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)

PROFIT WARNING

The Board wishes to inform the shareholders of the Company and investors that the Group is expecting to report a substantial decrease in net profit for the six months ended 30 June 2005.

Shareholders of the Company and investors are advised to exercise caution when dealing in the shares of the Company.

The board (the "**Board**") of directors (the "**Directors**") of Comba Telecom Systems Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to inform the shareholders of the Company and investors that the Group is expecting to report a substantial decrease in net profit for the six months ended 30 June 2005 compared to the net profit of approximately HK$118 million for the same period the previous year. As the Company is still in the process of preparing its interim financial statements, it is unable to quantify the extent of the decrease at this stage. The Company expects to announce the interim results of the Group for the six months ended 30 June 2005 by the middle of September 2005.

The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications coverage and sub-system equipment and the provision of relating engineering services.

The Directors are of the view that the substantial decrease in net profit that the Group is expecting to report for the six months ended 30 June 2005 is primarily attributable to the following factors:

1. The business of the Group has been adversely affected by the slow down in the implementation of capital expenditure plans on wireless coverage solutions by one of its major customers (made up of various companies within the same group), which the Directors believe might have been caused by the uncertainty surrounding the possible reorganisation of the business operations of the telecommunication operators in the People's Republic of China (the "PRC"). This has led to both a material decrease in the number of projects being carried out by the Group for such customer and a slow down in the inspection and acceptance of projects already completed by the Group for such customer during the six months ended 30 June 2005.

2. As 3G licences have yet to be granted by the government to mobile telecommunication operators in the PRC, the launch of 3G mobile telecommunication services in the PRC

and the implementation of related capital expenditure plans by the mobile telecommunication operators will take place at a later date than what the Group has anticipated. This has impacted on the Group's results given the increased resources applied by the Group to this end.

3. Since the first half of 2004, the Group has expanded its business in international and OEM vendor markets. The Group has also expanded into and developing new products such as antennas and sub-systems and digital microwave systems. This diversification strategy is essential for the long term growth of the Group. As the development of some of these new markets and products are still at an early stage, they have yet to make the expected impact in terms of revenue contribution to the Group relative to the additional resources applied by the Group in such connection.

4. The Group is facing continued pressure on the average selling price and gross profit margin of its products for the 2G mobile telecommunications market in the PRC as such market has become relatively mature.

5. The Group has experienced an increase in operating costs which is primarily attributable to the following factors:

   (a) The Group has increased its resources considerably in the research and development of its products and solutions including those related to 3G.

   (b) Since the first half of 2004, the Group has increased its sales efforts outside the PRC. The costs involved in this connection are material when compared to the revenue generated from its export business.

   (c) The Group has expanded its nationwide network in the PRC to serve its customers. However, the Group has not been able to derive the full benefit of such nationwide network expansion as a result of the slow down in capital expenditure by one of its major customers as described in paragraph 1 above.

6. Under the recent changes to the Hong Kong Financial Reporting Standards, the cost of share options granted by the Company to its employees has to be accounted for by the Company as an expense in its profit and loss account starting from accounting periods commencing after 1 January 2005. As such, cost associated with the outstanding share options granted by the Company contributed to an increase in the Group's expenses for the six months ended 30 June 2005.

Going forward, the Group remains optimistic about the opportunities that the future development of the 3G telecommunications market in the PRC will bring. As and when the 3G licences are granted to telecommunication operators in the PRC, the Group expects significant business opportunities from both existing and new customers.

The Group is reviewing possible measures to further improve the efficiency in the utilisation of its resources and to reduce its operating costs in the light of the current difficult market conditions.

Shareholders of the Company and investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Chan Kai Leung, Clement
Executive Director and Company Secretary

Hong Kong, 1 August 2005

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.