Comba

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 2007

FINANCIAL HIGHLIGHTS

- Revenue increased by 14.1% to HK$1,768 million
- Gross profit increased by 16.1% to HK$681 million
- Profit attributable to shareholders increased by 46.1% to HK$192 million
- Basic earnings per share increased by 43.8% to HK22.56 cents
- Dividend per share increased by 33.3% to HK6 cents
- Net asset value per share increased by 19.9% to HK$1.99

RESULTS

The board of directors (the “Board” or the “Directors”) of Comba Telecom Systems Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2007, together with the comparative figures for the same period in 2006.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	3	**1,768,418**	1,550,441
Cost of sales		**(1,087,161)**	(963,901)
Gross profit		**681,257**	586,540
Other income and gain	3	**23,766**	11,799
Research and development costs		**(91,087)**	(76,267)
Selling and distribution costs		**(134,953)**	(107,472)
Administrative expenses		**(271,712)**	(243,942)
Other expenses		**(1,534)**	(6,954)
Finance costs	5	**(7,973)**	(15,918)
PROFIT BEFORE TAX	4	**197,764**	147,786
Tax	6	**(7,193)**	(16,561)
PROFIT FOR THE YEAR		**190,571**	131,225
Attributable to:			
Equity holders of the parent		**191,619**	131,140
Minority interests		**(1,048)**	85
		190,571	131,225
DIVIDEND	7		
Proposed final		**51,233**	37,818
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(HK cents)*	8		
Basic		**22.56**	15.69
Diluted		**22.34**	15.55

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**293,700**	257,724
Prepaid land lease payments		**13,853**	13,220
Goodwill		**30,110**	21,916
Deferred tax assets		**68,997**	34,232
Other intangible assets		**7,124**	5,250
Restricted bank deposits		**1,616**	1,629
Total non-current assets		**415,400**	333,971
CURRENT ASSETS			
Inventories		**754,766**	617,789
Trade receivables	*9*	**1,099,643**	840,426
Notes receivable		**29,385**	33,754
Prepayments, deposits and other receivables		**81,402**	97,395
Restricted bank deposits		**4,250**	480
Cash and cash equivalents		**374,496**	492,737
Total current assets		**2,343,942**	2,082,581
CURRENT LIABILITIES			
Trade and bills payables	*10*	**548,469**	500,776
Other payables and accruals		**341,696**	307,756
Interest-bearing bank loans		**88,794**	152,908
Tax payable		**28,606**	22,214
Provisions for product warranties		**40,066**	26,039
Total current liabilities		**1,047,631**	1,009,693
NET CURRENT ASSETS		**1,296,311**	1,072,888
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,711,711**	1,406,859
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**6,761**	—
Net assets		**1,704,950**	1,406,859

	2007	2006
	HK$'000	*HK$'000*
Net assets	**1,704,950**	1,406,859
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**85,389**	84,041
Reserves	**1,561,634**	1,277,258
Proposed final dividend	**51,233**	37,818
	1,698,256	1,399,117
Minority interests	**6,694**	7,742
Total equity	**1,704,950**	1,406,859

Notes

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards, 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 (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

1.2 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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs changes in accounting policies are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. The interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

1.3 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.

HKFRS 8	Operating Segments[1]
HKAS 1(Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised and it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group expects to adopt HKAS 1 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 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.

2. 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.

3. 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:

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**1,768,418**	1,550,441
Other income and gain		
Bank interest income	**3,046**	4,374
Exchange gain, net	**11,630**	5,280
Government subsidy*	**5,130**	1,155
Others	**3,960**	990
	23,766	11,799

* *Government subsidy of HK$5,130,000 (equivalent to RMB5,000,000) have been received for rewarding the establishment of the Group's headquarters in Guangzhou. There are no unfulfilled conditions or contingencies relating to this subsidy.*

4. PROFIT BEFORE TAX

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

	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**978,765**	937,958
Depreciation	**44,439**	34,138
Recognition of prepaid land lease payments	**325**	305
Amortisation of intangible assets	**8,388**	3,702
Minimum lease payments under operating leases in respect of land and buildings	**28,529**	30,828
Auditors' remuneration	**2,469**	2,480
Employee benefits expense (excluding directors' emoluments):		
Salaries and wages	**287,332**	230,779
Staff welfare expenses	**25,727**	22,004
Equity-settled share option expenses	**9,814**	12,672
Pension scheme contributions#	**22,165**	18,484
	345,038	283,939
Impairment of trade receivables	**—**	6,412
Write-down of inventories to net realisable value	**5,790**	—
Provision for product warranties	**48,847**	25,943
Loss on disposal of items of property, plant and equipment	**570**	48

At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

5. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within one year	**7,973**	13,126
Interest on finance leases	**—**	14
Finance costs on the factored trade receivables	**—**	2,778
	7,973	15,918

6. 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 (2006: 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.

	2007	2006
	HK$'000	*HK$'000*
Current year provision:		
Mainland China	**37,129**	29,954
Overseas	**1,060**	484
Deferred tax	**(30,996)**	(13,877)
Total tax charge for the year	**7,193**	16,561

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:

	2007		2006	
	HK$'000	*%*	*HK$'000*	*%*
Profit before tax	**197,764**		147,786	
Tax at the applicable rate	**29,665**	**15.0**	22,168	15.0
Net expenses not deductible for tax	**7,427**	**3.7**	7,427	5.0
Effect of increase in rate on opening deferred tax	**(29,454)**	**(14.9)**	—	—
Tax losses not recognised	**17,450**	**8.8**	15,212	10.3
Tax exemptions	**(17,895)**	**(9.0)**	(28,246)	(19.1)
Tax charge at the Group's effective rate	**7,193**	**3.6**	16,561	11.2

The Group has tax losses arising in Hong Kong and other countries of HK$116,333,000 (2006: HK$101,413,000) 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 2007.

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

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%. The effect of this change has been reflected in the calculation of deferred income tax as at 31 December 2007. Comba Guangzhou, being a manufacturing Foreign Invested Enterprise ("FIE"), located in Guangzhou Economic and Technology Development Zone, is eligible to enjoy transitional arrangement under the New Corporate Income Tax Law. The income tax rate of Comba Guangzhou will be 18% in 2008.

Deferred tax rate in 2007 was 18% (2006: 10%).

7. DIVIDEND

	2007	2006
	HK$'000	*HK$'000*
Proposed final — HK 6 cents (2006: HK 4.5 cents) per ordinary share	**51,233**	37,818

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

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:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**191,619**	131,140

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**849,353,000**	835,860,000
Effect of dilution — weighted average number of ordinary shares	**8,525,000**	7,524,000
	857,878,000	843,384,000

9. TRADE RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**1,120,422**	861,365
Provision for impairment	**(20,779)**	(20,939)
	1,099,643	840,426

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project and is generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**573,754**	356,184
4 to 6 months	**68,257**	77,613
7 to 12 months	**192,888**	133,160
More than 1 year	**285,523**	294,408
	1,120,422	861,365
Provision for impairment	**(20,779)**	(20,939)
	1,099,643	840,426

10. TRADE AND BILLS PAYABLES

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

	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**311,449**	335,996
4 to 6 months	**152,563**	88,319
7 to 12 months	**60,944**	50,418
More than 1 year	**23,513**	26,043
	548,469	500,776

The trade payables are non-interest-bearing and are mainly settled for a period of three months and is extendable up to two years. At 31 December 2007, the Group had endorsed commercial notes of approximately HK$5,107,000 to certain suppliers with recourse as settlement of the payable balance. The settlement to the relevant suppliers of approximately HK$5,107,000 were recognised as liabilities and included in the above balance.

11. COMPARATIVE AMOUNTS

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2008 to 23 May 2008, 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 21 May 2008. Dividend warrants will be dispatched on or about 4 June 2008 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 2007 (the "Current Year") was HK$1,768,418,000, representing an increase of approximately 14.1% over the revenue for the year ended 31 December 2006 (the "Prior Year"). During the Current Year, while the Group remained benefitting from continued increase in wireless enhancement capital expenditure, its revenue growth was somewhat affected by the downward average selling prices of its wireless enhancement products. Nevertheless, improving services revenue structure helped mitigate this negative impact. The Group's product diversification strategies started reaping results in the Current Year. The Group has become one of the leading suppliers of base transceiver station ("BTS") antennas in the PRC and this helped deliver satisfactory growth. As a result of active expansion, international market also delivered remarkable growth in revenue during the Current Year.

By customers

Revenue from international customers (including sales through core equipment manufacturers) increased remarkably by 54.4% and accounted for 9.9% of the Group's revenue in the Current Year. Revenue generated from the China Mobile Group still accounted for 65.3% of the Group's revenue in the Current Year, an increase of 9.1%. Such growth is primarily due to growth in sales of BTS antennas, increase in wireless enhancement projects undertaken, the Group's participation in TD-SCDMA ("TD") trials, and the launch of innovative products and solutions. During the Current Year, revenue generated from the China Unicom Group accounted for 17.4% of the Group's revenue, an increased of 5.8%. Other revenue including sales to the fixed line operators and agents in the PRC accounted for 7.4% of the Group's revenue in the Current Year.

By businesses

Revenue generated from wireless enhancement business increased by 1.5% over the Prior Year and accounted for 50.7% of the Group's revenue in the Current Year. As a result of the increasing importance of services revenue in its revenue mix, the Group has decided to show the services revenue separately. Services revenue increased remarkably by 44.8% and accounted for 18.8% of the Group's revenue in the Current Year.

Revenue generated from antennas and subsystems business grew by 29.0% over the Prior Year and accounted for 27.9% of the Group's revenue in the Current Year. Such increase was mainly due to the substantial growth in sales of BTS antennas and camouflaged antennas in the Current Year.

Revenue generated from the wireless transmissions business decreased by 15.9% over the Prior Year and accounted for 2.7% of the Group's revenue in the Current Year. Such decrease was mainly due to slower deployment of wireless transmission solutions from existing customers.

Although TD network is still at the trial stage in the PRC, the Group recorded total TD revenue of around HK$80,000,000 in the Current Year. Such revenue has been included in the relevant businesses mentioned above accordingly.

Gross profit

In view of continued pressure on the average selling price and hence gross profit margin of its products and solutions for the maturing 2G mobile communications market, the Group has endeavoured to optimize its product mix and services structure, develop higher value-added products and innovative solutions, broaden its sales channels and expand into new markets, so as to alleviate such pressure. Coupled with improving logistics and cost control measures implemented throughout its supply chain, the Group has maintained a very healthy gross profit margin of 38.5% in the Current Year, compared to 37.8% in the Prior Year. Gross profit of the Group for the Current Year was HK$681,257,000, representing an increase of 16.1% 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 in order to enable it to meet current and future market demand. R&D expenses increased by 19.4% to HK$91,087,000 and accounted for 5.2% of revenue in the Current Year compared to 4.9% in the Prior Year. Such increase was mainly due to the Group's improved R&D efforts and capabilities following an expansion in R&D workforce. With its continuous investment in R&D, the Group achieved significant accomplishment in intellectual property rights, having applied for over 280 patents as at the end of the Current Year.

Selling and distribution costs

Selling and distribution costs were HK$134,953,000 in the Current Year, representing an increase of 25.6% over the Prior Year. Such increase was mainly due to the increase in payroll costs of the sales and marketing workforce. Despite a decreasing trend of the average selling price of some of the Group's products, the Group achieved steady revenue growth, partly as a result of a broader product portfolio supported by an established sales platform. Selling and distribution costs accounted for 7.6% of the Group's revenue in the Current Year, compared to 6.9% in the Prior Year.

Administrative expenses

Administrative expenses were HK$271,712,000 in the Current Year, representing an increase of 11.4% over the Prior Year, and accounted for 15.4% of the Group's revenue in the Current Year, compared to 15.7% in the Prior Year. This improvement was primarily a result of the Group's strengthened budgetary control. 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$7,973,000 in the Current Year, representing a decrease of 49.9% over the Prior Year. In view of rising interest rates in the PRC, the Group was successful in improving its cash management, thereby reducing the bank borrowing level for working capital purposes during the Current Year.

Tax

Effective tax rate was 3.6% in the Current Year, compared to 11.2% in the Prior Year. The substantial decrease in effective tax rate was mainly attributable to a deferred tax credit of HK$30,996,000. Such deferred tax credit was calculated based on unrealized profit arising on consolidation at the relevant tax rate of the relevant subsidiary. Should there be a decrease in the tax rate or the amount of unrealized profit arising on consolidation in the future, such deferred tax credit will be charged to the income statement accordingly.

Net profit

Profit attributable to shareholders ("Net Profit") for the Current Year was HK$191,619,000, representing an increase of 46.1% over the Prior Year. Net profit margin was 10.8% in the Current Year compared to 8.5% in the Prior Year. Such increase was a result of steady revenue growth, healthy gross profit margin, efficient utilization of the Group's resources and better economies of scale described above.

Prospect

The Directors expect that 2008 is a year full of opportunities and challenges. The long awaited restructuring in the telecommunications industry in the PRC is likely to be finalised in the foreseeable future. With an increase in the number of mobile operators in the PRC, the Directors believe that their total capex will increase in 2008. The Directors are particularly encouraged by the budgeted capex growth recently announced by the incumbent mobile operators in the PRC even ahead of an industry restructuring. TD network construction is also expected to proceed steadily. Extension of the trial networks or issuance of 3G licences in the PRC certainly offers tremendous business opportunities to the Group. Internationally, the Directors are pleased with the progress and development the Group has achieved so far and are therefore confident in the future demand and development of the Group's global business with more optimism. After successful market development and as a result of increasing order flow, the Group expects to deliver faster growth in its international business from the three product lines described below.

Wireless enhancement solutions

The Directors remain cautiously optimistic about the demand for 2G products and solutions in the PRC market, and have a more optimistic outlook for 2G products in the international market, especially in various developing countries and emerging markets. In particular, given the strong subscriber growth achieved by the mobile operators in the PRC, coupled with their rural expansion strategy, the wireless enhancement market in the PRC looks promising as certain operators recently announced a budgeted capex growth of over 20% for the year of 2008. Despite the decreasing trend in average selling price of its products, the Group expects to continue to deliver revenue growth on the back of increasing volume demand for the Group's products and solutions. In order to drive revenue growth further, the Group has been broadening its product portfolio and launching innovative products and solutions steadily.

The Directors believe that 2G and 3G mobile networks will co-exist for a long time. As a newer mobile standard, 3G services and applications will increasingly be adopted as the demand of subscribers increases. This will broaden the application areas of the Group's wireless enhancement products and solutions. The Group has developed a series of different 3G products and wireless enhancement solutions, some of which have successfully been deployed.

During the Current Year, the Group has successfully qualified as an approved vendor of wireless enhancement equipment in the central procurement programme for TD carried out in the PRC. The Group has actively participated in TD indoor upgrade projects in certain cities in the PRC and this has contributed to the Group's revenue in the Current Year. Given the strong business relationship with the mobile operators in the PRC, the Group is poised to benefit from their TD wireless enhancement investment in 2008 and beyond, in the event of a nationwide rollout. Moreover, the Group has developed TD Remote Radio Units ("RRUs") for a leading core equipment manufacturer in the PRC and this has contributed to the Group's revenue in the Current Year. Typically deployed in combination with base transceiver stations, the Group's RRUs enable mobile operators to roll out TD networks effectively and rapidly while maximising capacity and coverage.

The international market continues to be one of the focal growth points for the Group with the increasing investment in wireless infrastructure around the world. Capital expenditure in 2G network rollouts and enhancements remains strong in both developing and developed regions. In particular, developing countries continue to have new 2G network buildouts to cover its city areas and increasingly to extend coverage to rural areas. The Group has witnessed 2G investments by mobile operators within the mature markets to focus primarily on enhancing their network coverage to include in-building solutions as well as wireless solutions in the rural areas.

Internationally, 3G network deployment continues to be strong and the Group has a comprehensive range of WCDMA and CDMA2000 wireless enhancement solutions that is capitalizing on this trend. In particular, deployment activities are centered about demand for 3G network infill requirements for both indoor and outdoor coverage. As well as developing 3G products, the Group is also offering solutions for the growing demand of multi band/operators solutions to enable its customers to integrate 2G and 3G services. To date, such solutions have been well received by the market and have been deployed by various operators around the world.

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, tower mounted amplifiers, combiners, etc. and a full range of tower top solutions to address the PRC market as well as the global market.

The Group's production capacity for BTS antennas has exceeded 200,000 pieces per annum in order to cope with the anticipated demand. The Group will continue to increase its production capacity as and when needed. After successfully qualifying as an approved vendor in central procurement programmes for BTS antennas conducted by mobile operators, the Group is now a leading supplier of BTS antennas to each of the China Mobile Group and the China Unicom Group. As a result, this business unit has delivered faster growth than the Group's core business of wireless enhancement and this trend is expected to continue.

In addition to using its own sales network, the Group is also selling its BTS antennas to a leading global 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.

As far as new mobile standards are concerned, the Group has developed TD BTS antennas which has already contributed to the Group's revenue in 2007. The Group is also the first supplier who has successfully developed compact TD BTS antennas, which was deployed in the trial network in September 2007.

On a global level, the demand from RF conditioning solutions from core equipment manufacturers and mobile operators has increased substantially. One of the drivers for this demand includes the rollout of new 3G networks and upgrades. Corresponding to these network buildouts, the Group has experienced an increasing requirement for its multi-system solutions that combines both 2G and 3G networks into a single footprint.

Wireless Transmissions — Digital Microwave Systems ("DMS")

In addition to selling DMS to mobile operators in the global market, during the Current Year, the Group successfully qualified as an approved vendor of outdoor units ("ODUs"), which is an essential part of DMS, with a leading global core equipment manufacturer. This customer has started placing volume orders for the Group's ODUs in the first half of 2008. The order size from this customer is expected to grow substantially in 2008 and it will therefore account for a meaningful portion of the Group's wireless transmissions business.

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. The Group therefore endeavours to expand its geographical coverage in the global market for its DMS products in order to achieve growth. In addition, the forthcoming launch of next generation network in the PRC is another growth opportunity for DMS as there will be a huge demand in BTS backhaul services.

Services

Provision of services has become more and more important in the mobile industry. With a nationwide platform in the PRC, the Group is well positioned to provide it customers with top quality services in site survey, solutions design, project management and after-sale maintenance. The Group is also able to leverage its experience in the PRC to expand into the global market, especially in the developing world. Therefore, the Directors expect this business to deliver continuous growth in the next few years.

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 to support the sales platforms in the global market in all aspects. The new structure has been functioning well and it helped deliver a set of good results in the Current Year. The Directors are confident that the well coordinated structure 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.

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 Group will continue to develop innovative products, improve its operations efficiency, and expand its market coverage in order to sustain gross profit margin.

In addition, as materials cost is the largest cost component among all, the Group has recently optimized the organization and the logistics in its supply chain management. This aims to improve the efficiency and cost savings capability of the supply chain, with a view to satisfying the need for the Group's market development in the next few years.

Conclusion

The global 2G market is expected to continue to grow in the next few years, especially in the emerging markets. As a result, cost effective products and solutions are expected to be in great demand. As for 3G, the Group has already developed products for all three 3G standards, namely, TD, WCDMA and CDMA2000. Different 3G products and solutions have been deployed in various countries around the world. In the PRC, the Directors remain cautiously optimistic about the revenue from the TD rollout in the next couple of years, given the various types of TD products developed by the Group and its involvement in the trial networks. The State government is determined to allow more operators to provide mobile services. This may drive the demand for wireless enhancement solutions as mobile subscribers may demand better services from an increasing number of mobile operators in the PRC.

The Group believes that the key for its long term development and continuous growth is to enhance and maintain its core technical competency and to broaden its product portfolio. The global 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. The Group will continue to enhance its technical innovation and product development, and to launch new products which can meet market needs, in order to achieve the Group's objective of diversified market development, so as to strengthen the Group's market leading position.

Modern communications technologies are evolving rapidly. The Group needs to follow diligently the industry trend and new technology development, and analyse market risks and threats to maintain its leadership position. To cope with the ever changing market environment, the Group will continue to invest in technology research and new product development, thereby launching competitive products and solutions which meet market needs. 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 2007, the Group had net current assets of HK$1,296,311,000. Current assets comprised inventories of HK$754,766,000, trade receivables of HK$1,099,643,000, notes receivable of HK$29,385,000, prepayments, deposits and other receivables of HK$81,402,000, restricted bank deposits of HK$4,250,000 and cash and cash equivalents of HK$374,496,000. Current liabilities comprised trade and bills payables of HK$548,469,000, other payables and accruals of HK$341,696,000, interest-bearing bank loans of HK$88,794,000, tax payable of HK$28,606,000 and provision for product warranties of HK$40,066,000.

The average receivable turnover for the Current Year was 200 days compared to 172 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 176 days compared to 162 days for the Prior Year. The average inventory turnover for the Current Year was 230 days compared to 225 days for the Prior Year.

As at 31 December 2007, 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$. As the Group's revenue is substantially denominated in RMB, the Board currently considers that the appreciation of RMB should have a mildly favourable impact on the Group's business.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank loans and advances) over total assets, was 3.2% as at 31 December 2007 (31 December 2006: 6.3%).

Charge on Assets

As at 31 December 2007, there was no charge on the Group's assets (31 December 2006: Nil).

Contingent Liabilities

As at 31 December 2007, the Group had contingent liabilities of HK$5,866,000 (31 December 2006: HK$2,109,000).

Employees and Remuneration Policies

As at 31 December 2007, the Group had approximately 4,400 staff. The total staff costs for the Current Year was HK$362,593,000. 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, 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 Current Year.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 to the Listing Rules throughout the Current Year, 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 the division of responsibilities between the chairman and chief executive officer 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 2007 have been reviewed by the audit committee of the Company.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

By order of the Board
Fok Tung Ling
Chairman and President

Hong Kong, 28 March 2008

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.