003. This has broadened our geographical reach as well as our customer base and serve as a driver for future growth.

CDMA network optimisation project has been carried out in the PRC which aims at expanding the CDMA network coverage as well as indoor coverage, increasing wireless data capacity and optimising network quality. Therefore, the Group's sales in CDMA products and solutions have increased substantially and the Group believes that it will continue to benefit from this.

It is generally expected that 3G mobile licences will be issued in the PRC in the foreseeable future. The Group has already allocated resources, actively developing components and products which are related to 3G mobile standards. We expect that such development will enable the Group's products to meet the needs of the 3G networks operators.

In 2003, we gradually expanded overseas, starting business in various Southeast Asian countries, overseas sales therefore more than tripled. With the global telecom recovery and projected high growth in the emerging markets, we will be able to achieve a significant growth in overseas sales in 2004.

As a strategy to enlarge our product portfolio, we have diversified into the digital microwave system market. Through WaveLab Inc, the subsidiary in the US which we acquired in January 2003, we have developed certain models of digital microwave systems products. Pilot production has commenced and field trials are being conducted. We expect to generate revenue from this product line starting from the second half of 2004.

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 search for any opportunities which can bring synergy to our existing operations. We remain to focus on our core competency in radio frequency technology.

We will continue to invest in enhancing our research and development capabilities and enlarging our production facilities to meet expected growth in demand for our products. Capital expenditure of the Group will be mainly funded by the net proceeds from its initial public offering in July 2003.

Finally, we will endeavour to maintain a solid and healthy financial position, consolidate our leading market position, and pursue our 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 31 December 2003, the Group had net current assets of HK$797,755,000. Current assets comprised inventories of HK$235,401,000, trade receivables of HK$320,895,000, prepayments, deposits and other receivables of HK$40,288,000, and cash and bank balances of HK$587,011,000. Current liabilities comprised trade and bills payables of HK$150,435,000, tax payables of HK$13,100,000, other payables and accruals of HK$138,432,000, current portion of finance lease payables of HK$232,000, short-term bank loans of HK$71,977,000, and provision for product warranties of HK$11,664,000.

The average debtors turnover for the year ended 31 December 2003 was 116 days, compared to 102 days for the year ended 31 December 2002. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three to six months. The inventory turnover for the year ended 31 December 2003 was 173 days compared to 161 days for the year ended 31 December 2002.

As at 31 December 2003, 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$. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ 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 5.5% as at 31 December 2003.

Contingent Liabilities

As at 31 December 2003, the Group had no significant contingent liabilities except for certain trade receivables factored with recourse as detailed in the financial statements (2002: Nil).

Employees and Remuneration Policies

As at 31 December 2003, the Group had approximately 2,260 staff. The total staff costs for the under review was HK$135,863,000. 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 staff based on the performance of each such employee as well as the Group.

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 47, is the chairman of the Board and the managing Director. Mr. Fok is primarily responsible for the Group's overall strategic planning, management and business development. From 1982 to 1987, Mr. Fok worked as an engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from the Beijing University of Post and Telecommunications (北京郵電大學) majoring in microwave communications. Prior to 1991, Mr. Fok worked as an executive at the China Electronics Import-Export Corporation, South China Branch (中國電子進出口總公司華南分公司) involved in the import and export of electronic products. From 1991 to 1997, Mr. Fok was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 16 years of experience in wireless communications.

Mr. Zhang Yue Jun (張躍軍), aged 45, is the deputy managing Director. Mr. Zhang is responsible for the overall research and development of new technology and products, production control as well as the overall quality control of the products. He graduated from the South China University of Technology (華南工學院) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1989, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1989 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen, mainly responsible for wireless telecommunications projects. Mr. Zhang has over 21 years of experience in wireless communications and he co-founded the Group in 1997.

Mr. Chan Kai Leung, Clement (陳繼良), aged 40, is an executive Director as well as the financial controller and company secretary of the Company. Mr. Chan is primarily responsible for the overall financial management, accounting and company secretarial matters of the Group. He is a member of the Institute of Chartered Accountants in England and Wales and an associate of the Hong Kong Society of Accountants. Mr. Chan obtained a master's degree in business administration from the University of Sheffield in the United Kingdom. He has over 15 years of experience in auditing, investment banking and accounting and he joined the Group in 2001.

Mr. Wu Jiang Cheng (伍江成), aged 44, is an executive Director as well as the marketing manager of the Group. He is responsible for the setting, implementation and control of the Group's overall sales and marketing strategies. He graduated from the Southwest Jiaotong University (西南交通大學) and obtained a bachelor's degree in electrical engineering. Mr. Wu has over 10 years of experience as a lecturer in engineering with the last two years in the Guangzhou University and over 11 years experience in communications and marketing. He joined the Group in 1997.

Mr. Yan Ji Ci (嚴紀慈), aged 49, is an executive Director and the human resources manager of the Company. Apart from supervising the overall day to day management of the Group's branches in different provinces, he is also responsible for the Group's overall human resources planning and management. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 26 years of experience in human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 38, is an executive Director of the Company and the chief executive officer of the WaveLab Holdings Limited. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. Mr. Zheng has over 17 years of experience in RF/micro wave/millimeter-wave technology; and wireless communications especially in the area of research and development. He joined the Group in January 2003.

DIRECTORS (continued)

Independent non-executive Directors

Mr. Yao Yan (姚彥), aged 66, is an independent non-executive Director. Mr. Yao is currently the deputy supervisor of the Electronics Engineering Research Centre and a professor in the Department of Electronics Engineering of Tsinghua University. He was the supervisor of the State Key Lab in 1998.

Mr. Lau Siu Ki, Kevin (劉紹基), aged 45, has over 21 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently working as a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 16 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Society of Accountants. He is now a member of the Council of ACCA. He has also served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau is also an independent non-executive director of Sys Solutions Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and three other companies listed on the main board of the Stock Exchange, namely Forefront International Holdings Limited, Carry Wealth Holdings Limited and Greenfield Chemical Holdings Limited.

Mr. Liu Cai (劉彩), aged 64, is the vice chairman and secretary-general of the China Institute of Communications and chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2000, Professor Liu worked with the former Ministry of Post and Telecommunications of the PRC (the "Ministry"). As the director-general of the Policy and Regulation Department of the Ministry, he was directly involved in policy setting, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministry in 1988, Professor Liu was engaged in research and development work at the China Academy of Post and Telecommunications after graduating from Beijing University of Post and Telecommunications.

SENIOR MANAGEMENT

Mr. Chen Jin Jian (陳錦堅), aged 45, is the procurement manager of the Group. Mr. Chen is responsible for the Group's overall procurement, logistic and inventories control and management. He graduated from the Guangdong Radio and Television University (廣東廣播電視大學) and obtained a professional diploma in electronic technology. Mr. Chen has over 24 years of experience in quality control and procurement. He joined the Group in 1997.

Mr. Chen Sui Yang (陳遂陽), aged 39, is the research and development manager of the Group. Mr. Chen is mainly responsible for the research and development of the Group's new products. He graduated from the Northwest Institute of Telecommunications Engineering (西北電訊工程學院) and obtained a bachelor's degree in antenna technology. Mr. Chen has over 17 years of experience in satellite and wireless communications. He joined the Group in 1998.

Mr. Zhang Shan Yu (張山宇), aged 46, is the general manager of the Group's Northeast branch. Mr. Zhang is responsible for the business development in Liaoning, Jilin and Heilongjiang provinces. He is a graduate of the Dalian University of Technology (大連工學院) and obtained a bachelor's degree in wireless technology. Mr. Zhang has over 21 years of experience in engineering, marketing and management. He joined the Group in 1997.

Mr. Feng Yong (馮勇), aged 32, is the general manager of the Group's Eastern branch. Mr. Feng is responsible for the Group's business development in Shanghai, and Zhejiang and Jiangsu provinces. He graduated from the Zhejiang University (浙江大學) majoring in thermopower. Mr. Feng has over 6 years of experience in marketing and management. He joined the Group in 2000.

SENIOR MANAGEMENT (continued)

Mr. Meng Cheng Zhi (蒙承志), aged 35, is the general manager of the Group's Southern branch. Mr. Meng is responsible for the Group's business development in Southern PRC. He is a graduate from the Chengdu University of Electronic Science and Technology (成都電子科技大學). Mr. Meng has over 11 years of experience in engineering and management. He joined the Group in 1997.

Mr. Su Hua Hong (蘇華鴻), aged 62, is the technology officer of the Group. Mr. Su is responsible for design solutions for the Group's projects. He graduated from the Beijing Institute of Post and Telecommunications (北京郵電學院) majoring in wireless communications and broadcasting. He was the vice department head of the Wireless Department of the Institute of Design of the Ministry of Post and Telecommunications prior to joining the Group in 2001. Mr. Su has over 38 years of experience in telecommunications.

Mr. Sun Cun Sheng (孫春生), aged 38, is the production manager of the Group. Mr. Sun is responsible for production planning supervision and control. He graduated from the Northwestern Polytechnics University (西北工業大學) and obtained a master's degree in aeronautical engine. Mr. Sun has over 11 years of experience in quality control and production management. He joined the Group in 2001.

Mr. Fung Kang Yuen (馮鏡源), aged 55, is the production supervisor and consultant of the Group. Mr. Fung is responsible for the operations of the Group's production. He graduated from the University of Bradford in the United Kingdom and obtained a master's degree in control engineering. Mr. Fung has over 28 years of experience in production management. He joined the Group in 2003.

Mr. Huang Bo Ning (黃伯寧), aged 34, is the senior research officer and the product design group leader of the Group. Mr. Huang is one of the key members of the Group's research and development team and participates actively in special products design and development. He graduated from the Chengdu University of Electronic Science & Technology (成都電子科技大學) in 1992 with a bachelor's degree in electronic magnetic field and microwave technology and has over 11 years experience in research and development of related products and technology. He joined the Group in 1997.

Mr. Chen Jian Bin (陳劍斌), aged 30, is the senior research officer and the product design group leader of the Group. Mr. Chen is also one of the key members of the Group's research and development team and is involved in special research and development projects. He graduated from the Beijing University of Post and Telecommunications (北京郵電大學) in 1996 majoring in communications engineering and has over 6 years of related research experience. He joined the Group in 1998.

Report of the Directors

The directors of Comba Telecom Systems Holdings Limited (the "Company") are pleased to present their first report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2003.

Group reorganisation

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. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 20 June 2003. Further details of the Group Reorganisation and the subsidiaries acquired thereto are set out in notes 1 and 16 to the financial statements.

The Company completed its initial public offering on 15 July 2003, and the shares of the Company were listed on the Stock Exchange on the same date.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the research, development, manufacturing and sale of wireless telecommunications coverage system equipment and provision of related engineering services. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 60.

The directors recommend the payment of a final dividend of 5 HK cents per ordinary share in respect of the year, to shareholders on the register of members on 7 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

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 applied during the year ended 31 December 2003 in respect of the proposed applications set out in the Company's listing prospectus, as follows:

(i) approximately HK$14,600,000 was used for long term research and development, including 3G-enabled products;

(ii) approximately HK$4,700,000 was used for the expansion of product and service portfolio;

(iii) approximately HK$21,400,000 was used for the enlargement of production facilities;

(iv) approximately HK$6,100,000 was used for the expansion in sales network and market coverage; and

(v) the balance of HK$349,200,000 was placed with commercial banks for future use as set out in the Group's prospectus.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and the Company's listing prospectus and reclassified as appropriate, is set out on page 61. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

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, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$747,946,000, of which HK$41,500,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$312,659,000, may be distributed, provided immediately following the date on which the distribution or dividend is proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course business.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 97% of the total sales for the year and sales to the largest customer included therein amounted to 61%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and five largest suppliers.

Directors

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mr. Fok Tung Ling ("Mr. Fok")
Mr. Zhang Yue Jun ("Mr. Zhang")
Mr. Chan Kai Leung, Clement
Mr. Wu Jiang Cheng (appointed on 1 April 2003)
Mr. Yan Ji Ci (appointed on 1 April 2003)
Mr. Zheng Guo Bao (appointed on 30 March 2004)

Independent non-executive directors:

Mr. Yao Yan	(appointed on 1 April 2003)
Mr. Lau Siu Ki, Kevin	(appointed on 1 April 2003)
Mr. Liu Cai	(appointed on 1 April 2003)

In accordance with articles 86(3) of the Company's articles of association, all the directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for periods of one year.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 15 of the annual report.

Directors' service contracts

Each of the executive directors (except Mr. Zheng Guo Bao) has a service contract with the Company for an initial term of three years commencing on 1 July 2003, and will continue thereafter until terminated by either party giving to the other not less than six month's written notice. Mr. Zheng Guo Bao has entered into a service contract with the Company for an initial term of two years commencing on 30 March 2004.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Apart from certain transactions related to the Group Reorganisation as disclosed in the paragraph headed "Material contracts" under the section headed "Further information about the business" in Appendix V – Statutory and General Information to the prospectus of the Company dated 3 July 2003 (the "Prospectus"), none of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

Directors' interests and short positions in shares and underlying shares

At 31 December 2003, the interests of the directors in the share capital and share options 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

Name of director	*Notes*	Through controlled corporation/ Beneficial Owner	Percentage of the Company's issued share capital
Mr. Fok	*(a)*	480,000,000	57.8
Mr. Zhang	*(b)*	120,000,000	14.5
Mr. Chan Kai Leung, Clement	*(d)*	2,000,000 (as beneficial owner)	0.24
Mr. Wu Jiang Cheng	*(e)*	2,000,000 (as beneficial owner)	0.24
Mr. Yan Ji Ci	*(f)*	2,000,000 (as beneficial owner)	0.24

Notes:

(a) 390,000,000 shares and 90,000,000 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master"), respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in a total of 480,000,000 shares owned by Prime Choice and Total Master.

(b) These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 120,000,000 shares owned by Wise Logic.

(c) On 26 February 2004, Mr. Fok and Mr. Zhang placed an aggregate of 30,000,000 shares to independent investors. Upon completion of the placing, the number of ordinary shares effectively held by Mr. Fok and Mr. Zhang was reduced to 453,000,000 and 117,000,000, respectively, representing 54.6% and 14.1% of the Company's issued share capital.

(d) Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Chan Kai Leung, Clement was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share Option Scheme" of Note 28 to the financial statements on pages 55 and 56 of this annual report.

(e) Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Wu Jiang Cheng was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share Option Scheme" of Note 28 to the financial statements on pages 55 and 56 of this annual report.

(f) Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Yan Ji Ci was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share Option Scheme" of Note 28 to the financial statements on pages 55 and 56 of this annual report.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

Save as disclosed above, 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 and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' rights to acquire shares or debentures

Save as disclosed in the share option scheme disclosures in note 28 to the financial statements, at no time during the year 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 spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 December 2003, 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**
Prime Choice		Beneficial owner	390,000,000	47.0
Total Master		Beneficial owner	90,000,000	10.8
Mdm. Chen Jing Na ("Mdm. Chen")	*(a)*	Interest of spouse	480,000,000	57.8
Wise Logic		Beneficial owner	120,000,000	14.5
Mdm Cai Hui Ni ("Mdm. Cai")	*(b)*	Interest of spouse	120,000,000	14.5

Notes:

(a) Mdm. Chen is the wife of Mr. Fok and is deemed to be interested in the 480,000,000 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.

(b) Mdm. Cai is the wife of Mr. Zhang and is deemed to be interested in the 120,000,000 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

There are duplications of interests of shares in the Company in respect of:

(i) 390,000,000 shares between Prime Choice and Mdm. Chen;

(ii) 90,000,000 shares between Total Master and Mdm. Chen; and

(iii) 120,000,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" 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.

Share option scheme

Concerning the share options granted during the year to the directors and employees, as detailed in note 28, the directors do not consider it appropriate to disclose a theoretical value of the share options, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

Connected transactions

On 31 December 2003, the Group exercised an option for further acquisition of a 13% equity interest in WaveLab Holdings Limited, a non-wholly-owned subsidiary, at a consideration of US$2,000,000. Further details of which are set out in note 16(v) to the financial statements.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), since the shares of the Company were listed on the Stock Exchange.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. An Audit Committee Meeting was held on 30 March 2004 to review the Group's annual report and provide advice and recommendations to the board of directors of the Company.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Fok Tung Ling

Chairman and Managing Director

Hong Kong, 31 March 2004

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong, 31 March 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

HK$'000	*Notes*	**2003**	2002
TURNOVER	*(5)*	**806,232**	578,366
Cost of sales		**(432,007)**	(308,869)
Gross profit		**374,225**	269,497
Other revenue and gains	*(5)*	**3,990**	835
Selling and distribution costs		**(42,390)**	(27,920)
Administrative expenses		**(98,309)**	(55,803)
Other operating expenses		**(10,838)**	(6,686)
PROFIT FROM OPERATING ACTIVITIES	*(6)*	**226,678**	179,923
Finance costs	*(7)*	**(5,542)**	(2,977)
PROFIT BEFORE TAX		**221,136**	176,946
Tax	*(9)*	**(15,912)**	(14,587)
PROFIT BEFORE MINORITY INTERESTS		**205,224**	162,359
Minority interests		**5,938**	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**211,162**	162,359
Dividend – proposed final	*(11)*	**41,500**	35,000
Earnings per share (HK cents)	*(12)*		
Basic		**29.91**	27.06
Diluted		**29.67**	N/A

Consolidated Balance Sheet

31 December 2003

HK$'000	*Notes*	**2003**	2002
NON-CURRENT ASSETS			
Fixed assets	(13)	**108,231**	70,530
Intangible assets	(14)	**3,918**	2,061
Goodwill	(15)	**22,186**	–
		134,335	72,591
CURRENT ASSETS			
Inventories	(17)	**235,401**	172,945
Trade receivables	(18)	**320,895**	192,870
Notes receivable		**–**	21,489
Other receivables	(19)	**40,288**	26,079
Pledged deposits	(20)	**115,456**	–
Cash and cash equivalents	(20)	**471,555**	115,202
		1,183,595	528,585
CURRENT LIABILITIES			
Trade and bills payables	(21)	**150,435**	93,959
Tax payable		**13,100**	8,330
Other payables and accruals	(22)	**138,432**	91,899
Short term bank loans	(23)	**71,977**	51,318
Current portion of finance lease payables	(24)	**232**	360
Provision for product warranties	(25)	**11,664**	9,655
		385,840	255,521
NET CURRENT ASSETS		**797,755**	273,064
TOTAL ASSETS LESS CURRENT LIABILITIES		**932,090**	345,655
NON-CURRENT LIABILITIES			
Long term portion of finance lease payables	(24)	**344**	603
Directors' loans	(26)	**–**	46,500
		344	47,103
MINORITY INTERESTS		**13,243**	–
		918,503	298,552

HK$'000	*Notes*	**2003**	2002
CAPITAL AND RESERVES			
Issued capital	*(27)*	**83,000**	–
Reserves	*(29(a))*	**794,003**	263,552
Proposed final dividend	*(11)*	**41,500**	35,000
		918,503	298,552

Fok Tung Ling
Director

Chan Kai Leung, Clement
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

HK$'000	Issued share capital	Share premium account	Capital reserve *(Note 29(a))*	Land and building revaluation reserve	Statutory reserves *(Note 29(a))*	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total
At 1 January 2002	–	–	10	–	12,634	230	122,858	30,000	165,732
Dividend paid by a subsidiary to its then shareholders	–	–	–	–	–	–	–	(30,000)	(30,000)
Net profit for the year	–	–	–	–	–	–	162,359	–	162,359
Proposed final 2002 dividend by a subsidiary to its then shareholders	–	–	–	–	–	–	(35,000)	35,000	–
Exchange realignment and gain not recognized in the profit and loss account	–	–	–	–	–	461	–	–	461
At 31 December 2002	–	–	10	–	12,634	691	250,217	35,000	298,552

HK$'000	*Notes*	Issued share capital	Share premium account	Capital reserve *(Note 29(a))*	Land and building revaluation reserve	Statutory reserves *(Note 29(a))*	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total
At 1 January 2003		–	–	10	–	12,634	691	250,217	35,000	298,552
Dividend paid by a subsidiary to its then shareholders		–	–	–	–	–	–	–	(35,000)	(35,000)
Capitalisation of directors' loans				46,500	–	–	–	–	–	46,500
Issue of new shares	*(27)*	20,000	356,000	–	–	–	–	–	–	376,000
Capitalisation of issued nil paid issues	*(27)*	60,000	(60,000)	–	–	–	–	–	–	–
Exercise of over-allotment option	*(27)*	3,000	53,400	–	–	–	–	–	–	56,400
Share issue expenses	*(27)*	–	(36,741)	–	–	–	–	–	–	(36,741)
Arising on revaluation of land and buildings	*(13)*	–	–	–	1,365	–	–	–	–	1,365
Exchange realignment		–	–	–	–	–	265	–	–	265
Net gains not recognized in the profit and loss accounts		–	–	–	1,365	–	265	–	–	1,630
Net profit for the year		–	–	–	–	–	–	211,162	–	211,162
Transfer to statutory reserve		–	–	–	–	34,198	–	(34,198)	–	–
Proposed final 2003 dividend	*(11)*	–	–	–	–	–	–	(41,500)	41,500	–
At 31 December 2003		83,000	312,659	46,510	1,365	46,832	956	385,681	41,500	918,503

* These reserve accounts comprise the consolidated reserves of HK$794,003,000 (2002: HK$263,552,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2003

HK$'000	*Notes*	**2003**	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**221,136**	176,946
Adjustments for:			
Interest income	*(5)*	**(3,453)**	(295)
Interest expense	*(7)*	**5,542**	2,977
Depreciation	*(6)*	**12,332**	8,515
Amortisation of intangible assets	*(6)*	**684**	211
Amortisation of goodwill	*(6)*	**2,986**	–
Loss on disposal of fixed assets	*(6)*	**574**	311
Gain on disposal of a subsidiary	*(5)*	**–**	(364)
Impairment of fixed assets	*(6)*	**–**	1,203
Operating profit before working capital changes		**239,801**	189,504
Increase in inventories		**(7,665)**	(72,772)
Increase in trade receivables		**(95,700)**	(61,122)
(Increase)/decrease in notes receivables		**21,489**	(21,489)
Increase in other receivables		**(11,123)**	(15,978)
Increase/(decrease) in trade and bills payables		**(36,544)**	21,423
Increase in other payables and accruals		**45,025**	31,799
Increase in provision for product warranties		**2,009**	2,868
Decrease in an amount due to a director		**–**	(2,748)
Cash generated from operations		**157,292**	71,485
PRC income tax paid		**(11,142)**	(6,257)
Net cash inflow from operating activities		**146,150**	65,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	*(13)*	**(47,410)**	(25,882)
Acquisition of intangible assets	*(14)*	**(2,541)**	(2,272)
Proceeds from disposal of fixed assets		**2,743**	45
Acquisition of subsidiaries	*(30(b))*	**(6,240)**	–
Increase in pledged time deposits	*(20)*	**(115,456)**	–
Disposal of a subsidiary	*(30(c))*	**–**	467
Interest received		**3,453**	295
Net cash outflow from investing activities		**(165,451)**	(27,347)

Consolidated Cash Flow Statement

Year ended 31 December 2003

HK$'000	*Notes*	**2003**	2002
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	(27)	**432,400**	–
Share issue expenses	(27)	**(36,741)**	–
New bank loans		**71,977**	51,318
Repayment of bank loans		**(51,318)**	(18,832)
Capital element of finance lease rental payments		**(387)**	(405)
Interest paid		**(5,493)**	(2,915)
Interest element on finance lease rental payments		**(49)**	(62)
Dividend paid		**(35,000)**	(30,000)
Net cash inflow/(outflow) from financing activities		**375,389**	(896)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**356,088**	36,985
Cash and cash equivalents at beginning of year		**115,202**	77,749
Effect of foreign exchange rate changes, net		**265**	468
CASH AND CASH EQUIVALENTS AT END OF YEAR		**471,555**	115,202

Balance Sheet

31 December 2003

HK$'000	Notes	2003	2002
NON-CURRENT ASSETS			
Investments in subsidiaries	(16)	**373,108**	–
CURRENT ASSETS			
Other receivables	(19)	**2,192**	–
Due from subsidiaries	(16)	**237,501**	–
Pledged deposits	(20)	**39,000**	–
Cash and cash equivalents	(20)	**179,145**	–
		457,838	–
		830,946	–
CAPITAL AND RESERVES			
Issued capital	(27)	**83,000**	–
Reserves	(29(b))	**706,446**	–
Proposed final dividend	(11)	**41,500**	–
		830,946	–

Fok Tung Ling
Director

Chan Kai Leung, Clement
Director

1. Group reorganisation and basis of presentation

The Company

Comba Telecom Systems Holdings Limited (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.

The head office and principal place of business of the Company is located at Units 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacturing and sale of wireless telecommunications coverage system equipment and the provision of related engineering services.

Group reorganisation

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 July 2003, the Company became the holding company of the companies now comprising the Group on 20 June 2003. This was accomplished by acquiring the entire issued share capital of Comba Telecom Systems Investments Limited ("Comba BVI"), which is, as at the date of this report, the intermediate holding company of the subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of 997 ordinary shares of HK$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholders of Comba BVI, and the existing three nil paid shares, credited as fully paid at par.

Further details of the Group Reorganisation are set out in note 27 to the financial statements and in the Company's prospectus dated 3 July 2003 (the "Prospectus").

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 July 2003 (the "Listing Date").

Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2002 include the results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, where this is a shorter period except that the results of subsidiaries acquired from independent third parties were consolidated since their respective dates of acquisition. The comparative combined balance sheet as at 31 December 2002 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

2. Impact of a new and revised statement of standard accounting practice ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 9 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Minority interests

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. Summary of significant accounting policies (continued)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the land and building revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Leasehold land and buildings	The shorter of lease terms and 20 years
Plant and machinery	5-10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

3. Summary of significant accounting policies (continued)

Intangible assets

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure, which does not meet these criteria is expensed when incurred.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. Summary of significant accounting policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

– except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

– except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and rendering of services associated with goods sold, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Borrowing costs

Borrowing costs are expensed in the year in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3. Summary of significant accounting policies (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated in Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidation cash flow statements, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. 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.

In addition, the Group's revenue, expenses, profit, assets and liabilities and capital expenditures are principally attributable to a single geographical region, which is the People's Republic of China. Therefore, no further segment analysis is presented.

5. Turnover, revenue and gains

Turnover represents the net invoiced value of goods sold and services rendered during the year, after allowances for returns and trade discounts.

An analysis of the Group's turnover, other revenue and gains is as follows:

HK$'000	**2003**	2002
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	**806,232**	578,366
Other revenue		
Interest income	**3,453**	295
Other	**537**	176
	3,990	471
Gains		
Gain on disposal of a subsidiary	**–**	364
	3,990	835

6. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

HK$'000	*Notes*	**2003**	2002
Cost of inventories sold and services provided		**393,154**	285,163
Depreciation	*(13)*	**12,332**	8,515
Amortisation of intangible assets*	*(14)*	**684**	211
Amortisation of goodwill**	*(15)*	**2,986**	–
Research and development costs		**27,334**	14,705
Minimum lease payments under operating leases			
in respect of land and buildings		**15,770**	7,522
Auditors' remuneration		**750**	1,000
Staff costs (excluding directors' emoluments, note 8)			
Salaries and wages		**116,597**	60,704
Staff welfare expenses		**6,001**	4,201
Pension scheme contributions#		**3,055**	1,694
		125,653	66,599
Provision for doubtful debts		**7,298**	4,873
Product warranty provisions		**11,519**	9,001
Write-off of obsolete inventories		**2,032**	5,573
Loss on disposal of fixed assets		**574**	311
Impairment of fixed assets***	*(13)*	**–**	1,203

* *The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated profit and loss account.*

** *The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.*

*** *The impairment of fixed assets is included in "Other operating expenses" on the face of the consolidated profit and loss account.*

\# *As at 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).*

7. Finance costs

HK$'000	Group 2003	Group 2002
Interest expense on bank loans wholly repayable within one year	**5,493**	2,915
Interest on finance leases	**49**	62
	5,542	2,977

8. Directors' remuneration and five highest paid employees

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

HK$'000	Group 2003	Group 2002
Fees	**220**	–
Salaries and allowances	**4,852**	3,633
Performance related bonuses	**5,095**	2,590
Pension scheme contributions	**43**	41
	10,210	6,264

Fees of HK$220,000 (2002: Nil) represented payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

During the year, 6,000,000 share options were granted to the directors in respect of their services to the Group, further details are set out in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. Directors' remuneration and five highest paid employees (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
	8	5

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

HK$'000	**2003**	2002
Salaries, allowances and benefits in kind	**1,781**	547
Performance related bonuses	**1,180**	1,089
Pension scheme contributions	**6**	11
	2,967	1,647

8. Directors' remuneration and five highest paid employees (continued)

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
	2	2

During the year, 1,500,000 share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

9. 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 year (2002: Nil). 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.

	Group	
HK$'000	**2003**	2002
Current year provision:		
Hong Kong	**–**	–
Mainland China	**15,912**	14,587
Tax charge for the year	**15,912**	14,587

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 year, provisions for PRC corporate income tax for these subsidiaries have been made at the applicable reduced tax rate on the foregoing basis.

9. Tax (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2003		2002	
	HK$'000	**%**	*HK$'000*	%
Profit before tax	**221,136**		176,946	
Tax at the applicable rates	**33,170**	**15.0**	26,562	15.0
Expenses not deductible for tax	**988**	**0.4**	2,236	1.2
Tax exemptions	**(18,246)**	**(8.2)**	(14,211)	(8.0)
Tax charge at the Group's effective rate	**15,912**	**7.2**	14,587	8.2

The Group has tax losses arising in Hong Kong and other countries of HK$26,837,000 (2002: HK$6,019,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets as at 31 December 2003.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

10. Net Profit From Ordinary Activities Attributable To Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK$62,179,000 (2002: Nil) (note 29(b)).

11. Dividend

The proposed final dividend for the year of 5 HK cents per ordinary share is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend for the year ended 31 December 2002 was declared and paid by Comba Telecom Systems Limited to its then shareholders before the Group Reorganisation.

12. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$211,162,000 (2002: HK$162,359,000), and the weighted average of 706,000,000 (2002: 600,000,000) ordinary shares in issue during the year. The weighted average of 600,000,000 ordinary shares for 2002 were deemed to have been in issue, comprising 1,000 shares in issue at the date of the Prospectus and 599,999,000 shares issued pursuant to the capitalisation issue, as further detailed in note 27 to the financial statements.

The calculation of diluted earnings per share for the year 2003 is based on the net profit attributable to shareholders of HK$211,162,000. The weighted average number of ordinary shares used in the calculation is 711,591,000, which comprises the 706,000,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 5,731,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options granted during the year.

A diluted earnings per share amount has not been disclosed for the year ended 31 December 2002 as no dilutive potential ordinary shares existed during that year.

13. Fixed assets

Group

HK$'000	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
Cost or valuation:						
At 1 January 2003	33,498	22,327	16,756	10,315	8,418	91,314
Additions	–	22,550	12,765	877	11,218	47,410
Acquisition of subsidiaries						
(Note 30(b))	–	–	4,299	276	–	4,575
Transfers	18,850	–	–	–	(18,850)	–
Disposals	–	(2,350)	(779)	(1,408)	–	(4,537)
Revaluation	(7,029)	–	–	–	–	(7,029)
At 31 December 2003	45,319	42,527	33,041	10,060	786	131,733
Analysis of cost or valuation:						
At cost	1,535	42,527	33,041	10,060	786	87,949
At valuation	43,784	–	–	–	–	43,784
	45,319	42,527	33,041	10,060	786	131,733
Accumulated depreciation						
and impairment:						
At 1 January 2003	6,945	5,725	4,793	3,321	–	20,784
Provided during the year	1,581	4,866	4,333	1,552	–	12,332
Written back on disposals	–	(77)	(266)	(877)	–	(1,220)
Written back on revaluation	(8,394)	–	–	–	–	(8,394)
At 31 December 2003	132	10,514	8,860	3,996	–	23,502
Net book value:						
At 31 December 2003	45,187	32,013	24,181	6,064	786	108,231
At 31 December 2002	26,553	16,602	11,963	6,994	8,418	70,530

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2003, amounted to HK$1,008,000 (2002: HK$1,355,000).

13. Fixed assets (continued)

The Group's leasehold land and buildings were revalued individually at the balance sheet date, by Vigers Hong Kong Limited, independent professionally qualified valuers, at an aggregate open market value of HK$43,784,000 based on their existing use, which had a net book value of approximately HK$42,419,000 as at balance sheet date. As at 31 December 2003, the Group's leasehold land and buildings have been stated at valuation, except that certain land and buildings situated in Mainland China, which are in the process of applying for the transfer of the legal title, were carried at cost with a net book value of approximately HK$1,403,000. A revaluation surplus of HK$1,365,000, resulting from the above valuations, has been credited to the land and building revaluation reserve.

The Group's leasehold land and buildings are situated in Mainland China and are held under the following lease terms:

HK$'000	**2003**
At valuation:	
Long term leases	**4,189**
Medium term leases	**39,595**
	43,784
At cost:	
Long term leases	**1,535**
	45,319

14. Intangible assets

Group

HK$'000	**Computer software**
Cost:	
At 1 January 2003	2,272
Additions	2,541
At 31 December 2003	4,813
Accumulated amortisation:	
At 1 January 2003	211
Provided during the year	684
At 31 December 2003	895
Net book value:	
At 31 December 2003	3,918
At 31 December 2002	2,061

15. Goodwill

The amount of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

Group

	HK$'000
Cost:	
At 1 January 2003	–
Acquisition of subsidiaries *(Note 30(b))*	25,172
At 31 December 2003	25,172
Accumulated amortisation:	
At 1 January 2003	–
Amortisation provided during the year	2,986
At 31 December 2003	2,986
Net book value:	
At 31 December 2003	22,186
At 31 December 2002	–

16. Interests in subsidiaries

	Company	
HK$'000	**2003**	2002
Unlisted shares, at cost	**373,108**	–
Due from subsidiaries	**237,501**	–
	610,609	–

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

16. Interests in subsidiaries (continued)

Particulars of subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands/ Hong Kong	US$100	100%	–	Investment holding
Praises Holdings Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100%	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統(廣州)有限公司 ("Comba Systems Guangzhou") *(Note (i))*	PRC/Mainland China	HK$35,000,000	–	100%	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術(廣州)有限公司 ("Comba Technology Guangzhou") *(Note (ii))*	PRC/Mainland China	HK$30,000,000	–	100%	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統(中國)有限公司 *(Note (iii))*	PRC/Mainland China	US$1,807,500	–	100%	Dormant
Guangzhou Telink Telecom Equipment Co., Ltd. 廣州泰聯電訊設備有限公司 ("Telink") *(Note (iv))*	PRC/Mainland China	HK$1,000,000	–	100%	Sale of wireless telecommunications coverage system equipment and provision of related engineering services

16. Interests in subsidiaries (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Praise Group Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	Investment holding
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	S$2	–	100%	Trading
Cascade Technology Limited ("Cascade")	British Virgin Islands/ Hong Kong	US$1	–	100%	Investment holding
WaveLab Holdings Limited ("WaveLab Holdings")	Cayman Islands/ Hong Kong	US$829	–	51.8% *(Note (v))*	Investment holding
WaveLab, Inc. ("WaveLab")	State of Virginia, United States of America	No par value	–	51.8% *(Note (v))*	Research and development of microwave equipment
WaveLab Asia Holdings Limited ("WaveLab Asia")	British Virgin Islands/ Hong Kong	US$1	–	51.8% *(Note (v))*	Dormant

Notes:

(i) Comba Systems Guangzhou is a wholly foreign-owned enterprise with an operating period of 50 years commencing 3 January 1997.

(ii) Comba Technology Guangzhou is a wholly foreign-owned enterprise with an operating period of 50 years commencing 23 May 2002.

(iii) Comba Telecom Systems (China) Limited is a wholly foreign-owned enterprise with an operating period of 50 years commencing 29 September 2003.

(iv) On 31 December 2003, the Group acquired a 100% equity interest in Telink from an independent third party at a consideration of HK$3,800,000. Telink is a wholly foreign-owned enterprise with an operating period of 50 years commencing 9 June 1998.

(v) Pursuant to a subscription agreement dated 29 January 2003 (the "Subscription Agreement"), entered into between Cascade, WaveLab Holdings and the then shareholders of WaveLab Holdings, Cascade subscribed for 258 shares in WaveLab Holdings at a consideration of US$3,000,000 at the date of the Subscription Agreement and has two options (the "Options") for further subscription of: (a) 171 shares in WaveLab Holdings at a cash consideration of US$2,000,000 on or before 31 December 2003 ("Option A"); and (b) 171 shares in WaveLab Holdings at a cash consideration of US$2,000,000 on or before 31 December 2004 ("Option B"). After the subscription of the 258 shares in WaveLab Holdings, the Group effectively owned a 39.2% equity interest in WaveLab Holdings and its wholly-owned subsidiaries, WaveLab and WaveLab Asia. On 31 December 2003, Option A was exercised and the Group's effective shareholding in WaveLab Holdings and its subsidiaries was increased to 51.8%.

On 29 January 2003, a shareholders' agreement (the "Shareholders' Agreement") was entered into between Cascade and the then shareholders of WaveLab Holdings. Pursuant to the Shareholders' Agreement, Cascade is entitled to appoint three out of five directors, and from the directors appointed by it to appoint the chairman of the board, of WaveLab Holdings. Accordingly, the Group has effective control over the composition of the board of directors of WaveLab Holdings and WaveLab Holdings and its subsidiaries are accounted for as subsidiaries of the Group since the date of the Subscription Agreement.

17. Inventories

	Group	
HK$'000	**2003**	2002
Raw materials	**98,350**	70,068
Work in progress	**15,390**	13,071
Finished goods	**121,661**	89,806
	235,401	172,945

18. 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 balance sheet date, based on invoice date is as follows:

	Group	
HK$'000	**2003**	2002
Within 3 months	**193,703**	76,992
4 to 6 months	**48,260**	50,603
7 to 12 months	**48,506**	36,518
More than 1 year	**43,920**	34,953
	334,389	199,066
Provision for doubtful debts	**(13,494)**	(6,196)
	320,895	192,870

19. Other receivables

HK$'000	Group 2003	Group 2002	Company 2003	Company 2002
Prepayments	**21,991**	15,275	**455**	–
Deposits	**343**	508	**–**	–
Other receivables	**17,954**	10,296	**1,737**	–
	40,288	26,079	**2,192**	–

20. Cash and cash equivalents

HK$'000	Group 2003	Group 2002	Company 2003	Company 2002
Cash and bank balances	**302,011**	115,202	**9,600**	–
Time deposits	**285,000**	–	**208,545**	–
	587,011	115,202	**218,145**	–
Less pledged time deposits:				
– for bills issued *(Note 21)*	**(11,299)**	–	**–**	–
– for short term bank loans and undrawn facilities *(Note 23)*	**(102,000)**	–	**(39,000)**	–
– for sales and service contract	**(2,157)**	–	**–**	–
	(115,456)	–	**(39,000)**	–
Cash and cash equivalents	**471,555**	115,202	**179,145**	–

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$250,746,000 (2002: HK$104,647,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. Trade and bills payables

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on invoice date, is analysed as follows:

	Group	
HK$'000	**2003**	2002
Within 3 months	**127,561**	58,613
4 to 6 months	**6,487**	22,797
7 to 12 months	**4,276**	8,641
More than 1 year	**12,111**	3,908
	150,435	93,959

Included in trade and bills payables are bills payables of HK$31,073,000 (2002: Nil), which are secured by the pledge of time deposits amounting to HK$11,299,000 (2002: Nil) (note 20).

22. Other payables and accruals

	Group	
HK$'000	**2003**	2002
Accruals	**58,988**	32,895
Deposits received	**16,223**	28,012
Other payables	**63,221**	30,992
	138,432	91,899

23. Short term loans

HK$'000	Group 2003	2002
Bank loans, wholly repayable within one year:		
Secured	**40,000**	13,653
Unsecured	**31,977**	37,665
	71,977	51,318

The Group's bank loans are secured by the pledge of time deposits amounting to HK$102,000,000 (2002: Nil) (note 20).

24. Finance lease payables

The Group acquired certain of its motor vehicles through hire purchase contracts of a financing nature. These hire purchase contracts are accounted for as finance leases and have remaining lease terms ranging from one to three years.

As at the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
HK$'000	**2003**	2002	**2003**	2002
Amounts repayable:				
Within one year	**253**	399	**232**	360
In the second year	**200**	356	**176**	314
In the third to fifth years, inclusive	**200**	334	**168**	289
Total minimum finance lease payments	**653**	1,089	**576**	963
Future finance charges	**(77)**	(126)		
Total net finance lease payables	**576**	963		
Portion classified as current liabilities	**(232)**	(360)		
Long term portion	**344**	603		

25. Provision for product warranties

Group

HK$'000	**2003**
At 1 January 2003	**9,655**
Additional provisions	**11,519**
Amounts utilised during the year	**(9,510)**
At end of year	**11,664**

The Group generally provides one to two year warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provisions is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties was not discounted as the effect of discounting was not material.

26. Directors' loans

The balance at 31 December 2002 represented unsecured and interest-free loans from certain directors, who are also shareholders of the Company.

During the year, in connection with the Group Reorganisation, the directors' loans were fully repaid by way of capitalisation, whereby Praises Holdings Limited allotted and issued an aggregate of 10 ordinary shares of US$1.00 each, credited as fully-paid, to the directors, further details of which are set out in the Prospectus.

27. Share capital

Shares

HK$'000	**2003**	2002
Authorised:		
5,000,000,000 (2002: 3,800,000) ordinary shares of HK$0.10 each	**500,000**	380
Issued and fully paid or credited as fully paid:		
830,000,000 (2002: Nil) ordinary shares of HK$0.10 each	**83,000**	–

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 31 December 2003:

(a) As at the date of incorporation of the company, its authorised share capital was HK$380,000 divided into 3,800,000 shares of HK$0.10 each. 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 4,996,200,000 additional shares of HK$0.10 each.

(c) On 20 June 2003, as part of the Group Reorganisation and as consideration for the acquisition of the entire issued share capital of Comba BVI, the Company: (i) allotted and issued 997 shares of HK$0.10 each 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.

(d) On 20 June 2003, a total of 599,999,000 shares of HK$0.10 each were allotted and issued as fully paid, 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 as detailed in (e) below. For the purpose of earnings per share calculation (note 12), these shares are deemed to have been issued, nil paid, since 1 January 2002.

(e) On 15 July 2003, a total of 200,000,000 shares of HK$0.10 each were issued at a price of HK$1.88 per share 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.

(f) On 21 July 2003, the over-allotment option was exercised in full and 30,000,000 shares of HK$0.10 each were issued at a price of HK$1.88 per share.

27. Share capital (continued)

A summary of the transactions 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	Share premium account	Total
			HK$'000	*HK$'000*	*HK$'000*
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	*(b)*	997	–	–	–
Pro forma issued share capital as at 31 December 2002		1,000	–	–	–
New issue on public listing	*(c)*	200,000,000	20,000	356,000	376,000
Capitalisation issue credited as fully paid by crediting the share premium account of the Company as a result of the public share issue	*(d)*	599,999,000	60,000	(60,000)	–
Exercise of over-allotment option on 21 July 2003	*(f)*	30,000,000	3,000	53,400	56,400
Share issue expenses		–	–	(36,741)	(36,741)
Issued share capital at 31 December 2003		830,000,000	83,000	312,659	395,659

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, or employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors and customers, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by a Company's controller shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the average Stock Exchange closing price of the Company's shares for the number of trading days which have elapsed from the Listing Date; and (ii) the offer price, if the option is granted before five business days have elapsed (and including) the Listing Date or (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, if the option is granted after five business days have lapsed from (and including) the Listing Date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

28. Share option scheme (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options granted during the year and at 31 December 2003	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			

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company had 40,940,000 share options outstanding under the Scheme, which represented approximately 4.9% of the Company's shares in issue as at that date. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 40,940,000 additional ordinary shares of the Company and additional share capital of HK$4,094,000 and share premium of HK$88,021,000 (before issue expenses).

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

The Group's capital reserve arose mainly from the capitalisation of directors' loans as set out in note 26 to the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries established in the PRC has been transferred to the statutory reserves which are restricted as to use.

(b) Company

HK$'000	**Share premium account**	**Contributed surplus**	**Retained profits**	**Proposed final dividend**	**Total**
Balance at 17 May 2002 (date of incorporation), 31 December 2002 and 1 January 2003	–	–	–	–	–
Arising on Group Reorganisation	–	373,108	–	–	373,108
Issue of new shares	356,000	–	–	–	356,000
Capitalisation of issued nil paid issues	(60,000)	–	–	–	(60,000)
Exercise of over-allotment option	53,400	–	–	–	53,400
Share issue expenses	(36,741)	–	–	–	(36,741)
Net profit for the year	–	–	62,179	–	62,179
Proposed final dividend	–	–	(41,500)	41,500	–
At 31 December 2003	312,659	373,108	20,679	41,500	747,946

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation referred to in notes 1 and 16, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus in certain circumstances.

30. Notes to the consolidated cash flow statement

(a) Major non-cash transactions

During the year, the Group's directors' loans, in the amount of HK$46,500,000 were fully repaid by way of capitalisation as detailed in note 26 to the financial statements.

(b) Acquisition of subsidiaries

HK$'000	*Notes*	**2003**	2002
Net assets acquired:			
Fixed assets	*(13)*	**4,575**	–
Inventories		**54,791**	–
Trade receivables		**32,325**	
Other receivables		**3,086**	–
Cash and bank balances		**20,960**	–
Trade payables		**(93,020)**	–
Other payables and accruals		**(1,508)**	–
Minority interests		**(19,181)**	–
		2,028	–
Goodwill on acquisition	*(15)*	**25,172**	–
		27,200	–
Satisfied by cash		**27,200**	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

HK$'000	**2003**	2002
Cash consideration	**27,200**	–
Cash and bank balances acquired	**(20,960)**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**6,240**	–

During the year, the Group acquired a 100% equity interest in Telink and an aggregate of 51.8% shares in WaveLab Holdings and its subsidiaries as detailed in note 16 (iv) and (v) above. Since their acquisitions, the results of the subsidiaries acquired had no significant impact on the Group's consolidated turnover or profit after tax for the year.

30. Notes to the consolidated cash flow statement (continued)

(c) Disposal of a subsidiary

HK$'000	*Notes*	**2003**	2002
Net assets disposed of:			
Fixed assets		–	96
Cash and bank balances		–	67
Other receivables		–	14
Amounts due from Group companies		–	466
Exchange realignment		–	(7)
		–	636
Gain on disposal of a subsidiary	*(5)*	–	364
		–	1,000
Satisfied by:			
Amounts due to the subsidiary disposed of		–	466
Cash		–	534
		–	1,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

HK$'000	**2003**	2002
Cash consideration	–	534
Cash and bank balances disposed of	–	(67)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	467

The results of the subsidiary disposed of during the year ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

31. Contingent liabilities

At the balance sheet date, the Group had trade receivables factored with recourse amounting to HK$84,155,000 (2002: Nil), which are not provided for in the financial statements.

The Company had no significant contingent liabilities as at the balance sheet date (2002: Nil).

32. Operating lease arrangements

As lessee

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
HK$'000	**2003**	2002
Within one year	**9,241**	6,981
In the second to fifth years, inclusive	**3,509**	4,094
	12,750	11,075

33. Commitments

In addition to the operating lease commitments detailed above, the Group had the following capital commitments for the procurement of production facilities at the balance sheet date:

	Group	
HK$'000	**2003**	2002
Contracted, but not provided for	**4,648**	7,929

34. Related party transactions

The Group had no significant related party transactions during the year.

35. Post balance sheet events

Subsequent to the balance sheet date, on 2 January 2004, WaveLab Telecom Equipment (Guangzhou) Limited ("WaveLab Guangzhou"), a wholly-owned subsidiary of WaveLab Holdings, was established. On 1 March 2004, WaveLab Guangzhou entered into an equipment sale agreement with Comba Technology Guangzhou for a consideration of RMB3,995,000 for the acquisition of certain production equipment and materials. On the same date, WaveLab Guangzhou entered into a product sales agreement with Comba Systems Guangzhou for the sale of microwave transmission products and the granting to Comba Systems Guangzhou the sole and exclusive right to sell its products in the PRC for a term of three years.

36. Comparative amounts

During current year, certain comparative amounts have been reclassified to conform with the current year's presentation.

37. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 31 March 2004.

Four Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December			
HK$'000	**2003**	2002	2001	2000
RESULTS				
Turnover	**806,232**	578,366	430,466	144,375
Cost of sales	**(432,007)**	(308,869)	(246,086)	(73,854)
Gross profit	**374,225**	269,497	184,380	70,521
Other revenue and gains	**3,990**	835	613	73
Selling and distribution costs	**(42,390)**	(27,920)	(17,789)	(6,056)
Administrative expenses	**(98,309)**	(55,803)	(43,050)	(14,600)
Other operating expenses	**(10,838)**	(6,686)	(2,454)	(1,612)
Profit from operating activities	**226,678**	179,923	121,700	48,326
Finance costs	**(5,542)**	(2,977)	(1,640)	(1,092)
Profit before tax	**221,136**	176,946	120,060	47,234
Tax	**(15,912)**	(14,587)	–	–
Profit before minority interests	**205,224**	162,359	120,060	47,234
Minority interests	**5,938**	–	–	–
Profit from ordinary activities attributable to shareholders	**211,162**	162,359	120,060	47,234
ASSETS, LIABILITIES AND MINORITY INTERESTS				
Total assets	**1,317,930**	601,176	373,703	129,929
Total liabilities	**(386,184)**	(302,624)	(207,971)	(84,257)
Minority interests	**(13,243)**	–	–	–
	918,503	298,552	165,732	45,672

Note: The results of the Group for the two years ended 31 December 2001 and 2000 and its assets and liabilities as at 31 December 2001 and 2000 have been extracted from the Company's Prospectus, which also set out the details of the basis of preparation of the consolidation. The results of the Group for the two years ended 31 December 2003 and 2002 and its assets, liabilities and minority interests as at 31 December 2003 and 2002 are those set out on pages 23 to 25 of the financial statements and are presented on the basis as set out in note 1 to the financial statements.