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)

Final Results Announcement
For the year ended 31 December 2006

FINANCIAL HIGHLIGHTS

- Revenue increased by 33% to HK$1,550 million
- Gross profit increased by 24% to HK$587 million
- Profit attributable to shareholders increased by 60% to HK$131 million
- Basic earnings per share was 15.69 HK cents

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 2006 were as follows:

Consolidated Income Statement
Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**1,550,441**	1,170,515
Cost of sales		**(963,901)**	(696,189)
Gross profit		**586,540**	474,326
Other income and gain	5	**11,799**	8,851
Research and development costs		**(76,267)**	(62,509)
Selling and distribution costs		**(100,215)**	(86,955)
Administrative expenses		**(251,199)**	(223,000)
Other expenses		**(6,954)**	(3,454)
Finance costs		**(15,918)**	(21,480)
PROFIT BEFORE TAX	6	**147,786**	85,779
Tax	7	**(16,561)**	(7,315)
PROFIT FOR THE YEAR		**131,225**	78,464
Attributable to:			
Equity holders of the parent		**131,140**	82,089
Minority interests		**85**	(3,625)
		131,225	78,464
DIVIDEND	9		
Proposed final		**37,818**	24,991
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	8		
Basic		**15.69**	9.86
Diluted		**15.55**	9.75

Consolidated Balance Sheet
31 December 2006

	2006	2005
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**257,724**	172,380
Prepaid land lease payments	**13,220**	13,040
Goodwill	**21,916**	21,916
Deferred tax assets	**34,232**	19,318
Other intangible assets	**5,250**	8,242
Restricted bank deposits	**1,629**	–
Total non-current assets	**333,971**	234,896
CURRENT ASSETS		
Inventories	**617,789**	572,948
Trade receivables	**840,426**	618,290
Notes receivables	**33,754**	35,585
Factored trade receivables	**–**	115,296
Prepayments, deposits and other receivables	**97,395**	112,807
Restricted bank deposits, short term time deposits and pledged time deposits	**480**	178,296
Cash and cash equivalents	**492,737**	314,118
Total current assets	**2,082,581**	1,947,340
CURRENT LIABILITIES		
Trade and bills payables	**500,776**	356,753
Other payables and accruals	**307,756**	284,036
Interest-bearing bank loans	**152,908**	190,723
Bank advances on factored trade receivables	**–**	115,296
Current portion of finance lease payables	**–**	180
Tax payable	**22,214**	18,867
Provision for product warranties	**26,039**	21,066
Total current liabilities	**1,009,693**	986,921
NET CURRENT ASSETS	**1,072,888**	960,419
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,406,859**	1,195,315
Net assets	**1,406,859**	1,195,315

Consolidated Balance Sheet
31 December 2006

	2006	2005
	HK$'000	*HK$'000*
Net assets	**1,406,859**	1,195,315
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**84,041**	83,302
Reserves	**1,277,258**	1,079,365
Proposed final dividend	**37,818**	24,991
	1,399,117	1,187,658
Minority interests	**7,742**	7,657
Total equity	**1,406,859**	1,195,315

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 certain buildings which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 ***Consolidated and Separate Financial Statements***

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements.

(c) HKAS 39 ***Financial Instruments: Recognition and Measurement***

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Company and the comparative amounts for the year ended 31 December 2005 have been restated. As it is not practicable to estimate the fair values and consequential effect on reported net assets of the change in accounting policies in respect the financial guarantees issued prior to 1 January 2005, the adjustments to reflect the change in accounting policy have been made as at 31 December 2005. A summary of the impact of the changes are set out below.

	31 December
	HK$'000
Company balance sheet at 31 December 2005 and 1 January 2006	
Increase in interests in subsidiaries	**2,053**
Increase in financial guarantee liabilities	**(2,053)**
	–
Company balance sheet at 31 December 2006	
Increase in interests in subsidiaries	**(866)**
Decrease in financial guarantee liabilities	**866**
	–

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9,HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group principally engages in the manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

In addition, the Group's revenue, profit, assets and liabilities and capital expenditure are principally attributable to a single geographical region, which is Mainland China. Therefore, no analysis of business or geographical segment is presented.

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered during the year, net of value-added tax, and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gain is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**1,550,441**	1,170,515
Other income and gain		
Bank interest income	**4,374**	6,125
Exchange gain, net	**5,280**	–
Others	**2,145**	2,726
	11,799	8,851

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**937,958**	674,558
Depreciation	**34,138**	29,565
Recognition of prepaid land lease payments	**305**	292
Amortisation of intangible assets	**3,702**	2,595
Minimum lease payments under operating leases in respect of land and buildings	**30,828**	28,968
Auditors' remuneration	**2,480**	2,354
Employee benefits expense (excluding directors' emoluments):		
Salaries and wages	**230,779**	187,041
Staff welfare expenses	**22,004**	12,865
Equity-settled share option expense	**12,672**	16,896
Pension scheme contributions#	**18,484**	15,389
	283,939	232,191
Provision for impairment of trade receivables	**6,412**	1,713
Provision for product warranties	**25,943**	21,631
Loss on disposal of items of property, plant and equipment	**48**	670

At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).

7. TAX

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the year (2005: 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	2006	2005
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	–
Elsewhere:		
Mainland China	**29,954**	26,329
Overseas	**484**	304
Deferred tax	**(13,877)**	(19,318)
Total tax charge for the year	**16,561**	7,315

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and approved by the relevant tax authorities, Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou"), a wholly-owned subsidiary of the Company operating in Mainland China was exempted from PRC corporate income tax for the two years commencing from its first profit-making year from 1 January 2000 to 31 December 2001 and thereafter was entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2002 to 31 December 2004.

In addition, Comba Guangzhou was designated as an advanced technology foreign investment enterprise by the Guangzhou Foreign Trade and Economic Cooperation Bureau in August 2004. Under the current PRC tax legislation, upon expiry of its tax holiday, a foreign investment enterprise of advanced technology is entitled to the preferential tax rate at 50% of the applicable standard rate, subject to a minimum rate of 10%, for another three years. During the year, provision for the PRC corporate income tax for Comba Guangzhou has been made at the applicable reduced tax rate of 10%.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), another subsidiary of the Company established in the PRC, was entitled to an exemption from PRC corporate income tax for the two years commencing from its first profit-making year of 1 January 2003 to 31 December 2004 and thereafter was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2005 to 31 December 2007.

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

	2006		2005	
	HK$'000	*%*	*HK$'000*	*%*
Profit before tax	**147,786**		85,779	
Tax at the applicable rate	**22,168**	**15.0**	12,867	15.0
Expenses not deductible for tax	**7,427**	**5.0**	3,698	4.3
Tax losses not recognised	**15,212**	**10.3**	9,837	11.5
Tax exemptions	**(28,246)**	**(19.1)**	(19,087)	(22.3)
Tax charge at the Group's effective rate	**16,561**	**11.2**	7,315	8.5

The Group has tax losses arising in Hong Kong and other countries of HK$101,413,000 (2005: HK$65,579,000) 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 at 31 December 2006.

At 31 December 2006, there were no significant unrecognised deferred tax liabilities (2005: Nil).

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

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**131,140**	82,089

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**835,860,000**	832,918,000
Effect of dilution – weighted average number of ordinary shares	**7,524,000**	8,595,000
	843,384,000	841,513,000

9. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK4.5 cents (2005: HK3 cents) per ordinary share	**37,818**	24,991

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2007 to 23 May 2007, 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 registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 pm on 18 May 2007. Dividend warrants will be dispatched on or about 6 June 2007 subject to shareholders' approval of payment of the final dividend at the Company's forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Revenue

The Group's revenue for the year ended 31 December 2006 (the "Current Year") was HK$1,550,441,000, representing an increase of approximately 32.5% over the revenue for the year ended 31 December 2005 (the "Prior Year"). During the Current Year, the Group benefited from continued economic growth and urban and rural development in the PRC. This, together with strong subscriber growth achieved by the mobile operators, resulted in increased wireless enhancement capital expenditure. In addition, it recorded robust revenue growth in new businesses such as base transceiver station ("BTS") antennas and subsystems, and digital microwave systems ("DMS"). International market also delivered remarkable growth in revenue during the Current Year.

By customers

Revenue generated from China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group") increased remarkably by 67.1% and accounted for 68.2% of the Group's revenue in the Current Year. Such strong growth is primarily due to increased wireless enhancement capital expenditure by the China Mobile Group for network optimisation amid strong subscriber growth. The Group's broadened product and solution portfolio also contributed to increased revenue generated from the China Mobile Group. During the Current Year, revenue generated from China United Telecommunications Corporation and its subsidiaries (the "China Unicom Group") decreased by 26.2% and accounted for 18.8% of the Group's revenue in the Current Year.

Revenue from other customers including agents in the PRC, core equipment manufacturers and international customers accounted for 13.0% of the Group's revenue in the Current Year. Out of which, international sales (including sales to core equipment manufacturers) more than doubled and accounted for 7.4% of the Group's revenue in the Current Year compared to 4.6% in the Prior Year. The Group's international expansion effort has achieved good progress as demonstrated by the strong growth, which is contributed by addition of new customers and repeat orders from existing customers.

By businesses

Revenue generated from wireless enhancement business in the Current Year increased by 16.5% over the Prior Year. It accounted for 69.0% of the Group's revenue in the Current Year, compared to 78.5% in the Prior Year. Products managed by this business unit include repeaters, boosters, tower mounted boosters, etc. Revenue reported under this business unit includes the service revenue associated with, and the cables used in, the related turnkey projects. In general, the Group continued to benefit from the steady wireless enhancement capital expenditure by the mobile operators in the PRC.

Revenue generated from antennas and subsystems business in the Current Year grew by 72.5% over the Prior Year. It accounted for 24.7% of the Group's revenue in the Current Year, compared to 19.0% in the Prior Year. Products managed by this business unit include antennas and passive accessories used in the wireless enhancement solutions, BTS antennas, camouflaged antennas, etc. Out of which, revenue from BTS antennas more than doubled in the Current Year.

Revenue generated from the wireless transmissions business increased more than threefold and accounted for 3.6% of the Group's revenue in the Current Year, compared to 1.1% in the Prior Year. The Group has developed a full range of digital microwave products which are well received in the PRC and the international markets.

In addition, revenue from extended maintenance services more than doubled and accounted for 2.2% of the Group's revenue in the Current Year, compared to 1.2% in the Prior Year. With a growing installed base, such growth momentum is expected to continue.

Gross profit

The Group has been facing continued pressure on the average selling price and hence gross profit margin of its products and solutions for the maturing 2G mobile communications market in the PRC, especially after the central procurement programme initiated by the China Mobile Group in mid 2005. In view of this, the Group has implemented various measures to mitigate this downward trend. It optimised its product portfolio by focusing on products with higher margin, optimised the product design, and continued to negotiate better pricing for materials. In addition, The Group improved its logistics management, thereby enhancing production efficiency and lowering costs. All of these efforts helped sustain the gross profit margin at a healthy level, being 37.8% in the Current Year, compared to 40.5% in the Prior Year. Gross profit of the Group for the Current Year was HK$586,540,000, representing an increase of 23.7% over the Prior Year.

Research and development costs

The Group has continued to allocate its resources appropriately in the research and development ("R&D") of its products and solutions including those related to 3G in order to enable it to meet current and future market demand. For instance, the Group continued to expand its R&D team in the PRC during the Current Year. On the other hand, the R&D centre in the West Coast of the United States was established in the third quarter of 2005 and full year expenses were therefore reflected in the Current Year. R&D expenses increased by 22.0% to HK$76,267,000 and accounted for 4.9% of revenue in the Current Year compared to 5.3% in the Prior Year. This demonstrates that the Group's R&D efforts are very focused and can cater to the market needs. With its continuous investment in R&D, the Group achieved significant accomplishment in intellectual property rights, having applied for over 160 patents as at the end of the Current Year.

Selling and distribution costs

Selling and distribution costs were HK$100,215,000 in the Current Year, representing an increase of 15.2% over the Prior Year. With more focused sales and marketing efforts on markets with high demand and a broader product portfolio supported by an established sales platform, the Group achieved better efficiency in selling and distribution costs which accounted for 6.5% of the Group's revenue in the Current Year, compared to 7.4% in the Prior Year. This proves that the Group's cautious expansion during the industry slowdown in 2005 was a right decision, setting a good foundation of sales network on which the Group is able to tap into business opportunities as and when they arise.

Administrative expenses

Administrative expenses were HK251,199,000 in the Current Year, representing an increase of 12.6% over the Prior Year, and accounted for 16.2% of the Group's revenue in the Current Year, compared to 19.1% in the Prior Year. This improvement was primarily a result of the Group's strengthened budgetary control. Secondly, economies of scale were also achieved amid strong revenue growth in the Current Year. Over the years, the Group has established an experienced and seasoned management team who is capable of managing the Group's resources effectively and efficiently.

Finance costs

Finance costs were HK$15,918,000 in the Current Year, representing a decrease of 25.9% over the Prior Year. In view of rising interest rates, the Group was successful in improving its cash cycle, thereby reducing the bank borrowing level for working capital purposes during the Current Year.

Tax

Effective tax rate was 11.2% in the Current Year, compared to 8.5% in the Prior Year.

Net profit

Profit attributable to shareholders ("Net Profit") for the Current Year was HK$131,140,000, representing an increase of 59.8% over the Prior Year. Net profit margin was 8.5% in the Current Year compared to 7.0% in the Prior Year. Such increase was a result of strong revenue growth, healthy gross profit margin, efficient utilization of the Group's resources and better economies of scale described above.

Prospect

Wireless enhancement solutions

The Directors believe that the recent 3G development in the PRC represents a good business opportunity for the Group in the near term. It has been widely reported that the parent company of the China Mobile Group will be rolling out TD-SCDMA capex in a number of cities including those where the Olympic Games will be held in 2008. While the timing of the 3G licence grant remains to be uncertain, this move has demonstrated the State Government's determination in promoting the home grown TD-SCDMA technology.

The Group has always taken a proactive role in its readiness for 3G. For instance, it has developed a number of 3G repeaters and boosters for WCDMA and TD-SCDMA standards according to market needs. During the Current Year, the Group became a member of the TD-SCDMA Industry Alliance which was established to perfect and promote the TD-SCDMA standard. In addition, the Group has participated in various 3G network trials and testing and is therefore well prepared for 3G in all aspects. Given the strong business relationship with the China Mobile Group, the Group is poised to benefit from its TD-SCDMA wireless enhancement investment in 2007 and beyond. The Directors believe that the other two 3G standards, namely, WCDMA and CDMA 2000 will be adopted in the PRC in due course and therefore the Group should monitor the development of 3G closely and take appropriate measures accordingly.

The Directors also believe that 2G and 3G networks will coexist for a long period of time, operators will still need to invest in the construction of 2G network, given a continued and strong growth in subscribers and an extension in coverage to rural areas. Both the China Mobile Group and the China Unicom Group indicated recently that they would increase capital expenditure in their respective GSM networks in 2007 compared to 2006. Apart from investing in core network equipment to provide a larger capacity, mobile operators would invest in the optimisation of network quality and resources in order to improve the breadth and depth of the network. The Directors therefore remain cautiously optimistic about the wireless enhancement solutions market in the PRC, regardless of the timing of 3G licence grant.

Mobile operators in the PRC have increasingly adopted the practice of central procurement in order to streamline their supply chain management as well as to save costs. The Directors believe that it is good for the market as a whole because fewer players will be selected and the Group may capture a larger market share. Nevertheless, inevitably, the average selling price of the wireless enhancement products is expected to be trending downwards and gross profit margin is expected to be under pressure.

The international market provides a lot of growth potential because of the continuous investment in wireless infrastructure around the world. The 2G network built in developing countries and the 3G network upgrade in the developed world offer a lot of opportunities. The global market landscape has also changed quite drastically following the mergers of the Group's competitors which provide a lot of entry room for the Group as operators around the world are looking for established suppliers. For instance, the Group has recently signed a supply agreement with a European mobile operator in respect of its multi-carrier tower mounted boosters. This is a major step forward, demonstrating the Group's capabilities in developing top quality products and expanding its customer base to renowned global mobile operators.

Antennas and Subsystems

The Group has actively expanded its capabilities on antennas and subsystems. The Group's continuous investment in R&D has enabled it to develop a complete product portfolio including smart antennas, multi-band antennas with 3G capabilities, camouflaged antennas and a full range of tower top solutions to address the PRC market as well as the global operators market.

The Group's production capacity for BTS antennas has more than tripled since 2005 in order to cope with the anticipated demand. The Group also participates in international technical and standards forum like the AISG Forum to maintain its technical excellence. The technical leadership that the Group has established in the PRC has enabled it to be the sole supplier for certain high performance antennas in the PRC. In addition to using its own sales network, the Group is also selling its BTS antennas in the overseas market through a leading Chinese core equipment manufacturer. This once again demonstrates the Group's technical leadership in this market segment which, the Directors believe, is going to provide strong growth momentum for the Group.

On top of BTS antennas and subsystems, products classified under this business unit include antennas and passive accessories used in wireless enhancement solutions. The demand for these products will grow with the increase in demand for repeaters and boosters as described above.

Wireless Transmissions – Digital Microwave Systems ("DMS")

The Group has now completed the portfolio of Point-to-Point DMS solutions. Its products cover most frequency bands and provide wireless transmissions from two E1s (2Mbps) to up to STM-1 (155Mbps). DMS is currently the core product line for the Group's wireless transmissions business and its products have been well received by its PRC and international customers. The Directors believe that the continuous investment in the global wireless and wireline telecom infrastructure will provide good growth potential for the Group's DMS products. Its products provide a quick and cost effective solution for operators in their high speed data and backhaul services especially in the developing countries like South East Asia, India, Caribbean and Latin America ("CALA") and Africa. In addition, the forthcoming launch of 3G services in the PRC is another growth opportunity for DMS as there will be a huge demand in BTS backhaul services.

Extended maintenance services

The Group has accumulated a growing installed base over the years which serve as a solid base for recurring income. Upon expiry of the free warranty period of the wireless enhancement solutions projects undertaken by the Group in previous years, the Group is in a position to negotiate extended maintenance services contracts with its customers and it expects to generate more revenue from this business segment.

Operations

In order to facilitate continuous growth of its existing businesses while providing growth and support for new products and global expansion strategy, the Group has implemented a corporate wide resources realignment exercise thereby creating three separate business units. The Wireless Enhancement Business Unit focuses on wireless enhancement market for both indoor and outdoor environments; the Subsystems & Antennas Business Unit primarily provides BTS subsystems and antenna products; and the Wireless Transmissions Business Unit offers DMS and other new transmission products. Each of these business units is responsible for its own product management including product development and marketing. This has resulted in a well coordinated and focused effort in promoting different product lines within each of these business units. The Directors are confident that the resources realignment will allow the Group to provide an excellent overall support platform for its global customers and allow the Group to grow and become a leading player in the global telecom market.

The Group has recently relocated its sales and marketing and R&D departments, among others, to the new headquarters in Guangzhou Science City, Guangzhou, the PRC. The existing plant in the Guangzhou Economic and Technology Development District is mainly used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

After implementing a new SAP ERP system in the PRC in 2005, a high level of integration of logistics management has been achieved. Efficiency and control have been improved in the areas of materials procurement, inventory control, overall production management, project coordination management and working capital management. The ERP system is being launched in other entities within the Group.

Conclusion

The Directors believe that the demand for 2G products in the PRC continues to be strong given the increasing number of mobile subscribers and infrastructure projects as well as the extension of coverage to the rural areas, regardless of 3G network licensing in the PRC. This is also evidenced by the capex plan of the PRC mobile operators for the next three years. In addition, the Directors remain cautiously optimistic about the opportunities arising from the future development of the 3G mobile market in the PRC in the medium term as the State government is determined to open up the mobile market, thereby allowing more operators to provide mobile services. This will drive the demand for wireless enhancement solutions as the competition among mobile operators becomes more intense. The forthcoming TD-SCDMA capex rollout in a number of cities in the PRC is expected to bring new revenue stream to the Group.

The Group believes that overall diversification of markets and products while maintaining its core technical competency is essential for long term success. The international market expansion and the development of BTS antennas and subsystems and DMS products for wireless transmissions are all important diversification strategies to fuel its long term growth.

Following the expansion to CALA market, the Group will continue to expand it geographical coverage to serve more customers. The Group has also realigned its resources at the headquarters level by forming three separate business units to guarantee good resources allocation and support for growth in these new product areas.

The Directors believe that the wireless industry is still at high growth rate and technologies are evolving daily. The Group needs to follow diligently the industry trend and new technology development, and analyse market risks and threats to maintain its leadership position as new disruptive technologies can appear any day. To cope with the ever changing market needs, the Group will continue to invest in products and technology based R&D. With the opening of the new headquarters in the PRC in 2006, the Group provides an inspiring working environment and state of the art equipment for new ideas and products. In addition, the Group has an expanded production platform that allows it to meet the future demand for its products and solutions. Capital expenditure of the Group is expected to be funded by various means of financing. Finally, the Group will endeavour to maintain a solid and healthy financial position and consolidate its leading market position, while pursuing a balanced and carefully planned growth strategy in order to maximize the shareholders' value.

Liquidity, Financial Resources & Capital Structure

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2006, the Group had net current assets of HK$1,072,888,000. Current assets comprised inventories of HK$617,789,000, trade receivables of HK$840,426,000, notes receivables of HK$33,754,000, prepayments, deposits and other receivables of HK$97,395,000, restricted bank deposits, short term time deposits and pledged time deposits of HK$480,000 and cash and cash equivalents of HK$492,737,000. Current liabilities comprised trade and bills payables of HK$500,776,000, other payables and accruals of HK$307,756,000, interest-bearing bank loans of HK$152,908,000, tax payable of HK$22,214,000 and provision for product warranties of HK$26,039,000.

The average receivable turnover for the Current Year was 172 days compared to 174 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The contractual credit period is generally for a period of three to six months except for those retention money receivables with payment ranging from six to twenty-four months. The average payable turnover for the Current Year was 162 days compared to 170 days for the Prior Year. The average inventory turnover for the Current Year was 225 days compared to 286 days for the Prior Year.

As at 31 December 2006, 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, HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. Since the exchange fluctuations among these currencies are low, the Directors consider that there is no significant exchange risk.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank loans and advances, and finance lease payables) over total assets, was 6.3% as at 31 December 2006 (31 December 2005: 14%).

Charge on Assets

A charge on a time deposit, amounted to HK$63,000,000 as at 31 December 2005, previously to secure the Group's bank loans was released as at 31 December 2006. The Group's bank loans were totally unsecured as at 31 December 2006.

Contingent Liabilities

As at 31 December 2006, the Group had contingent liabilities of HK$2,109,000 (31 December 2005: Nil).

Employees and Remuneration Policies

As at 31 December 2006, the Group had approximately 3,800 staff. The total staff costs for the Current Year was HK$300,478,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employees' 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. The Group also provides training to staff to improve their skills and develop their respective expertise.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules") throughout the accounting period for the year ended 31 December 2006, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. The Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of its Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

AUDIT COMMITTEE

The audited annual results of the Group for the year ended 31 December 2006 have been reviewed by the audit committee of the Company.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

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

By order of the Board
Fok Tung Ling
Chairman and President

Hong Kong, 12 April 2007

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

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