COMBA TELECOM SYSTEMS HOLDINGS LIMITED
京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2342)

Interim results announcement for the six months ended 30 June 2004

- Turnover increased by 34% to HK$446 million
- Sustained high gross margin of 46%
- Net profit increased by 36% to HK$118 million
- Sustained healthy net margin of 26%
- Basic earnings per share was 14.25 HK cents

INTERIM RESULTS

The Board of Directors of Comba Telecom Systems Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004, together with the unaudited comparative figures for the same period in 2003 as follows:-

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2004	**2003**
		(Unaudited)	*(Unaudited)*
	Notes	*HK$'000*	*HK$'000*
TURNOVER	4	446,403	334,172
Cost of sales		(241,932)	(176,988)
Gross profit		204,471	157,184
Other revenue	4	5,351	610
Selling and distribution costs		(24,404)	(18,568)
Administrative expenses		(55,656)	(38,941)
Other operating expenses		(5,795)	(6,209)
PROFIT FROM OPERATING ACTIVITIES	5	123,967	94,076
Finance costs	6	(4,281)	(1,660)
PROFIT BEFORE TAX		119,686	92,416
Tax	7	(4,983)	(8,427)

	Notes	Six months ended 30 June 2004 (Unaudited) HK$'000	2003 (Unaudited) HK$'000
PROFIT BEFORE MINORITY INTERESTS		114,703	83,989
Minority interests		3,568	2,779
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		118,271	86,768
Dividends	8	33,200	-
Earnings per share			
- Basic (HK cents)	9	14.25	14.46
- Diluted (HK cents)	9	13.89	N/A

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. **Group reorganisation and basis of presentation**

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 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 July 2003.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the Group structure for the listing of the ordinary shares (the "Share") of HK$0.10 each in the share capital of the Company on the Stock Exchange, the Company became the holding company of the Group formed after completion of the Reorganisation on 20 June 2003. Details of the Reorganisation are set out in the prospectus of the Company dated 3 July 2003 (the "Prospectus").

The Group Reorganisation involved companies under common control. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003 have been prepared in accordance with Statements of Standard Accounting Practice No. 27 "Accounting for group reconstructions" ("SSAP 27") issued by the Hong Kong Society of Accountants ("HKSA"). Under this basis, the condensed consolidated interim financial statements for the six months ended 30 June 2003 and the related notes thereto have been presented in these condensed consolidated interim financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries on 20 June 2003 as is required by SSAP 27.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2004 have been prepared in accordance with SSAP No. 25 "Interim financial reporting" ("SSAP 25") issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

2. **Principal accounting policies**

The accounting policies adopted by the Group in these condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

3. **Segment information**

The Group is principally engaged in the manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single business segment and no further analysis of the Group's turnover and operating profit by principal activities is provided.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the Mainland PRC.

4. **Turnover and other revenue**

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

Revenue is analysed as follows:

	Six months ended 30 June	
	2004	**2003**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Turnover		
Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services	446,403	334,172
Other revenue		
Interest income	5,031	173
Others	320	437
	5,351	610
	451,754	334,782

5. **Profit from operating activities**

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

	Six months ended 30 June	
	2004	**2003**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	219,791	162,142
Depreciation	9,054	5,756
Amortisation of intangible assets	649	238
Amortisation of goodwill	2,517	1,492
Research and development costs*	15,370	10,002
Minimum lease payments under operating leases in respect of land and buildings	11,248	5,816
Staff costs (including directors' emoluments)		
Salaries and wages*	53,057	40,814
Staff welfare expenses	5,789	2,685
Pension scheme contributions	2,424	1,109
	61,270	44,608
Product warranty provisions	6,771	4,844
Provision for doubtful debts	3,205	4,227
Write-off of obsolete inventories**	1,792	1,126
Loss on disposal of fixed assets	151	494

* Research and development costs of HK$10,191,000 is included in "Staff costs (salaries and wages)" as set out above.

** Write-off of obsolete inventories is included in "Cost of inventories sold and services provided" as set out above.

6. **Finance costs**

	Six months ended 30 June	
	2004	**2003**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interest expense on bank loans wholly repayable within five years	4,268	1,606
Interest on finance leases	13	54
	4,281	1,660

7. **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 period. 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.

	Six months ended 30 June	
	2004	**2003**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Current period provision:		
Hong Kong	—	—
Mainland PRC	4,983	8,427
Tax charge for the period	4,983	8,427

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou"), a wholly-owned subsidiary of the Company operating in the PRC, was exempted from the PRC corporate income tax for the two years commencing from its first profit-making year from 1 January 2000 to 31 December 2001 and thereafter is entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2002 to 31 December 2004. During the six months periods ended 30 June 2003 and 2004, provisions for PRC corporate income tax for Comba Guangzhou have been made at the applicable reduced tax rate of 7.5% on the foregoing basis.

In addition, Comba Guangzhou was designated as an advanced technology foreign investment enterprise by the Guangzhou Foreign Trade and Economic Cooperation Bureau in December 2001. Under the current PRC tax legislation, upon expiry of its tax holiday, 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. If Comba Guangzhou remains an advanced technology enterprise in 2005 and the relevant PRC tax legislation remains effective, Comba Guangzhou would be entitled to a preferential PRC corporate income tax rate of 10% from 1 January 2005 to 31 December 2007.

According to the 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, is entitled to an exemption from the PRC corporate income tax for the two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years. As Comba Technology has just commenced its operation in 2003, no provision for PRC corporate income tax has been made for Comba Technology during the period.

Deferred tax has not been provided because there was no significant temporary difference at the balance sheet date.

A reconciliation of the expected tax expense with the actual tax expense is presented below:

	Six months ended 30 June	
	2004	**2003**
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Profit before tax	119,686	92,416
Tax at the applicable tax rate of 15%	17,953	13,862
Expenses not deductible for tax purposes	3,955	2,277
Tax losses of subsidiaries	1,921	1,277
Tax exemptions/reductions	(18,846)	(8,989)
Actual tax expense	4,983	8,427

8. **Dividends**

The directors of the Company have resolved that an interim dividend of HK 4 cents per share is to declare in respect of the six months ended 30 June 2004 to shareholders whose names appear on the register of member of the Company on 22 September 2004. (Six months ended 30 June 2003: Nil)

9. **Earnings per share**

The calculation of earnings per share for the period is based on the unaudited net profit attributable to shareholders for the six months ended 30 June 2004 of HK$118,271,000 (six months ended 30 June 2003: HK$86,768,000) and the weighted average of 830,000,000 shares (six months ended 30 June 2003: on the assumption that 600,000,000 shares were deemed to have been in issue, comprising 1,000 shares in issue as at the date of the Prospectus and 599,999,000 shares issued pursuant to the capitalisation issue, as described more fully in the Prospectus) in issue during the period.

The calculation of diluted earnings per share for the period is based on the net profit attributable to shareholders of HK$118,271,000. The weighted average number of ordinary shares used in the calculation is 851,262,790, which comprises the 830,000,000 ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 21,262,790 ordinary shares assumed to have been issued at no consideration on the deemed exercise at all share options granted during the period.

No dilutive earnings per share amounts have been presented in 2003 as the Company did not have any dilutive potential ordinary shares during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Turnover of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 was HK$446,403,000, representing an increase of approximately 33.6% over the corresponding period last year. This increase was mainly attributable to overall increase in wireless coverage capital expenditure by the mobile operators to improve the quality of mobile network, thereby providing better services to an ever increasing population of over 300 million mobile subscribers in the PRC as at 30 June 2004. The Group is well placed to benefit from mobile operators' continuing needs for network optimization in the PRC as well as the roll out of large scale infrastructure projects nationwide.

Therefore, revenue from indoor coverage solutions were HK$335.8 million in the period under review, representing an increase of over 50% over the same period last year. This reflects mobile subscribers' increasing demand for seamless wireless coverage inside buildings and other infrastructure. Mobile operators can also differentiate their services from their competitors by providing better inbuilding signal coverage. Revenue from outdoor coverage solutions recorded a modest growth of approximately 5.5% to HK$77.3 million in the period under review.

Sales of new products and solutions such as mounted power amplifiers, BTS antennas and WiFi solutions was HK$16.7 million accounted for approximately 3.7% of the Group's revenue in aggregate in the period under review. This broadened our product portfolio and enabled us to serve our customers better.

Geographically, revenue from coastal regions in the PRC amounted to HK$347.1 million, representing an increase of approximately 35.0% over the same period last year. This reflects that the demand for coverage solutions in these more prosperous areas remains very strong. Revenue from inland and western regions was HK$83.2 million, representing an increase of approximately 13.2% over the same period last year.

It is worth noting that we recorded more than triple the amount of international sales compared to the same period last year, reaching HK$16.1 million, such increase is mainly attributable to our quality and reliable products at competitive pricing, as well as our marketing efforts in various countries in Asia.

Margins Analysis

Gross profit margin was approximately 45.8% in the period under review compared to 47.0% in the corresponding period last year. Selling prices of our products and solutions are in general on a downward trend in this competitive environment. However, we were able to sustain the gross profit margin at the current level due to our ability to develop and introduce new models regularly to meet market needs and our ability to improve the product design and production technology to save costs. For instance, we have developed and introduced over 100 new models in repeaters, antennas, microwave and network management during the first half of 2004. In addition, we have stronger bargaining power with suppliers as a result of increased scale of operations. Moreover, the Group has made concerted efforts in exercising cost control. The above offset the pricing pressure of our products amid intense competition.

While we continued to strengthen our leadership position in the provinces where we already dominated, we succeeded in developing businesses with 6 provincial operators, making a total of 53 by June 2004. We need to allocate sufficient resources in our offices throughout China in order to enable us to provide quality, comprehensive and prompt services to our customers locally. Having established the market leader position in the PRC, we can then leverage our position to expand globally. As a result of increasing marketing efforts, we recorded more than tripled our revenue from international markets in the first half of 2004. In May 2004, we set up our second international sales office in Sweden which primarily focuses on the Europe, Middle East and Africa markets. The expansion of our services network in the PRC and globally contributed to the increase in the aggregate amount of selling and distribution costs and administrative expenses from HK$57,509,000 to HK$80,060,000, representing an increase of approximately 39.2%.

Profit attributable to shareholders for the six months ended 30 June 2004 was HK$118,271,000, which represents an approximately 36.3% increase from the corresponding period last year. Net profit margin was approximately 26.5% compared to approximately 26.0% in the same period last year.

PROSPECTS

The wireless telecommunications industry in the PRC has been experiencing steady growth. Number of mobile subscribers exceeded 300 million by the end of June 2004, representing a penetration rate of around 23%. It is expected that mobile population will continue to grow steadily in the foreseeable future. In addition to investing in core network equipment to provide greater network capacity, mobile operators also need to invest in wireless coverage in order to improve the quality of the network, thereby meeting the ever increasing need of the subscribers. Mobile operators in the PRC indicated recently that they will increase their capital expenditure in 2004 compared to 2003. Given the steady growth of the industry and our increasing market share in the wireless coverage market, we believe that we will be able to sustain the revenue growth achieved in the past years.

By the end of June 2004, we had 53 provincial level customers and out of which 6 were new customers in the period under review. This has broadened our geographical reach as well as our customer base and serve as a driver for future growth. The Group has been assisting mobile operators in network optimisation in the PRC which aims at expanding the network coverage as well as indoor coverage, increasing wireless data capacity and optimising network quality. Therefore, the Group's sales in relevant products and solutions have increased substantially and the Group believes that it will continue to benefit from this. It is generally expected that 3G mobile licences will be issued in the PRC in the foreseeable future. The Group has already allocated resources to actively develop components and products which are related to 3G mobile standards. We expect that such development will enable the Group's products to meet the needs of the 3G networks operators.

In the first half of 2004, we started to benefit from our efforts in developing new markets in Asia last year. We recorded more than triple the amount of international sales compared to the same period last year. With the global telecom recovery and projected high growth in the emerging markets, as well as the set up of our second international sales office in Sweden, we will be able to achieve a steady growth in international sales in the second half of 2004.

As a strategy to enlarge our product portfolio, we have expanded our existing coverage business into transmission sector by strategically entering into the digital microwave system market. We have developed certain models of digital microwave systems products. Production line has been installed and field trials are being conducted. We have also received some orders and mass production is expected to commence soon. We expect to generate revenue from this product line in the second half of 2004.

Looking ahead, the Group will continue to pursue the strategy of organic growth by establishing offices in the PRC, Asia and Europe. At the same time, we will also search for any opportunities which can bring synergy to our existing operations. We will remain to focus on our core competency in radio frequency technology. We will continue to invest in our research and development capabilities and to enlarge our production facilities to meet expected growth in demand for our products. Capital expenditure of the Group is expected to be funded by the net proceeds from its initial public offering last year and other means of financing. Finally, we will endeavour to maintain a solid and healthy financial position, consolidate our leading market position, and pursue our growth strategy, in order to maximise the shareholders' value.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations from cashflow generated internally and bank loans. As at 30 June 2004, the Group had net current assets of HK$839,571,000. Current assets comprised of inventories of HK$475,392,000, trade receivables of HK$486,578,000, prepayments, deposits and other receivables of HK$70,073,000, and cash and bank balances of HK$402,467,000. Current liabilities comprised of trade payables of HK$329,690,000, tax payables of HK$5,215,000, other payables and accruals of HK$106,477,000, current portion of finance lease payables of HK$184,000, short-term bank loans of HK$129,605,000, and provision for product warranties of HK$17,424,000.

The average debtors turnover for the six months ended 30 June 2004 was 165 days, compared to 140 days for the corresponding six months last year. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three to six months. The inventory turnover for the six months ended 30 June 2004 was 267 days compared to 183 days for the corresponding six months last year. The increase in inventory turnover days is mainly due to the increase in projects on hand. In addition, in order to cope with increasing demand from customers, we have nearly doubled our production capacity compared to the same period last year. Production output also showed huge growth in the period under review. We therefore need to have sufficient level of inventory to avoid any potential disruption in production.

As at 30 June 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$. The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, US$ and HK$. Since the exchange fluctuations amongst these currencies are low, the directors consider 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 approximately 8% as at 30 June 2004 (as at 30 June 2003: approximately 14.1%).

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

As at 30 June 2004, the Group had no significant contingent liabilities (30 June 2003: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the Group had approximately 2,700 staff. The total staff costs for the period under review was HK$61,270,000. The Group offers competitive remuneration schemes to its employees based on industry practices as well as the employee's and the Group's performance. In addition, share options and discretionary bonuses are also granted to eligible employees based on the performance of each such employee as well as the Group.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in July 2003, after deduction of related issuance expenses, amounted to approximately HK$396 million. These proceeds were partly applied during the period from July 2003 to 30 June 2004 in respect of the proposed applications set out in the Company's listing prospectus, as follows:

(i) approximately HK$37,000,000 was used for long term research and development, including 3G-enabled products;

(ii) approximately HK$12,700,000 was used for the expansion of product and service portfolio;

(iii) approximately HK$49,100,000 was used for the enlargement of production facilities;

(iv) approximately HK$18,000,000 was used for the expansion in sales network and market coverage; and

(v) the balance of HK$279,200,000 was placed with commercial banks for future use.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Thursday, 23 September 2004, during such period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents, accompanied by relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no late than 4:00 p.m. on Wednesday, 22 September 2004 for registration.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

None of the directors is aware of information that would reasonably indicated that the Company is not in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules during the six-month period ended 30 June 2004.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific equiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

The unaudited interim results of the Group for the six months ended 30 June 2004 have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

A copy of interim report containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) in due course.

By order of the Board
Fok Tung Ling
Chairman

Hong Kong, 8 September 2004

List of all directors of the Company as at the date of this announcement:

Executive directors:
Mr. Fok Tung Ling
Mr. Zhang Yue Jun
Mr. Chan Kai Leung , Clement
Mr. Wu Jiang Cheng
Mr. Yan Ji Ci
Mr. Zheng Guo Bao

Independent non-executive directors:
Mr. Yao Yan
Mr. Lau Siu Ki, Kevin
Mr. Liu Cai

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