COMBA TELECOM SYSTEMS HOLDINGS LIMITED
京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2342)

Annual results announcement for the year ended 31 December 2004

RESULTS

The board of directors (the "Board") of Comba Telecom Systems Holdings Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 were as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**2004** **HK$'000**	2003 *HK$'000*
TURNOVER	3	1,092,761	806,232
Cost of sales		(623,312)	(432,007)
Gross profit		469,449	374,225
Other revenue	3	8,705	3,990
Selling and distribution costs		(69,391)	(42,390)
Administrative expenses		(136,647)	(98,309)
Other operating expenses		(8,342)	(10,838)
PROFIT FROM OPERATING ACTIVITIES	4	263,774	226,678
Finance costs	5	(9,531)	(5,542)
PROFIT BEFORE TAX		254,243	221,136
Tax	6	(6,031)	(15,912)
PROFIT BEFORE MINORITY INTERESTS		248,212	205,224
Minority interests		6,893	5,938
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		255,105	211,162
Dividends			
Interim		33,291	—
Proposed final		41,637	41,500
		74,928	41,500
Earnings per Share (HK cents)	7		
Basic		30.71	29.91
Diluted		30.03	29.67

CONSOLIDATED BALANCE SHEET

	2004	2003
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Fixed assets	149,320	108,231
Intangible assets	3,807	3,918
Goodwill	21,916	22,186
	175,043	134,335
CURRENT ASSETS		
Inventories	516,650	235,401
Trade receivables	495,176	320,895
Notes receivable	39,318	—
Other receivables	86,166	40,288
Pledged deposits	102,000	115,456
Cash and cash equivalents	414,299	471,555
	1,653,609	1,183,595
CURRENT LIABILITIES		
Trade and notes payables	292,409	150,435
Tax payable	2,495	13,100
Other payables and accruals	249,138	138,432
Short term bank loans	157,782	71,977
Current portion of finance lease payables	180	232
Provision for product warranties	14,200	11,664
	716,204	385,840
NET CURRENT ASSETS	937,405	797,755
TOTAL ASSETS LESS CURRENT LIABILITIES	1,112,448	932,090
NON-CURRENT LIABILITIES		
Long term portion of finance lease payables	180	344
MINORITY INTERESTS	11,282	13,243
	1,100,986	918,503
CAPITAL AND RESERVES		
Issued capital	83,273	83,000
Reserves	976,076	794,003
Proposed final dividend	41,637	41,500
	1,100,986	918,503

Notes:

1. CORPORATE INFORMATION

The Company

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.

2. 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 ("PRC"). Therefore, no further segment analysis is presented.

3. TURNOVER AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	2004	2003
	HK$'000	*HK$'000*
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	1,092,761	806,232
Other revenue		
Interest income	7,857	3,453
Other	848	537
	8,705	3,990

4. PROFIT FROM OPERATING ACTIVITIES

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

	2004	2003
	HK$'000	*HK$'000*
Depreciation	23,017	12,332
Amortisation of intangible assets	1,380	684
Amortisation of goodwill	5,199	2,986
Loss on disposal of fixed assets	1,543	574

5. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest expense on bank loans wholly repayable within one year	7,299	5,286
Interest on finance leases	41	49
Finance costs on the factored trade receivables	2,191	207
	9,531	5,542

6. 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 (2003: 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.

	2004	2003
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	—	—
Mainland China	6,031	15,912
Tax charge for the year	6,031	15,912

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 Mainland China is 15%. As approved by the relevant tax authorities, certain of the Group's subsidiaries operating in the 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.

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share of HK$0.1 each of the Company ("Share(s)") are based on:

Earnings

	2004	2003
	HK$	*HK$*
Net profit attributable to shareholders, used in the basic and diluted earnings per Share calculations	255,105,000	211,162,000

Shares

	Number of shares	
	2004	2003
Weighted average number of ordinary Shares in issue during the year used in basic earnings per share calculation	830,693,000	706,000,000
Weighted average number of ordinary Shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	18,700,000	5,731,000
Weighted average number of ordinary Shares used in diluted earnings per share calculation	849,393,000	711,731,000

FINAL DIVIDEND

The Board recommended to pay to the shareholders of the Company a final dividend of HK5 cents per Share for the year ended 31 December 2004 representing a total of HK$41,637,000.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 25 May 2005 ("AGM").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2005 to 25 May 2005, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 pm on 20 May 2005. Dividend warrants will be dispatched on or about 31 May 2005 subject to shareholders' approval of payment of the final dividend at the AGM.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business/Financial Review

Turnover

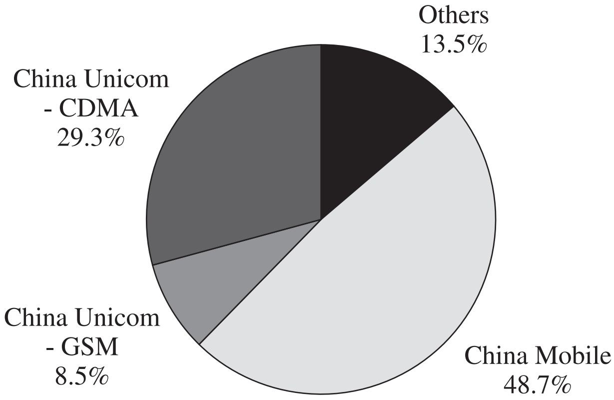
The Group's turnover for the year ended 31 December 2004 was HK$1,092,761,000, representing an increase of approximately 35.5% from the previous year. Following the trend in the last few years, the Group has been benefiting from the continued wireless coverage capital expenditure by the mobile operators in the PRC in improving the quality of mobile networks for providing better services to mobile phone subscribers. Being a leading provider of wireless coverage solutions to the two mobile operators in the PRC, the Group experienced continued and steady growth in its business. In particular, demand for the Group's wireless coverage solutions from the CDMA network of China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased significantly during the year.

By the end of 2004, the Group operated over 30 offices in the PRC providing sales, project survey and design, project management, installation and maintenance services to its customers locally. During the year, the Group's provincial level mobile operators customers had increased by 11 operators to 58 operators. The Group expanded steadily to strengthen its position as a leading wireless coverage solutions provider in the PRC.

Revenue generated from China Mobile Communications Corporation and its subsidiaries increased steadily by 8.8% and accounted for 48.7% of the Group's total turnover in 2004. During the year, revenue of the Group generated from China Unicom Group's CDMA network increased tremendously by 135.4% while revenue of the Group generated from its

GSM network decreased by 24.7%. Revenue from China Unicom Group accounted for 37.8% of the Group's total turnover in 2004, with CDMA and GSM accounting for 29.3% and 8.5% respectively. Others including sales to agents in the PRC accounted for 13.5% of the Group's turnover in 2004.

Breakdown by customers

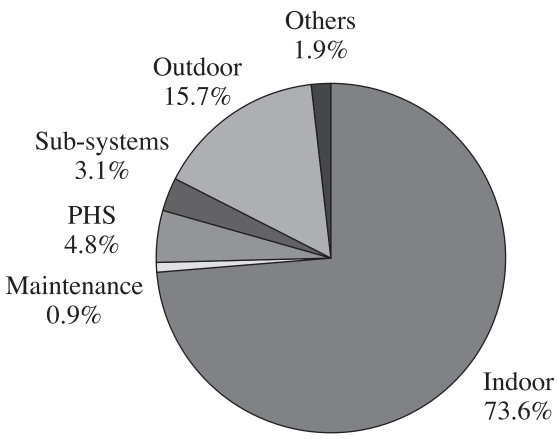


Completion of the infrastructure projects led to continued demand for indoor wireless coverage solutions in the PRC. Revenue generated from indoor wireless coverage solutions accounted for 73.6% of the Group's turnover in 2004, as compared to 71.7% in 2003. Revenue generated from outdoor wireless coverage solutions accounted for 15.7% of the Group's turnover in 2004, compared to 22.7% in 2003.

Apart from providing turnkey solutions in wireless coverage to mobile operators, the Group also sold base station ("BTS") sub-systems, including tower top solutions and BTS antennas. These accounted for 3.1% of the Group's turnover in 2004, compared to 2.6% in 2003.

Revenue generated from the wireless coverage equipment for the PHS network, which represents one of the Group's new businesses during the year, accounted for 4.8% of the Group's turnover. In addition, revenue from extended maintenance contracts accounted for 0.9% of the Group's turnover.

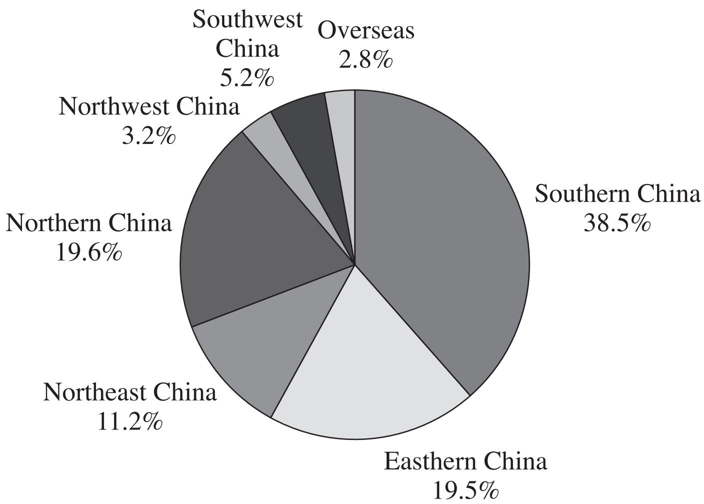
Breakdown by solutions/products



In respect of the PRC market, over 80% of the Group's revenue was generated from the coastal regions. Southern region (covering mainly Guangdong) remained as the major revenue contributor, accounting for 38.5% of the Group's turnover in 2004. The Northern region (covering mainly Beijing, Tianjin, Shangdong), Eastern region (covering mainly Jiangsu, Zhejiang and Shanghai) and the Northeast region (covering Liaoning, Jilin and Heilongjiang) accounted for 19.6%, 19.5% and 11.2% respectively of the Group's turnover in 2004.

Export sales accounted for 2.8% of the Group's turnover in 2004, representing an increase of 120.1% over 2003.

Breakdown by regions



Gross profit

Gross profit of the Group for the year ended 31 December 2004 was HK$469,449,000, representing an increase of 25.4% over 2003. Gross profit margin was 43.0% compared to 46.4% in 2003. In order to capture the business opportunities faced by the Group, it strategically priced its products to strengthen its leading position, capture new markets and provide better value to its customers. Although the Group managed to negotiate better pricing in material costs and implemented other cost saving measures, these were not sufficient to compensate the effect brought by the pricing strategy during the year. The Group also increased its resources in the provision of project management and technical services nationwide in the PRC for the substantial increase in the number of projects handled by the Group.

In addition, sales of equipment to agents in the PRC tend to command lower gross profit margins as technical services are usually provided to the operators by them rather than by the Group.

Operating expenses

Selling, general and administrative ("SG&A") expenses were HK$206,038,000, representing an increase of 46.4% over 2003. It accounted for 18.9% of the turnover in 2004 compared to 17.5% in 2003. To strengthen its leading position and penetrate new markets in the PRC, the Group expanded its sales and technical support teams. The headcount of the Group's regional offices in the PRC increased by more than 30% in 2004.

To strengthen its international presence, the Group established two offices in Sweden and Thailand during 2004.

Concerning the DMS business, the Group has been carrying out trials with its customers in the PRC and overseas. Since the Group was in its initial phase of market development in international markets and its DMS business during 2004, contribution from these businesses were not sufficient enough to cover the market development costs involved. This, together with the expansion in the PRC, contributed to the increase in SG&A expenses.

Net profit

Net profit for the year ended 31 December 2004 was HK$255,105,000, representing an increase of 20.8% over 2003. Net profit margin was 23.3% in 2004 compared to 26.2% in 2003. The decrease was mainly due to the lowering of gross profit margin and increases in SG&A expenses described above. Such impact was mitigated by the decrease in effective tax rates as one of the Group's subsidiaries in the PRC was still under full tax exemption in 2004.

Prospect

Wireless coverage solutions

Wireless coverage solutions business in the PRC will remain the Group's principal business in 2005. The Group expects to continue to benefit from the increasing capital expenditure by mobile operators for enhancing the quality of the mobile networks in the PRC. The capacity routing solutions newly developed by the Group help mobile operators to use their capacity resources more cost-effectively and are well received by their customers. It is expected that this capacity routing solutions will be in great demand during 2005.

The granting of 3G licences in the PRC is foreseeable in the near future. Once the licences are granted, the Group anticipates the demand for wireless solutions for 3G networks to be strong. This will bring tremendous business opportunities to the Group, which will leverage on its leading position in the wireless sub-system market in the PRC. In addition, the development of some PHS products has helped the Group to establish relationships with the fixed line operators in the PRC which are potential candidates for the 3G licences.

DMS

The Group increased its equity interest in WaveLab Holdings Limited ("WaveLab") to 60% in October 2004. Wavelab successfully developed ODUs in the frequencies ranging from 7GHz to 26GHz. The Group has obtained CE approvals for some of its products. Trials have been conducted with mobile operators and OEM vendors in the PRC and abroad with satisfactory results. DMS business will be a good contribution to the Group's revenue in 2005.

BTS sub-systems

The Group expanded into the BTS sub-systems market by developing products and solutions including tower top solutions and BTS antennas. The Group's BTS antennas have been qualified with 15 provincial level mobile operators by the end of 2004. A significant growth in revenue is expected in this business segment.

Extended maintenance services

The Group has over the years completed a large number of both indoor and outdoor wireless coverage solutions projects for its customers. Once the warranty period expires, the Group is in a position to negotiate extended maintenance services contracts with its customers. Given a growing installed base, the Group expects a steady growth in recurring income from this business segment.

Export market

The Group currently has four export sales offices, located in Hong Kong, Singapore, Sweden and Thailand. The Asia Pacific markets are covered by Hong Kong, Singapore and Thailand, whereas the EMEA markets are covered from Sweden. The Group has established a strong international team with seasoned personnel in the wireless market and it anticipates the growth momentum in the past years to continue in 2005.

OEM vendor market

The Group has successfully established business relationships with two major OEM vendors in the PRC. This has broadened the Group's customer base and conducting business with these OEM vendors will be a new revenue stream for the Group.

In short, the Group is well positioned for taking on the tremendous business opportunities expected in the mobile markets in 2005 and beyond. The issuance of 3G licences in the PRC is likely to double the number of mobile networks, and bring new entrants to the mobile market. This will enable the Group to develop a broader customer base and result in a greater demand for its products and solutions. The Group will also take advantage of the opportunities in the global wireless equipment market, especially in the Asia Pacific and EMEA regions. The Group's experienced international team will endeavour to replicate the Group's success in the PRC in international markets.

The Group successfully explored the OEM vendor market which further broadened its customer base. Over the years, it has built an R&D and manufacturing platform, capable of developing and producing quality products and handling huge production volume. With a low cost structure in the PRC, the Group anticipates to develop further business cooperation with both domestic and international OEM vendors.

The Group remains very focused in the wireless sub-system, and coverage and capacity enhancement solutions markets. With its core competencies in RF and related areas, the Group envisages to grow with the promising growth of the mobile markets around the world.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2004, the Group had net current assets of HK$937,405,000. Current assets comprised inventories of HK$516,650,000, trade receivables of HK$495,176,000, notes and other receivables of HK$125,484,000, and cash and bank balances of HK$516,299,000. Current liabilities comprised trade and notes payables of HK$292,409,000, tax payables of HK$2,495,000, other payables and accruals of HK$249,138,000, current portion of finance lease payables of HK$180,000, short-term bank loans of HK$157,782,000, and provision for product warranties of HK$14,200,000.

The average debtors turnover for the year ended 31 December 2004 was 137 days, compared to 116 days for the year ended 31 December 2003. 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 2004 was 221 days compared to 173 days for the year ended 31 December 2003.

As at 31 December 2004, the Group's cash and bank balances were mainly denominated in Reminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB 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 Board considers 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 8.6% as at 31 December 2004.

Charge on Assets

The Group's bank borrowings were secured by a charge on time deposits amounted to HK$102,000,000 (2003: HK$102,000,000).

Contingent Liabilities

As at 31 December 2004, the Group had contingent liabilities of HK$13,603,000 as detailed in the financial statements (2003: HK$84,155,000).

Employees and Remuneration Policies

As at 31 December 2004, the Group had around 3,000 staff. The total staff costs for the year under review was HK$191,740,000. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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 of the Stock Exchange (the "Listing Rules") throughout the year.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee, comprising the three independent non-executive directors of the Company, has reviewed the annual results.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

The Company's 2004 Annual Report containing all the information required by paragraphs 45(1) to 45(3) (both paragraphs inclusive) of Appendix 16 to the Listing Rules will be submitted to the Stock Exchange in due course for uploading onto its website (http://www.hkex.com.hk).

APPRECIATION

The Board would like to take this opportunity to extend its gratitude and appreciation to the Company's shareholders, the Group's partners and hardworking staff for their support during the year.

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

Hong Kong, 15 April 2005

As at the date hereof, the Board comprises:

Executive directors:
Mr. Fok Tung Ling
Mr. Zhang Yue Jun
Mr. Chan Kai Leung, Clement
Mr. Wu Jiang Cheng
Mr. Yan Ji Ci
Mr. Zheng Guo Bao
Mr. Yeung Pui Sang, Simon

Independent non-executive directors:
Mr. Yao Yan
Mr. Lau Siu Ki, Kevin
Mr. Liu Cai

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