

Report of the Directors

The directors of Comba Telecom Systems Holdings Limited (the “Company”) are pleased to present their 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 2004.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise the research, development, manufacture and sale of wireless telecommunications coverage system equipment and the 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 73.

An interim dividend of HK4 cents per share was paid on 7 October 2004. The directors recommend the payment of a final dividend of HK5 cents per share in respect of the year, to shareholders whose names appear on the register of members of the Company on 23 May 2005. 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 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 partly applied during the period from July 2003 to 31 December 2004 in accordance with the proposed applications set out in the Company’s listing prospectus, as follows:

- (i) approximately HK\$50,800,000 was used for long term research and development, including 3G-enabled products;
- (ii) approximately HK\$27,700,000 was used for the expansion of product and service portfolio;
- (iii) approximately HK\$61,000,000 was used for the enlargement of production facilities;
- (iv) approximately HK\$59,300,000 was used for the expansion in sales network and market coverage; and
- (v) a balance of HK\$197,200,000 was applied as additional working capital of the Group.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and the Company’s prospectus dated 3 July 2003 and reclassified as appropriate, is set out on page 74. 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 26 and 27 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 the 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

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 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$398,117,000, of which HK\$41,637,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$318,524,000, 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 of business.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 96% of the total sales for the year and sales to the largest customer included therein amounted to approximately 49% of the total sales for the year. 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.

Report of the Directors

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. Chan”)

Mr. Wu Jiang Cheng (“Mr. Wu”)

Mr. Yan Ji Ci (“Mr. Yan”)

Mr. Zheng Guo Bao (“Mr. Zheng”) (appointed on 30 March 2004)

Mr. Yeung Pui Sang, Simon (“Mr. Yeung”) (appointed on 7 April 2005)

Independent non-executive directors:

Mr. Yao Yan

Mr. Lau Siu Ki, Kevin

Mr. Liu Cai

In accordance with article 87(1) of the Company’s articles of association, Mr. Zhang and Mr. Chan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. In accordance with articles 86(3) of the Company’s articles of association, Mr. Yeung shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election. All the independent non-executive directors are appointed for a term 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 20 to 25 of this annual report.

Directors’ service contracts

Each of the executive directors (except Mr. Zheng and Mr. Yeung) has entered into 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 has entered into a service contract with the Company for an initial term of two years commencing on 30 March 2004. Mr. Yeung has entered into a service contract with the Company for an initial term of eighteen months commencing on 7 April 2005 and will continue thereafter until terminated by not less than six months’ notice in writing served by either party on the other.

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

No contracts of significance in relation to the Group’s business to which the Company, its holding company, or any of its subsidiaries, or fellow subsidiaries, was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



Directors' interests and short positions in shares and underlying shares

As at 31 December 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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 Issuers, were as follows:

Long positions in the shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest			Approximate percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation	Total	
Mr. Fok	(a)	710,000	437,954,000	438,664,000	52.68%
Mr. Zhang	(b)	—	117,000,000	117,000,000	14.05%
Mr. Chan	(c)	666,000	—	666,000	0.08%
Mr. Wu	(c)	1,800,000	—	1,800,000	0.22%
Mr. Yan	(c)	1,700,000	—	1,700,000	0.20%
Mr. Zheng		1,450,000	—	1,450,000	0.17%
Mr. Yeung	(c)	500,000	—	500,000	0.06%
		6,826,000	554,954,000	561,780,000	67.46%

Notes:

- (a) 394,156,000 shares and 43,798,000 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 the total of 437,954,000 shares owned by Prime Choice and Total Master.
- (b) 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 117,000,000 shares owned by Wise Logic.
- (c) Each of Mr. Chan, Mr. Wu, Mr. Yan and Mr. Yeung has share options in respect of 2,000,000 shares, details of which are disclosed in note 27 to the financial statements.

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.

Save as disclosed above, as at 31 December 2004, none of the directors or the chief executive of the Company 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 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 Issuers.

Report of the Directors

Directors' rights to acquire shares or debentures

Save as disclosed in the share option scheme disclosures in note 27 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 children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' interests in shares and underlying shares

As at 31 December 2004, the following parties (other than the directors or the chief executive of the Company) were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO as being directly or indirectly interested or had short positions in the shares or underlying shares of the Company:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Approximate Percentage of the Company's issued share capital
Prime Choice		Beneficial owner	394,156,000	47.33%
Total Master		Beneficial owner	43,798,000	5.26%
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	438,664,000	52.68%
Wise Logic		Beneficial owner	117,000,000	14.05%
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	117,000,000	14.05%
Martin Currie Investment Management Ltd		Beneficial owner	49,765,200	5.98%

Notes:

- (a) Mdm. Chen is the wife of Mr. Fok and is deemed to be interested in the 438,664,000 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 117,000,000 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

There are duplications of interests in the issued share capital of the Company in respect of :

- (i) 394,156,000 shares between Prime Choice and Mdm. Chen;
- (ii) 43,798,000 shares between Total Master and Mdm. Chen; and
- (iii) 117,000,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2004, no person, other than the directors or the chief executive 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 by the Company 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 27 to the financial statements, 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 in respect of the shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

Connected transactions

During the financial year ended 31 December 2004, the Group entered into the following transactions which constituted connected transactions for the Company under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These transactions were entered into with WaveLab Holdings Limited ("WaveLab Holdings") and its wholly-owned subsidiary 波達通信設備（廣州）有限公司 (WaveLab Telecom Equipment (Guangzhou) Limited) ("WaveLab Guangzhou"). WaveLab Holdings is an indirect subsidiary of the Company. It was owned as to 51.75% by the Company prior to 14 October 2004 and 60% by the Company after 14 October 2004.

WaveLab Holdings and WaveLab Guangzhou were connected persons in relation to the Company for the following reasons:

- (a) *Prior to Mr Zheng's appointment as an executive director of the Company on 30 March 2004 and the amendments to the Listing Rules which took effect on 31 March 2004.*

Mr. Zheng was a substantial shareholder and a director of WaveLab Holdings and a director of all its subsidiaries. He was therefore a connected person in relation to the Company within the meaning of the Listing Rules. As Mr. Zheng had a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings was an associate of Mr. Zheng and was therefore a connected person in relation to the Company within the meaning of the Listing Rules.

- (b) *After Mr Zheng's appointment as an executive director of the Company on 30 March 2004 and the amendments to the Listing Rules which took effect on 31 March 2004.*

As Mr. Zheng is a connected person in relation to the Company at the Company's level and Mr. Zheng is entitled to exercise more than 10% of the voting power at the general meeting of WaveLab Holdings, WaveLab Holdings is a non wholly-owned subsidiary of the Company which falls within the meaning of Rule 14A.11(5) of the Listing Rules. As such, WaveLab Holdings is a connected person in relation to the Company. In addition, since Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings is also an associate of Mr. Zheng and hence a connected person in relation to the Company.

- (c) WaveLab Guangzhou is a wholly foreign owned enterprise established under the laws of the PRC. As it is a wholly-owned subsidiary of WaveLab Holdings, it is therefore also a connected person in relation to the Company under the Listing Rules.

Report of the Directors

Details of these connected transactions are as follows:

- (a) *Transaction falling under Rule 14.25(1) of the Listing Rules in force prior to the amendments which took effect on 31 March 2004 (the “Old Listing Rules”)*

On 1 March 2004, Comba Telecom Technology (Guangzhou) Limited (“Comba Technology Guangzhou”), a wholly-owned subsidiary of the Company, entered into an agreement (the “Equipment Sale Agreement”) with WaveLab Guangzhou pursuant to which Comba Technology Guangzhou agreed to sell certain production equipment and materials (the “Equipment”) to WaveLab Guangzhou at a cash consideration of approximately RMB3,995,180.

The Equipment consisted of a number of equipment with is the key production equipment required by WaveLab Guangzhou for its operations including bonding machines, materials and office furniture. The Equipment was first purchased by Comba Technology Guangzhou in preparation for the establishment of WaveLab Guangzhou. As WaveLab Guangzhou was then established, Comba Technology Guangzhou transferred the Equipment to WaveLab Guangzhou at cost.

The consideration payable by WaveLab Guangzhou to Comba Technology Guangzhou under the Equipment Sale Agreement does not exceed the higher of HK\$10 million and 3% of the then net tangible assets of the Company. Hence, the Equipment Sale Agreement constituted a connected transaction falling under Rule 14.25(1) of the Old Listing Rules which was exempt from any shareholders' approval requirement but was subject to disclosure by way of announcement and in this annual report. Details of the Equipment Sale Agreement were announced by the Company on 1 March 2004.

- (b) *Continuing connected transactions under conditional waiver from strict compliance under Rule 14.26 of the Old Listing Rules*

On 1 March 2004, Comba Telecom Systems (Guangzhou) Limited (“Comba Systems Guangzhou”), a wholly-owned subsidiary of the Company, entered into an agreement (the “Product Sales Agreement”) with WaveLab Guangzhou pursuant to which WaveLab Guangzhou agreed to sell outdoor units and such other products used in connection with microwave transmission (the “Products”) to Comba Systems Guangzhou and to grant Comba Systems Guangzhou the sole and exclusive right to sell the Products in the PRC, Hong Kong and Macau for a term of three years expiring 28 February 2007. The price of the Products will be agreed between WaveLab Guangzhou and Comba Systems Guangzhou in writing from time to time. Comba Systems Guangzhou intended to integrate most, if not all, of the Products acquired with the products of Comba Systems Guangzhou.

The entering into of the Product Sales Agreement and the sale and purchase of the Products contemplated thereunder (the “Transactions”) constituted connected transactions of the Company falling under Rule 14.26 of the Old Listing Rules.

On 30 March 2004, the Stock Exchange granted to the Company a waiver from strict compliance with the requirements of Rule 14.26 of the Old Listing Rules such that the written approval of the Product Sales Agreement and the Transactions by the Company's controlling shareholder, Mr. Fok Tung Ling, would be accepted in lieu of holding a physical shareholders' meeting. The Stock Exchange also granted to the Company a conditional waiver (the “Waiver”) from strict compliance with the requirements of Rule 14.26 of the Old Listing Rules in respect of the three financial years ending 31 December 2006. These conditions and further details of the Product Sales Agreement were set out in the announcement issued by the Company on 1 March 2004.



For the year ended 31 December 2004, the total actual expenditure in respect of the Products purchased by Comba Systems Guangzhou pursuant to the Transactions amounted to approximately HK\$1,872,000.

In accordance with the conditions of the Waiver, the directors (including the independent non-executive directors) of the Company have reviewed the Transactions and confirm that:

- (i) the Transactions were entered into in the ordinary and usual course of business of the Group; conducted on normal commercial terms, or (where there is no sufficient comparable transactions to judge whether they are on normal commercial terms) on terms no less favourable to the Group than terms available to or from independent third parties; and conducted in accordance with the Product Sales Agreement on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and
- (ii) the total annual expenditure in respect of the Products purchased by Comba Systems Guangzhou pursuant to the Transactions in the financial year ended 31 December 2004 did not exceed HK\$60 million, being the cap amount as stated in the Waiver for the financial year ended 31 December 2004 (the “Cap Amount”).

The auditors of the Company have also reviewed the Transactions and confirmed to the Board in writing that:

- (i) the Transactions have been approved by the Board;
- (ii) the Transactions have been entered into in accordance with the Product Sales Agreement; and
- (iii) the aggregate value of the Transactions in respect of in the financial year ended 31 December 2004 did not exceed the Cap Amount.

According to the transitional arrangements announced regarding the amendments of Listing Rules which took effect on 31 March 2004, the Waiver, which has been granted to the Company for a fixed period, shall continue to apply until the earlier of (1) the expiry of the Waiver and (2) the Company failing to comply with any of the conditions of the Waiver or the Product Sales Agreement being renewed or there being a material change to the terms of the Product Sales Agreement.

- (c) *Transaction falling under Rule 14A.32 of the Listing Rules in force after the amendments which took effect on 31 March 2004 (the “New Listing Rules”)*

Pursuant to a subscription agreement dated 29 January 2003 (the “Subscription Agreement”) entered into between Cascade Technology Limited (“Cascade”), WaveLab Holdings and the then shareholders of WaveLab Holdings, Cascade subscribed for 258 shares in WaveLab Holdings at a consideration of US\$3,000,000 at the date of the Subscription Agreement and had two options (the “Options”) for further subscription of: (a) 171 shares in WaveLab Holdings at a cash consideration of US\$2,000,000 on or before 31 December 2003 (the “First Option”); and (b) 171 shares in WaveLab Holdings at a cash consideration of US\$2,000,000 on or before 31 December 2004 (the “Second Option”).

Cascade exercised the First Option on 31 December 2003. Prior to the exercise of the Second Option, WaveLab Holdings had in issue 829 shares, of which 429 were held by Cascade, 320 by Mr. Zheng and 80 among three senior management staff, which represented approximately 51.75%, 38.6% and 9.65% of the then issued share capital of WaveLab Holdings, respectively.

Report of the Directors

On 11 October 2004, Cascade exercised the Second Option to subscribe for a further 171 new shares of US\$1.00 each in WaveLab Holdings at a cash consideration of US\$2 million (equivalent to approximately HK\$15.6 million).

The exercise of the Second Option was completed on 14 October 2004. Upon completion, Cascade's shareholding in WaveLab Holdings increased to 600 shares, representing 60% of the enlarged issued share capital of WaveLab Holdings. The shareholding of Mr. Zheng and of the three senior management staff in WaveLab Holdings decreased accordingly to 32% and 8%, respectively.

The exercise of the Second Option by Cascade constituted a connected transaction of the Company under the Listing Rules. However, as each of the applicable percentage ratios (as defined under the Listing Rules) is less than 2.5%, the exercise of the Second Option (in aggregation with the exercise of the First Option) was a connected transaction falling under Rule 14A.32 of the Listing Rules which was exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details in relation to the exercise of the Second Option were set out in the announcement issued by the Company on 12 October 2004.

Disclosure under Chapter 13 of the Listing Rules

As at 31 December 2004, the Group had trade receivables (the "Receivables") due from one of its customers, the China Unicom Group (comprising certain subsidiaries of China United Telecommunication Corporation), of approximately RMB271,674,000 (equivalent to approximately HK\$255,333,000) (the "CU Receivables"). The CU Receivables represented approximately 14% of the total assets value of approximately HK\$1,828,652,000 of the Group as set out in its latest published annual report for the year ended 31 December 2004 (the "Latest Published Accounts"). As the CU Receivables exceed 8% of the Group's total assets value as set out in the Latest Published Accounts, the Company is obliged to disclose such information according to Rules 13.13, 13.15 and 13.20 of the Listing Rules.

The Group has well-established business relationships with the China Unicom Group. The Group has provided comprehensive turnkey solutions to this customer thereby optimising the quality of its mobile networks and will continue to do so. As a technology partner of this customer, the Group has been able to obtain more and more business from it. As a result, the CU Receivables increased with the increase in business volume with this customer in 2004.

The CU Receivables comprising purely trade receivables are interest-free, unsecured and with payment terms of three to six months in general, except for those retention money receivables which are with payment terms ranging from 6 to 24 months. As at the date of this report, the CU Receivables, if not yet settled, will become due for payment from March 2005 to December 2006. The CU Receivables arose from the sale of wireless telecommunications coverage system equipment and the provision of related consultancy, system design, testing, installation and maintenance services by the Group to the China Unicom Group.

The China Unicom Group is an independent third party and not a connected person of the Company (as defined in the Listing Rules).

Save as disclosed above, as at 31 December 2004, so far as was known to the directors, there was no other advance which would give rise to disclosure obligation under Rules 13.13, 13.15 and 13.20 of the Listing Rules.



Post balance sheet events

No significant events took place subsequent to 31 December 2004.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which was in force prior to 1 January 2005 throughout the accounting period covered by this annual report.

Audit committee

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

Auditors

Ernst & Young have acted as auditors of the Company since the listing of the shares of the Company in July 2003. Ernst & Young will 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
15 April 2005