Notes to Financial Statements

31 December 2003

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 carry forward 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	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	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	Percentage of equity attributable to the Company 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

HK$'000	Group 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:

HK$'000	Group 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	Group 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, licensees, 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.