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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003 were as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	**2003** *HK$'000*	2002 *HK$'000*
TURNOVER	*3*	**806,232**	578,366
Cost of sales		**(432,007)**	(308,869)
Gross profit		**374,225**	269,497
Other revenue and gains	*3*	**3,990**	835
Selling and distribution costs		**(42,390)**	(27,920)
Administrative expenses		**(98,309)**	(55,803)
Other operating expenses		**(10,838)**	(6,686)
PROFIT FROM OPERATING ACTIVITIES	*4*	**226,678**	179,923
Finance costs		**(5,542)**	(2,977)
PROFIT BEFORE TAX		**221,136**	176,946
Tax	*5*	**(15,912)**	(14,587)
PROFIT BEFORE MINORITY INTERESTS		**205,224**	162,359
Minority interests		**5,938**	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**211,162**	162,359
Dividend – proposed final	*6*	**41,500**	35,000
Earnings per share (HK cents)	*7*		
Basic		**29.91**	27.06
Diluted		**29.67**	N/A

CONSOLIDATED BALANCE SHEET

	2003 *HK$'000*	2002 *HK$'000*
NON-CURRENT ASSETS		
Fixed assets	**108,231**	70,530
Intangible assets	**3,918**	2,061
Goodwill	**22,186**	–
	134,335	72,591
CURRENT ASSETS		
Inventories	**235,401**	172,945
Trade receivables	**320,895**	192,870
Notes receivable	**–**	21,489
Other receivables	**40,288**	26,079
Pledged deposits	**115,456**	–
Cash and cash equivalents	**471,555**	115,202
	1,183,595	528,585
CURRENT LIABILITIES		
Trade and bills payables	**150,435**	93,959
Tax payable	**13,100**	8,330
Other payables and accruals	**138,432**	91,899
Short term bank loans	**71,977**	51,318
Current portion of finance lease payables	**232**	360
Provision for product warranties	**11,664**	9,655
	385,840	255,521
NET CURRENT ASSETS	**797,755**	273,064
TOTAL ASSETS LESS CURRENT LIABILITIES	**932,090**	345,655
NON-CURRENT LIABILITIES		
Long term portion of finance lease payables	**344**	603
Directors' loans	**–**	46,500
	344	47,103
MINORITY INTERESTS	**13,243**	–
	918,503	298,552
CAPITAL AND RESERVES		
Issued capital	**83,000**	–
Reserves	**794,003**	263,552
Proposed final dividend	**41,500**	35,000
	918,503	298,552

Notes:

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company

Comba Telecom Systems Holdings Limited (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.

The head office and principal place of business of the Company is located at Units 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") is engaged in the research, development, manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services.

Group reorganisation

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group 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") on 15 July 2003, the Company became the holding company of the companies now comprising the Group on 20 June 2003. This was accomplished by acquiring the entire issued share capital of Comba Telecom Systems Investments Limited ("Comba BVI"), which is, as at the date of this report, the intermediate holding company of the subsidiaries of the Group, in consideration of and in exchange for the allotment and issue of 997 ordinary shares of HK$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholders of Comba BVI, and the existing three nil paid shares, credited as fully paid at par.

Further details of the Group Reorganisation are set out in the Company's prospectus dated 3 July 2003 (the "Prospectus").

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 July 2003 (the "Listing Date").

Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2003 and 2002 include the results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, where this is a shorter period except that the results of subsidiaries acquired from independent third parties were consolidated since their respective dates of acquisition. The comparative combined balance sheet as at 31 December 2002 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

2. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of wireless telecommunications coverage system equipment and 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.

3. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold and services rendered during the year, after allowances for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	2003	2002
	HK$'000	*HK$'000*
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	**806,232**	578,366
Other revenue		
Interest income	**3,453**	295
Other	**537**	176
	3,990	471
Gains		
Gain on disposal of a subsidiary	**–**	364
	3,990	835

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2003	2002
	HK$'000	*HK$'000*
Depreciation	**12,332**	8,515
Amortisation of intangible assets	**684**	211
Amortisation of goodwill	**2,986**	–

5. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: 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.

	2003	2002
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	–
Mainland China	**15,912**	14,587
Tax charge for the year	**15,912**	14,587

"According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, the applicable tax rate for the Group's subsidiaries operating in Mainland China is 15%. As approved by relevant tax authorities, certain of the Group's subsidiaries operating in the Mainland China are exempted from PRC corporate income tax for the two years commencing from their respective first profit-making year and thereafter are entitled to a 50% reduction in PRC corporate income tax for the subsequent three years. During the year, provisions for PRC corporate income tax for these subsidiaries have been made at the applicable reduced tax rate on the foregoing basis."

6. DIVIDEND

The proposed final dividend for the year of 5 HK cents per ordinary share is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend for the year ended 31 December 2002 was declared and paid by Comba Telecom Systems Limited to its then shareholders before the Group Reorganisation.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$211,162,000 (2002: HK$162,359,000), and the weighted average of 706,000,000 (2002: 600,000,000) ordinary shares in issue during the year. The weighted average of 600,000,000 ordinary shares for 2002 were deemed to have been in issue, comprising 1,000 shares in issue at the date of the Prospectus and 599,999,000 shares issued pursuant to the capitalisation issue.

The calculation of diluted earnings per share for the year 2003 is based on the net profit attributable to shareholders of HK$211,162,000. The weighted average number of ordinary shares used in the calculation is 711,591,000, which comprises the 706,000,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 5,591,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options granted during the year.

A diluted earnings per share amount has not been disclosed for the year ended 31 December 2002 as no dilutive potential ordinary shares existed during that year.

FINAL DIVIDEND

The Board recommended to pay to the shareholders a final dividend of 5 HK cents per share for the year ended 31 December 2003 representing a total of HK$41.5 million.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 10 May 2004 to 14 May 2004, 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 shares certificates must be lodged with the Company's Hong Kong branch registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 pm on 7 May 2004. Dividend warrants will be dispatched on or about 17 May 2004 subject to shareholders' approval of payment of the final dividend at the annual general meeting of the Company.

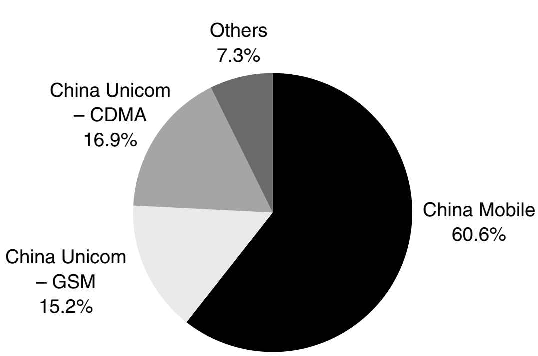
MANAGEMENT DISCUSSION & ANALYSIS

Business Review

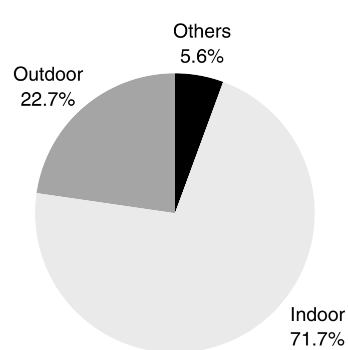
Turnover of the Group for the year ended 31 December 2003 was HK$806.2 million, representing an increase of approximately 39% from the previous year. This increase was mainly attributable to overall increase in wireless coverage capital expenditure by the mobile operators to improve the quality of mobile network, thereby providing better services to the mobile subscribers amid fierce competition. While our revenue from China Mobile increased steadily by around 14%, we experienced a tremendous growth in revenue of 130% from China Unicom in 2003.

Breakdown of our turnover by customers, types of solutions and geographical locations are as follows:

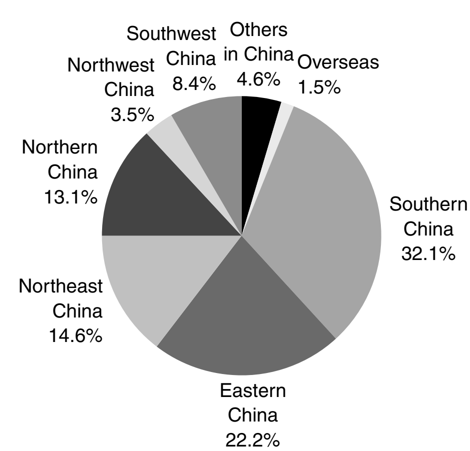
By customers



By solutions



By locations



Revenue generated from China Unicom accounted for 32% of our revenue in 2003, up from 19% in 2002. We recorded revenue growth in both of the GSM and CDMA networks operated by China Unicom. As a result, revenue generated from China Mobile accounted for 61% of our revenue in 2003, down from 74% in 2002 in spite of a steady growth of 14% in absolute terms. Sales to agents and system integrators accounted for 7% of our revenue in 2003, up from 6% in 2002.

Indoor coverage solutions accounted for around 72% of the Group's revenue in 2003, compared to 66% in 2002. The share of outdoor coverage solutions decreased from 28% in 2002 to 23% in 2003.

Geographically, Southern branch including Guangdong province is still the major revenue contributor of the Group, accounting for 32% of the Group's revenue. Eastern branch (covering Shanghai, Jiangsu and Zhejiang) and Northeast branch (covering Liaoning, Jilin and Heilongjiang) together accounted for 37% of our revenue.

Gross margin was 46.4% in 2003 compared to 46.6% in 2002. We were able to sustain the gross margin at this level thanks to our ability to develop and introduce new models regularly to meet market needs, increasing bargaining power with suppliers as a result of increased scale of operations, and continued efforts in exercising cost control. The above offset the general pricing pressure of our products.

In order to strengthen our R&D capability, we acquired a 51.75% interest in WaveLab Holdings Limited in 2003. Its wholly-owned subsidiary in the United States, WaveLab Inc, is principally engaged in the research and development of microwave transmission equipment. Development of digital microwave systems progressed steadily during 2003 although no revenue was generated from this product line yet.

Having established the market leader position in the PRC, we can leverage our position to expand overseas. In January 2003, we set up our first overseas sales office in Singapore which primarily focuses on the Southeast Asian market. As a result of increasing marketing efforts, we more than tripled our revenue from overseas markets.

The establishment of our new office in Singapore, coupled with the expansion of our services network in the PRC as well as an increase in headcount, contributed to the increase in the aggregate amount of selling and distribution costs and administrative expenses from HK$83.7 million to HK$140.7 million, representing an increase of approximately 68%.

Profit attributable to shareholders for the year was HK$211.2 million, which represents a 30% increase from the previous year. However, due to the increase in operating expenses described above, net margin decreased to 26.2% from 28.1% in the previous year.

Prospects

The wireless telecommunications industry in the PRC has been experiencing steady growth. According to International Data Corporation, from 2002 to 2007, total wireless capital expenditure is expected to grow at a compound annual growth rate of 9.5% while total wireless coverage capital expenditure is expected to grow at an even faster pace of 20.6%. Given the projected stable growth of the industry and our increasing market share in the wireless coverage market, we believe that we will be able to sustain the revenue growth achieved in the past years.

Due to the continued growth in the PRC's economy, the number of mobile subscribers has been rapidly increasing in the PRC. Mobile subscribers demand better and better services, the two mobile operators in the PRC therefore continue to invest in network optimisation to improve the network quality.

The Group has benefited from the increasing capital expenditure in wireless coverage by the mobile operators. By the end 2003, we had 47 provincial level customers and out of which 5 were new customers in 2003. This has broadened our geographical reach as well as our customer base and serve as a driver for future growth.

CDMA network optimisation project has been carried out in the PRC which aims at expanding the CDMA network coverage as well as indoor coverage, increasing wireless data capacity and optimising network quality. Therefore, the Group's sales in CDMA products and solutions have increased substantially and the Group believes that it will continue to benefit from this.

It is generally expected that 3G mobile licences will be issued in the PRC in the near future. The Group has already allocated resources, actively developing components and products which are related to 3G mobile standards. We expect that such development will enable the Group's products to meet the needs of the 3G networks operators.

In 2003, we gradually expanded overseas, starting business in various Southeast Asian countries, overseas sales therefore more than tripled. With the global telecom recovery and projected high growth in the emerging markets, we will be able to achieve a significant growth in overseas sales in 2004.

As a strategy to enlarge our product portfolio, we have diversified into the digital microwave system market. Through WaveLab Inc, the subsidiary in the US which we acquired in January 2003, we have developed certain models of digital microwave systems products. Pilot production has commenced and field trials have been conducted with our customers. We expect to generate revenue from this product line starting from the second half of 2004.

Looking ahead, the Group will continue to pursue the strategy of organic growth by establishing offices both in the PRC and Asia. At the same time, we will also search for any opportunities which can bring synergy to our existing operations. We remain to focus on our core competency in radio frequency technology.

We will continue to invest in enhancing our research and development capabilities and enlarging our production facilities to meet expected growth in demand for our products. Capital expenditure of the Group will be mainly funded by the net proceeds from its initial public offering in July 2003.

Finally, we will endeavour to maintain a solid and healthy financial position, consolidate our leading market position, and pursue our growth strategy, in order to maximise the shareholders' value.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2003, the Group had net current assets of HK$797.8 million. Current assets comprised inventories of HK$235.4 million, trade receivables of HK$320.9 million, prepayments, deposits and other receivables of HK$40.3 million, and cash and bank balances of HK$587.0 million. Current liabilities comprised trade and bills payables of HK$150.4 million, tax payables of HK$13.1 million, other payables and accruals of HK$138.4 million, current portion of finance lease payables of HK$0.2 million, short-term bank loans of HK$72.0 million, and provision for product warranties of HK$11.7 million.

The average debtors turnover for the year ended 31 December 2003 was 116 days, compared to 102 days for the year ended 31 December 2002. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three to six months. The inventory turnover for the year ended 31 December 2003 was 173 days compared to 161 days for the year ended 31 December 2002.

As at 31 December 2003, the Group's cash and bank balances were mainly denominated in Reminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB and HK$. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the Board considers 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 5.5% as at 31 December 2003.

Contingent Liabilities

As at 31 December 2003, the Group had no significant contingent liabilities except for certain trade receivables factored with recourse as detailed in the financial statements (2002: Nil).

Employees and Remuneration Policies

As at 31 December 2003, the Group had approximately 2,260 staff. The total staff costs for the under review was HK$135.9 million. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employee's 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 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$14.6 million was used for long term research and development, including 3G;

(ii) approximately HK$4.7 million was used for the expansion of product and service portfolio;

(iii) approximately HK$21.4 million was used for the enlargement of production facilities;

(iv) approximately HK$6.1 million was used for the expansion in sales network and market coverage; and

(v) the balance of HK$349.2 million was applied as additional working capital of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company's shares (the "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.

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 Listing Rules of the Stock Exchange, since the Shares 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, comprising the three independent non-executive directors of the Company, has reviewed the annual results.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

The Company's 2003 Annual Report containing all the information required by paragraphs 45(1) to 45(3) (both paragraphs inclusive) of Appendix 16 to the Listing Rules will be submitted to the Stock Exchange in due course for uploading onto its website (http://www.hkex.com.hk).

By Order of the Board
Fok Tung Ling
Chairman

Hong Kong, 31 March 2004

"Please also refer to the published version of this announcement in The Standard".