Comba

Annual Report 2004
二零零四年年報

Future
3G
Wi-MAX WLAN
CDMA WCDMA TD-SCDMA
2G GSM GPRS EDGE
NMS Indoor Outdoor Turnkey Subway
Passive Optical Repeaters Towertop Microwave Antennas Subsystems

Comba Telecom Systems Holdings Limited
京信通信系統控股有限公司

Contents

Comba

Corporate Information

Registered office
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong
1503-1510, 15th Floor, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

Qualified accountant and company secretary
Chan Kai Leung, Clement *ACA, CPA*

Audit committee
Lau Siu Ki, Kevin
Yao Yan
Liu Cai

Authorised representatives
Fok Tung Ling
Chan Kai Leung, Clement *ACA, CPA*

Cayman Islands principal share registrar and transfer office
Butterfield Bank (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

USA
R&D Centre

Principal bankers
The Hongkong and Shanghai Banking Corporation Limited
10th Floor, HSBC Building
82-84 Nathan Road
Tsim Sha Tsui
Kowloon
Hong Kong

Bank of China
1 Garden Road
Central
Hong Kong

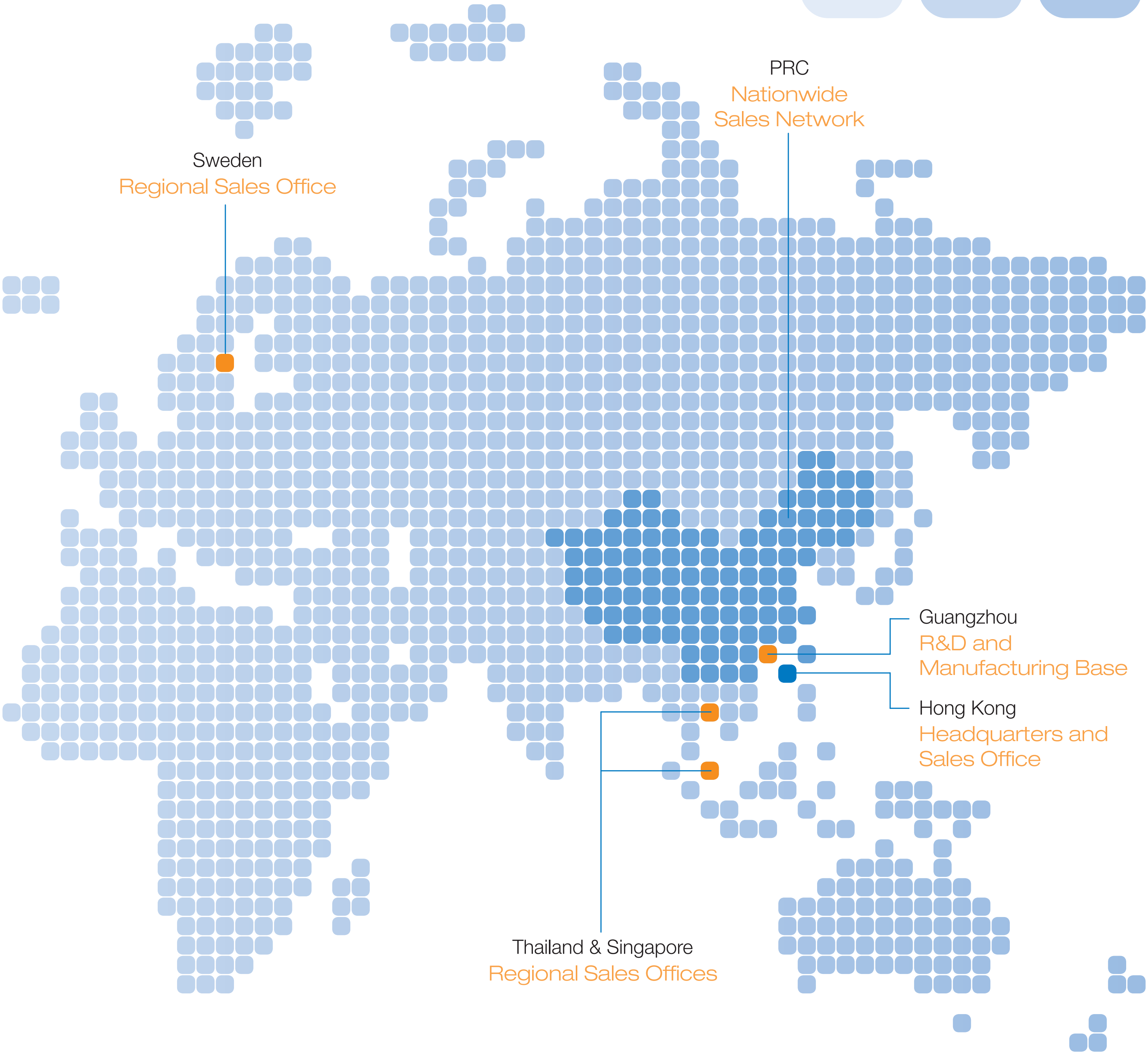
Industrial and Commercial Bank of China (Asia) Limited
33th Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Citic Ka Wah Bank Limited
9th Floor, Tower 1, Lippo Centre
89 Queensway
Hong Kong

Bank of China
GETD District Branch
2 Qingnian Road
GETD District
Guangzhou
PRC

Industrial and Commercial Bank of China
GETD District Sub-branch
719 Xiagang High Road
GETD District
Guangzhou
PRC

China Merchants Bank
Guangdong Branch Dongfeng Sub-branch
410-412 Dongfeng Zhong Road
Guangzhou
PRC

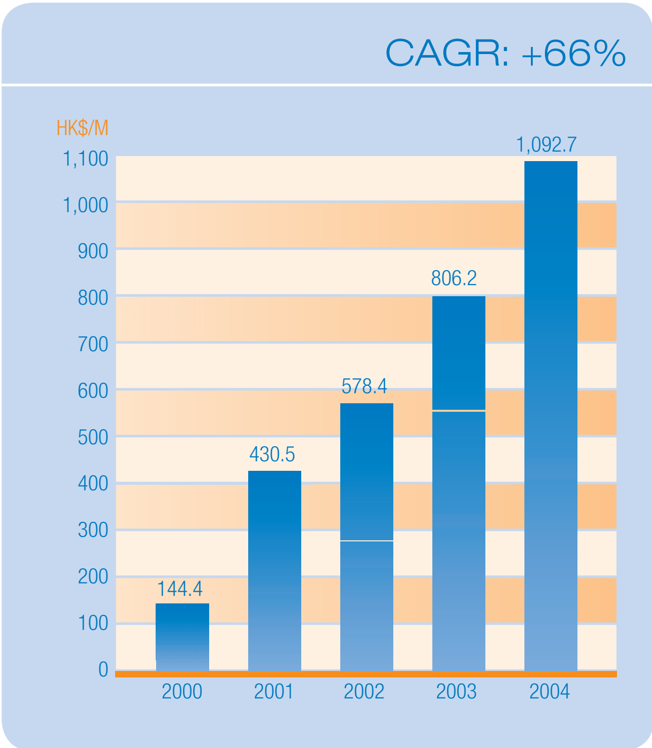


Corporate Profile

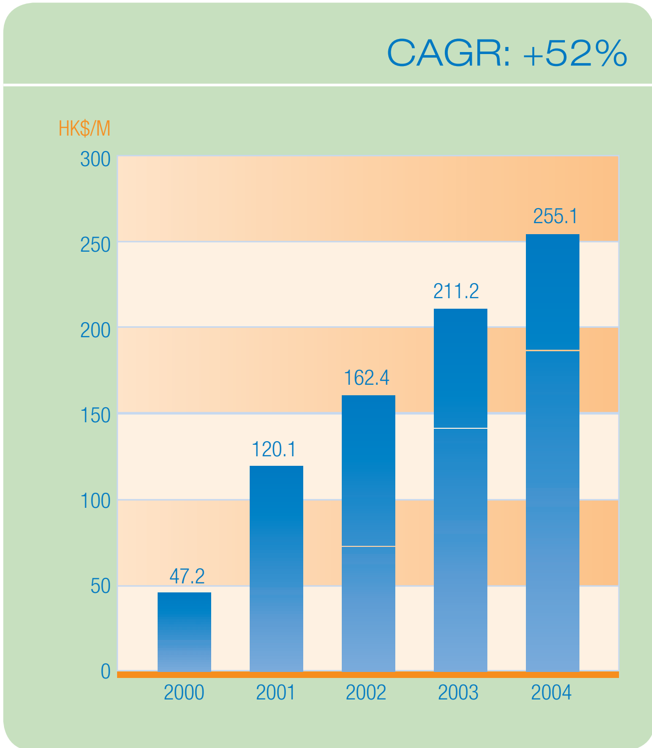
The Group is the leading integrated wireless coverage solutions and sub-system provider with more than 25% market share in the PRC. It was established in 1997 with R&D and manufacturing base in Guangzhou, the PRC. Currently, it develops and manufactures over 300 models of products, including repeaters, antennas, RF passive accessories and digital microwave systems. The Group has more than 30 domestic offices in mainland China to provide full-fledged sales and technical support for customers. In addition, it has 4 sales offices in Hong Kong, Singapore, Sweden and Thailand respectively for international market.

Financial Summary

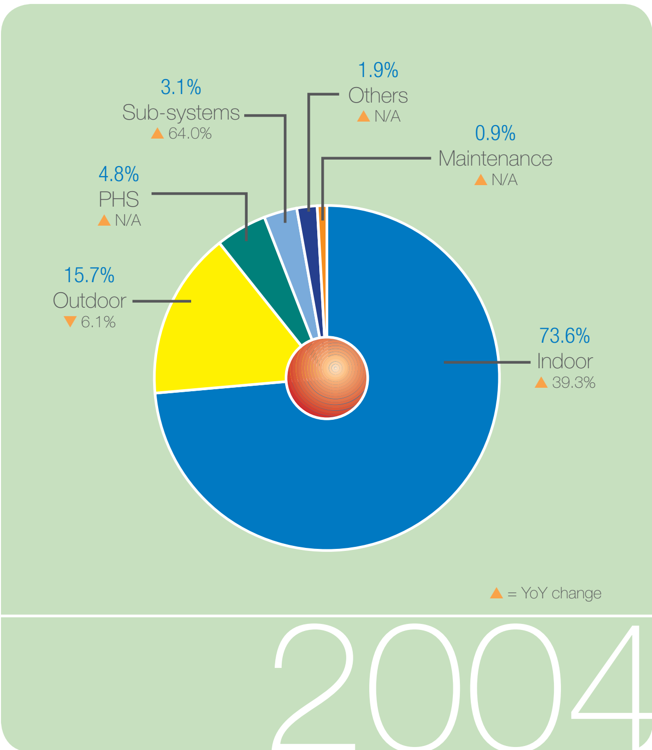
Turnover



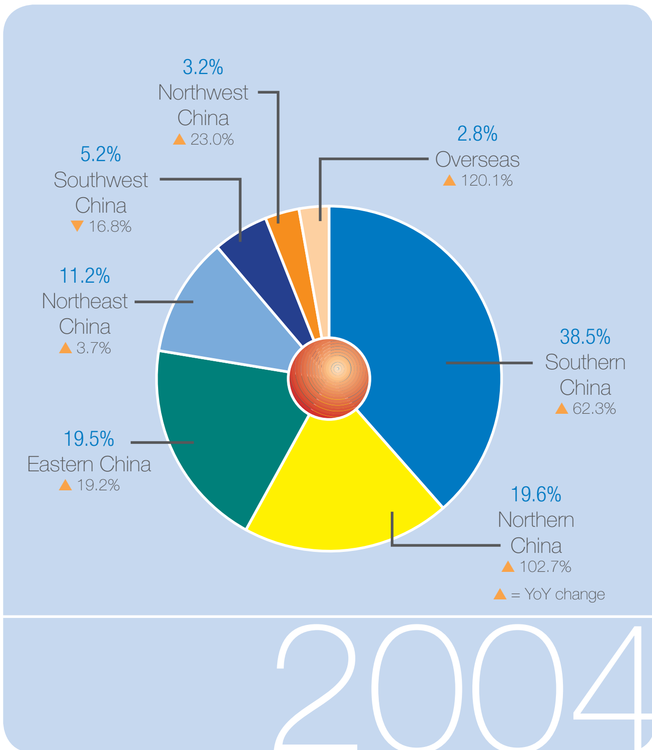
Net Profit



Turnover Breakdown by Solutions



Turnover Breakdown by Regions



Financial Summary

For the year ended 31 December	2004 HK$'000	2003 HK$'000	change
Turnover	1,092,761	806,232	+35.5%
Gross profit	469,449	374,225	+25.4%
Profit attributable to shareholders	255,105	211,162	+20.8%
Basic earnings per share (HK cents)	30.71	29.91	+2.7%
Total dividends per share (HK cents)	9	5	+80.0%

Key Financial Figures

As at 31 December	2004 HK$'000	2003 HK$'000
Total assets	1,828,652	1,317,930
Net assets	1,100,986	918,503
Cash and bank balances	516,299	587,011
Current ratio	2.3X	3.1X
Inventory turnover days	221	173
Receivable turnover days	137	116
Payable turnover days	130	103

Corporate Milestone 2004

May 2004

Set up a sales office in Sweden

Participated in the China Commodities & Technology Expo on 26 May 2004 in Tehran, Iran

June 2004

Participated in CommunicAsia 2004 from 15 to 18 June 2004 in Singapore

September 2004

Established a sales office in Thailand

Groundbreaking ceremony of Comba's new headquarters with site area of approximately 37,000 sq. metres in Guangzhou Science City for R&D and sales and marketing functions

October 2004

Exercised the second option to increase the Group's interest in WaveLab Holdings Limited to 60%, at a cash consideration of US$2 million

Participated in the PT/EXPO COMM CHINA 2004 held from 26 to 30 October at the China International Exhibition Center, Beijing

November 2004

Participated in 3G World Congress & Exhibition 2004 held from 16 to 18 November in Hong Kong

December 2004

Opening of the first phase of the Shenzhen Metro and the successful launch of its seamless wireless coverage system completed by Comba

Chairman's Statement

To implement all-round growth strategies in product development, customer services and market coverage so as to provide better services to our customers.

Business Review

2004 was an fruitful but challenging year for Comba. The Group experienced another year of growth, with revenue and net profit amounting to HK$1,092,761,000 and HK$255,105,000 respectively, representing an increase of 35.5% and 20.8% over 2003 respectively. We continued to implement all-round growth strategies in product development, customer services and market coverage. To provide better services to our customers, we endeavour to develop new products catering to the market needs. We successfully developed over 200 products including some 3G products during 2004. In fact, we installed a multi-band, multi-protocol in-building distribution system in the Shenzhen Metro. It was the first successful project in the PRC which is capable of handling both 2G and 3G signals. This demonstrates our technology leadership in the wireless coverage market in the PRC.

China Mobile Group and China Unicom Group remained our largest customers during 2004. Through our technical services and nationwide support team, we played an important role in helping customers to enhance the quality of their

mobile networks. During 2004, we also expanded into the market for PHS coverage. This will serve as a good foundation upon which we can build strong business relations with fixed line operators, the possible candidates for 3G licences in the PRC.

Export markets witnessed another year of strong growth, with revenue more than doubling in 2004. In order to expand our overseas market and enhance the brand name of the Group, we actively participated in international exhibitions during 2004, including CommunicAsia held in June in Singapore and the 3G World Congress held in November in Hong Kong. The Group has already established overseas sales offices in Hong Kong, Singapore, Sweden and Thailand to concentrate on the development in the Asia Pacific and EMEA markets. We are confident that the growth momentum of export sales will continue in 2005.

In preparation for the anticipated growth in our business during the next few years, we have commenced the construction of our new headquarters in the PRC. By early 2006, we expect to relocate our R&D functions to the new headquarters resulting in more space in the existing facilities being used for production.

We are very excited about the business opportunities brought forth for Comba by the granting of 3G licences in the PRC. The Group has been well-prepared for the 3G product development, production and services. Leveraging our leading position in the 2G market, we expect to benefit significantly from the launch of 3G services in the PRC.

Our sales and marketing efforts in the past years will keep our export business growing. Diversification into the OEM vendor market has broadened our customer base and created a new revenue stream for the Group.

Last but not least, I would like to take this opportunity to thank our customers who have given us the opportunity to be of service to them. Additionally I would like to thank our shareholders, business partners and employees for their support and contributions in the past year. We will continue to bring value to our customers, present a good working environment for our employees, perform social responsibilities and endeavour to continuously deliver growth to maximize shareholders' value.

Industry outlook

The mobile market in the PRC has been growing rapidly, with the number of subscribers exceeding 330 million by the end of 2004. Mobile subscribers are demanding improved services from the operators. This has resulted in greater capital expenditure on wireless coverage and network optimization by operators to enhance the quality of their mobile networks. This is one of the main reasons for the Group's continual growth in the wireless market. We are confident that the need for wireless coverage solutions will remain strong during 2005 and beyond.

Fok Tung Ling
Chairman and Managing Director

Hong Kong, 15 April 2005

Management Discussion

Business and Financial Review

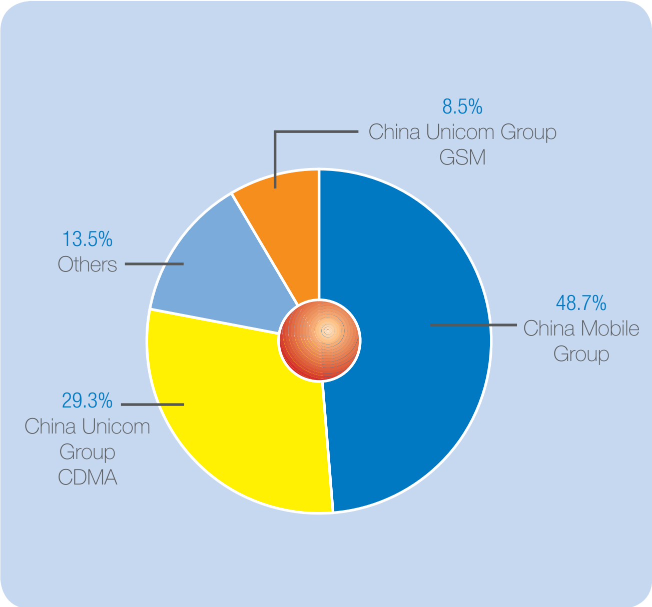
Turnover

The Group's turnover for the year ended 31 December 2004 was HK$1,092,761,000, representing an increase of approximately 35.5% from the previous year. Following the trend in the last few years, the Group has been benefiting from the continued wireless coverage capital expenditure by the mobile operators in the PRC in improving the quality of mobile networks for providing better services to mobile subscribers. Being a leading provider of wireless coverage solutions to the mobile operators in the PRC, the Group experienced continued and steady growth in its business. In particular, demand for the Group's wireless coverage solutions from the CDMA network of China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased significantly during the year.

By the end of 2004, the Group operated over 30 offices in the PRC providing sales, project survey and design, project management, installation and maintenance services to its customers locally. During the year, the number of provincial level mobile operators whom the Group serves increased by 11 to 58. The Group expanded steadily to strengthen its position as a leading wireless coverage solutions provider in the PRC.

Revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") increased steadily by 8.8% and accounted for 48.7% of the Group's total turnover in 2004. During the year, revenue of the Group generated from China Unicom Group's CDMA network increased tremendously by 135.4% while revenue of the Group generated from its GSM network decreased by 24.7%. Revenue from China Unicom Group accounted for 37.8% of the Group's total turnover in 2004, with CDMA and GSM accounting for 29.3% and 8.5% respectively. Others including sales to agents in the PRC accounted for 13.5% of the Group's turnover in 2004.

Breakdown by customers



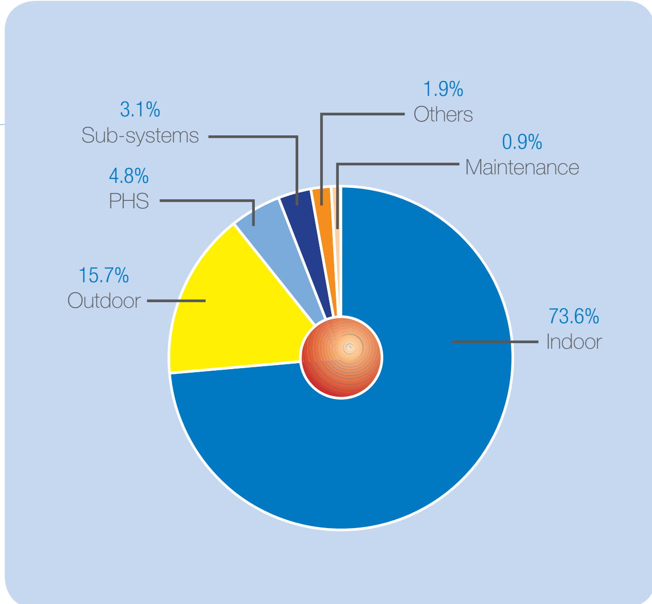
and Analysis

Completion of infrastructure projects led to continued demand for indoor wireless coverage solutions in the PRC. Revenue generated from indoor wireless coverage solutions accounted for 73.6% of the Group's turnover in 2004, as compared to 71.7% in 2003. Revenue generated from outdoor wireless coverage solutions accounted for 15.7% of the Group's turnover in 2004, compared to 22.7% in 2003.

Apart from providing turnkey solutions in wireless coverage to mobile operators, the Group also sold base station ("BTS") sub-systems, including tower top solutions and BTS antennas. These accounted for 3.1% of the Group's turnover in 2004, compared to 2.6% in 2003.

Revenue generated from the wireless coverage equipment for the PHS network, which represents one of the Group's new businesses during the year, accounted for 4.8% of the Group's turnover. In addition, revenue from extended maintenance contracts accounted for 0.9% of the Group's turnover.

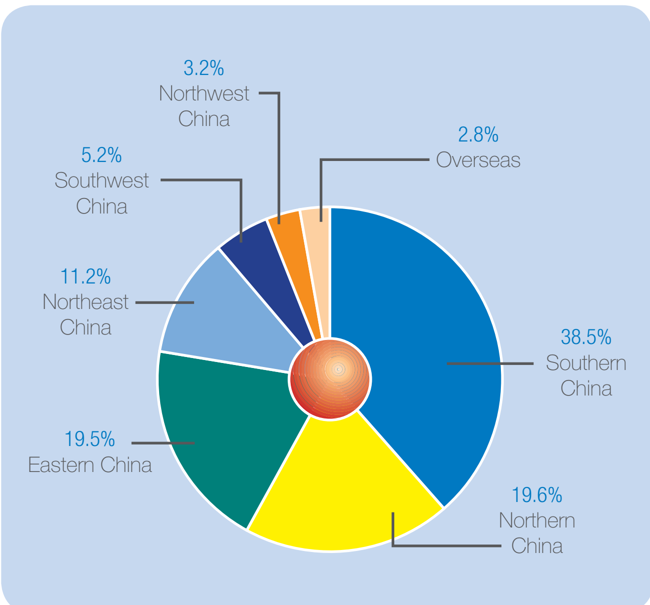
Breakdown by solutions



In respect of the PRC market, over 80% of the Group's revenue was generated from the coastal regions. Southern region (covering mainly Guangdong) remained as the major revenue contributor, accounting for 38.5% of the Group's turnover in 2004. The Northern region (covering mainly Beijing, Tianjin, Shangdong), Eastern region (covering mainly Jiangsu, Zhejiang and Shanghai) and the Northeast region (covering Liaoning, Jilin and Heilongjiang) accounted for 19.6%, 19.5% and 11.2% respectively of the Group's turnover in 2004.

Export sales accounted for 2.8% of the Group's turnover in 2004, representing an increase of 120.1% over 2003.

Breakdown by regions



Gross profit

Gross profit of the Group for the year ended 31 December 2004 was HK$469,449,000, representing an increase of 25.4% over 2003. Gross profit margin was 43.0% compared to 46.4% in 2003. In order to capture the business opportunities faced by the Group, it strategically priced its products to strengthen its leading position, capture new markets and provide better value to its customers. Although the Group managed to negotiate better pricing in material costs and implemented other cost saving measures, these were not sufficient to compensate the effect brought by the pricing strategy during the year. The Group also increased its resources in the provision of project management and technical services nationwide in the PRC for the substantial increase in the number of projects handled by the Group.

In addition, sales of equipment to agents in the PRC tend to command lower gross profit margins as technical services are usually provided to the operators by them rather than by the Group.

Operating expenses

Selling, general and administrative ("SG&A") expenses were HK$206,038,000, representing an increase of 46.4% over 2003. It accounted for 18.9% of the turnover in 2004 compared to 17.5% in 2003. To strengthen its leading position and penetrate new markets in the PRC, the Group expanded its sales and technical support teams. The headcount of the Group's regional offices in the PRC increased by more than 30% in 2004.

To strengthen its international presence, the Group established two offices in Sweden and Thailand respectively during 2004.

Concerning the DMS business, the Group has been carrying out trials with its customers in the PRC and overseas. Since the Group was in its initial phase of market development in international markets and its DMS business during 2004, contribution from these businesses were not sufficient enough to cover the market development costs involved. This, together with the expansion in the PRC, contributed to the increase in SG&A expenses.

Net profit

Net profit for the year ended 31 December 2004 was HK$255,105,000, representing an increase of 20.8% over 2003. Net profit margin was 23.3% in 2004 compared to 26.2% in 2003. The decrease was mainly due to the lowering of gross profit margin and increases in SG&A expenses described above. Such impact was mitigated by the decrease in effective tax rate as one of the Group's subsidiaries in the PRC was still under full tax exemption in 2004.

Prospect

Wireless coverage solutions

Wireless coverage solutions business in the PRC remains to be the Group's principal business in 2005. The Group expects to continue to benefit from the increasing capital expenditure by mobile operators for enhancing the quality of the mobile networks in the PRC. The capacity routing solutions newly developed by the Group help mobile operators to use their capacity resources more cost-effectively and are well received by its customers. It is expected that this capacity routing solutions will be in great demand during 2005.

The granting of 3G licences in the PRC is foreseeable in the near future. Once the licences are granted, the Group anticipates the demand for wireless solutions for 3G networks to be strong. This will bring tremendous business opportunities to the Group, which will leverage its leading position in the wireless sub-system market in the PRC. In addition, the development of some PHS products has helped the Group to establish relationships with the fixed line operators in the PRC which are potential candidates for the 3G licences.

DMS

The Group increased its equity interest in WaveLab Holdings Limited ("WaveLab") to 60% in October 2004. WaveLab successfully developed ODUs in the frequencies ranging from 7GHz to 26GHz. The Group has obtained CE approvals for some of its products. Trials have been conducted with mobile operators and OEM vendors in the PRC and abroad with satisfactory results. DMS business will be a good contribution to the Group's revenue in 2005.

BTS sub-systems

The Group expanded into the BTS sub-systems market by developing products and solutions including tower top solutions and BTS antennas. The Group's BTS antennas have been qualified with 15 provincial level mobile operators by the end of 2004. A significant growth in revenue is expected in this business segment.

Extended maintenance services

The Group has over the years completed a large number of both indoor and outdoor wireless coverage solutions projects for its customers. Once the warranty period expires, the Group is in a position to negotiate extended maintenance services contracts with its customers. Given a growing installed base, the Group expects a steady growth in recurring income from this business segment.

Export market

The Group currently has four export sales offices, located in Hong Kong, Singapore, Sweden and Thailand respectively. The Asia Pacific markets are covered by the Hong Kong, Singapore and Thailand offices, whereas the EMEA markets are covered from Sweden. The Group has established a strong international team with seasoned personnel in the wireless market and it anticipates the growth momentum in the past years to continue in 2005.

OEM vendor market

The Group has successfully established business relationships with two major OEM vendors in the PRC. This has broadened the Group's customer base and conducting business with these OEM vendors will be a new revenue stream for the Group.

In short, the Group is well positioned to capture the tremendous business opportunities expected in the mobile markets in 2005 and beyond. The issuance of 3G licences in the PRC is likely to double the number of mobile networks, and bring new entrants to the mobile market. This will enable the Group to develop a broader customer base and result in a greater demand for its products and solutions. The Group will also take advantage of the opportunities in the global wireless equipment market, especially in the Asia Pacific and EMEA regions. The Group's experienced international team will endeavour to replicate the Group's success in the PRC in international markets.

The Group successfully explored the OEM vendor market which further broadened its customer base. Over the years, it has built an R&D and manufacturing platform, capable of developing and producing quality products and handling huge production volume. With a low cost structure in the PRC, the Group anticipates to develop further business cooperation with both domestic and international OEM vendors.

The Group remains very focused in the wireless sub-system, and coverage and capacity enhancement solutions markets. With its core competencies in RF and related areas, the Group envisages to grow with the promising growth of the mobile markets around the world.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operations from cashflow generated internally and bank loans. As at 31 December 2004, the Group had net current assets of HK$937,405,000. Current assets comprised inventories of HK$516,650,000, trade receivables of HK$495,176,000, notes and other receivables of HK$125,484,000, and cash and bank balances of HK$516,299,000. Current liabilities comprised trade and notes payables of HK$292,409,000, tax payable of HK$2,495,000, other payables and accruals of HK$249,138,000, current portion of finance lease payables of HK$180,000, short-term bank loans of HK$157,782,000, and provision for product warranties of HK$14,200,000.

The average receivable turnover for the year ended 31 December 2004 was 137 days compared to 116 days for the year ended 31 December 2003. 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 average payable turnover for the year ended 31 December 2004 was 130 days compared to 103 days for the year ended 31 December 2003. The average inventory turnover for the year ended 31 December 2004 was 221 days compared to 173 days for the year ended 31 December 2003.

As at 31 December 2004, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in RMB and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the board of directors (the "Board") considers that 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 8.6% as at 31 December 2004. (2003: 5.5%)

Charge on Assets

The Group's bank borrowings were secured by a charge on time deposits amounted to HK$102,000,000 (2003: HK$102,000,000).

Contingent Liabilities

As at 31 December 2004, the Group had contingent liabilities of HK$13,603,000 as detailed in the financial statements (2003: HK$84,155,000).

Employees and Remuneration Policies

As at 31 December 2004, the Group had around 3,000 staff. The total staff costs for the year under review was HK$191,740,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employees' 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.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 48, is the chairman of the Board and the managing director. Mr. Fok is primarily responsible for the Group's overall strategic planning, management and business development. From 1982 to 1987, Mr. Fok worked as an engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from the Beijing University of Post and Telecommunications (北京郵電大學) majoring in microwave communications. Prior to 1991, Mr. Fok worked as an executive at the China Electronics Import-Export Corporation, South China Branch (中國電子進出口總公司華南分公司) involved in the import and export of electronic products. From 1991 to 1997, Mr. Fok was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 17 years of experience in wireless communications. Mr. Fok is the sole director of Prime Choice Investments Limited and Total Master Investments Limited, both of which are substantial shareholders of the Company.

Mr. Zhang Yue Jun (張躍軍), aged 46, is the deputy managing director. Mr. Zhang is responsible for the overall research and development of new technology and products, production control as well as the overall quality control of the products. He graduated from the South China University of Technology (華南工學院) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1989, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1989 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen, mainly responsible for wireless telecommunications projects. Mr. Zhang has over 22 years of experience in wireless communications and he co-founded the Group in 1997. Mr. Zhang is the sole director of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

Mr. Chan Kai Leung, Clement (陳繼良), aged 41, is an executive director as well as the financial controller, qualified accountant and company secretary of the Company. Mr. Chan is primarily responsible for the overall financial management, accounting and company secretarial matters of the Group. He is a member of the Institute of Chartered Accountants in England and Wales and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Chan obtained a master's degree in business administration from the University of Sheffield in the United Kingdom. He has over 15 years of experience in auditing, investment banking and accounting and he joined the Group in 2001.

Mr. Wu Jiang Cheng (伍江成), aged 45, is an executive director of the Company as well as the marketing manager of the Group. He is responsible for the setting, implementation and control of the Group's overall sales and marketing strategies. He graduated from the Southwest Jiaotong University (西南交通大學) and obtained a bachelor's degree in electrical engineering. Mr. Wu has over 10 years of experience as a lecturer in engineering with the last two years in the Guangzhou University and over 12 years of experience in communications and marketing. He joined the Group in 1997.

Directors and Senior Management

Mr. Yan Ji Ci (嚴紀慈), aged 50, is an executive director of the Company and the human resources manager of the Group. Apart from supervising the overall day to day management of the Group's branches in different provinces, he is also responsible for the Group's overall human resources planning and management. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 27 years of experience in human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 39, is an executive director of the Company and the chief executive officer of the WaveLab Holdings Limited. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. He graduated from University of Science and Technology of China and obtained bachelor and master degrees in electrical engineering. From 2000 to 2002, Mr. Zheng served as chief engineer in Filtronic Sigtek, Inc., Maryland USA. Prior to the position, he worked as an engineering manager in wireless communication division of L3 Communications (former EER Systems, Inc.), Virginia USA. He is the member of the Institute of Electrical and Electronics Engineers (IEEE). Mr. Zheng has over 18 years of experience in RF/micro wave/millimeter-wave technology and wireless communications especially in the area of research and development, and engineering management. He joined the Group in 2003.

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 32, is an executive director of the Company as well as the Chief Operating & Strategy Officer of Comba Telecom Systems International Limited, a wholly owned subsidiary of the Company. Prior to joining the Group, Mr. Yeung was the vice president of strategy & business development and a founding employee of LGC Wireless, Inc. ("LGC") based in the Silicon Valley, USA. Mr. Yeung also held multiple positions at LGC including the general manager of a business unit, director of technical marketing, general manager of sales, and principal engineer. Mr. Yeung holds a master of science degree in engineering from University of California at Berkeley and a bachelor of science degree in electrical engineering from Purdue University. Mr. Yeung has about 10 years of experience in the wireless industry. He joined the Group in 2004.

Independent Non-executive Directors

Mr. Yao Yan (姚彥), aged 67, is an independent non-executive director. Mr. Yao is currently the deputy supervisor of the Electronics Engineering Research Centre and a professor in the Department of Electronics Engineering of Tsinghua University. He was the supervisor of the State Key Lab in 1998. Mr. Yao joined the Group in 2003.

Mr. Lau Siu Ki, Kevin (劉紹基), aged 46, is an independent non-executive director. He has over 21 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently working as a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. He is now a member of the Council of ACCA. He has also served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau is also an independent non-executive director of 7 other companies listed on the Stock Exchange of Hong Kong Limited. Mr. Lau joined the Group in 2003.

Mr. Liu Cai (劉彩), aged 65, is an independent non-executive director. He is the vice chairman and secretary-general of the China Institute of Communications and chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2000, Professor Liu worked with the former Ministry of Post and Telecommunications of the PRC (the "Ministry"). As the director-general of the Policy and Regulation Department of the Ministry, he was directly involved in policy setting, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministry in 1988, Professor Liu was engaged in research and development work at the China Academy of Post and Telecommunications after graduating from Beijing University of Post and Telecommunications. Mr. Liu joined the Group in 2003.

SENIOR MANAGEMENT

Mr. Chen Jin Jian (陳錦堅), aged 46, is the project manager of the Group. Mr. Chen is responsible for the Group's R&D centre project in Guangzhou Science City. He graduated from the Guangdong Radio and Television University (廣東廣播電視大學) and obtained a professional diploma in electronic technology. Mr. Chen has over 25 years of experience in quality control and procurement. He joined the Group in 1997.

Mr. Chen Sui Yang (陳遂陽), aged 40, is the research and development manager of the Group. Mr. Chen is mainly responsible for the research and development of the Group's new products. He graduated from the Northwest Institute of Telecommunications Engineering (西北電訊工程學院) and obtained a bachelor's degree in antenna technology. Mr. Chen has over 18 years of experience in satellite and wireless communications. He joined the Group in 1998.

Mr. Zhang Shan Yu (張山宇), aged 47, is the general manager of the Group's Northeast branch. Mr. Zhang is responsible for the business development in Liaoning, Jilin and Heilongjiang provinces. He is a graduate of the Dalian University of Technology (大連工學院) and obtained a bachelor's degree in wireless technology. Mr. Zhang has over 22 years of experience in engineering, marketing and management. He joined the Group in 1997.

Mr. Feng Yong (馮勇), aged 33, is the general manager of the Group's Eastern branch. Mr. Feng is responsible for the Group's business development in Shanghai, Zhejiang and Jiangsu provinces. He graduated from the Zhejiang University (浙江大學) majoring in thermopower. Mr. Feng has over 7 years of experience in marketing and management. He joined the Group in 2000.

Mr. Meng Cheng Zhi (蒙承志), aged 36, is the general manager of the Group's Southern branch. Mr. Meng is responsible for the Group's business development in Southern PRC. He graduated from the Chengdu University of Electronic Science and Technology (成都電子科技大學). Mr. Meng has over 12 years of experience in engineering and management. He joined the Group in 1997.

Mr. Su Hua Hong (蘇華鴻), aged 63, is the senior technology consultant of the Group. Mr. Su is responsible for design solutions for the Group's projects. He graduated from the Beijing Institute of Post and Telecommunications (北京郵電學院) majoring in wireless communications and broadcasting. He was the vice department head of the Wireless Department of the Institute of Design of the Ministry of Post and Telecommunications prior to joining the Group in 2001. Mr. Su has over 39 years of experience in telecommunications.

Mr. Fung Kang Yuen (馮鏡源), aged 56, is the production supervisor and consultant of the Group. Mr. Fung is responsible for the operations of the Group's production. He graduated from the University of Bradford in the United Kingdom and obtained a master's degree in control engineering. Mr. Fung has over 29 years of experience in production management. He joined the Group in 2003.

Mr. Huang Bo Ning (黃伯寧), aged 35, is the senior research officer and the product design group leader of the Group. Mr. Huang is one of the key members of the Group's research and development team and participates actively in special products design and development. He graduated from the Chengdu University of Electronic Science & Technology (成都電子科技大學) in 1992 with a bachelor's degree in electronic magnetic field and microwave technology and has over 12 years experience in research and development of related products and technology. He joined the Group in 1997.

Mr. Chen Jian Bin (陳劍斌), aged 31, is the senior product manager of the Group's product development department. Mr. Chen is familiar with the research and development of products and participates in marketing and technical support for new products. He graduated from the Beijing University of Post and Telecommunications (北京郵電大學) in 1996 majoring in communications engineering and has over 7 years of related research experience. He joined the Group in 1998.

Mr. Zhang Jin Yu, Charles (張金玉), aged 41, is the chief accountant of the Group. Mr. Zhang is responsible for the Group's accounting and financial management in the PRC. He is a member of the Certified General Accountants of Canada. He obtained a master of science degree in accounting from the University of New Haven in Connecticut, the United States of America in 1998 and a master's degree in economic from South-western University of Economics and Finance(西南財經大學) in 1990. He has over 14 years of experience in accounting and financial management and joined the Group in 2004.

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:

		Number of shares held, capacity and nature of interest			
Name of director	Notes	Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of the Company's issued share capital
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.

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.

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.

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

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Comba Telecom Systems Holdings Limted
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 37 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
15 April 2005

Consolidated Profit and Loss Account

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	(5)	**1,092,761**	806,232
Cost of sales		**(623,312)**	(432,007)
Gross profit		**469,449**	374,225
Other revenue	(5)	**8,705**	3,990
Selling and distribution costs		**(69,391)**	(42,390)
Administrative expenses		**(136,647)**	(98,309)
Other operating expenses		**(8,342)**	(10,838)
PROFIT FROM OPERATING ACTIVITIES	(6)	**263,774**	226,678
Finance costs	(7)	**(9,531)**	(5,542)
PROFIT BEFORE TAX		**254,243**	221,136
Tax	(9)	**(6,031)**	(15,912)
PROFIT BEFORE MINORITY INTERESTS		**248,212**	205,224
Minority interests		**6,893**	5,938
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**255,105**	211,162
DIVIDENDS	(11)		
Interim		**33,291**	—
Proposed final		**41,637**	41,500
		74,928	41,500
EARNINGS PER SHARE (HK cents)	(12)		
Basic		**30.71**	29.91
Diluted		**30.03**	29.67

Consolidated Balance Sheet

31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	(13)	**149,320**	108,231
Intangible assets	(14)	**3,807**	3,918
Goodwill	(15)	**21,916**	22,186
		175,043	134,335
CURRENT ASSETS			
Inventories	(17)	**516,650**	235,401
Trade receivables	(18)	**495,176**	320,895
Notes receivable		**39,318**	—
Other receivables	(19)	**86,166**	40,288
Pledged deposits	(20)	**102,000**	115,456
Cash and cash equivalents	(20)	**414,299**	471,555
		1,653,609	1,183,595
CURRENT LIABILITIES			
Trade and notes payables	(21)	**292,409**	150,435
Tax payable		**2,495**	13,100
Other payables and accruals	(22)	**249,138**	138,432
Short term bank loans	(23)	**157,782**	71,977
Current portion of finance lease payables	(24)	**180**	232
Provision for product warranties	(25)	**14,200**	11,664
		716,204	385,840
NET CURRENT ASSETS		**937,405**	797,755
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,112,448**	932,090
NON-CURRENT LIABILITIES			
Long term portion of finance lease payables	(24)	**180**	344
MINORITY INTERESTS		**11,282**	13,243
		1,100,986	918,503

	Notes	2004 HK$'000	2003 HK$'000
CAPITAL AND RESERVES			
Issued capital	(26)	**83,273**	83,000
Reserves	(28(a))	**976,076**	794,003
Proposed final dividend	(11)	**41,637**	41,500
		1,100,986	918,503

Fok Tung Ling
Director

Chan Kai Leung, Clement
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note 28(a))	Land and building revaluation reserve HK$'000	Statutory reserves HK$'000 (note 28(a))	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2003		—	—	10	—	12,634	691	250,217	35,000	298,552
Dividend paid by a subsidiary to its then shareholders		—	—	—	—	—	—	—	(35,000)	(35,000)
Capitalisation of directors' loans		—	—	46,500	—	—	—	—	—	46,500
Issue of new shares	(26)	20,000	356,000	—	—	—	—	—	—	376,000
Capitalisation issue	(26)	60,000	(60,000)	—	—	—	—	—	—	—
Exercise of over-allotment option	(26)	3,000	53,400	—	—	—	—	—	—	56,400
Share issue expenses	(26)	—	(36,741)	—	—	—	—	—	—	(36,741)
Arising on revaluation of land and buildings		—	—	—	1,365	—	—	—	—	1,365
Exchange realignment		—	—	—	—	—	265	—	—	265
Net gains not recognised in the profit and loss account		—	—	—	1,365	—	265	—	—	1,630
Net profit for the year		—	—	—	—	—	—	211,162	—	211,162
Transfer to statutory reserve		—	—	—	—	34,198	—	(34,198)	—	—
Proposed final 2003 dividend	(11)	—	—	—	—	—	—	(41,500)	41,500	—
At 31 December 2003		83,000	312,659*	46,510*	1,365*	46,832*	956*	385,681*	41,500	918,503
At 1 January 2004		83,000	312,659	46,510	1,365	46,832	956	385,681	41,500	918,503
Final 2003 dividend declared		—	—	—	—	—	—	—	(41,500)	(41,500)
Issue of new shares	(26)	273	5,865	—	—	—	—	—	—	6,138
Arising on revaluation of land and buildings	(13)	—	—	—	(631)	—	—	—	—	(631)
Exchange realignment		—	—	—	—	—	(3,594)	—	—	(3,594)
Net losses not recognised in the profit and loss account		—	—	—	(631)	—	(3,594)	—	—	(4,225)
Revaluation reserve released on disposal	(13)	—	—	—	256	—	—	—	—	256
Net profit for the year		—	—	—	—	—	—	255,105	—	255,105
Interim 2004 dividend	(11)	—	—	—	—	—	—	(33,291)	—	(33,291)
Proposed final 2004 dividend	(11)	—	—	—	—	—	—	(41,637)	41,637	—
At 31 December 2004		83,273	318,524*	46,510*	990*	46,832*	(2,638)*	565,858*	41,637	1,100,986

* These reserve accounts comprise the consolidated reserves of HK$976,076,000 (2003: HK$794,003,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**254,243**	221,136
Adjustments for:			
Interest income	(5)	**(7,857)**	(3,453)
Interest expense	(7)	**9,531**	5,542
Depreciation	(6)	**23,017**	12,332
Amortisation of intangible assets	(6)	**1,380**	684
Amortisation of goodwill	(6)	**5,199**	2,986
Loss on disposal of fixed assets	(6)	**1,543**	574
Operating cash flow before working capital changes		**287,056**	239,801
Increase in inventories		**(281,249)**	(7,665)
Increase in trade receivables		**(174,281)**	(95,700)
(Increase)/decrease in notes receivable		**(39,318)**	21,489
Increase in other receivables		**(45,878)**	(11,123)
Increase/(decrease) in trade and notes payables		**141,974**	(36,544)
Increase in other payables and accruals		**110,706**	45,025
Increase in provision for product warranties		**2,536**	2,009
Cash generated from operations		**1,546**	157,292
PRC income tax paid		**(16,636)**	(11,142)
Net cash (outflow)/inflow from operating activities		**(15,090)**	146,150
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	(13)	**(67,105)**	(47,410)
Acquisition of intangible assets	(14)	**(1,276)**	(2,541)
Proceeds from disposal of fixed assets		**906**	2,743
Acquisition of subsidiaries	(29)	**—**	(6,240)
Increase/(decrease) in pledged time deposits		**13,456**	(115,456)
Interest received		**7,857**	3,453
Net cash outflow from investing activities		**(46,162)**	(165,451)

Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	(26)	**6,138**	432,400
Share issue expenses	(26)	**—**	(36,741)
New bank loans		**199,527**	71,977
Repayment of bank loans		**(113,722)**	(51,318)
Capital element of finance lease rental payments		**(216)**	(387)
Interest paid		**(9,490)**	(5,493)
Interest element on finance lease rental payments		**(41)**	(49)
Dividends paid		**(74,791)**	(35,000)
Net cash inflow from financing activities		**7,405**	375,389
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(53,847)**	356,088
Cash and cash equivalents at beginning of year		**471,555**	115,202
Effect of foreign exchange rate changes, net		**(3,409)**	265
CASH AND CASH EQUIVALENTS AT END OF YEAR		**414,299**	471,555

Balance Sheet

31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	(16)	**373,108**	373,108
CURRENT ASSETS			
Other receivables	(19)	**452**	2,192
Due from subsidiaries	(16)	**416,423**	237,501
Pledged deposits	(20)	**39,000**	39,000
Cash and cash equivalents	(20)	**14,155**	179,145
		470,030	457,838
CURRENT LIABILITIES			
Other payables and accruals	(22)	**1,587**	—
		1,587	—
NET CURRENT ASSETS		**468,443**	457,838
		841,551	830,946
CAPITAL AND RESERVES			
Issued capital	(26)	**83,273**	83,000
Reserves	(28(b))	**716,641**	706,446
Proposed final dividend	(11)	**41,637**	41,500
		841,551	830,946

Fok Tung Ling
Director

Chan Kai Leung, Clement
Director

Notes to Financial Statements

31 December 2004

1. CORPORATE INFORMATION

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 in Hong Kong 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") were principally engaged in the research, development, manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is account for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the land and building revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Leasehold land and buildings	The shorter of lease terms and 20 years
Plant and machinery	5-10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure, which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

— except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with interests in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

— except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and rendering of services associated with goods sold, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs are expensed in the year in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications coverage system equipment and the 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 (the "PRC"). Therefore, no further segment analysis is presented.

5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold and services rendered during the year, net of value-added tax, and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	2004 HK$'000	2003 HK$'000
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	**1,092,761**	806,232
Other revenue		
Interest income	**7,857**	3,453
Other	**848**	537
	8,705	3,990

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold and services provided		569,172	393,154
Depreciation	(13)	23,017	12,332
Amortisation of intangible assets*	(14)	1,380	684
Amortisation of goodwill**	(15)	5,199	2,986
Research and development costs		35,565	27,334
Minimum lease payments under operating leases in respect of land and buildings		24,075	15,770
Auditors' remuneration		1,257	750
Staff costs (excluding directors' emoluments, note 8):			
Salaries and wages		159,871	116,597
Staff welfare expenses		12,779	6,001
Pension scheme contributions#		6,519	3,055
		179,169	125,653
Provision for doubtful debts		959	7,298
Product warranty provisions	(25)	18,575	11,519
Provision for obsolete inventories		13,641	2,032
Loss on disposal of fixed assets		1,543	574

* The amortisation of intangible assets is included in "Cost of sales" on the face of the consolidated profit and loss account.

** The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.

As at 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

7. FINANCE COSTS

	Group 2004 HK$'000	Group 2003 HK$'000
Interest expense on bank loans wholly repayable within one year	7,299	5,286
Interest on finance leases	41	49
Finance costs on the factored trade receivables	2,191	207
	9,531	5,542

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group 2004 HK$'000	Group 2003 HK$'000
Fees	440	220
Other emoluments:		
Salaries and allowances	7,310	4,852
Performance related bonuses	4,743	5,095
Pension scheme contributions	78	43
	12,571	10,210

Fees of HK$440,000 (2003: HK$220,000) represented payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors 2004	Number of directors 2003
Nil to HK$1,000,000	3	3
HK$1,000,001 to HK$1,500,000	—	2
HK$1,500,001 to HK$2,000,000	4	1
HK$2,000,001 to HK$2,500,000	1	1
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	1
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2003: nil).

The five highest paid employees during the year included five (2003: three) directors, details of whose remuneration are set out above.

Details of the remuneration of non-director, highest paid employees for the year are as follows:

	Group 2004 HK$'000	Group 2003 HK$'000
Salaries, allowances and benefits in kind	—	1,781
Performance related bonuses	—	1,180
Pension scheme contributions	—	6
	—	2,967

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2004	Number of employees 2003
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	—	1
	—	2

9. 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 (2003: 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.

	Group	
	2004	2003
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Mainland China	**6,031**	15,912
Tax charge for the year	**6,031**	15,912

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 the Mainland China is 15%. As approved by relevant tax authorities, certain of the subsidiaries in 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.

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the countries in which the Company and the majority of subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2004		2003	
	HK$'000	**%**	HK$'000	%
Profit before tax	**254,243**		221,136	
Tax at the applicable rates	**38,136**	**15.0**	33,170	15.0
Expenses not deductible for tax	**7,897**	**3.1**	988	0.4
Tax exemptions	**(40,002)**	**(15.7)**	(18,246)	(8.2)
Tax charge at the Group's effective rate	**6,031**	**2.4**	15,912	7.2

The Group has tax losses arising in Hong Kong and other countries of approximately HK$39,137,000 (2003: HK$26,837,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets as at 31 December 2004.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

10. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK$79,258,000 (2003: 62,179,000) (note 28(b)).

11. DIVIDENDS

	2004 HK$'000	2003 HK$'000
Interim HK4 cents (2003: Nil) per share	**33,291**	—
Proposed final – HK5 cents (2003: HK5 cents) per share	**41,637**	41,500
	74,928	41,500

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

Earnings

	2004 HK$	2003 HK$
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	**255,105,000**	211,162,000

Shares

	Number of shares 2004	2003
Weighted average number of shares in issue during the year used in basic earnings per share calculation	**830,693,000**	706,000,000
Weighted average number of shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**18,700,000**	5,731,000
Weighted average number of shares used in diluted earnings per share calculation	**849,393,000**	711,731,000

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:						
At 1 January 2004	45,319	42,527	33,041	10,060	786	131,733
Additions	3,253	37,647	13,648	1,257	11,300	67,105
Reclassification	—	6,574	(6,574)	—	—	—
Transfers	3,205	147	—	—	(3,352)	—
Disposals	(1,043)	(886)	(851)	(440)	—	(3,220)
Revaluation	(3,362)	—	—	—	—	(3,362)
Exchange realignment	(85)	(92)	(66)	(21)	—	(264)
At 31 December 2004	47,287	85,917	39,198	10,856	8,734	191,992
Analysis of cost or valuation:						
At cost	4,740	85,917	39,198	10,856	8,734	149,445
At valuation	42,547	—	—	—	—	42,547
	47,287	85,917	39,198	10,856	8,734	191,992
Accumulated depreciation:						
At 1 January 2004	132	10,514	8,860	3,996	—	23,502
Provided during the year	3,079	12,245	6,172	1,521	—	23,017
Written back on disposals	(23)	(155)	(350)	(243)	—	(771)
Written back on revaluation	(2,987)	—	—	—	—	(2,987)
Reclassification	—	2,717	(2,717)	—	—	—
Exchange realignment	—	(21)	(57)	(11)	—	(89)
At 31 December 2004	201	25,300	11,908	5,263	—	42,672
Net book value:						
At 31 December 2004	47,086	60,617	27,290	5,593	8,734	149,320
At 31 December 2003	45,187	32,013	24,181	6,064	786	108,231

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2004 amounted to HK$494,000 (2003: HK$1,008,000).

13. FIXED ASSETS (CONTINUED)

The Group's leasehold land and buildings were revalued individually at the balance sheet date, by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK$42,547,000 based on their existing use. Had these leasehold land and buildings stated at cost less accumulated depreciation, the amount would be approximately HK$41,557,000 as at balance sheet date. As at 31 December 2004, the Group's leasehold land and buildings have been stated at valuation, except that certain land and buildings situated in Mainland China, which are in the process of applying for the transfer of the legal title, were carried at cost with a net book value of approximately HK$4,539,000. A revaluation surplus of HK$631,000, resulting from the above valuations, has been credited to the land and building revaluation reserve and revaluation reserve released on disposal of HK$256,000 has been charged to the profit and loss account.

The Group's leasehold land and buildings are situated in Mainland China and are held under the following lease terms:

	2004 **HK$'000**	2003 HK$'000
At valuation:		
Long term leases	**4,189**	4,189
Medium term leases	**38,358**	39,595
	42,547	43,784
At cost:		
Long term leases	**4,740**	1,535
	47,287	45,319

14. INTANGIBLE ASSETS

Group

	Computer software HK$'000
Cost:	
At 1 January 2004	4,813
Additions	1,276
Exchange realignment	(9)
At 31 December 2004	6,080
Accumulated amortisation:	
At 1 January 2004	895
Provided during the year	1,380
Exchange realignment	(2)
At 31 December 2004	2,273
Net book value:	
At 31 December 2004	3,807
At 31 December 2003	3,918

15. GOODWILL

The amount of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

Group

	HK$'000
Cost:	
At 1 January 2004	25,172
Acquisition of additional interest in subsidiaries	4,929
At 31 December 2004	30,101
Accumulated amortisation:	
At 1 January 2004	2,986
Amortisation provided during the year	5,199
At 31 December 2004	8,185
Net book value:	
At 31 December 2004	21,916
At 31 December 2003	22,186

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**373,108**	373,108
Due from subsidiaries	**416,423**	237,501
	789,531	610,609

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries as at 31 December 2004 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100%	—	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	—	100%	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	—	100%	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統（廣州）有限公司 *	Mainland China	HK$39,662,469	—	100%	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司 *	Mainland China	HK$39,489,450	—	100%	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統（中國）有限公司 *	Mainland China	USD1,807,500	—	100%	Dormant
Guangzhou Telink Telecom Equipment Co., Ltd. 廣州泰聯電訊設備有限公司 *	Mainland China	HK$1,000,000	—	100%	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services
Comba Telecom Systems International Limited (formerly known as Praise Group Limited)	British Virgin Islands	US$1	—	100%	Investment holding

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	S$2	—	100%	Provision of marketing services
Cascade Technology Limited ("Cascade")	British Virgin Islands	US$1	—	100% (note (i))	Investment holding
WaveLab Holdings Limited ("WaveLab Holdings")	Cayman Islands	US$1,000	—	60% (note (i))	Investment holding
WaveLab, Inc. ("WaveLab")	State of Virginia, United States of America	No par value	—	60% (note (i))	Research and development of microwave equipment
WaveLab Asia Holdings Limited ("WaveLab Asia")	British Virgin Islands	US$1	—	60% (note (i))	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備（廣州）有限公司#* ("WaveLab Guangzhou")	Mainland China	US$1,750,000	—	60% (note (i))	Sales and manufacture of digital microwave systems products
Honour Mission Group Limited	British Virgin Islands	US$1	—	100%	Investment holding
Team Victory Limited#	British Virgin Islands	US$1	—	100%	Investment holding
Telink Telecom Holdings Limited (formerly known as Alpha Device Technology Limited)#	British Virgin Islands	US$1	—	100%	Dormant
DigiLab Holdings Company Limited (formerly known as Allied Honour Limited)#	British Virgin Islands	US$1,000	—	63%	Investment holding
DigiLab Company Limited 廣州高域通信技術有限公司#*	Mainland China	HK$3,000,000	—	63%	Sales and manufacture of transmission equipment

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Right Track Technology Limited	British Virgin Islands	US$1	—	100%	Dormant
Comba Telecom Limited#	Hong Kong	HK$2	—	100%	Trading
Comba Telecom Co., Ltd.#	Thailand	980,000Baht	—	100%	Provision of marketing services
Comban Telecom Systems AB#	Sweden	100,000SEK	—	100%	Provision of marketing services

Notes:

(i) Pursuant to a subscription agreement dated 29 January 2003 (the "Subscription Agreement"), entered into between 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 ("Option A"); and (b) 171 shares in WaveLab Holdings at a cash consideration of US$2,000,000 on or before 31 December 2004 ("Option B"). After the subscription of the 258 shares in WaveLab Holdings, the Group effectively owned a 39.2% equity interest in WaveLab Holdings and its wholly-owned subsidiaries, WaveLab and WaveLab Asia. On 31 December 2003, Option A was exercised and the Group's effective shareholding in WaveLab Holdings and its subsidiaries was increased to 51.8%. On 11 October 2004, Option B was also exercised and the Group's effective shareholding in WaveLab Holdings and its subsidiaries was increased to 60%.

These were subsidiaries set up during the year.

* These are wholly foreign-owned enterprises under the PRC law.

17. INVENTORIES

	Group 2004 HK$'000	Group 2003 HK$'000
Raw materials	**46,129**	22,253
Project materials	**167,420**	76,097
Work in progress	**23,453**	15,390
Finished goods	**279,648**	121,661
	516,650	235,401

There were no inventories carried at net realisable value as at 31 December 2004 (2003: Nil).

18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to 2 years depending on customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project and is generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two year warranty period granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date is as follows:

	Group 2004 HK$'000	Group 2003 HK$'000
Within 3 months	**257,663**	193,703
4 to 6 months	**68,862**	48,260
7 to 12 months	**105,568**	48,506
More than 1 year	**77,536**	43,920
	509,629	334,389
Provision for doubtful debts	**(14,453)**	(13,494)
	495,176	320,895

19. OTHER RECEIVABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**29,884**	21,991	**—**	455
Deposits	**559**	343	**—**	—
Other receivables	**55,723**	17,954	**452**	1,737
	86,166	40,288	**452**	2,192

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**248,766**	302,011	**11,405**	9,600
Time deposits	**267,533**	285,000	**41,750**	208,545
	516,299	587,011	**53,155**	218,145
Less: pledged time deposits:				
- for notes issued	**—**	(11,299)	**—**	—
- for short term bank loans and undrawn facilities (note 23)	**(102,000)**	(102,000)	**(39,000)**	(39,000)
- for sales and service contract	**—**	(2,157)	**—**	—
	(102,000)	(115,456)	**(39,000)**	(39,000)
Cash and cash equivalents	**414,299**	471,555	**14,155**	179,145

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$374,700,000 (2003: HK$250,746,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. TRADE AND NOTES PAYABLES

An aged analysis of the Group's trade and notes payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 3 months	**245,625**	127,561
4 to 6 months	**25,601**	6,487
7 to 12 months	**10,144**	4,276
More than 1 year	**11,039**	12,111
	292,409	150,435

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000
Accruals	65,295	58,988	1,540	—
Deposits received	51,304	16,223	—	—
Other payables	132,492	63,221	—	—
Dividend payable	47	—	47	—
	249,138	138,432	1,587	—

23. SHORT TERM BANK LOANS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loans, wholly repayable within one year:		
Secured	**138,985**	40,000
Unsecured	**18,797**	31,977
	157,782	71,977

The Group's bank loans are secured by the pledge of time deposits amounted to HK$102,000,000 (2003: HK$102,000,000) (note 20).

24. FINANCE LEASE PAYABLES

The Group acquired certain of its motor vehicles through hire purchase contracts of a financing nature. These hire purchase contracts are accounted for as finance leases. Certain finance leases were repaid during the year and the remaining finance lease has remaining lease term of two years.

As at the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts repayable:				
Within one year	**200**	253	**180**	232
In the second year	**200**	200	**180**	176
In the third to fifth years, inclusive	**—**	200	**—**	168
Total minimum finance lease payments	**400**	653	**360**	576
Future finance charges	**(40)**	(77)		
Total net finance lease payables	**360**	576		
Portion classified as current liabilities	**(180)**	(232)		
Long term portion	**180**	344		

25. PROVISION FOR PRODUCT WARRANTIES

Group

	2004 HK$'000
At 1 January 2004	**11,664**
Additional provisions	**18,575**
Amounts utilised during the year	**(16,039)**
At 31 December 2004	**14,200**

The Group generally provides one to two year warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provisions is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties was not discounted as the effect of discounting was not material.

26. SHARE CAPITAL

Shares

	2004 HK$'000	2003 HK$'000
Authorised:		
5,000,000,000 (2003: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
832,728,000 (2003: 830,000,000) ordinary shares of HK$0.10 each	**83,273**	83,000

During the year, the subscription rights attaching to 2,728,000 share options were exercised at the subscription price of HK$2.25 per share (note 27), resulting in issue of 2,728,000 shares of HK$0.10 each for a total cash consideration of HK$6,138,000.

26. SHARE CAPITAL (CONTINUED)

A summary of the transactions with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Pro forma issued share capital as at 1 January 2003	1,000	—	—	—
New issue on public listing	200,000,000	20,000	356,000	376,000
Capitalisation issue credited as fully paid by crediting the share premium account of the Company as a result of the public share issue	599,999,000	60,000	(60,000)	—
Exercise of over-allotment option on 21 July 2003	30,000,000	3,000	53,400	56,400
Share issue expenses	—	—	(36,741)	(36,741)
Issued share capital at 31 December 2003 and 1 January 2004	830,000,000	83,000	312,659	395,659
Share options exercised	2,728,000	273	5,865	6,138
At 31 December 2004	832,728,000	83,273	318,524	401,797

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, or employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors and customers, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by a Company's controlling shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 14 May 2004, being the date of the last annual general meeting of the Company at which a resolution was passed to refresh the scheme mandate. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the closing price of the Company's shares on the date of grant of the share options; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

27. SHARE OPTION SCHEME (CONTINUED)

Details of the share options granted, exercised or lapsed during the year are set out below:

Name or Category of participant	At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares# At grant date of options HK$	Price of Company's shares# At exercise date of options HK$
Directors:										
Mr. Chan Kai Leung, Clement	2,000,000	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
Mr. Wu Jiang Cheng	2,000,000	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
Mr. Yan Ji Ci	2,000,000	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
	6,000,000	—	—	—	6,000,000					
Other employees:										
In aggregate	34,940,000	—	(2,728,000)	(1,480,000)	30,732,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	3.78
	—	30,010,000	—	—	30,010,000	27 May 2004	27 May 2005 to 26 May 2009	3.925	3.83	n/a
	—	2,000,000***	—	—	2,000,000	7 October 2004	7 November 2004 to 6 October 2009	3.65	3.65	n/a
	34,940,000	32,010,000	(2,728,000)	(1,480,000)	62,742,000					
	40,940,000	32,010,000	(2,728,000)	(1,480,000)	68,742,000					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** These options were granted to Mr. Yeung Pui Sang, Simon who was appointed as an executive director of the Company on 7 April 2005.

\# The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the year.

The 2,728,000 share options exercised during the year resulted in the issue of 2,728,000 shares of the Company and new share capital of HK$272,800 and share premium of HK$5,865,200, as detailed in note 26 to the financial statements.

27. SHARE OPTION SCHEME (CONTINUED)

At the balance sheet date, the Company had share options in respect of 68,742,000 shares outstanding under the Scheme, which represented approximately 8.3% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 68,742,000 additional shares of the Company and additional share capital of HK$6,874,200 and share premium of HK$200,862,050 (before issue expenses).

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and the prior years are presented in the consolidated statement of changes in equity on page 40 of the financial statements.

The Group's capital reserve arose mainly from the capitalisation of directors' loans in prior year.

Pursuant to the relevant PRC regulations, the Group's subsidiaries established in the PRC are required to appropriate not less than 10% of their profit after tax to the statutory reserves, until the balance of statutory reserves reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulation, the statutory reserves may be used to offset against the accumulated losses, if any, of these subsidiaries.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003	—	—	—	—
Arising on group reorganisation	—	373,108	—	373,108
Issue of new shares	356,000	—	—	356,000
Capitalisation issue	(60,000)	—	—	(60,000)
Exercise of over-allotment option	53,400	—	—	53,400
Share issue expenses	(36,741)	—	—	(36,741)
Net profit for the year	—	—	62,179	62,179
Proposed final 2003 dividend	—	—	(41,500)	(41,500)
At 31 December 2003	312,659	373,108	20,679	706,446
Issue of shares	5,865	—	—	5,865
Net profit for the year	—	—	79,258	79,258
Interim 2004 dividend	—	—	(33,291)	(33,291)
Proposed final 2004 dividend	—	—	(41,637)	(41,637)
At 31 December 2004	318,524	373,108	25,009	716,641

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus in certain circumstances.

29. Notes to the consolidated cash flow statement

Acquisition of subsidiaries

	2004 HK$'000	2003 HK$'000
Net assets acquired:		
Fixed assets	—	4,575
Inventories	—	54,791
Trade receivables	—	32,325
Other receivables	—	3,086
Cash and bank balances	—	20,960
Trade payables	—	(93,020)
Other payables and accruals	—	(1,508)
Minority interests	—	(19,181)
	—	2,028
Goodwill on acquisition	—	25,172
	—	27,200
Satisfied by cash	—	27,200

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 HK$'000	2003 HK$'000
Cash consideration	—	27,200
Cash and bank balances acquired	—	(20,960)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	6,240

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
Trade debtors factored with recourse	—	84,155	—	—
Commercial notes endorsed with recourse	13,603	—	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	157,292	—
	13,603	84,155	157,292	—

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Within one year	**11,382**	9,241
In the second to fifth years, inclusive	**5,164**	3,509
	16,546	12,750

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments for the procurement of production facilities at the balance sheet date:

	Group	
	2004 HK$'000	2003 HK$'000
Contracted, but not provided for	**6,544**	4,648

33. RELATED PARTY TRANSACTIONS

The Group had no significant related party transactions during the year.

34. POST BALANCE SHEET EVENTS

No significant events took place subsequent to 31 December 2004.

35. COMPARATIVE AMOUNTS

During current year, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 15 April 2005.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**1,092,761**	806,232	578,366	430,466	144,375
Cost of sales	**(623,312)**	(432,007)	(308,869)	(246,086)	(73,854)
Gross profit	**469,449**	374,225	269,497	184,380	70,521
Other revenue	**8,705**	3,990	835	613	73
Selling and distribution costs	**(69,391)**	(42,390)	(27,920)	(17,789)	(6,056)
Administrative expenses	**(136,647)**	(98,309)	(55,803)	(43,050)	(14,600)
Other operating expenses	**(8,342)**	(10,838)	(6,686)	(2,454)	(1,612)
Profit from operating activities	**263,774**	226,678	179,923	121,700	48,326
Finance costs	**(9,531)**	(5,542)	(2,977)	(1,640)	(1,092)
Profit before tax	**254,243**	221,136	176,946	120,060	47,234
Tax	**(6,031)**	(15,912)	(14,587)	—	—
Profit before minority interests	**248,212**	205,224	162,359	120,060	47,234
Minority interests	**6,893**	5,938	—	—	—
Profit attributable to shareholders	**255,105**	211,162	162,359	120,060	47,234
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**1,828,652**	1,317,930	601,176	373,703	129,929
Total liabilities	**(716,384)**	(386,184)	(302,624)	(207,971)	(84,257)
Minority interests	**(11,282)**	(13,243)	—	—	—
	1,100,986	918,503	298,552	165,732	45,672

Note: The results of the Group for the three years ended 31 December 2002 and its assets and liabilities as at the end of each of such three year are extracted from the Company's prospectus dated 3 July 2003, which also set out the details of the basis of preparation of the consolidation. The results of the Group for the two years ended 31 December 2004 and its assets, liabilities and minority interests as at the end of each of such two years are those set out on pages 37 to 39 of the financial statements and are presented on the basis as set out in the financial statements.