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 2005

FINANCIAL HIGHLIGHTS

- Revenue increased by 7% to HK$1,171 million
- Gross profit decreased by 16% to HK$474 million
- Profit attributable to shareholders decreased by 65% to HK$82 million
- Basic earnings per share was 9.86 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 2005 were as follows:

Consolidated Income Statement
Year ended 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000 (Restated)*
REVENUE	(6)	1,170,515	1,092,761
Cost of sales		(696,189)	(529,382)
Gross profit		474,326	563,379
Other income	(6)	8,851	8,705
Research and development costs		(62,509)	(37,057)
Selling and distribution costs		(86,955)	(69,391)
Administrative expenses		(223,000)	(211,147)
Other expenses		(3,454)	(8,342)
Finance costs		(21,480)	(9,531)
PROFIT BEFORE TAX		85,779	236,616
Tax	(8)	(7,315)	(6,031)
PROFIT FOR THE YEAR		78,464	230,585
Attributable to:			
Equity holders of the parent		82,089	237,478
Minority interests		(3,625)	(6,893)
		78,464	230,585
DIVIDENDS	(10)		
Interim		—	33,291
Proposed final		24,991	41,637
		24,991	74,928
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)			
Basic	(9)	9.86	28.59
Diluted		9.75	27.96

Consolidated Balance Sheet
31 December 2005

	2005 *HK$'000*	2004 *HK$'000* *(Restated)*
NON-CURRENT ASSETS		
Property, plant and equipment	172,380	135,993
Prepaid land lease payments	13,040	13,041
Goodwill	21,916	21,916
Deferred tax assets	19,318	—
Other intangible assets	8,242	3,807
Total non-current assets	234,896	174,757
CURRENT ASSETS		
Inventories	572,948	516,650
Trade receivables	618,290	495,176
Notes receivables	35,585	39,318
Factored trade receivables	115,296	—
Prepayments, deposits and other receivables	112,807	86,452
Short term time deposits	178,296	267,533
Cash and cash equivalents	314,118	248,766
Total current assets	1,947,340	1,653,895
CURRENT LIABILITIES		
Trade and bills payables	356,753	292,409
Other payables and accruals	284,036	249,138
Interest-bearing bank and other borrowings	190,723	157,782
Bank advances on factored trade receivables	115,296	—
Current portion of finance lease payables	180	180
Tax payable	18,867	2,495
Provision for product warranties	21,066	14,200
Total current liabilities	986,921	716,204
NET CURRENT ASSETS	960,419	937,691
TOTAL ASSETS LESS CURRENT LIABILITIES	1,195,315	1,112,448

Consolidated Balance Sheet
31 December 2005

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
NON-CURRENT LIABILITIES		
Long term portion of finance lease payables	—	180
Total non-current liabilities	—	180
Net assets	1,195,315	1,112,268
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	83,302	83,273
Reserves	1,079,365	976,076
Proposed final dividend	24,991	41,637
	1,187,658	1,100,986
Minority interests	7,657	11,282
Total equity	1,195,315	1,112,268

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 2005. 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 in the results and net assets of the Company's subsidiaries.

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

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities Amendment
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 27, 33, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 17 — Leases**

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) **HKAS 32 and HKAS 39 — Derecognition of financial assets**

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for the derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to the transfers of financial assets from 1 January 2005 onwards. As a result, the Group's trade and bills receivables discounted with full recourse which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's trade and bills receivables discounted with full recourse have not been derecognised. Instead, the related borrowings of HK$115,296,000 have been recognised on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method.

The effects of the above changes are summarised in note 4 to the financial statements. In accordance with HKAS 32, the comparative amounts of certain other receivables have been reclassified under loans and advances and receivables for presentation purposes.

(c) **HKFRS 2 — Share-based Payment**

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. In prior year, the fair value is determined by adoption of the Black-Scholes pricing model. The fair value of share options granted during the year is determined by adoption of binomial model.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and the end of that period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The effects of adopting HKFRS 2 are summarised in note 4 to the financial statements.

(d) **HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets**

In prior years, goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained earnings remains eliminated against the retained earnings and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

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 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements will not have any significant impact on the Group's financial statements in the period of initial application.

4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) **Effect on the consolidated balance sheet**

	Effect of adopting				
At 1 January 2005 Effect of new policies (Increase/ (decrease))	**HKAS 17# Prepaid land lease payments**	**HKFRS 2 Equity-settled share option arrangements**	**HKFRS 3* Discontinuation of amortisation of goodwill**	**HKASs 32# and 39*@ Derecognition of financial assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment	(13,327)	—	—	—	(13,327)
Prepaid land lease payments	13,041	—	—	—	13,041
Other receivables	286	—	—	—	286
					—
Liabilities/equity					
Capital reserve	—	21,042	—	—	21,042
Retained profits	—	(21,042)	—	—	(21,042)
					—

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

@ In accordance with the transitional provision of HKAS 39, HKAS 39 should not be applied retrospectively. Factored trade receivables and bank advances on factored trade receivables in the amount of HK$206,767,000 respectively as at 31 December 2004 have not been restated.

At 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments	 HKFRS 2 Equity-settled share option arrangements	 HKFRS 3 Discontinuation of amortisation of goodwill	 HKASs 32 and 39 Derecognition of financial assets	 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment	(13,332)	—	—	—	(13,332)
Prepaid land lease payments	13,040	—	—	—	13,040
Goodwill	—	—	6,020	—	6,020
Factored trade receivables	—	—	—	115,296	115,296
Other receivables	292	—	—	—	292
					121,316
Liabilities/equity					
Bank advances on factored trade receivables	—	—	—	115,296	115,296
Capital reserve	—	37,938	—	—	37,938
Retained profits	—	(37,938)	6,020	—	(31,918)
					121,316

(b) **Effect on the balances of equity at 1 January 2004 and at 1 January 2005**

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments	 HKFRS 2 Equity-settled share option arrangements	 HKFRS 3 Discontinuation of amortisation of goodwill	 HKASs 32 and 39 Derecognition of financial assets	 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
1 January 2004					
Retained profits	—	(3,415)	—	—	(3,415)
					(3,415)
1 January 2005					
Retained profits	—	(21,042)	—	—	(21,042)
					(21,042)

(c) **Effect on the consolidated income statement for the years ended 31 December 2005 and 2004**

	Effect of adopting				
Effect of new policies	**HKAS 17 Prepaid land lease payments**	**HKFRS 2 Equity-settled share option arrangements**	**HKFRS 3 Discontinuation of amortisation of goodwill**	**HKASs 32 and 39 Derecognition of financial assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005					
Increase in administrative expenses	—	(16,896)	—	—	(16,896)
Decrease in other expenses	—	—	6,020	—	6,020
Total increase/(decrease) in profit	—	(16,896)	6,020	—	(10,876)
Increase/(decrease) in basic earnings per share (HK cents)	—	(2.03)	0.72	—	(1.31)
Increase/(decrease) in diluted earnings per share (HK cents)	—	(2.01)	0.72	—	(1.29)
Year ended 31 December 2004					
Increase in administrative expenses	—	(17,627)	—	—	(17,627)
Total decrease in profit	—	(17,627)	—	—	(17,627)
Decrease in basic earnings per share (HK cents)	—	(2.12)	—	—	(2.12)
Decrease in diluted earnings per share (HK cents)	—	(2.07)	—	—	(2.07)

5. SEGMENT INFORMATION

The Group is principally engaged 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 risk and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

In addition, the Group's revenue, expenses, profit, assets and liabilities and capital expenditures are principally attributable to a single geographical region, which is the People's Republic of China (the "PRC"). Therefore, no analysis in business or geographical segment is presented.

6. REVENUE AND OTHER INCOME

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 and other income is as follows:

	2005 *HK$'000*	**2004** *HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	1,170,515	1,092,761
Other income		
Bank interest income	6,125	7,857
Others	2,726	848
	8,851	8,705

7. PROFIT BEFORE TAX

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

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold and services provided	674,558	510,807
Depreciation	29,565	23,017
Amortisation of intangible assets	2,595	1,380
Goodwill: amortisation of the year*	—	5,199
Minimum lease payments under operating leases in respect of land and buildings	28,968	24,075
Auditors' remuneration	2,354	1,257
Staff costs (excluding directors' emoluments):		
Salaries and wages	187,041	159,871
Staff welfare expenses	12,865	12,779
Equity-settled share option expenses	16,896	17,627
Pension scheme contributions#	15,389	6,519
	232,191	196,796
Provision for doubtful debts	1,713	959
Product warranty provisions	21,631	18,575
Provision for obsolete inventories	—	13,641
Loss on disposal of items of property plant and equipment	670	1,543

* The amortisation of goodwill is included in "Other expenses" on the face of the consolidated income statement.

\# As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2004: Nil)

8. TAX

No provision of Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. (2004: 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	**2005** *HK$'000*	**2004** *HK$'000*
Current year provision:		
Hong Kong	—	—
Elsewhere	—	—
Mainland China	26,329	6,031
Overseas	304	—
Deferred tax	(19,318)	—
Total tax charge for the year	7,315	6,031

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and approved by relevant tax authorities, Comba Telecom System (Guangzhou) Limited("Comba Guangzhou"), a wholly-owned subsidiary of the Company operating in the Mainland China was exempted from the 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 having the status of advanced technology enterprise 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 PRC corporate income tax for Comba Guangzhou has been made at the applicable reduced tax rate of 10%.

According to 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 the PRC corporate income tax for the two years commencing from its first profit-making year 1January 2003 to 31 December 2004 and thereafter was entitled to a 50% reduction in the 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:

	2005		2004	
	HK$'000	*%*	*HK$'000* *(Restated)*	*%* *(Restated)*
Profit before tax	85,779		236,616	
Tax at the applicable rate	12,867	15.0	35,492	15.0
Expense/(Income) not deductible for/ (subject to) tax	3,698	4.3	4,670	1.9
Tax losses not recognised	9,837	11.5	5,871	2.5
Tax exemptions	(19,087)	(22.3)	(40,002)	(16.9)
Tax charge at the Group's effective rate	7,315	8.5	6,031	2.5

The Group has tax losses arising in Hong Kong and other countries of HK$65,579,000 (2004: HK$39,137,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets as at 31 December 2005.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil).

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

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

The calculation of basic earnings per share is based on the net 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 net 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:

	2005	2004
	HK$'000	*HK$'000* *(Restated)*
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	82,089	237,478

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	832,918,000	830,693,000
Effect of dilution — weighted average number of ordinary shares:	8,595,000	18,700,000
	841,513,000	849,393,000

10. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim — Nil (2004: HK4 cents) per ordinary share	—	33,291
Proposed final — HK3 cents (2004: HK5 cents) per ordinary share	24,991	41,637
	24,991	74,928

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 26 May 2006 ("AGM").

11. COMPARATIVE AMOUNTS

As further explained in notes 2 and 4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

On the other hand, research and development ("R&D") expenses and certain expenses of the Group's branch offices in the PRC were included in cost of sales in the past. As the Group has expanded its R&D capabilities significantly during the year, it is more meaningful to show the R&D expenses separately in the consolidated income statement. In addition, as the Group's branch offices in the PRC are expanding and are currently carrying out more management functions, such expenses were included in the administrative expenses in the consolidated income statement for better presentation.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2006 to 26 May 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 pm on 23 May 2006. Dividend warrants will be dispatched on or about 8 June 2006 subject to shareholders' approval of payment of the final dividend at the AGM.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business and Financial Review

Revenue

The Group's revenue for the year ended 31 December 2005 was HK$1,170,515,000, representing an increase of approximately 7.1% from the previous year. While the Group experienced continued wireless enhancement capital expenditure by the GSM mobile operators in the PRC in improving the quality of mobile networks, such increase was offset by the slowdown in the implementation of capital expenditure plans on wireless enhancement solutions in CDMA network in the PRC in 2005. On the other hand, the Group recorded remarkable revenue growth in the international market in 2005.

By the end of 2005, the Group operated over 30 offices in the PRC providing sales, project survey and design, project management, installation and maintenance services to its customers locally, covering almost every single province and municipality in the PRC. The Group expanded steadily to strengthen its position as a leading wireless enhancement solutions provider in the PRC.

By customers

Revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") increased steadily by 19.0% and accounted for 54.1% of the Group's revenue in 2005. During the year, revenue generated from the GSM network of China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased by 132.6% while revenue generated from its CDMA network decreased by 43.8%. Revenue generated from China Unicom Group accounted for 33.7% of the Group's revenue in 2005, with GSM and CDMA accounting for 18.3% and 15.4% respectively.

The Group has strategically broadened its customer base by developing businesses with customers other than the mobile operators in the PRC. Revenue from other customers including agents in the PRC and international customers accounted for 12.2% of the Group's revenue in 2005.

By solutions/products

Revenue generated from indoor wireless enhancement solutions accounted for 67.2% of the Group's revenue in 2005, as compared to 73.7% in 2004. Revenue generated from outdoor wireless enhancement solutions accounted for 19.2% of the Group's revenue in 2005, compared to 15.7% in 2004. Outdoor solutions revenue increased as more outdoor solutions were deployed in areas like Guangdong province and Beijing. In general, the Group continued to benefit from the steady wireless enhancement capital expenditure by the mobile operators.

Apart from providing turnkey solutions in wireless enhancement to mobile operators, the Group also sold base transceiver station ("BTS") subsystems, including tower top solutions and BTS antennas. Revenue from subsystems and antennas grew by 63.9% and accounted for 4.8% of the Group's revenue in 2005, compared to 3.1% in 2004.

Revenue generated from the wireless enhancement equipment for the PHS network grew by 18.5% and accounted for 5.4% of the Group's revenue in 2005, compared to 4.8% in 2004. The Group considers that such penetration into the fixed line operators serves as a good foundation on which the Group can develop more businesses with them especially in 3G network rollout . In addition, revenue from extended maintenance services grew by 36.3% and accounted for 1.2% of the Group's revenue in 2005, compared to 0.9% in 2004. Revenue from DMS increased more than eightfold and accounted for 1.0% of the Group's revenue in 2005, compared to 0.1% in 2004. The Group's diversification strategy in products and solutions gradually started contributing to its revenue.

By regions

In respect of the PRC market, over 85% of the Group's revenue was generated from various coastal and developed regions. Southern region remained as the major revenue contributor, accounting for 30.8% of the Group's revenue in 2005. Eastern region, Northern region and Northeast region accounted for 21.4%, 20.8% and 13.2% respectively of the Group's revenue in 2005.

Export sales (including sales to core equipment manufacturers) accounted for 4.6% of the Group's revenue in 2005, representing an increase of 75.7% over 2004. Since the first half of 2004, the Group has continued to expand its business in the international market by setting up sales offices in Sweden, Thailand and India.

Gross profit

In order to maintain its leadership position and capture new markets, the Group has adjusted its pricing strategy to ensure its products and solutions are cost effective and of better price-performance. On the other hand, the Group is also 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. In 2005, although the Group managed to negotiate better pricing in materials and implemented various cost saving measures such as improvements in production technology and product redesign, the impact of these measures generally lagged behind and were not sufficient to compensate the effect brought by the downward trend in selling prices in the short term. As a result of the downward price trend, the Group also increased its resources in the provision of project management and technical support services nationwide in the PRC for the increase in number of projects undertaken. Gross profit margin was 40.5% in 2005 compared to 51.6% in 2004, due to the reasons mentioned above. Gross profit of the Group for the year ended 31 December 2005 was HK$474,326,000, representing a decrease of 15.8% over 2004.

Research and development costs

The Group has increased its resources considerably in the research and development ("R&D") of its products and solutions including those related to 3G. For instance, the Group expanded its R&D team in the PRC substantially during 2005. In addition, the Group purchased more R&D equipment and incurred more expenses in broadening its product portfolio. On the other hand, in order to accelerate its R&D capabilities in power amplifiers, the Group set up an R&D centre in Silicon Valley, the US in the third quarter of 2005. R&D costs therefore increased substantially to HK$62,509,000 and accounted for 5.3% of revenue in 2005 compared to 3.4% in 2004.

Selling and distribution costs

Selling and distribution costs were HK$86,955,000 in 2005, representing an increase of 25.3% over 2004. This was largely due to the increase in headcount in the Group's nationwide network in the PRC to strengthen its presence and increase its market share. Nevertheless, in the second half of 2005, the Group already streamlined certain of its operations in the nationwide network amid slow down in CDMA capital expenditure. This has since helped reduce the impact on its operating results from such nationwide expansion in anticipation of 3G opportunities. International expansion also contributed to the increase in selling and distribution costs.

Administrative expenses

Administrative expenses were HK$223,000,000 in 2005, representing an increase of 5.6% over 2004. Around two-fifths of administrative expenses were payroll and related expenses for both 2004 and 2005. Others included office rental and expenses, travelling and depreciation charges. As a result of the recent changes to the Hong Kong Financial Reporting Standards, the cost of share options granted by the Company to the Group's employees has to be accounted for by the Company as an expense in its income statement starting from accounting periods commencing after 1 January 2005. As such, option expense amounting to HK$16,896,000 was charged to the income statement in 2005, compared to HK$17,627,000 in 2004 as restated.

Finance costs

Finance costs were HK$21,480,000 in 2005, representing an increase of 125.4% over 2004. This was mainly due to the increase in bank loans to finance the Group's working capital and the increase in interest rates during the year. In addition, finance costs on factored trade receivables also increased by HK$6,540,000 over 2004.

Tax

Effective tax rate was 8.5% in 2005, compared to 2.5% in 2004. Such increase was due to the fact that one of the Group's subsidiaries in the PRC enjoyed full tax exemption in 2004 but is currently subject to corporate income tax at half the standard rate.

Net profit

Profit attributable to shareholders ("Net Profit") for the year ended 31 December 2005 was HK$82,089,000, representing a decrease of 65.4% over 2004. Net profit margin was 7.0% in 2005 compared to 21.7% in 2004 as restated. The decrease was mainly due to the decrease in gross profit and increases in costs and expenses described above.

Prospect

Businesses - solutions/products

Wireless enhancement solutions

The Directors believe that the future development of the Group's 3G operations represents an excellent business opportunity to the Company in the medium term. The Group has continously invested in R&D to enhance its product portfolio and capabilities for the WCDMA and TD-SCDMA standards. Having set up an R&D centre in Silicon Valley, the US, the Group has expanded its R&D capabilities especially in multi-carrier power amplifiers ("MCPA"). The Group is well prepared for 3G in all aspects and a number of 3G solutions have been deployed. This enables the Group to understand the need, and meet the demand, of operators immediately upon the granting of 3G licences.

MII officials indicated that the 3G policy would be finalised in 2006. The State government has been actively promoting the development of the TD-SCDMA standard. For instance, three telecom operators in the PRC are building a commercial trial network separately for the TD-SCDMA standard. The granting of 3G licences in the PRC is therefore foreseeable in the near future. Once the licences are granted, the Group anticipates the demand for wireless enhancement solutions for 3G networks to be strong and possibly outstrip supply. This will bring tremendous business opportunities to the Group, which can leverage its leading position in the wireless enhancement solutions market in the PRC. In addition, the development of some PHS products has helped the Group to establish relationships with fixed line operators in the PRC which are involved in the above-mentioned trial networks for TD-SCDMA standard.

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. Both the China Mobile Group and the China Unicom Group indicated recently that they would increase capital expenditure in their respective GSM networks in 2006 compared to 2005. 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 former is to increase the coverage areas to rural areas and second tier cities while the latter is to improve the signal strength inside an area like basements and elevators. The Directors therefore remain cautiously optimistic about the wireless enhancement solutions market in the PRC, no matter when the 3G licences are granted.

The Group has launched various new solutions and products to meet the needs of the market. For instance, in 2005, the Group developed various new solutions including Dynamic Traffic Routing solutions. The continued investment made by the Group has made its products even more cost effective and competitive in the industry. For instance, the Group was ranked first by the China Mobile Group in its central procurement programme for outdoor repeaters in July 2005. This has strengthened the Group's leading position in the industry.

Mobile operators have increasingly adopted the practice of central procurement in order to streamline their supply chain management. 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.

Subsystems and Antennas

The Group has actively expanded its capabilities on subsystems and antennas. This rapid expansion aligns with its consolidated effort in international and core equipment manufacturer market expansion. 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. This effort drastically increases its core competency in BTS antennas, enabling the Group to be ranked first by the China Mobile Group in its central procurement programme for BTS antennas in July 2005. Revenue from BTS antennas has since been growing rapidly in the PRC. With respect to the international market, the Group has started gaining traction. In addition, the Group is in the process of qualifying its subsystems and antennas with international operators and core equipment manufacturers. The Directors believe that this market segment is going to provide strong growth momentum for the Group.

Digital Microwave Systems ("DMS")

The Group has launched its MASELink DMS solutions in the international market. It currently has a complete portfolio of DMS solutions that is capable of operating across all frequency bands from 6GHz to 26GHz and ranges from the traditional PDH based microwave solution with capacities of up to 16 E-1 (32Mbps) to SDH microwave solution at an STM-1 (155Mbps) capacity. With the MASELink Super PDH solution, the Group is one of the few companies that is able to offer a true 100Mbps IP radio solution. With feature-rich and competitively positioned DMS solutions, the Group believes that its DMS revenue will continue its growth momentum, especially after 3G licences are granted in the PRC.

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.

Businesses — markets

International market

The Directors view the international market expansion as one of the most important strategies for the Group's future growth. The Group has been focusing on the PRC market and concurrently building up its core technical and manufacturing competencies to get ready for this expansion. The Group has established the EMEA (Europe, Middle East & Africa) regional headquarters in Stockholm, Sweden and has also established direct presence in the

Thailand, Singapore and India markets which are coordinated from the corporate headquarters located in Hong Kong. The Group has broadened its international customer base to increase its global brand recognition and to allow more effective business development.

In addition to the expansion of its network, the Group has established dedicated marketing organisation with employees around the world. Coupled with a Global Service & Support Team ("GSST") in Singapore, the Group is now in a position to address different market requirements as well as to offer a complete solution from consultation to post-sales support and maintenance. The Directors are committed to the international expansion and believe that it will provide substantial growth for the Group in 2006 and beyond. In order to meet and adapt to customer and market needs, the Group is continually restructuring and adding to the technical and human resources required to address the international market effectively.

Core equipment manufacturer market

The Directors also view the core equipment manufacturer market as an important strategy for expansion. With established R&D and manufacturing capabilities, the Group has developed products catering to the needs of core equipment manufacturers both inside and outside of the PRC. The core equipment manufacturer market is synergistic to the Group's overall product expansion plan. Its products will be integrated to BTS equipment and this effectively expands the Group's addressable market.

The Group has made a concerted move into the core equipment manufacturer market over the past year and has already gained traction with certain key domestic core equipment manufacturers. The global core equipment manufacturer outsourcing market is expected to grow with equipment manufacturers increasingly outsourcing some of the components. The PRC itself is expected to be a powerful contributor to the core equipment manufacturer outsourcing market over the next 3 years driven by 3G licence issuance and the subsequent network upgrades and installations. Given the Group's capabilities, the Directors believe that it will be able to leverage its production base and international network to gain share in the core equipment manufacturer market.

Operations

In an attempt to improve its operating efficiency and internal control, the Group implemented a new SAP ERP system in the PRC in 2005. A high level of integration of logistics management has been achieved. The Group also expects to improve efficiency and control in the areas of materials procurement, inventory control, overall production management, project coordination management and working capital management. The new ERP system will be implemented throughout the Group in 2006.

The construction of the new PRC headquarters of the Group in Guangzhou Science City, Guangzhou, the PRC has been completed. The Group expects to relocate the sales and marketing and the R&D departments to the new headquarters by June 2006. After that, the existing plant in the Guangzhou Economic and Technology Development District will mainly be used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

Conclusion

The Group remains cautiously optimistic about the opportunities that the future development of the 3G mobile market in the PRC will bring in the medium term. As and when the 3G licences are granted to telecommunications operators in the PRC, the Group expects significant business opportunities from both existing and new customers. Based on its preparation so far, the Group believes that it will be ready to face the challenges and benefit from the opportunities in the 3G mobile market. On the other hand, in order to fuel its long term growth, the Group is committed to developing international and core equipment manufacturer markets, which are its strategic areas of expansion. Being the market leader in the PRC in terms of market share, R&D and production capabilities, the Group is well positioned to provide quality products and services in these markets. The Group is also committed to allocating resources to pursue this growth strategy to achieve a more balanced customer base.

The Group continues to focus on its core competency in radio frequency technology. To cope with the changes in market needs, it will continue to invest in products and technology based research and development and to enlarge its production platform to meet expected growth in demand for its products and solutions. Such 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, consolidate its leading market position, and pursue a balanced and carefully planned growth strategy, in order to maximise 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 2005, the Group had net current assets of HK$960,419,000. Current assets comprised inventories of HK$572,948,000, trade receivables of HK$618,290,000, notes receivables of HK$35,585,000, factored trade receivables of HK$115,296,000, prepayments, deposits and other receivables of HK$112,807,000, short term time deposits of HK$178,296,000 and cash and cash equivalents of HK$314,118,000. Current liabilities comprised trade and bills payables of HK$356,753,000, tax payable of HK$18,867,000, other payables and accruals of HK$284,036,000, current portion of finance lease payables of HK$180,000, interest-bearing bank and other borrowings of HK$190,723,000, bank advances on factored trade receivables of HK$115,296,000, and provision for product warranties of HK$21,066,000.

The average receivable turnover for the year ended 31 December 2005 was 174 days compared to 137 days for the year ended 31 December 2004. 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 6 to 24 months. The average payable turnover for the year ended 31 December 2005 was 170 days compared to 153 days for the year ended 31 December 2004. The average inventory turnover for the year ended 31 December 2005 was 286 days compared to 260 days for the year ended 31 December 2004.

As at 31 December 2005, 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$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the Board considers that there is no significant exchange risk.

The Group's gearing ratio, calculated as total debts (including short-term bank loans and finance lease payables) over total assets, was 14.0% as at 31 December 2005. (2004: 8.6%)

Charge on Assets

The Group's bank borrowings were secured by a charge on a time deposit amounted to HK$63,000,000 (2004: HK$102,000,000).

Contingent Liabilities

As at 31 December 2005, the Group had no contingent liability as detailed in the financial statements (2004: HK$13,603,000).

Employees and Remuneration Policies

As at 31 December 2005, the Group had around 3,200 staff. The total staff costs for the year under review was HK$248,931,000. 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.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on The Hong Kong Stock Exchange Limited (the "Stock Exchange") in July 2003, after deduction of related issuance expenses, amounted to approximately HK$396 million. These proceeds were fully applied during the period from 15 July 2003 to 31 December 2005 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

(i) approximately HK$80,000,000 was used for long term research and development, including 3G-enabled products;

(ii) approximately HK$ 50,000,000 was used for the expansion of product and service portfolio;

(iii) approximately HK$ 120,000,000 was used for the enlargement of production facilities;

(iv) approximately HK$60,000,000 was used for the expansion in sales network and market coverage; and

(v) a balance of HK$86,000,000 was applied as additional working capital of the Group.

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 Main Board Listing Rules throughout the accounting period for the year ended 31 December 2005, 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 2005 have been reviewed by the audit committee of the Company.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

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 (htpp://www.hkex.com.hk) in due course.

By order of the Board
Fok Tung Ling
Chairman and President

Hong Kong, 21 April 2006

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.