Comba

京信通信系統控股有限公司

Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 02342

跨越發展　開拓無限

Stretching Across Boundaries

中期報告 Interim Report 2006

Financial Highlights

- Turnover increased by 42.7% to HK$589 million
- Gross profit increased by 25.9% to HK$253 million
- Profit attributable to shareholders increased by 26.8% to HK$46 million
- Basic earnings per share increased by 26.4% to 5.46 HK cents

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2006 (the "Period") was HK$589,490,000, representing an increase of approximately 42.7% from the same period in the previous year (being the six months ended 30 June 2005, the "Prior Year Period"). The Group benefited from continued economic growth and urban and rural development in the PRC, which resulted in increased wireless enhancement capital expenditure. In addition, it recorded remarkable revenue growth in new businesses such as base transceiver station ("BTS") subsystems and antennas, and digital microwave systems ("DMS") in the Period. International market also delivered a robust growth in revenue during the Period.

By customers

Revenue generated from China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group") increased remarkably by 93.7% and accounted for 65.2% of the Group's revenue in the Period. Such strong growth is primarily due to increased wireless enhancement capital expenditure by the China Mobile Group for network optimisation amid strong subscriber growth. The Group's broadened product and solution portfolio also helped generate more revenue. During the Period, revenue generated from the GSM network of China United Telecommunications Corporation and its subsidiaries (the "China Unicom Group") decreased by 22.9% while revenue generated from its CDMA network decreased by 15.6%. Revenue generated from China Unicom Group accounted for 21.9% of the Group's revenue in the Period, with GSM and CDMA accounting for 8.5% and 13.4% respectively.

Management Discussion and Analysis

Revenue from other customers including agents in the PRC and international customers accounted for 12.9% of the Group's revenue in the Period. Among them, export sales (including sales to core equipment manufacturers) nearly tripled and accounted for 7.2% of the Group's revenue in the Period, compared to 3.6% in the Prior Year Period. The Group's international expansion effort has achieved initial success as demonstrated by the strong growth, which is contributed by addition of new customers and repeat orders from existing customers.

By solutions/products

Revenue generated from wireless enhancement (both indoor and outdoor) solutions increased by 35.6% and accounted for 85.0% of the Group's revenue in the Period, compared to 89.4% in the Prior Year Period. Revenue from indoor and outdoor solutions increased by 35.1% and 37.9% respectively and accounted for 69.6% and 15.4% respectively of the Group's revenue in the Period.

Apart from providing turnkey solutions in wireless enhancement to mobile operators, the Group strategically developed two major product areas in subsystems and antennas and DMS. Revenue from BTS subsystems and antennas more than doubled and accounted for 7.6% of the Group's revenue in the Period, compared to 4.7% in the Prior Year Period. Revenue from DMS increased more than eightfold and accounted for 3.4% of the Group's revenue in the Period, compared to 0.5% in the Prior Year Period. Others including extended maintenance services increased by 8.1% and accounted for 4.0% of the Group's revenue in the Period.

Management Discussion and Analysis

Gross profit

The Group is facing continued pressure on the average selling price and hence gross profit margin of its products and solutions for the maturing 2G mobile communications market in the PRC. In view of this, the Group implemented various measures to mitigate this downward trend. It optimised its product portfolio by focusing on products with higher margin, optimised the product design, and continued to negotiate better pricing in materials. In addition, The Group improved its logistics management, thereby enhancing production efficiency and lowering costs. Gross profit margin was 42.9% in the Period compared to 48.6% in the Prior Year Period. Gross profit of the Group for the Period was HK$252,788,000, representing an increase of 25.9% over the Prior Year Period.

Research and development costs

The Group has increased its resources considerably in the research and development ("R&D") of its products and solutions including those related to 3G. For instance, the Group continued to expand its R&D team in the PRC during the Period. On the other hand, the R&D centre in the West Coast of the US was established in the third quarter of 2005 and so there were no such expenses in the Prior Year Period. R&D costs therefore increased by 53.9% to HK$33,379,000 and accounted for 5.7% of revenue in the Period compared to 5.2% in the Prior Year Period.

Management Discussion and Analysis

Selling and distribution costs

Selling and distribution costs were HK$55,779,000 in the Period, representing an increase of 27.4% over the Prior Year Period. With more focused sales and marketing efforts on markets with high demand and a broader product portfolio supported by an established sales platform, the Group achieved better efficiency in selling and distribution costs which accounted for 9.5% of the Group's revenue in the Period, compared to 10.6% in the Prior Year Period.

Administrative expenses

Administrative expenses were HK$99,598,000 in the Period, representing an increase of 8.9% over the Prior Year Period. This slight increase was primarily a result of the Group's strengthened budgetary control. Economies of scale were therefore achieved amid strong revenue growth in the Period. Administrative expenses accounted for 16.9% of the Group's revenue in the Period, compared to 22.1% in the Prior Year Period.

Finance costs

Finance costs were HK$7,868,000 in the Period, representing a decrease of 14.5% over the Prior Year Period. In view of rising interest rates, the Group managed to reduce the bank borrowing level for working capital purposes during the Period.

Management Discussion and Analysis

Tax

Effective tax rate was 12.9% in the Period, compared to 11.7% in the Prior Year Period.

Net profit

Profit attributable to shareholders ("Net Profit") for the Period was HK$45,561,000, representing an increase of 26.8% over the Prior Year Period. This is largely due to the increase in the Group's revenue in the Period. The decrease in gross profit margin was largely offset by the economics of scale achieved in administrative expenses. Net profit margin was 7.7% in the Period compared to 8.7% in the Prior Year Period.

PROSPECT

Businesses — solutions/products

Wireless enhancement solutions

The Directors believe that the future development of the Group's 3G operations represents an excellent business opportunity to the Group in the medium term. The Group has continuously invested in R&D to enhance its product portfolio and capabilities for different 3G standards. For instance, the Group has developed a number of 3G repeaters for WCDMA and TD-SCDMA standards according to the market needs. In addition, the Group participated in various 3G network trials and testing. The Group is well prepared for 3G in all aspects. This enables the Group to meet the need of operators in 3G network construction immediately upon the granting of 3G licences. Once the licences are granted, the Group anticipates the demand for wireless enhancement solutions for 3G networks to be strong.

The State Government has been actively promoting the development of the TD-SCDMA standard. During the Period, the Group became a member of the TD-SCDMA Industry Alliance which was established to perfect and promote the TD-SCDMA standard.

The Directors also believe that 2G and 3G networks will coexist for a long period of time, operators will still need to invest in the construction of 2G network, given a continued and strong growth in subscribers and an extension in coverage to rural areas. Apart from investing in core network equipment to provide a larger capacity, mobile operators would invest in the optimisation of network quality and resources in order to improve the breadth and depth of the network. The Directors therefore remain cautiously optimistic about the wireless enhancement solutions market in the PRC, no matter when the 3G licences are granted.

The international market provides a lot of growth potential because of the continuous investment in wireless infrastructure around the world. The 2G network built in developing countries and the 3G network upgrade in the developed world offer a lot of opportunities for the product area. The global market landscape has also changed quite drastically with the mergers of the Group's competitors which provide a lot of entry room for the Group as operators around the world are looking for established suppliers.

Management Discussion and Analysis

Subsystems and antennas

The Group has actively expanded its capabilities on BTS subsystems and antennas. Production capacity for BTS antennas have more than tripled since 2005. The Group's continuous investment in R&D has enabled it to develop a complete product portfolio including smart antennas, multi-band antennas with 3G capabilities, camouflaged antennas and a full range of tower top solutions to address the PRC market as well as the global operators market. The Group also participates in international technical and standards forum like the AISG Forum to maintain its technical excellence. The maturity and technical leadership that the Group has established in the PRC has enabled it to be the sole supplier for certain high performance antennas in the PRC. The Group has also recently been evaluated and has passed the supplier audit process of a leading global mobile operator. These demonstrate the Group's leading technical and operations position in this market segment.

Wireless Transmissions — DMS

The Group has now completed the portfolio of Point-to-Point DMS solutions. Its products cover most frequency bands and provide wireless transmissions from two E1s (2Mbps) to up to STM-1 (155Mbps). This is the core product line for the Group's Wireless Transmissions Business Unit and its products have been gaining acceptance by its PRC and international customers. The Directors believe that the continuous investment in the global wireless and wireline telecom infrastructure will provide good growth potential for the Group's products. Its products provide a quick and cost effective solution for operators in their high speed data and backhaul services especially in the developing countries like South East Asia, India, Caribbean and Latin America

("CALA") and Africa. In addition, the licensing of 3G services in the PRC is another good growth opportunity for this business unit as there will be a huge demand in BTS backhaul services.

Businesses — markets

The Directors believe the PRC market is offering a lot of opportunities. The 2G network is going to grow continuously as long as there are new subscribers and new capacity growth. Hence 2G and 3G networks are going to coexist for a long period of time. The continuous growth of the PRC economy facilitates demand for the Group's products and solutions in the urban areas while the network extension to rural areas under the "Village-Connected Project" is also driving the demand upwards. These will be the main driving force of the demand for all of the Group's product lines in the short to medium term.

The Group continues to expand its effort on international growth with the establishment of the CALA regional headquarters in Sao Paulo, Brazil. The CALA market is growing very rapidly with numerous new 2G and 3G network build out. The international operators are also investing in 2G network expansion in the developing countries while 3G network build out in various developed countries allow the Group to generate commercial 3G revenue while waiting for the 3G licensing in the PRC. Based on the report of various credible market researchers and the Group's internal market analysis, capital equipment investment for 3G networks will rise in the near future as more global operators in both developed and developing countries are starting to initiate the building of the 3G network.

Management Discussion and Analysis

The Directors also view the core equipment manufacturer market as an important strategy for expansion. With established R&D and manufacturing capabilities, the Group has developed products catering to the needs of core equipment manufacturers both inside and outside the PRC. The core equipment manufacturer market is synergistic to the Group's overall product expansion plan. Its products will be integrated to BTS equipment and this effectively expands the Group's addressable market.

Operations

The Group has focused on expanding its addressable markets by extending its product offerings and geographical coverage. The diversification into the subsystems & antennas and wireless transmissions businesses has created new contribution to the Group's revenue. These product lines are now contributing more than 10% to the Group's revenue. In addition, the Group's international business accounted for 7.2% of its revenue in the Period. These results show that that the Group's expansion strategy has achieved initial success.

In order to facilitate continuous growth of its existing businesses while providing growth and support for new products and global expansion strategy, the Group has implemented a corporate wide resources realignment effort and created three separate business units. The Wireless Enhancement Business Unit focuses on the indoor and outdoor enhancement markets; the Subsystems & Antennas Business Unit provides BTS subsystems and antenna products; and the Wireless Transmissions Business Unit offers DMS and other new transmission products.

Management Discussion and Analysis

The Directors are confident that the resources realignment will allow the Group to provide an excellent overall support platform for its global customers and allow the Group to grow and become a global leading player in the telecom market.

The Group has recently relocated the sales and marketing and the R&D departments, among others, to the new headquarters in Guangzhou Science City, Guangzhou, the PRC. The existing plant in the Guangzhou Economic and Technology Development District will mainly be used for production. The increase in production floor space will enable the Group to meet business demand flexibly in the next few years.

Conclusion

The Directors believe that the demand for 2G products in the PRC continues to be strong given the increasing number of mobile subscribers and infrastructure projects as well as the extension of coverage to the rural areas, regardless of 3G network licensing in the PRC. In addition, the Directors remain cautiously optimistic about the opportunities arising from the future development of the 3G mobile market in the PRC in the medium term as the Group has been offering 3G products to its global customers.

The Group believes that overall diversification of markets and products while maintaining our core technical competency is essential for long term success. The international market expansion and the development of BTS subsystems and antennas and DMS products for wireless transmissions are all important diversification strategies to fuel its long term growth.

Management Discussion and Analysis

Following the expansion to CALA market, the Group will continue to expand its geographical coverage to serve more customers. The Group has also recently realigned its resources at the headquarters level by forming three separate business units to guarantee good resources allocation and support for growth of these new product areas.

The Directors believe that the wireless industry is still at high growth rate and technologies are evolving daily. The Group needs to follow diligently the industry trend and new technology development, and analyse market risks and threats to maintain its leadership position as new disruptive technologies can appear any day. To cope with the ever changing market needs, the Group will continue to invest in products and technology based R&D. With the opening of the new headquarters in the PRC, the Group provides an inspiring working environment and state of the art equipment for new ideas and products. In addition, the Group has an expanded production platform that allows it to meet the future demand for its products and solutions. Capital expenditure of the Group is expected to be funded by various means of financing. Finally, the Group will endeavour to maintain a solid and healthy financial position and consolidate its leading market position, while pursuing a balanced and carefully planned growth strategy in order to maximize the shareholders' value.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank loans. As at 30 June 2006, the Group had net current assets of HK$981,233,000. Current assets comprised inventories of HK$687,792,000, trade receivables of HK$897,461,000, notes receivables of HK$16,534,000 prepayments, deposits and other receivables of HK$125,989,000, short term time deposits of HK$63,000,000 and cash and cash equivalents of

HK$180,883,000. Current liabilities comprised trade and bills payables of HK$464,441,000, other payables and accruals of HK$241,287,000, interest-bearing bank loans of HK$252,345,000, current portion of finance lease payables of HK$90,000, tax payable of HK$9,491,000 and provision for product warranties of HK$22,772,000.

The average receivable turnover for the Period was 233 days compared to 230 days for the Prior Year Period. The Group's trading terms with its customers are mainly on credit. The contractual credit period is generally for a period of three to six months except for those retention money receivables with payment ranging from six to twenty-four months. The average payable turnover for the Period was 221 days compared to 249 days for the Prior Year Period. The average inventory turnover for the Period was 339 days compared to 476 days for the Prior Year Period.

As at 30 June 2006, 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, HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. Since the exchange fluctuations among these currencies are low, the Directors consider that there is no significant exchange risk.

The Group's gearing ratio, calculated as total interest-bearing debts (including bank loans and advances, and finance lease payables) over total assets, was 11.3% as at 30 June 2006 (31 December 2005: 14%).

Management Discussion and Analysis

CHARGE ON ASSETS

The Group's bank loans were secured by a charge on a time deposit amounted to HK$63,000,000 (31 December 2005: HK$63,000,000).

CONTINGENT LIABILITIES

As at 30 June 2006, the Group had no significant contingent liabilities (31 December 2005: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group had approximately 3,600 staff. The total staff costs for the Period was HK$104,293,000. 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. The Group also provides training to staff to improve their skills and develop their respective expertise.

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 Period.

Management Discussion and Analysis

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code as set out in Appendix 10 to the Rules (the "Listing Rules") Governing the Listing Securities on the Stock Exchange (the "Model Code") were as follows:

Long positions:

		Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of director	*Notes*	**Directly beneficially owned**	**Through controlled corporation**	**Total**	
Mr. Fok Tung Ling ("Mr. Fok")	*(a)*	8,248,000	437,954,000	446,202,000	53.42
Mr. Zhang Yue Jun ("Mr. Zhang")	*(b)*	—	117,000,000	117,000,000	14.01
Mr. Chan Kai Leung, Clement ("Mr Chan")	*(c)*	666,000	—	666,000	0.08
Mr. Wu Jiang Cheng ("Mr Wu")	*(c)*	1,800,000	—	1,800,000	0.22
Mr. Yan Ji Ci ("Mr. Yan")	*(c)*	1,700,000	—	1,700,000	0.20
Mr. Zheng Guo Bao		1,450,000	—	1,450,000	0.17
Mr. Yeung Pui Sang, Simon ("Mr Yeung")	*(c)*	500,000	—	500,000	0.06
		14,364,000	554,954,000	569,318,000	68.16

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 and Mr. Wu has share options in respect of 2,000,000 ordinary shares. Mr. Yan has share options in respect of 1,700,000 ordinary shares whereas Mr. Yeung has share options in respect of 4,000,000 ordinary shares.

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.

Short positions:

Save as disclosed above, as at 30 June 2006, none of the directors had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and the heading "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Management Discussion and Analysis

SHARE OPTION SCHEME

Pursuant to the Company's share option scheme, the following share options were outstanding during the period:

Name or category of participant	At 1 January 2006	Granted during the Period	Exercised during the Period	Expired during the Period	Forfeited during the Period	At 30 June 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares*** Immediately before the exercise date	At exercise date
									HK$	HK$	HK$
Directors:											
Mr. Chan	2,000,000	—	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
Mr. Wu	2,000,000	—	—	—	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	n/a	n/a
Mr. Yan	2,000,000	—	(300,000)	—	—	1,700,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	3.10	3.25
Mr. Yeung	2,000,000	—	—	—	—	2,000,000	7 October 2004	7 November 2004 to 6 October 2009	3.65	n/a	n/a
Mr. Yeung	2,000,000	—	—	—	—	2,000,000	22 December 2005	22 December 2006 to 21 December 2010	2.625	n/a	n/a
	10,000,000	—	(300,000)	—	—	9,700,000					
Other employees:											
In aggregate	28,728,000	—	(1,968,000)	—	(921,000)	25,839,000	15 July 2003	15 July 2004 to 14 July 2008	2.25	3.05	3.13
	26,090,000	—	—	—	(560,000)	25,530,000	27 May 2004	27 May 2005 to 26 May 2009	3.925	n/a	n/a
	15,786,000	—	—	—	(500,000)	15,286,000	22 December 2005	22 December 2006 to 21 December 2010	2.625	n/a	n/a
	70,604,000	—	(1,968,000)	—	(1,981,000)	66,655,000					
	80,604,000	—	(2,268,000)	—	(1,981,000)	76,355,000					

Notes to the reconciliation of share options outstanding during the Period:

* 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.

*** The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercise of the options within the disclosure line.

The 2,268,000 share options exercised during the Period resulted in the issue of 2,268,000 ordinary shares of the Company and new share capital of HK$227,000 and share premium of HK$4,876,000, as detailed in notes 11 and 13 to the financial statements.

Management Discussion and Analysis

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

At 30 June 2006, the following interests of every person, other than a director or 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:

Long positions:

Name	*Notes*	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Prime Choice		Beneficial owner	394,156,000	47.19
Total Master		Beneficial owner	43,798,000	5.24
Mdm. Chen Jing Na ("Mdm. Chen")	*(a)*	Interest of spouse	446,202,000	53.42
Wise Logic		Beneficial owner	117,000,000	14.01
Mdm. Cai Hui Ni ("Mdm. Cai")	*(b)*	Interest of spouse	117,000,000	14.01

Notes:

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

(b) Mdm. Cai is the spouse of Mr. Zhang and is deemed to be interested in the 117,000,000 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

Management Discussion and Analysis

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.

Short positions:

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in Appendix 14 to the Listing Rules throughout the Period, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of its board of Directors, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

MODEL CODE OF SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The unaudited interim results of the Group for the six months ended 30 June 2006 have been reviewed by the audit committee of the Company.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

The Board of Comba Telecom Systems Holdings Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006, together with the unaudited comparative figures for the same period in 2005. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
REVENUE	*3*	**589,490**	413,013
Cost of sales		**(336,702)**	(212,234)
Gross profit		**252,788**	200,779
Other income	*3*	**4,467**	4,352
Research and development costs		**(33,379)**	(21,682)
Selling and distribution costs		**(55,779)**	(43,768)
Administrative expenses		**(99,598)**	(91,429)
Other expenses		**(9,032)**	(265)
Finance costs	*5*	**(7,868)**	(9,197)
PROFIT BEFORE TAX	*4*	**51,599**	38,790
Tax	*6*	**(6,656)**	(4,534)
PROFIT FOR THE PERIOD		**44,943**	34,256

Condensed Consolidated Income Statement (Cont'd)

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June **2006** **(Unaudited)** **HK$'000**	2005 (Unaudited) HK$'000
Attributable to:			
Equity holders of the parent		**45,561**	35,941
Minority interests		**(618)**	(1,685)
		44,943	34,256
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(HK cents)*	*7*		
Basic		**5.46**	4.32
Diluted		**5.41**	4.25
DIVIDEND PER SHARE *(HK cents)*	*8*	**Nil**	Nil

Condensed Consolidated Balance Sheet

30 June 2006

	Notes	**30 June 2006 (Unaudited) HK$'000**	31 December 2005 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**195,590**	172,380
Prepaid land lease payments		**12,894**	13,040
Goodwill		**21,916**	21,916
Deferred tax assets		**26,106**	19,318
Other intangible assets		**6,464**	8,242
Total non-current assets		**262,970**	234,896
CURRENT ASSETS			
Inventories		**687,792**	572,948
Trade receivables	*9*	**897,461**	618,290
Notes receivables		**16,534**	35,585
Factored trade receivables		**—**	115,296
Prepayments, deposits and other receivables		**125,989**	112,807
Short term time deposits		**63,000**	178,296
Cash and cash equivalents		**180,883**	314,118
Total current assets		**1,971,659**	1,947,340

Condensed Consolidated Balance Sheet (Cont'd)

30 June 2006

	Notes	**30 June 2006 (Unaudited) HK$'000**	31 December 2005 (Audited) HK$'000
CURRENT LIABILITIES			
Trade and bills payables	*10*	**464,441**	356,753
Other payables and accruals		**241,287**	284,036
Interest-bearing bank loans		**252,345**	190,723
Bank advances on factored trade receivables		**—**	115,296
Current portion of finance lease payables		**90**	180
Tax payable		**9,491**	18,867
Provision for product warranties		**22,772**	21,066
Total current liabilities		**990,426**	986,921
NET CURRENT ASSETS		**981,233**	960,419
Net assets		**1,244,203**	1,195,315
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*11*	**83,529**	83,302
Reserves	*12*	**1,153,635**	1,079,365
Proposed dividend		**—**	24,991
		1,237,164	1,187,658
Minority interests		**7,039**	7,657
Total equity		**1,244,203**	1,195,315

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Attributable to equity holders of the parent											
	Issued share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Assets revaluation reserve HK$'000	Statutory reserves HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005												
As previously reported	83,273	318,524	—	46,510	990	46,832	(2,638)	565,858	41,637	1,100,986	11,282	1,112,268
Prior period adjustments:												
HKFRS 2 — Employee share option scheme	—	—	28,355	—	—	—	—	(28,355)	—	—	—	—
As restated	83,273	318,524	28,355	46,510	990	46,832	(2,638)	537,503	41,637	1,100,986	11,282	1,112,268
Exchange realignment	—	—	—	—	—	—	3,187	—	—	3,187	—	3,187
Total incomes and expense recognised directly in equity	—	—	—	—	—	—	3,187	—	—	3,187	—	3,187
Net profit for the period	—	—	—	—	—	—	—	35,941	—	35,941	(1,685)	34,256
Total income and expenses for the period	—	—	—	—	—	—	3,187	35,941	—	39,128	(1,685)	37,443
Final 2004 dividend declared	—	—	—	—	—	—	—	—	(41,651)	(41,651)	—	(41,651)
Issue of new shares	29	624	—	—	—	—	—	—	—	653	—	653
Under-provision of 2004 final dividend	—	—	—	—	—	—	—	(14)	14	—	—	—
Equity-settled share option expenses	—	—	11,902	—	—	—	—	—	—	11,902	—	11,902
At 30 June 2005	83,302	319,148	40,257	46,510	990	46,832	549	573,430	—	1,111,018	9,597	1,120,615
At 1 January 2006	83,302	319,148*	37,938*	46,510*	2,479*	70,656*	24,558*	578,076*	24,991	1,187,658	7,657	1,195,315
Exchange realignment	—	—	—	—	—	—	15,210	—	—	15,210	—	15,210
Total incomes and expense recognised directly in equity	—	—	—	—	—	—	15,210	—	—	15,210	—	15,210
Net profit for the period	—	—	—	—	—	—	—	45,561	—	45,561	(618)	44,943
Total income and expenses for the period	—	—	—	—	—	—	15,210	45,561	—	60,771	(618)	60,153
Final 2005 dividend declared	—	—	—	—	—	—	—	—	(25,059)	(25,059)	—	(25,059)
Issue of new shares (note 11)	227	4,876	—	—	—	—	—	—	—	5,103	—	5,103
Under-provision of 2005 final dividend	—	—	—	—	—	—	—	(68)	68	—	—	—
Equity-settled share option expenses	—	—	8,691	—	—	—	—	—	—	8,691	—	8,691
At 30 June 2006	83,529	324,024*	46,629*	46,510*	2,479*	70,656*	39,768*	623,569*	—	1,237,164	7,039	1,244,203

* These reserve accounts comprise the consolidated reserves of HK$1,153,635,000 (31 December 2005: HK$1,079,365,000) in the consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(260,077)**	(101,036)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**77,923**	(29,376)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**33,709**	90,075
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(148,445)**	(40,337)
Cash and cash equivalents at beginning of period	**314,118**	414,299
Effects of foreign exchange rate changes, net	**15,210**	3,187
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**180,883**	377,149
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**180,883**	377,149

Notes to the Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005.

2. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. All of the Group's products are of a similar nature and subject to similar risks 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 analysis in business or geographical segment is presented.

3. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered during the period, 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 revenue and other income is as follows:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**589,490**	413,013
Other income		
Bank interest income	**2,549**	3,208
Others	**1,918**	1,144
	4,467	4,352

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting) the followings:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold and services provided	**326,288**	207,266
Depreciation	**16,712**	11,859
Amortisation of prepaid land lease payments	**146**	144
Amortisation of intangible assets	**1,779**	528
Minimum lease payments under operating leases in respect of land and buildings	**15,015**	13,681
Provision for product warranties	**10,414**	4,968
Provision for/(reversal of) doubtful debts	**6,373**	(219)
Provision for obsolete inventories	**7,688**	—
Loss on disposal of items of property, plant and equipment	**—**	292
Staff costs (including directors' emoluments)		
Salaries and wages	**77,334**	72,222
Staff welfare expenses	**10,291**	6,765
Pension scheme contributions	**7,977**	6,865
Equity-settled share option expenses	**8,691**	11,902
Total staff costs	**104,293**	97,754

5. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**5,104**	3,928
Interest on finance leases	**10**	10
Finance costs on the factored trade receivables	**2,754**	5,259
	7,868	9,197

6. TAX

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current period provision — Mainland China	**13,135**	4,534
Deferred tax	**(6,479)**	—
Total tax charge for the period	**6,656**	4,534

6. TAX (Cont'd)

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 period (six months ended 30 June 2005: 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.

Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou"), a wholly owned subsidiary of the Company operating in the Mainland China was designated as an advanced technology foreign investment enterprise by the Guangzhou Foreign Trade and Economic Cooperation Bureau in August 2004. Under the current PRC tax legislation, upon expiry of its tax holiday in 2004, a foreign investment enterprise having the status of advanced technology enterprise is entitled to the preferential tax rate at 50% of the applicable standard rate, subject to a minimum rate of 10% for another three years. During the period, provision for PRC corporate income tax for Comba Guangzhou has been made at the applicable reduced tax rate of 10%.

According to Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), another subsidiary of the Company established in the PRC, was entitled to an exemption from the PRC corporate income tax for the two years commencing from its first profit-making year 1 January 2003 to 31 December 2004 and thereafter was entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2005 to 31 December 2007.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the period is based on the profit attributable to equity holders of the parent of HK$45,561,000 (six months ended 30 June 2005: HK$35,941,000), and the weighted average number of 834,705,000 (six months ended 30 June 2005: 832,816,000) ordinary shares in the issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the parent of HK$45,561,000 (six months ended 30 June 2005: HK$35,941,000). The weighted average number of ordinary shares used in the calculation is the 834,705,000 (six months ended 30 June 2005: 832,816,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 7,541,000 (six months ended 30 June 2005: 13,444,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

8. DIVIDEND

At a meeting of the Board of Directors held on 8 September 2006, the Directors resolved not to pay any interim dividend to shareholders (six months ended 30 June 2005: Nil).

9. 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 two years depending on customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of 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 the 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 the invoice date is as follows:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Within 3 months	**318,431**	285,631
4 to 6 months	**119,440**	70,400
7 to 12 months	**247,645**	87,967
More than 1 year	**232,776**	188,750
	918,292	632,748
Provision for impairment	**(20,831)**	(14,458)
	897,461	618,290

10. TRADE AND BILLS PAYABLES

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

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Within 3 months	**269,844**	279,504
4 to 6 months	**77,169**	45,472
7 to 12 months	**51,000**	13,674
More than 1 year	**66,428**	18,103
	464,441	356,753

11. SHARE CAPITAL

Shares	**30 June 2006 (Unaudited) HK$'000**	31 December 2005 (Audited) HK$'000
Authorised:		
5,000,000,000 (2005: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
835,286,000 (2005: 833,018,000) ordinary shares of HK$0.10 each	**83,529**	83,302

11. SHARE CAPITAL (Cont'd)

During the period, the subscription rights attaching to 2,268,000 share options were exercised at the subscription price of HK$2.25 per share, resulting in issue of 2,268,000 shares of HK$0.10 each for a total cash consideration of HK$5,103,000.

12. RESERVES

The amounts of the Group's reserves and the movements therein for the period are presented in the consolidated statement of changes in equity.

13. 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.

13. SHARE OPTION SCHEME (Cont'd)

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 at any time. 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.

13. SHARE OPTION SCHEME (Cont'd)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the average Stock Exchange closing price of the Company's shares for the number of trading days which have elapsed from the Listing Date; and (ii) the offer price, if the option is granted in five business days (including the Listing Date) before the offer; or (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, if the option is granted in five business days (including the Listing Date) after offer.

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

The expense recognised in the condensed consolidated income statement for employee services received during the period is approximately HK$8,691,000 (six months ended 30 June 2005: approximately HK$11,902,000).

14. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

The Group had no significant related party transactions during the period and has no outstanding balances with related parties as at the period end.

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**5,406**	4,366
Post employment benefits	**40**	74
Share-based payments	**972**	841
Total compensation paid to key management personnel	**6,418**	5,281

15. CONTINGENT LIABILITIES

As at the end of the period, the Group had no significant contingent liabilities (31 December 2005: Nil).

16. OPERATING LEASE ARRANGEMENTS

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

As at the respective balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Within one year	**18,914**	11,353
In the second to fifth years, inclusive	**5,209**	3,156
	24,123	14,509

17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital commitments for the procurement of production facilities at the respective balance sheet dates:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Contracted, but not provided for	**22,648**	43,799

18. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

19. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 8 September 2006.

By order of the Board
Fok Tung Ling
Chairman and President

Hong Kong, 8 September 2006

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