Comba

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 2012

RESULTS

The board of directors (the "Board" or the "Directors") of Comba Telecom Systems Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2012, together with the comparative figures for the same period in 2011. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June 2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
REVENUE	5	**2,591,529**	2,545,114
Cost of sales		**(1,872,225)**	(1,578,722)
Gross profit		**719,304**	966,392
Other income and gains	5	**23,840**	81,874
Research and development costs		**(200,602)**	(115,951)
Selling and distribution costs		**(249,578)**	(168,094)
Administrative expenses		**(425,723)**	(364,334)
Other expenses		**(2,699)**	(660)
Finance costs	7	**(16,468)**	(12,222)
(LOSS)/PROFIT BEFORE TAX	6	**(151,926)**	387,005
Income tax expense	8	**(15,129)**	(71,609)
(LOSS)/PROFIT FOR THE PERIOD		**(167,055)**	315,396
Attributable to			
Owners of the parent		**(160,960)**	317,224
Non-controlling interests		**(6,095)**	(1,828)
		(167,055)	315,396
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	10		
Basic		**(10.68)**	21.62
Diluted		**(10.68)**	20.99

Details of the dividends payable and proposed for the period are disclosed in note 9 to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(LOSS)/PROFIT FOR THE PERIOD	**(167,055)**	315,396
OTHER COMPREHENSIVE (LOSS)/INCOME		
Cash flow hedge		
Effective portion of changes in fair value of hedging instrument	**518**	1,180
Reclassification adjustments included in the consolidated income statement	**(170)**	573
Income tax effect	**(85)**	(290)
	263	1,463
Exchange differences on translation of foreign operations	**(67,460)**	83,449
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(67,197)**	84,912
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(234,252)**	400,308
Attributable to		
Owners of the parent	**(227,477)**	400,741
Non-controlling interests	**(6,775)**	(433)
	(234,252)	400,308

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**839,749**	828,546
Prepaid land lease payments		**30,840**	31,374
Goodwill		**28,571**	28,571
Long-term trade receivables	*12*	**110,940**	118,648
Deferred tax assets		**142,647**	136,309
Intangible assets		**30,114**	28,216
Restricted bank deposits		**5,112**	7,033
Total non-current assets		**1,187,973**	1,178,697
CURRENT ASSETS			
Inventories	*11*	**2,485,634**	2,421,044
Trade receivables	*12*	**4,445,968**	4,268,084
Notes receivable		**44,077**	68,472
Prepayments, deposits and other receivables		**705,738**	450,810
Restricted bank deposits		**21,263**	79,813
Cash and cash equivalents		**687,944**	1,114,412
Total current assets		**8,390,624**	8,402,635
CURRENT LIABILITIES			
Trade and bills payables	*13*	**2,919,117**	2,981,163
Other payables and accruals		**1,178,813**	1,186,559
Derivative financial instrument		**180**	698
Interest-bearing bank borrowings	*14*	**1,526,924**	719,272
Tax payable		**66,576**	119,001
Provisions for product warranties		**75,238**	69,232
Total current liabilities		**5,766,848**	5,075,925
NET CURRENT ASSETS		**2,623,776**	3,326,710
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,811,749**	4,505,407

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**—**	404,743
Deferred tax liabilities		**17,840**	17,840
Total non-current liabilities		**17,840**	422,583
Net assets		**3,793,909**	4,082,824
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**152,620**	152,620
Treasury shares		**(14,370)**	(9,661)
Reserves		**3,593,529**	3,764,271
Proposed dividends		**—**	106,834
		3,731,779	4,014,064
Non-controlling interests		**62,130**	68,760
Total equity		**3,793,909**	4,082,824

Notes

1. CORPORATE INFORMATION

Comba Telecom Systems Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The head office and principal place of business of the Company is located at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

During the current period for the six months ended 30 June 2012, the Company and its subsidiaries (collectively referred to as the "Group") principally engaged in the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the above new standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the research, development, 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 operating segment.

Information about major customers

For the six months ended 30 June 2012, revenue from continuing operations of approximately HK$1,349,911,000 (six months ended 30 June 2011: HK$1,450,406,000) and HK$572,908,000 (six months ended 30 June 2011: HK$528,900,000) were derived from two customers, which accounted for 52.1% (six months ended 30 June 2011: 57.0%) and 22.1% (six months ended 30 June 2011: 20.8%) of the total revenue of the Group respectively.

5. REVENUE, OTHER INCOME AND GAINS

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, other income and gains is as follows:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**2,495,824**	2,469,984
Warranty services	**95,705**	75,130
	2,591,529	2,545,114
Other income and gains		
Bank interest income	**4,635**	1,123
Government subsidy	**12,580**	3,552
Exchange gains, net	**—**	24,201
Gain on bargain purchase	**—**	48,426
Others	**6,625**	4,572
	23,840	81,874

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**1,833,484**	1,542,551
Depreciation	**57,854**	42,077
Recognition of prepaid land lease payments	**382**	186
Amortisation of intangible assets	**2,604**	1,159
Minimum lease payments under operating leases in respect of land and buildings	**53,301**	41,596
Employee benefits expense (including directors' emoluments):		
Salaries and wages	**459,383**	315,614
Staff welfare expenses	**40,793**	31,605
Equity-settled share option expenses	**23,001**	11,595
Awarded share expenses	**33,869**	87,375
Pension scheme contributions#	**43,150**	27,958
	600,196	474,147
Exchange loss/(gain), net	**23,502**	(24,201)
Provision for product warranties	**21,607**	20,259
Loss on disposal of items of property, plant and equipment	**—**	452

\# *At 30 June 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2011: Nil).*

7. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**16,468**	12,222

8. INCOME TAX

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current period provision:		
Mainland China	**20,938**	46,261
Overseas	**2,085**	1,489
Deferred tax	**(7,894)**	23,859
Total tax charge for the period	**15,129**	71,609

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%.

Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), being the manufacturing foreign invested enterprise located in Guangzhou, the PRC, is eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. In addition, Comba Technology was designated as a High-New Technology Enterprise by Guangdong Science and Technology Department on 16 December 2008. The qualification of Comba Technology being designated as a High-New Technology Enterprise was renewed on 23 August 2011. Being High-New Technology Enterprise, Comba Technology is entitled to the preferential tax rate of 15% for the year of 2012.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Systems (China) Limited ("Comba China"), another subsidiary of the Company established in the PRC, was entitled to an exemption from PRC corporate income tax for the two years commencing from 1 January 2008 to 31 December 2009 and thereafter was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2010 to 31 December 2012. Moreover, as Comba China is located in the Guangzhou Economic and Technology Development Zone, it is entitled to transitional income tax rates from 2008 to 2012. Therefore, the applicable income tax rates for Comba China in 2008, 2009, 2010, 2011 and 2012 are 0%, 0%, 11%, 12% and 12.5%, respectively.

9. DIVIDEND

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed Interim — Nil (2011: HK5 cents) per ordinary share	**—**	75,303

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2012.

10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic and diluted (loss)/earnings per share is based on:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit for the period attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculation	**(160,960)**	317,224

	Number of shares For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	**1,506,585,000**	1,467,565,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	34,307,000
Awarded shares	**—**	9,422,000
	1,506,585,000	1,511,294,000

The computation of diluted loss per share for the six months ended 30 June 2012 does not assume the conversion of the Company's outstanding share options as the exercise price is higher than the Company's share price. The effects of awarded shares have also been excluded from the computation of diluted loss per share for the six months ended 30 June 2012 as their effects would be anti-dilutive.

11. INVENTORIES

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Raw materials	**214,889**	210,640
Project materials	**148,907**	149,682
Work in progress	**213,320**	229,129
Finished goods	**480,556**	484,349
Inventories on site	**1,427,962**	1,347,244
	2,485,634	2,421,044

12. TRADE RECEIVABLES AND LONG-TERM 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 the customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are 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 years warranty periods 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 end of reporting period, based on the invoice date, is as follows:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
	HK$'000	*HK$'000*
Within 3 months	**1,707,305**	2,334,378
4 to 6 months	**294,634**	424,407
7 to 12 months	**1,534,617**	728,759
More than 1 year	**1,037,633**	916,644
	4,574,189	4,404,188
Provision for impairment	**(17,281)**	(17,456)
	4,556,908	4,386,732
Current portion	**(4,445,968)**	(4,268,084)
Long term portion	**110,940**	118,648

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
	HK$'000	*HK$'000*
Neither past due nor impaired	**4,117,921**	4,133,158
Less than 1 year past due	**265,726**	109,822
	4,383,647	4,242,980

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

13. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of reporting period, based on the invoice date, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within 3 months	**1,615,136**	1,811,429
4 to 6 months	**399,112**	614,598
7 to 12 months	**725,042**	415,022
More than 1 year	**179,827**	140,114
	2,919,117	2,981,163

The trade payables are non interest-bearing and are mainly settled for a period of three months and are extendable up to two years.

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Analysed into:		
Within 1 year	**1,526,924**	719,272
In the second year	**—**	404,743
	1,526,924	1,124,015

All the bank loans at 30 June 2012 and 31 December 2011 were unsecured. Loans denominated in Hong Kong dollars amounted to HK$764,591,000 (31 December 2011: HK$314,530,000) and loans denominated in United States dollars amounted to HK$762,333,000 (31 December 2011: HK$809,485,000).

In addition to the short-term interest-bearing facilities, the Group had entered into two three-year term loan facility agreements (the "Facility Agreements"), amounted to US$130,000,000 and US$210,000,000 on 5 July 2010 and 26 June 2012 respectively, with certain financial institutions (the "Lenders").

Under the Facility Agreements, there are specific performance obligations that Mr. Fok Tung Ling who is the controlling shareholder of the Company and Mr. Zhang Yue Jun who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the facility agreement dated 26 June 2012, both Mr. Fok Tung Ling and Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group.

As at 30 June 2012, the Group had fully utilized the facility of US$130,000,000 (equivalent to HK$1,009,593,000) in aggregate and had repaid a total amount of US$52,000,000 (equivalent to HK$403,359,000). As at 30 June 2012, the Group had not utilized the facility of US$210,000,000 (equivalent to HK$1,630,881,000).

The Company and three of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited and Comba Telecom Limited, were parties to the Facility Agreements, who act as guarantors, to guarantee punctual performance of the obligations under the Facility Agreements which, inter alia, include the satisfaction of the financial covenants under the Facility Agreements.

For the relevant period ended 30 June 2012, two of the financial covenants under the Facility Agreements were not satisfied. According to the relevant accounting standard, the long term portion of the loans under the Facility Agreements, which amounted to HK$202,371,000, are classified as current liability as at 30 June 2012.

Prior to the date of this announcement, the Group has applied and the Lenders of the Facility Agreements have granted to the Group waivers from strict compliance with the said financial covenants. All other terms of the Facility Agreements will continue in full force and effect.

15. COMPARATIVE AMOUNTS

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

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

During the first half of 2012, the global economic environment remained challenging characterized by increasing nervousness among the market about the exacerbating EURO zone sovereign debt crisis, the faltering economic recovery of the U.S., and the slowdown of economic growth in the PRC.

Although the momentum of mobile subscribers and data traffic increases continued, the Group recorded only a slight increase of its revenue for the six months ended 30 June 2012 (the "Current Period") as a result of the delay of some capital spending by mobile operators.

Revenue

The Group's revenue for the Current Period was HK$2,591,529,000 (2011: HK$2,545,114,000), representing a slight increase of 1.8% over the revenue for the six months ended 30 June 2011 (the "Prior Period"). The flattish growth was mainly attributable to the postponement of certain investment activities and inspection process by the PRC mobile operators, and thus some of the Group's projects revenue were not recognized in the Current Period and resulted in a decline in the Group's revenue of some major products as compared to the Prior Period.

On the other hand, as a result of the continuous efforts in overseas expansion despite global economic uncertainties, sales from the international markets (including core equipment manufacturers) increased moderately by 23.8% to HK$432,983,000 (2011: HK$349,648,000) as compared to the Prior Period and accounted for 16.7% of the Group's total revenue.

During the first half of 2012, sales from 3G mobile network projects reported a 48.7% increase year-on-year to HK$991,153,000 and accounted for 38.2% of the Group's revenue, resulting from an increasing demand for 3G network deployment and optimization as a consequence of the rising number of 3G subscribers and the data usage.

By customers

Revenue generated from the China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") declined by 6.9% to HK$1,349,911,000 (2011: HK$1,450,406,000) and accounted for 52.1% of the Group's revenue in the Current Period compared to 57.0% in the Prior Period.

During the Current Period, revenue generated from the China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased mildly by 8.3% to HK$572,908,000 (2011: HK$528,900,000) and accounted for 22.1% of the Group's revenue in the Current Period compared to 20.8% in the Prior Period.

Revenue generated from the China Telecommunications Corporation and its subsidiaries ("China Telecom Group") increased moderately by 24.8% to HK$198,583,000 (2011: HK$159,101,000) and accounted for 7.7% of the Group's revenue in the Current Period compared to 6.3% in the Prior Period.

During the Current Period, revenue generated from international customers and core equipment manufacturers increased moderately by 23.8% to HK$432,983,000 (2011: HK$349,648,000) and accounted for 16.7% of the Group's revenue in the Current Period compared to 13.7% in the Prior Period. The increase in revenue was primarily due to the network deployment in the international market and the continuous demand for total solutions for network upgrade in some emerging markets and further successful diversification of Group's international customer portfolios.

By businesses

Revenue generated from wireless access and transmission business in the Current Period increased significantly by 72.0% to HK$355,640,000 (2011: HK$206,775,000) and accounted for 13.7% of the Group's revenue in the Current Period. This business segment includes mainly Indoor Broadband Wireless Access Systems ("IB-WAS"), WLAN products, digital microwave systems ("DMS") and the satellite emergency communication systems. During the Current Period, as a result of continuous increasing expenditure by the PRC mobile operators for WLAN build-out to offload the heavy data traffic of 2G and 3G networks, WLAN recorded a good sales performance. However, the recently launched IB-WAS products have not achieved the sales scalability. The management expects IB-WAS will play a more important role in the second half and will gradually provide a meaningful contribution to the Group. In respect to DMS and satellite emergency communication systems, both product lines accounted for a relatively small portion of the Group's revenue during the Current Period.

Revenue generated from wireless enhancement business in the Current Period decreased by 20.5% to HK$699,227,000 (2011: HK$879,429,000) and accounted for 27.0% of the Group's revenue in the Current Period. The decline in revenue was mainly due to the postponement of certain investment activities and inspection process conducted by the PRC mobile operators, and some of the Group's projects revenue was not recognized in the Current Period. In addition, although some new products, such as multi-business distributed antennas systems ("MDAS") displayed satisfactory sales performance, there was a keen competition of the traditional enhancement products which largely affected the overall performance of this business segment.

Revenue generated from the antennas and subsystems business in the Current Period increased slightly by 6.6% to HK$869,990,000 (2011: HK$816,493,000) and accounted for 33.6% of the Group's revenue in the Current Period. The increase in revenue was mainly due to a continuous increase in the demand for base station antennas by the mobile operators for replacement and extension of network coverage.

Revenue from services, including installation, network optimization, network upgrade, and after-sales maintenance services, increased slightly by 3.8% to HK$666,672,000 (2011: HK$642,417,000) and accounted for 25.7% of the Group's revenue in the Current Period compared to 25.2% in the Prior Period. Despite the impact by the postponement of certain investment activities and inspection process conducted by the PRC mobile operators in the first half, and some projects have been postponed to kick-off until the second half, the Group managed to achieve a flattish growth. The management expects services revenue will have better performance in the second half as more project tenders are expected to be announced due to the seasonality reason.

Gross profit

To alleviate the continued pricing pressure on the traditional product categories, the Group has been striving to optimize the product mix by launching new products and solutions into the markets, as well as to offer more services to the customers. Nevertheless, during the Current Period, the gross profit decreased by 25.6% to HK$719,304,000 (2011: HK$966,392,000) as compared with the Prior Period. Meanwhile, the Group's gross profit margin decreased by 10.2% points to 27.8% in the Current Period, compared to 38.0% in the Prior Period, resulting from the structural change of the product demand and the increase in the cost of sales caused by the inflation, the unrealized sales scalability of new products and new businesses, and the increasingly fierce competition. For the year ended 31 December 2011, the gross profit margin was 36.6%.

To improve the gross margin, the Group will 1) continue to adopt stringent cost control initiatives including optimizing the product design through advanced research and development ("R&D") technology, streamlining the manufacturing process, improving the logistics management, and optimizing the internal organization and functions of the Group. 2) Moreover, the Group will continue to expand its market coverage and broaden its revenue sources to achieve economies of scale. The Group also provides installation, network optimization, network enhancement and after-sales maintenance services to customers in order to achieve higher product sales. 3) Meanwhile, the Group will continue to focus on developing advanced and high value-added products for customers.

Research and development costs

The Group has always attached great importance to R&D and is strongly committed to product innovation which enables the Group to stay at the forefront of the telecommunications industry riding on its strong R&D capability. During the Current Period, R&D costs increased by 73.0% to HK$200,602,000, representing 7.7% of the Group's revenue (2011: HK$115,951,000, representing 4.6% of the Group's revenue). The increase in R&D costs was mainly attributable to continuous investment in the development and expansion of product portfolio for IB-WAS and 2G, 3G, WLAN and LTE mobile networks in both domestic and overseas markets.

With its continuous investment in R&D, the Group achieved significant accomplishments in creating solutions with intellectual property rights and has applied for approximately 1,100 patents (As at 31 December 2011: more than 940 patents) as at the end of the Current Period.

Selling and distribution costs

During the Current period, selling and distribution costs increased by 48.5% to HK$249,578,000, representing 9.6% of the Group's revenue (2011: HK$168,094,000, representing 6.6% of the Group's revenue). The increase in selling and distribution costs was mainly due to the increases in sales staff salaries and global expansion of the sales and service networks for the Group.

Administrative expenses

During the Current Period, administrative expenses increased by 16.8% to HK$425,723,000 representing 16.4% of the Group's revenue (2011: HK$364,334,000, representing 14.3% of the Group's revenue). The increase in administrative expenses was mainly due to the increase in administration staff salaries and office expenses as a result of the enlarged support teams for the global operations.

Awarded shares expenses

On 12 April 2011, the Board resolved to award 26,000,000 awarded shares to 365 selected persons under the share award scheme adopted on 25 March 2011, by way of issue and allotment of new shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. These awarded shares will be held in trust for the selected persons by the trustee appointed by the Company until the end of each vesting period. For these awarded shares, there were four vesting dates, which are 12 July 2011, 12 April 2012, 12 April 2013, and 12 April 2014. Upon each vesting date, those awarded shares will be transferred at no cost to the selected persons.

The fair value of the 26,000,000 awarded shares was approximately HK$226 million, measured at the closing market price of HK$9.32 per share at the date of grant and amortized over each of the vesting period up to 12 April 2014. During the Current Period, the awarded shares expenses amounted to approximately HK$34 million. For the second half of 2012, the full years of 2013 and 2014, the awarded shares expenses are estimated at approximately HK$20 million, HK$23 million and HK$4 million, respectively.

Finance costs

During the Current Period, finance costs rose 34.7% to HK$16,468,000, representing 0.6% (2011: HK$12,222,000, representing 0.5% of the Group's revenue) of the Group's revenue. The rise in finance costs was mainly due to the increase in bank borrowing as a consequence of more business activities.

The management has always been prudent on managing the credit risk and improving the cash flow in order to lower the bank borrowing level. To cope with the growth of the business, the management has closely monitored the latest developments of the financing market and arranged the most appropriate financing for the Group. In June 2012, the Group signed a US$210 million (approximately HK$1.63 billion) three-year term loan facility (the "Facility") with five financial institutions including Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking

Corporation Limited, Svenska Handelsbanken AB (publ), Hong Kong Branch, Hang Seng Bank Limited and Standard Chartered Bank (Hong Kong) Limited. The Facility served to further optimize the Group's capital structure and fuel the continued business development.

In addition, the management also utilized the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize the finance costs. As of 30 June 2012, the gross gearing ratio, defined as total interest-bearing borrowings divided by total assets, of the Group stood at a manageable level of 15.9% compared to 16.5% as of 30 June 2011. The gross gearing ratio of the Group was 11.7% as of 31 December 2011.

Operating loss

During the Current Period, the operating loss was HK$135,458,000 (2011: operating profit of HK$399,227,000). During the Current Period, as a consequence of 1) the postponement of certain investment activities and inspection process conducted by the PRC telecommunications operators, some of the Group's projects revenue were not recognized in the Current Period and that resulted in a decline in the Group's revenue of some major products as compared to the Prior Period, 2) the decrease in the Group's overall gross profit margin due to the structural change of the product demand and the increase in the cost of sales caused by the inflation, the unrealized sales scalability of new products and new businesses, and the increasingly fierce competition, 3) the continuous investment in the development and expansion of product offerings as well as global expansion of sales and service networks of the Group resulted in the surge in operating costs.

Tax

During the Current Period, the overall taxation charge of HK$15,129,000 (2011: HK$71,609,000) was composed of profits tax charge of HK$23,023,000 (2011: HK$47,750,000) and deferred tax credit of HK$7,894,000 (2011: deferred tax charge of HK$23,859,000). The decrease in overall taxation charge was mainly due to the net loss recorded during the Current Period.

Net Loss

During the Current Period, loss attributable to shareholders ("Net Loss") was HK$160,960,000 (2011: net profit of HK$317,224,000). The record of Net Loss was mainly due to 1) the decrease in the Group's overall gross profit margin, and 2) the increase in the operating expenses during the Current Period.

Dividend

To better maintain the flexibility of financial position of the Group in view of the uncertain economic situation, the Board does not recommend any interim dividend (2011: HK5 cents per share).

PROSPECTS

It is expected that the global economic environment will remain gloomy in the near future. The downside risks in the external environment loom large in view of the lingering EURO zone sovereign debt crisis and sluggish recovery of the advanced economies. These developments will continue to weigh on the economies of Asia and other emerging economies. Therefore, the global telecommunications industry may also encounter a bumpy road in light of the mounting challenges of the macro-economic environment.

On the domestic front, the PRC's economy is expected to experience a decelerating growth continuously in the second half of 2012. Nevertheless, the PRC's economy, in the long run, is expected to stay firm underpinned by the strong determination of the Central Government to shift the growth in its economy to be more self-sustaining and driven by domestic consumption. As the mobile network is a core telecommunications infrastructure in the PRC, the Central Government has always attached great importance in promoting the advance of telecommunications technologies. Despite facing the uncertainties in the short term, the demand for telecom products and services, as well as the mobile operator CAPEX should persist in order to promote a healthy growth.

On the international front, despite the nervousness surrounding the global economy, mobile operator CAPEX has tightened somewhat, but overall remains healthy. However, it must be noted that this spending is even more discerning towards cost-effective, innovative solutions that also addresses OPEX concerns in their projects. This includes the ongoing 2G enhancement projects and 3G networks rollouts which continue in certain parts of the world in addition to the rapid pace of LTE network trials and commercialization.

Driven by the growing popularity of smartphones and mobile internet in the world, the mobile subscribers have delivered a strong demand for broadband wireless telecommunications, contributing the expedited development of the new generation of mobile communications teleology, LTE. The Group has supplied products for trial in a number of cities in the PRC and has also deployed LTE-compatible products within certain markets in Asia Pacific, Americas and Middle East. We expected that the demand from these markets will escalate in the future.

Overall, the Group is optimistic on the continuing development of the international segment in the second half of the year.

As such, the management holds a cautious view towards its near term prospects, and remains confident about the long-term growth of the Group. The management will adjust the mid to short-term strategies in a timely fashion to capture available opportunities in such a changeable environment.

On the market expansion front, the Group will stay focused on the PRC market along with expansion of its footprint within potential high growth markets while at the same time deepening the business relationship with existing customers.

Technologically speaking, the Group believes that synergistic development of multiple networks (2G/3G/4G/WLAN) is the future trend, hence also the guideline for product innovation. The Group expects the revenue from 2G will remain solid, business from 3G and WLAN to gain more traction, and the contribution from 4G, both TD-LTE and FD-LTE, is expected to be more noteworthy in the year after next.

Wireless Access

The Group has made considerable investment in developing the IB-WAS system which is a typical small cell structure, extending the development of 2G, 3G, WLAN and LTE technologies. The remarkable values of the IB-WAS system include increasing the network capacity, extending the network coverage, enhancing the data traffic of hotspots and lowering the cost of quick network build-outs. As such, the IB-WAS system is gaining more importance in the industry and being deployed for commercial network build-outs. The Group strongly believes those products (including Nanocell) will become the mainstream product in the wireless communications as well as a key growth driver of the Group in the future.

As one of the first batch of entrants in the PRC for the small cell segment, the management expects the Group to establish a leading position in this market. To date, considerable progress has been made. 1) The Group has further extended its IB-WAS portfolio. In addition to the newly-launched IB-WAS for TD-SCDMA and GSM networks, the Group's IB-WAS for WCDMA network is also ready to be introduced in the second half of this year. 2) IB-WAS trials are scaling up and its first commercialized network in a major province in the PRC will be officially launched in September this year. This trend will continue to gain momentum in light of the growing maturity of the technology, increasing acceptance by customers, and urgent need for cost-effective devices to help offload the booming data traffic. 3) Orders have already been placed by customers and a small contribution from IB-WAS is expected to be made in the second half of this year. The management expects IB-WAS will come fully on stream starting from next year in view of current development pace.

WLAN (Wi-Fi) is an increasingly important supplement to mobile networks in the heavy-traffic areas because of its relatively low cost of deployment in offloading data traffic from the network. Another important factor is that people are looking for networks with ubiquitous coverage and convenient access to the internet for daily life and business activities. Increasingly, mobile devices are Wi-Fi enabled, and WLAN has become a strategic imperative for mobile operators to retain customers as well as to generate a new revenue stream. Thus WLAN is expected to continue to display a steady growth.

Although both IB-WAS and WLAN can help offload data traffic, they are expected to evolve in parallel directions rather than compete with each other. Each offers its own advantages and cannot be substituted for the other. IB-WAS can be deployed to improve macro network coverage (voice and data), whereas WLAN can be deployed as a pure data offloading option.

Looking ahead, the management believes that wireless access solutions will unleash its huge market potential in the small cell market.

Wireless Enhancement

The total number of mobile subscriptions globally was estimated to be more than 6.2 billion at the end of the first quarter 2012, with 1.1 billion mobile broadband (CDMA2000 EV-DO, HSPA, LTE, Mobile WiMAX and TD-SCDMA) users. In the PRC, total 3G subscription exceeded 170 million at the end of the Current Period, of which the number of 3G net additions has increased by more than 48 million since the beginning of the year. The growth of smartphones and hence data traffic increased manifold in just a few years. The result is smartphones and mobile broadband access have already become commonplace. Providing an excellent network with great coverage and data speed is essential to satisfy users and stand out among the competition.

Globally, the increase in spending by mobile operators and enterprises on in-building wireless systems ("IBS") continues and industry analysts expect this segment to maintain its growth in the long term. In particular, the medium and large venues are deploying active distributed antenna systems ("DAS"), of which wireless enhancement products play a key role. As such, this trend is presenting opportunities for the Group's products on the international stage.

On the other hand, in the near future, the management expects more acute competition in the wireless enhancement market which will pose certain risks to the Group's margins in the mid-end market. In the face of these challenges, the Group has been adjusting its short term strategy in order to maintain its current share and leading position in the market. Despite a short-term setback, the Group will stay the course with its long term strategy to drive the growth through innovative technology which the management believes is a core competitive advantage and differentiates itself from its peers.

Antennas & Subsystems

The growth of antennas & subsystems last year was attributable to the increase in demand by mobile operators to improve the network performance. The growth is expected to slow down this year as the demand becomes more rationalized. However, the commercialization of LTE at a later stage in the PRC may also give new impetus to the demand for antennas & subsystems.

The continuing extension of 2G networks and rollout of 3G and 4G networks in the various international markets will continue to present opportunities since base station antennas and subsystems are essential components of any network rollout. In particular, developing markets in the Middle East, South America and South East Asia will be sources of demand.

Generally, mobile operators are facing challenges with existing cell sites becoming overburdened as it services multiple systems. It is not uncommon to see multiple base station antennas on a single site supplying 2G, 3G services and even multiple operators. As such, multi-band antennas and co-siting solutions are gaining traction in the market.

In the long run, antennas & subsystems are expected to provide a stable revenue contribution to the Group in the foreseeable future given the evolution of new mobile networks as well as the continuous product replacement cycle. The Group will strive to maintain its leading market presence leveraging its comprehensive product portfolio bundled with its unmatched end-to-end solutions and services.

Wireless Transmission

DMS is an attractive alternative wireline based backhaul solution in view of the growth of data demand on networks. The Group will exert greater efforts to market DMS products and provide more end-to-end DMS solutions to customers in the future. Good progress has been made in several southeast Asian countries, and the Group will deepen the relationship with its existing customers while further exploring new business opportunities with prospective customers to strengthen the Group's foothold in the respective market.

On the other hand, with the forthcoming deployment of LTE and all-IP networks, the management expects the demand for DMS will grow. To capture the potential opportunities, the Group will continue to develop new products and solutions and strive to improve performance in the second half of this year.

On the satellite emergency communication system front, the PRC's Central Government has placed an emphasis on developing emergency communications in recent years in view of more natural disasters and large scale events as well as international conferences and exhibitions. It is crucial to ensure reliable emergency communications when disasters strike. The Group's satellite emergency communications systems have been successfully deployed by local governments and authorities during the emergency drills with positive feedback received. The new product lines will bring more cross-selling opportunities and new technologies to the Group, promoting the new products and market development.

Moving forward, the Group will devote more efforts to explore the exciting market potential in both DMS and satellite emergency communication systems, and anticipates an increasing contribution from the wireless transmission business.

Services

The management expects that the contribution from services will stay firm given mobile operators' unabated focus on end-user satisfaction and operational efficiency. In coping with the increased demand for high-quality in both services and the user experience, the Group has committed to providing all-around services including network design, consulting, assessment, network optimization, network modification and upgrade, system installation and maintenance services to the customers.

The increasing sophistication of mobile networks always poses new challenges to the management of mobile operators to deliver a better user experience which brings more opportunities to the Group. The professionalism and the wealth of experience that the Group has accumulated over the years have enabled it to succeed beyond all expectations, and it is now a trusted and reliable partner of mobile operators not only in the PRC but around the world.

Conclusion

The Group is experiencing a trough in its business under the twin pressures of global economic uncertainty and an industry slowdown. In the longer term, it is expected that the industry will prosper again as mobile telecommunication devices increasingly become an indispensible part of peoples' daily lives, and premium network quality is critical for these devices to display their value in fulfilling the communication needs of people nowadays. The management strongly believes that the Group's fundamentals remain intact and that the Group remains on the right track in its revolution of innovative product development. The Group is able to brave the buffeting of the winds and waves to achieve better results in good or bad times alike.

During this challenging period, the management will exert greater efforts to adopt cost and budget controls. The management has also taken various downsizing measures in order to control the costs and increase the profitability. With the successful downsizing measures, the Group is expected to turnaround in the second half of this year. At the same time, the Group will strictly adhere and implement KPIs set for different aspects of its business from sales growth, profitability ratios, liquidity ratios, cost of capital, inventory turnover, receivables turnover, cash conversion cycle, staff bonus scheme etc.

Technology is constantly advancing and the key to success to drive the business forward is to innovate and create new needs of customers. Despite stringent controls on costs and budgets, the Group is continuing to invest in R&D to sharpen its competitive edge.

Last but not least, the Board of Directors would like to extend its heartfelt thanks to all staff for their dedicated effort and contributions to the Group in both good and bad times and greatly appreciates the continuous support of the customers, suppliers, shareholders, and business associates. Needless to say, the Group will strive its utmost to reward all stakeholders with remarkable results and maximum returns.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cashflow generated internally and bank borrowings. As at 30 June 2012, the Group had net current assets of HK$2,623,776,000. Current assets comprised inventories of HK$2,485,634,000, trade receivables of HK$4,445,968,000, notes receivable of HK$44,077,000, prepayments, deposits and other receivables of HK$705,738,000, restricted bank deposits of HK$21,263,000 and cash and cash equivalents of HK$687,944,000. Current liabilities comprised trade and bills payables of HK$2,919,117,000, other payables and accruals of HK$1,178,813,000, derivative financial instrument of HK$180,000, interest-bearing bank borrowings of HK$1,526,924,000, tax payable of HK$66,576,000 and provisions for product warranties of HK$75,238,000.

The average receivable turnover for the Current Period was 315 days compared to 259 days for the Prior Period. 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 the customer's credit worthiness, except for those retention money 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 years warranty periods granted to customers. The average payable turnover for the Current Period was 288 days compared to 266 days for the Prior Period. The average inventory turnover for the Current Period was 239 days compared to 229 days for the Prior Period.

As at 30 June 2012, 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 US$ and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into two three-year term loan facility agreements (the "Facility Agreements"), amounted to US$130,000,000 and US$210,000,000 on 5 July 2010 and 26 June 2012 respectively, with certain financial institutions (the "Lenders").

Under the Facility Agreements, there are specific performance obligations that Mr. Fok Tung Ling who is the controlling shareholder of the Company and Mr. Zhang Yue Jun who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the facility agreement dated 26 June 2012, both Mr. Fok Tung Ling and Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group.

Details of the Facility Agreements are set out in note 14 to the condensed consolidated interim financial statements.

As at 30 June 2012, the Group held an interest rate swap contract designated as hedges in respect of expected interest payments for the above-mentioned US$ floating rate loan under the facility agreement dated 5 July 2010.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. As the Group's revenue is substantially denominated in RMB, the Board currently considers that the appreciation of RMB should have a mildly favorable impact on the Group's business.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 15.9% as at 30 June 2012 (31 December 2011: 11.7%).

MATERIAL ACQUISITIONS AND DISPOSALS

The Group has not conducted any material acquisitions and disposals of subsidiaries and associated companies during the Current Period.

CHARGE ON ASSETS

As at 30 June 2012, there was no charge on the Group's assets (31 December 2011: Nil).

CONTINGENT LIABILITIES

As at 30 June 2012, the Group had contingent liabilities of HK$29,576,000 (31 December 2011: HK$93,776,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group had approximately 11,200 staff. The total staff costs for the Current Period were HK$600,196,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible staff based on the performance of such employees as well as the Group. Mandatory provident fund, or staff pension schemes are also provided to relevant staff in Hong Kong, the PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 22 May 2012, the Board of the Company resolved to budget a sum of up to HK$35,000,000 (the "Budgeted Sum") for the purchase of shares of the Company from the market under the share award scheme which adopted on 25 March 2011 (the "Scheme"). The trustee and/or the administrator of the Scheme (the "Trustee/Administrator") applied approximately HK$5,000,000 out of the Budgeted Sum to purchase an aggregate of 1,402,000 shares at the prevailing market price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the period from 22 May 2012 to 7 June 2012 in accordance with the terms of the Scheme. Save as disclosed herein, neither the Company, nor any of its subsidiaries purchased, redeemed or sold on the Stock Exchange or otherwise any of the Company's listed securities during the Current Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Current Period, the Board reviewed daily governance of the Group in accordance with the code provisions (the "Code Provisions") of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, from 1 January 2012 to the date of this interim results announcement, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has fully complied with the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its Directors. Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with the required standard as set out in the Model Code during the Current Period.

AUDIT COMMITTEE

The Company has established the audit committee in accordance with the Listing Rules. The audit committee, together with the management, has reviewed the accounting principles, standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited accounts for the Current Period. The audit committee has given its consent to the accounting principles, standards and methods adopted by the Company for the unaudited condensed consolidated interim financial statements for the Current Period.

PUBLICATION OF INTERIM REPORT

A copy of interim report containing all information required by relevant paragraphs of Appendix 16 to the Listing Rules will be despatched to shareholders and published on the official website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company's website (http://www.comba-telecom.com) in due course.

By order of the Board of
Comba Telecom Systems Holdings Limited
Fok Tung Ling
Chairman

Hong Kong, 22 August 2012

As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Mr. TONG Chak Wai, Wilson, Mr. WU Jiang Cheng, Mr. YAN Ji Ci, Mr. ZHENG Guo Bao, Mr. YEUNG Pui Sang, Simon and Mr. ZHANG Yuan Jian; and the following independent non-executive Directors: Mr. LIU Cai, Mr. LAU Siu Ki, Kevin, Mr. LIN Jin Tong and Mr. QIAN Ting Shuo.