

Report of the Directors

The directors of Comba Telecom Systems Holdings Limited (the "Company") are pleased to present their first report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2003.

Group reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 20 June 2003. Further details of the Group Reorganisation and the subsidiaries acquired thereto are set out in notes 1 and 16 to the financial statements.

The Company completed its initial public offering on 15 July 2003, and the shares of the Company were listed on the Stock Exchange on the same date.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the research, development, manufacturing and sale of wireless telecommunications coverage system equipment and provision of related engineering services. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 60.

The directors recommend the payment of a final dividend of 5 HK cents per ordinary share in respect of the year, to shareholders on the register of members on 7 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

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 Stock Exchange in July 2003, after deduction of related issuance expenses, amounted to approximately HK\$396 million. These proceeds were applied during the year ended 31 December 2003 in respect of the proposed applications set out in the Company's listing prospectus, as follows:

- (i) approximately HK\$14,600,000 was used for long term research and development, including 3G-enabled products;
- (ii) approximately HK\$4,700,000 was used for the expansion of product and service portfolio;
- (iii) approximately HK\$21,400,000 was used for the enlargement of production facilities;
- (iv) approximately HK\$6,100,000 was used for the expansion in sales network and market coverage; and
- (v) the balance of HK\$349,200,000 was placed with commercial banks for future use as set out in the Group's prospectus.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the audited financial statements and the Company's listing prospectus and reclassified as appropriate, is set out on page 61. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

The Company's shares were listed on the Stock Exchange on 15 July 2003. Save for this, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$747,946,000, of which HK\$41,500,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$312,659,000, may be distributed, provided immediately following the date on which the distribution or dividend is proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course business.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 97% of the total sales for the year and sales to the largest customer included therein amounted to 61%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and five largest suppliers.

Directors

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mr. Fok Tung Ling ("Mr. Fok")
Mr. Zhang Yue Jun ("Mr. Zhang")
Mr. Chan Kai Leung, Clement
Mr. Wu Jiang Cheng (appointed on 1 April 2003)
Mr. Yan Ji Ci (appointed on 1 April 2003)
Mr. Zheng Guo Bao (appointed on 30 March 2004)

Independent non-executive directors:

Mr. Yao Yan (appointed on 1 April 2003)
Mr. Lau Siu Ki, Kevin (appointed on 1 April 2003)
Mr. Liu Cai (appointed on 1 April 2003)

In accordance with articles 86(3) of the Company's articles of association, all the directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for periods of one year.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 15 of the annual report.

Directors' service contracts

Each of the executive directors (except Mr. Zheng Guo Bao) has a service contract with the Company for an initial term of three years commencing on 1 July 2003, and will continue thereafter until terminated by either party giving to the other not less than six month's written notice. Mr. Zheng Guo Bao has entered into a service contract with the Company for an initial term of two years commencing on 30 March 2004.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Apart from certain transactions related to the Group Reorganisation as disclosed in the paragraph headed "Material contracts" under the section headed "Further information about the business" in Appendix V – Statutory and General Information to the prospectus of the Company dated 3 July 2003 (the "Prospectus"), none of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

Directors' interests and short positions in shares and underlying shares

At 31 December 2003, the interests of the directors in the share capital and share options of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Through controlled corporation/ Beneficial Owner	Percentage of the Company's issued share capital
Mr. Fok	(a)	480,000,000	57.8
Mr. Zhang	(b)	120,000,000	14.5
Mr. Chan Kai Leung, Clement	(d)	2,000,000 (as beneficial owner)	0.24
Mr. Wu Jiang Cheng	(e)	2,000,000 (as beneficial owner)	0.24
Mr. Yan Ji Ci	(f)	2,000,000 (as beneficial owner)	0.24

Notes:

- 390,000,000 shares and 90,000,000 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master"), respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in a total of 480,000,000 shares owned by Prime Choice and Total Master.
- These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 120,000,000 shares owned by Wise Logic.
- On 26 February 2004, Mr. Fok and Mr. Zhang placed an aggregate of 30,000,000 shares to independent investors. Upon completion of the placing, the number of ordinary shares effectively held by Mr. Fok and Mr. Zhang was reduced to 453,000,000 and 117,000,000, respectively, representing 54.6% and 14.1% of the Company's issued share capital.
- Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Chan Kai Leung, Clement was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share Option Scheme" of Note 28 to the financial statements on pages 55 and 56 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Wu Jiang Cheng was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share Option Scheme" of Note 28 to the financial statements on pages 55 and 56 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Yan Ji Ci was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share Option Scheme" of Note 28 to the financial statements on pages 55 and 56 of this annual report.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' rights to acquire shares or debentures

Save as disclosed in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 December 2003, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Prime Choice		Beneficial owner	390,000,000	47.0
Total Master		Beneficial owner	90,000,000	10.8
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	480,000,000	57.8
Wise Logic		Beneficial owner	120,000,000	14.5
Mdm Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	120,000,000	14.5

Notes:

- (a) Mdm. Chen is the wife of Mr. Fok and is deemed to be interested in the 480,000,000 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.
- (b) Mdm. Cai is the wife of Mr. Zhang and is deemed to be interested in the 120,000,000 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

There are duplications of interests of shares in the Company in respect of:

- (i) 390,000,000 shares between Prime Choice and Mdm. Chen;
- (ii) 90,000,000 shares between Total Master and Mdm. Chen; and
- (iii) 120,000,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Share option scheme

Concerning the share options granted during the year to the directors and employees, as detailed in note 28, the directors do not consider it appropriate to disclose a theoretical value of the share options, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

Connected transactions

On 31 December 2003, the Group exercised an option for further acquisition of a 13% equity interest in WaveLab Holdings Limited, a non-wholly-owned subsidiary, at a consideration of US\$2,000,000. Further details of which are set out in note 16(v) to the financial statements.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), since the shares of the Company were listed on the Stock Exchange.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. An Audit Committee Meeting was held on 30 March 2004 to review the Group's annual report and provide advice and recommendations to the board of directors of the Company.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Fok Tung Ling

Chairman and Managing Director

Hong Kong, 31 March 2004