FINANCIAL HIGHLIGHTS

- 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

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, deposits received, other payables and accruals of HK$112,821,000, 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 (31 December 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.

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 30 June 2004, the Group had trade receivables (the "Receivables") due from two of its customers namely, the China Mobile Group (comprising certain subsidiaries of China Mobile Communications Corporation) and the China Unicom Group (comprising certain subsidiaries of China United Telecommunications Corporation). The amounts of the Receivables were approximately RMB177,109,000 (the "CM Receivables") and RMB305,867,000 (the "CU Receivables") from the China Mobile Group and the China Unicom Group, respectively (equivalent to approximately HK$166,769,000 and HK$288,010,000 respectively). The CM Receivables and CU Receivables represented approximately 13% and 22% respectively of the total assets value of approximately HK$1,317,930,000 of the Group as set out in its latest published annual report for the year ended 31 December 2003 (the "Latest Published Accounts"). As each of the CM Receivables and the CU Receivables exceeds 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 Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Receivables comprising purely trade receivables are interest free, unsecured and with payment terms of 3 to 6 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 Receivables, if not yet settled, will become due for payment from September 2004 to June 2006. The Receivables arose from the sales of wireless telecommunications coverage system equipment and the provision of related consultancy, system design, testing, and installation and maintenance services by the Group to the China Mobile Group and the China Unicom Group.

Each of the China Mobile Group and the China Unicom Group is an independent third party and not a connected person of the Company (as defined in the Listing Rules).

Save for the above, as at 30 June 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.

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the interests and short positions of the directors and chief executive of the Company 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

Name of director	*Notes*	Capacity and nature of interest: Personal interest	Through controlled corporation	Beneficial owner	Total number of shares	Approximate percentage of the Company's issued share capital
Mr. Fok Tung Ling ("Mr. Fok")	(a)	490,000	454,868,000	—	455,358,000	54.86
Mr. Zhang Yue Jun ("Mr. Zhang")	(b)	—	117,000,000	—	117,000,000	14.1
Mr. Chan Kai Leung, Clement	(c)	—	—	2,000,000	2,000,000	0.24
Mr. Wu Jiang Cheng	(d)	—	—	2,000,000	2,000,000	0.24
Mr. Yan Ji Ci	(e)	—	—	2,000,000	2,000,000	0.24
Mr. Zheng Guo Bao		100,000	—	—	100,000	0.01

Notes:

(a) 391,868,000 shares and 63,000,000 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 a total of 454,868,000 shares owned, in aggregate, 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) Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Chan Kai Leung, Clement was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share options" of Note 12 to the condensed consolidated interim financial statements.

(d) Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Wu Jiang Cheng was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share options" of Note 12 to the condensed consolidated interim financial statements.

(e) Pursuant to the share option scheme of the Company adopted on 20 June 2003, Mr. Yan Ji Ci was granted an option to subscribe for a total of 2,000,000 shares by the Company on 15 July 2003, details of which are set out in the paragraph headed "Share options" of Note 12 to the condensed consolidated interim 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.

The interests of the directors in the share options of the Company are separately disclosed in Note 12 to the condensed consolidated interim financial statements.

Save as disclosed above, none of the directors and 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 Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in Note 12 to the condensed consolidated interim financial statements, at no time during the six months ended 30 June 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of the Company or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

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

As at 30 June 2004, the interests or short positions of every person, other than the directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares	Approximate percentage of the Company's issued share capital
Prime Choice		Beneficial owner	391,868,000	47.21
Total Master		Beneficial owner	63,000,000	7.59
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	455,358,000	54.86
Wise Logic		Beneficial owner	117,000,000	14.1
Mdm Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	117,000,000	14.1

Notes:

(a) Mdm. Chen is the wife of Mr. Fok and is deemed to be interested in the 455,358,000 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 of shares in the Company in respect of:

(i) 391,868,000 shares between Prime Choice and Mdm. Chen;

(ii) 63,000,000 shares between Total Master and Mdm. Chen; and

(iii) 117,000,000 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, no person, other than the directors and 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 recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicated that the Company was 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 to 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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company, namely Mr. Lau Siu Ki, Kevin, Mr. Yao Yan and Mr. Liu Cai. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2004.

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)
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

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		142,047	108,231
Intangible assets		3,932	3,918
Goodwill		19,669	22,186
		165,648	134,335
CURRENT ASSETS			
Inventories		475,392	235,401
Trade receivables	10	486,578	320,895
Prepayments, deposits and other receivables		70,073	40,288
Pledged deposits		102,000	115,456
Cash and bank balances		300,467	471,555
		1,434,510	1,183,595
CURRENT LIABILITIES			
Trade payables	11	329,690	150,435
Tax payable		5,215	13,100
Deposits received, other payables and accruals		112,821	138,432
Short-term bank loans		129,605	71,977
Current portion of finance lease payables		184	232
Provision for product warranties		17,424	11,664
		594,939	385,840
NET CURRENT ASSETS		839,571	797,755

	Notes	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,005,219	932,090
NON-CURRENT LIABILITIES			
Long-term portion of finance lease payables		270	344
MINORITY INTERESTS		9,675	13,243
		995,274	918,503
CAPITAL AND RESERVES			
Issued capital	12	83,000	83,000
Reserves		879,074	794,003
Proposed dividend		33,200	41,500
		995,274	918,503

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY-UNAUDITED

	Issued capital	Share premium account	Capital reserve	Land and building revaluation reserve	Statutory reserves *(Note (i))*	Exchange fluctuation reserve	Retained profits	Proposed dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	83,000	312,659	46,510	1,365	46,832	956	385,681	41,500	918,503
Net profit attributable to shareholders	—	—	—	—	—	—	118,271	—	118,271
Proposed dividend	—	—	—	—	—	—	(33,200)	33,200	—
Dividends paid	—	—	—	—	—	—	—	(41,500)	(41,500)
At 30 June 2004	83,000	312,659	46,510	1,365	46,832	956	470,752	33,200	995,274
At 1 January 2003	—	—	10	—	12,634	691	285,217	—	298,552
Capitalisation of directors' loan	—	—	46,500	—	—	—	—	—	46,500
Net profit attributable to shareholders	—	—	—	—	—	—	86,768	—	86,768
Dividends paid	—	—	—	—	—	—	(35,000)	—	(35,000)
Exchange realignments	—	—	—	—	—	63	—	—	63
At 30 June 2003	—	—	46,510	—	12,634	754	336,985	—	396,883

Note:

(i) Pursuant to the relevant regulations promulgated in the People's Republic of China (the "PRC"), the Company's subsidiaries established in the PRC are required to appropriate not less than 10% of the profit after tax to the statutory reserves, until the balance of the statutory reserves reaches 50% of the registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserves may be used to offset against the accumulated losses, if any, of these subsidiaries.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(157,616)**	(43,246)
Net cash outflow from investing activities	**(25,197)**	(21,615)
Net cash inflow from financing activities	**11,725**	10,625
DECREASE IN CASH AND CASH EQUIVALENTS	**(171,088)**	(54,236)
Cash and cash equivalents at beginning of period	**471,555**	115,202
Foreign exchange differences	**—**	63
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**300,467**	61,029
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**300,467**	61,029
Pledged deposits	**102,000**	—
	402,467	61,029

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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.

7. **Tax** (continued)

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 to declare an interim dividend of HK 4 cents per share, which will be payable on 7 October 2004, in respect of the six months ended 30 June 2004 to shareholders whose names appear on the register of members of the Company on 22 September 2004. (Six months ended 30 June 2003: Nil)

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 later than 4:00 p.m. on Wednesday, 22 September 2004 for registration.

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 ordinary shares (six months ended 30 June 2003: on the assumption that 600,000,000 ordinary shares were deemed to have been in issue, comprising 1,000 ordinary shares in issue as at the date of the Prospectus and 599,999,000 ordinary 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 were presented in 2003 as the Company did not have any dilutive potential ordinary shares during the period.

10. 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 a longer credit term of three to six months may be extended to customers with long term business relationships and good repayment history. The balances include retention money which is generally receivable after final verification of products by customers, performed six to twelve months after sale, or upon completion of the one to two-year warranty period granted to customers.

10. **Trade receivables** (continued)

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

	30 June 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
Within 3 months	287,565	193,703
4 to 6 months	46,266	48,260
7 to 12 months	87,705	48,506
More than 1 year	81,741	43,920
	503,277	334,389
Provision for doubtful debts	(16,699)	(13,494)
	486,578	320,895

11. **Trade payables**

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

	30 June 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
Within 3 months	291,332	127,561
4 to 6 months	28,013	6,487
7 to 12 months	6,458	4,276
More than 1 year	3,887	12,111
	329,690	150,435

12. Issued capital

	30 June 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	**500,000**	500,000
Issued fully paid or credited as fully paid:		
830,000,000 (30 June 2003: 1,000) ordinary shares of HK$0.10 each	**83,000**	83,000

A summary of the transactions during the period from 1 January 2003 to 30 June 2004 with reference to the above movements in the Company's issued ordinary 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
Exercise of Over-allotment Option on 21 July 2003	30,000,000	3,000	53,400	56,400
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the public shares issue	599,999,000	60,000	(60,000)	—
Share issue expenses	—	—	(36,741)	(36,741)
Issued share capital at 31 December 2003 and 30 June 2004	830,000,000	83,000	312,659	395,659

12. **Issued capital** (continued)

Share options

The Group adopted a Share Option Scheme (the "Scheme") on 20 June 2003 whereby certain selected classes of participants (including without limitation directors and employees of the Company and its affiliates) may be granted options to subscribe for the shares of the Company. The principal terms of the Scheme are summarised in the Prospectus.

On 15 July 2003, the Company granted options to certain directors and employees of the Company under the Scheme and details of these options are as follows:

Name or category of participant	Number of shares subject to the options granted	Lapsed during the period	At 30 June 2004	Date of grant of share options	Exercise period of share options	Exercise price of share 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
Mr. Wu Jiang Cheng	2,000,000	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
Mr. Yan Ji Ci	2,000,000	—	2,000,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
	6,000,000	—	6,000,000			
Other employees						
In aggregate	34,940,000	(1,000,000)	33,940,000	15 July 2003	15 July 2004 to 14 July 2008	2.25
	30,010,000	—	30,010,000	27 May 2004	27 May 2005 to 26 May 2009	3.925
	70,950,000	(1,000,000)	69,950,000			

As at 30 June 2004, the number of shares issuable under share options granted was 70,950,000, which represented approximately 8.55% of the Company's shares in issue as at that date. None of the options granted was exercised nor cancelled during the six months period ended 30 June 2004.

13. Operating lease arrangements

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.

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 2004 (Unaudited) ***HK$'000***	31 December 2003 (Audited) *HK$'000*
Within one year	**5,917**	9,241
In the second to fifth years, inclusive	**2,363**	3,509
	8,280	12,750

14. Commitments

The Group had the following capital commitments for the procurement of production facilities at the respective balance sheet dates:

	30 June 2004 (Unaudited) ***HK$'000***	31 December 2003 (Audited) *HK$'000*
Contracted, but not provided for	**5,501**	4,648

15. Contingent liabilities

As at the end of the period, the Group had no significant contingent liabilities (31 December 2003: Nil).

16. Subsequent events

No significant events took place subsequent to 30 June 2004.

17. Approval of the interim financial report

The condensed consolidated interim financial statements were approved by the board of directors on 8 September 2004.

By order of the Board
Fok Tung Ling
Chairman and Managing Director

Hong Kong, 8 September 2004