

REPORT OF THE DIRECTORS

The directors of Comba Telecom Systems Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the research, development, manufacture and sale of wireless telecommunications network enhancement 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 99.

The directors recommend the payment of a final dividend of HK 3 cents per ordinary share in respect of the year (2004: HK 5 cents per ordinary share), to shareholders on the register of members on 26 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet. No interim dividend was paid for the year ended 31 December 2005 (2004: HK4 cents per ordinary share).

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 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 portfolios;

- (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.

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 restated/reclassified as appropriate, is set out on page 100. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 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 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$416,107,000, of which HK\$24,991,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$319,148,000, may be distributed, provided immediately following the date on which the distribution or dividend 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 94.9% of the total sales for the year and sales to the largest customer included therein amounted to approximately 54.6%. 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.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Fok Tung Ling (Chairman and President)	("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")
Mr. Yeung Pui Sang, Simon (appointed on 7 April 2005)	("Mr. Yeung")

Independent non-executive directors:

Mr. Yao Yan	("Mr. Yao")
Mr. Lau Siu Ki, Kevin	("Mr. Lau")
Mr. Liu Cai	("Mr. Liu")

In accordance with article 87(1) of the Company's articles of association, Mr. Fok, Mr. Wu, Mr. Yan, and Mr. Zheng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All the independent non-executive directors are appointed for a term of one year.

The Company has received annual confirmations of independence from Mr. Yao, Mr. Lau, and Mr. Liu as at the date of this report and considers them to be independent.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 29 of the 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 which commenced on 1 July 2003, and will continue thereafter until terminated by either party giving not less than six month's written notice. As these contracts were entered into on or before 31 January 2004, they are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Mr. Zheng has entered into a service contract with the Company for an initial term of two years which commenced on 30 March 2004. Mr. Yeung has entered into a service contract with the Company for an initial term of 18 months which commenced 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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are reviewed by the Company's remuneration committee with reference to the Directors' duties, responsibilities and performance and the results of the Group.

REPORT OF THE DIRECTORS

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

At 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares 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 were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation	Total	
Mr. Fok	(a)	8,248,000	437,954,000	446,202,000	53.56
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
		14,364,000	554,954,000	569,318,000	68.34

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 and Mr. Yan has share options in respect of 2,000,000 ordinary shares. Mr. Yeung has share options in respect of 4,000,000 ordinary shares, details of which are disclosed in note 31 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 2005, none of the directors had registered an interest or short position in the shares or 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 31 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, 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.

SHARE OPTION SCHEME

Details of the share option scheme are set out in note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, 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	394,156,000	47.32
Total Master		Beneficial owner	43,798,000	5.26
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	446,202,000	53.56
Wise Logic		Beneficial owner	117,000,000	14.05
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	117,000,000	14.05

Notes:

- (a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 446,202,000 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.
- (b) Mdm. Cai is the spouse 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.

(ii) 43,798,000 shares between Total Master and Mdm. Chen; and

(iii) 117,000,000 shares between Wise Logic and Mdm. Cai.

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;

Save as disclosed above, as at 31 December 2005, 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions under conditional waiver from strict compliance under Rule 14.26 of the Old Listing Rules

Comba Telecom Systems (Guangzhou) Limited (“Comba Systems Guangzhou”) and 波達通信設備（廣州）有限公司 (WaveLab Telecom Equipment (Guangzhou) Limited) (“WaveLab Guangzhou”) were connected persons for the following reasons:

- (a) Being an executive director of the Company, 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 Limited (“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 Limited (“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.
- (b) Comba Systems Guangzhou is a wholly-owned subsidiary of the Company. Likewise, WaveLab Guangzhou, a wholly foreign owned enterprise established under the laws of the PRC, is also a wholly-owned subsidiary of WaveLab Holdings. Therefore Comba Systems Guangzhou and Wavelab Guangzhou are also connected persons in relation to the Company under the Listing Rules.

On 1 March 2004, Comba Systems Guangzhou entered into an agreement (the “Product Sales Agreement”) with WaveLab Guangzhou pursuant to which WaveLab Guangzhou agreed to sell outdoor units and 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 Mainland China, Hong Kong and Macau for a term of three years expiring 28 February 2007. The price of the Products is to 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 continuing connected transactions of the Company falling under Rule 14.26 of the Listing Rules in force prior to the amendments which took effect on 31 March 2004 (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 that the written approval of the Product Sales Agreement and the Transactions by the Company’s controlling shareholder, Mr. Fok, 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 Products Sales Agreement were set out in the announcement issued by the Company on 1 March 2004.

For the year ended 31 December 2005, the total actual expenditure in respect of the Products purchased by Comba Systems Guangzhou pursuant to the Transactions amounted to approximately HK\$6,268,000 (2004: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 interests 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 2005 did not exceed HK\$112 million, being the cap amount as stated in the Waiver for the financial year ended 31 December 2005 (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 the financial year ended 31 December 2005 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 to the 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.

MODEL CODE OF SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the Company confirmed that the directors have complied with required standard set out in the Model Code throughout the accounting period covered by this annual report.

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 President

Hong Kong
21 April 2006