

ANALYSES OF LIQUIDITY AND SOURCE OF FUNDS

During the Period, the financial position of the Group has improved significantly. However, there were a number of problems which required to be resolved immediately.

During the Period, distribution costs, administrative and finance costs increased from RMB9,239,000, RMB29,943,000 and RMB5,972,000 to RMB16,069,000, RMB50,243,000 and RMB6,119,000 as compared to the same period of last year, representing an increase of 73.93%, 67.8% and 2.46% respectively .

The increase in distribution costs was mainly attributable to the increase in sales leading to a corresponding increase in transportation expenses and packaging fees. It can also be attributable to the escalation of market competition which drives the Company to put more efforts in market development in order to maintain the existing markets and to explore new markets.

The increase in administrative expenses and other operating expenses were mainly attributed to the upward adjustments in the wages of the staff on the one hand and the increase in the provisions made for accounts receivable and inventories based on the principle of prudence on the other.

During the Period, the trade receivables and inventories of the Group amounted to RMB227,781,000 and RMB155,298,000, representing an increase of 15.02% and 14.88% respectively from RMB198,030,000 and RMB135,182,000 as at the end of last year. The increases were mainly attributable to the uncompleted restructuring of the principal and subsidiary operations of some of the telecommunications customers which affected the receipt of payment for the accounts receivable and the delivery of goods by the Company. In addition, the growth in the turnover (which had increased by approximately 30% as compared with the same period of the last year) led to an increase in accounts receivable and the inventories of finished products.

1. Analysis of liquidity

As at 30 June 2001, the liquidity ratio of the Group was 184%, the quick ratio was 138%, the debtors turnover rate was 261% and the inventories turnover rate was 252%. The figures above indicated that the capital liquidity of the Group was at the average level whereas the realization and debt repayment abilities were improved.

2. Analysis of financial information

As at 30 June 2001, the short-term bank borrowings of the Group amounted to RMB213,400,000, and such borrowings were tranche loans which would be repaid by installments. The Group did not have any risk in relation to the repayment of short-term loans.

3. Share capital structure of the Group

The sources of the Group's capital comprised of profit, bank borrowings and the proceeds

from issue of shares. The proceeds were used in strict compliance with the prospectus of the Company. In order to ensure reasonable applications of the proceeds, the Group has formulated a stringent policy in financial management, and emphasized on the avoidance of risk and enhancement of the rate of return from investments.