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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling (*Chairman*)

Zhang Yue Jun

(*Vice Chairman and President*)

Chang Fei Fu

(appointed on 23 February 2018)

Zhang Yuan Jian

Bu Binlong

(appointed on 12 April 2018)

Wu Tielong

(appointed on 12 April 2018)

Xu Huijun

(appointed on 23 August 2018)

Zheng Guo Bao

(resigned on 23 March 2018)

Yeung Pui Sang, Simon

(resigned on 24 May 2018)

Independent Non-Executive Directors

Lau Siu Ki, Kevin

Lin Jin Tong

Qian Ting Shuo

COMPANY SECRETARY

Chan Siu Man

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin (*Chairman*)

Lin Jin Tong

Qian Ting Shuo

NOMINATION COMMITTEE

Lin Jin Tong (*Chairman*)

Lau Siu Ki, Kevin

Qian Ting Shuo

AUTHORIZED REPRESENTATIVES

Fok Tung Ling

Chang Fei Fu

(appointed on 23 February 2018)

Chan Siu Man

(resigned on 23 February 2018)

REGISTERED OFFICE

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

611 East Wing

No. 8 Science Park West Avenue

Hong Kong Science Park

Tai Po

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House – 3rd Floor

24 Shedden Road

P.O. Box 1586

Grand Cayman KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

Shops 1712–1716 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

In the first half of 2018, global economy maintained a mild increase but the momentum has weakened. Subject to various uncertainties including trade conflict and monetary policies, the growth of China's economy slowed down. The fact that leading telecommunications operators in China delayed their investment in network construction to some extent had a negative impact on the development of telecommunications industry. However, with the explosive growth of per capita mobile data traffic in China, the promotion of accelerating information infrastructure investment at the national policy level, and the approaching of 5G network, the scale of investment in the communications industry will be gradually increased and the development of the communications industry will be gradually promoted.

REVENUE

Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") reported revenue of HK\$2,493,733,000 (2017: HK\$2,721,948,000) for the six months ended 30 June 2018 (the "Current Period"), representing a decline of 8.4% compared to the six months ended 30 June 2017 (the "Prior Period"). The decrease was mainly because the leading mobile network operators in mainland China reduced their capital expenditure in developing 4G network and delayed their investment in network construction.

BY CUSTOMERS

During the Current Period, revenue generated from China Mobile Communications Corporation and its subsidiaries increased by 1.6% over the Prior Period to HK\$681,214,000 (2017: HK\$670,341,000), accounting for 27.3% of the Group's revenue in the Current Period, compared to 24.6% in the Prior Period.

Revenue generated from China United Telecommunications Corporation and its subsidiaries decreased by 48.6% over the Prior Period to HK\$208,891,000 (2017: HK\$406,022,000), accounting for 8.4% of the Group's revenue in the Current Period, compared to 14.9% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries decreased by 53.3% over the Prior Period to HK\$392,901,000 (2017: HK\$840,663,000), accounting for 15.8% of the Group's revenue in the Current Period, compared to 30.9% in the Prior Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Revenue generated from other customers, mainly including China Tower Corporation Limited ("China Tower") and specialized government and enterprise network customers, decreased by 1.5% over the Prior Period to HK\$164,965,000 (2017: HK\$167,543,000) and represented 6.6% (2017: 6.2%) of the Group's revenue in the Current Period. The Group will continue to develop new products for China Tower to create new growth driver. In the meantime, as the demand for wireless solutions from the specialized government and enterprise network continues to increase, the management is confident of the future benefits brought by the specialized government and enterprise network customers.

On the international front, revenue generated from international customers and core equipment manufacturers increased significantly by 48.3% over the Prior Period to HK\$945,318,000 (2017: HK\$637,379,000), accounting for 37.9% of the Group's revenue in the Current Period, compared to 23.4% in the Prior Period. Benefiting from the deepening strategic cooperation with international leading operators and core equipment manufacturers, the international business has made great breakthroughs in important regions and the performance has been greatly improved.

Revenue generated from small and medium operator-ETL Company Limited ("ETL") of Laos was HK\$100,444,000, accounting for 4.0% of the Group's revenue in the Current Period. Among which, the EBITDA from ETL was HK\$32,346,000. The Group will actively boost all kinds of work to realize the improvement in its financial performance as soon as possible.

BY BUSINESSES

During the Current Period, revenue generated from the antennas and subsystems business increased by 7.5% over the Prior Period to HK\$1,331,931,000 (2017: HK\$1,239,508,000), accounting for 53.4% (2017: 45.5%) of the Group's revenue in the Current Period. The increase in revenue was mainly due to the launch of new products and the expansion of international business.

During the Current Period, revenue generated from the network system business (including wireless enhancement and wireless access) decreased by 36.2% over the Prior Period to HK\$410,720,000 (2017: HK\$643,789,000), accounting for 16.5% (2017: 23.7%) of the Group's revenue in the Current Period. Among which, revenue generated from the wireless enhancement business decreased by 34.0% over the Prior Period to HK\$342,811,000 (2017: HK\$519,180,000), revenue generated from the wireless access business decreased by 45.5% over the Prior Period to HK\$67,909,000 (2017: HK\$124,609,000). The decline was mainly due to delays in network construction projects by major operators in mainland China. In view of the rising mobile data traffic consumption, the management of the Company expects the scale of the network system business to be further expanded in the future.

During the Current Period, revenue from services decreased by 22.4% over the Prior Period to HK\$575,028,000 (2017: HK\$740,802,000), accounting for 23.1% (2017: 27.2%) of the Group's revenue. The decline was mainly due to the slowdown in infrastructure spending and the delays in some network system business projects in mainland China. The Group will leverage its advantages to tap into the enterprise segment so as to secure new customers.

During the Current Period, revenue from other business (including wireless transmission and specialized enterprise network) decreased by 22.7% over the Prior Period to HK\$75,610,000 (2017: HK\$97,849,000), accounting for 3.0% (2017: 3.6%) of the Group's revenue. Among which, revenue from wireless transmission decreased 33.3%, mainly due to the shrinking of the traditional microwave business. Meanwhile, revenue from specialized enterprise network increased significantly by 40.6% over the Prior Period to HK\$19,604,000 (2017: HK\$13,941,000) which was mainly due to the further expansion and development of the Company's railway communications business.

GROSS PROFIT

During the Current Period, the Group's gross profit decreased by 7.9% over the Prior Period to HK\$708,912,000 (2017: HK\$769,832,000). The Group's gross profit margin was 28.4% in the Current Period (2017: 28.3%), a slight increase compared to the Prior Period. Despite of the saturation of 4G products, the Group has proactively developed new products and optimized production systems so as to improve gross profit margin of its products.

The Group will continue to launch new products and solutions, enhance the level of automated and intelligent production to further improve competitiveness and gross profit margin.

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Period, R&D costs increased by 17.4% over the Prior Period to HK\$141,820,000 (2017: HK\$120,800,000), accounting for 5.7% (2017: 4.4%) of the Group's revenue. In order to keep pace with the rapid update and upgrade of mobile network, the Group has been committed to developing 5G technology and application to keep abreast of industry-leading technologies.

Through its strong commitment to R&D, the Group has realized significant achievements in creating its own solutions with proprietary intellectual property and has applied for more than 3,200 patents as at the end of the Current Period (As at 31 December 2017: approximately 2,900 patents).

SELLING AND DISTRIBUTION ("S&D") EXPENSES

During the Current Period, S&D expenses decreased by 2.3% over the Prior Period to HK\$254,031,000 (2017: HK\$260,075,000), accounting for 10.2% (2017: 9.6%) of the Group's revenue. The decrease in S&D expenses was mainly due to decreased revenue and the implementation of cost control plan by the Group to further enhance its operating efficiency.

ADMINISTRATIVE EXPENSES

During the Current Period, administrative expenses increased by 24.1% over the Prior Period to HK\$305,565,000 (2017: HK\$246,210,000), accounting for 12.3% (2017: 9.0%) of the Group's revenue. The increase in administrative expenses was mainly due to the currency exchange loss and the newly-added operating expense from ETL.

FINANCE COSTS

During the Current Period, finance costs increased by 26.7% over the Prior Period to HK\$29,299,000 (2017: HK\$23,116,000), accounting for 1.2% (2017: 0.8%) of the Group's revenue. The increase in finance costs was mainly due to more bank borrowings and higher interest rates.

The management has constantly exercised prudence in managing credit risk and the level of bank borrowings as well as improving cash flow. To cope with the business growth, the management has closely monitored the latest developments of the financing market and has arranged the most appropriate financing for the Group.

In addition, the management has utilized the advantages of interest and foreign exchange rate differentiation among different countries in order to minimize finance costs. As of 30 June 2018, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a level of 18.9% compared with 14.5% as of 31 December 2017.

OPERATING PROFIT

During the Current Period, the operating profit of the Group decreased by 69.7% over the Prior Period to HK\$53,271,000 (2017: HK\$175,851,000). The decrease in operating profit was mainly due to the decline of revenue, operating loss from ETL and more expenses incurred in the Current Period.

TAX

During the Current Period, the Group's overall taxation charge of HK\$16,417,000 (2017: HK\$57,191,000) comprised an income tax expense of HK\$20,116,000 (2017: HK\$32,779,000) and a deferred tax credit of HK\$3,699,000 (2017: deferred tax charge of HK\$24,412,000). The decrease in overall taxation charge was mainly due to the decrease in operating profit of the Group.

Details of reduced tax rates enjoyed by major operating subsidiaries are set out in note 8 to these condensed consolidated interim financial statements.

NET PROFIT

During the Current Period, with the decline of revenue and the increase of total expenses, profit attributable to owners of the parent of the Group ("Net Profit") was HK\$21,028,000 (2017: HK\$94,205,000), representing a decrease of 77.7% compared to the Prior Period.

DIVIDEND

In view of the Group's operating results in the first half of 2018 and its long-term future development and flexible financial position, the board of directors (the "Board" or the "Director(s)") of the Company does not recommend the payment of 2018 interim dividend (2017: Nil).

PROSPECTS

The escalating international trade friction poses a significant challenge to the recovery of global economy and also adds some uncertainties to the growth of China's economy, it's extremely urgent to transform the driving force of economic development and boost the innovation of technology and industry. During the Current Period, with increasing network terminals and high data traffic consumption, the network utilization rate of telecommunications operators rose significantly. As a result, network capacity expansion and optimization, together with construction of Internet-of-things ("IoT"), becomes the major tasks before the large-scale commercial 5G launch. Meanwhile, the 3GPP, an international organization for standardization, approved and froze the specifications for the "standalone" (SA) networking of 5G in the Current Period, representing the first global 5G standards was formally launched in the full true sense. Rising demand for networks, strong support from the government policies and evolving telecommunications technology promote the development of the industry. Therefore, during the transitional period, the Group will continue to closely monitor market changes, improve innovation capability and capture business opportunities in the industry.

NETWORK BUSINESS FOR OPERATORS

1. ANTENNA AND BASE STATION SUBSYSTEMS

As a global leading enterprise in the antenna market, the Group has been named as a global Tier 1 Supplier for seven consecutive years since 2011 by EJL Wireless Research, an industry analyst firm, given its cutting-edge antenna technology for years. Meanwhile, the Group has been widely recognized by domestic and overseas operators for its advanced technology of miniaturized multi-system multi-mode shared base station antenna. Currently, the Group is a contracted antenna supplier of 9 out of top 12 mobile operators in the world and has been ranked as one of the top two base station antennas supplier since 2013.

“Innovation is the fundamental principle for the development of an enterprise”. During the Current Period, the Group put great efforts in promoting the large-scale commercial use of the state-of-the-art TDD/FDD hybrid system antenna, the FDD ultra-multi ports multi-system shared antenna, the advance MIMO antenna, the RRU-integrated active antenna and the tailor-made antennas in terms of different scenarios such as the low frequency re-farming, high-speed railway coverage and dense coverage in urban areas. Meanwhile, the Group also launched the 5G Massive MIMO antenna which has been put in scale trial commercial operation.

The official release of SA networking scheme of 5G technology represents a milestone for the commercial launch of 5G. The antenna deployment of 5G will face more new challenges due to high frequency band, difficult site selection and limited location spaces. Accordingly, the Group will continue to focus on the innovation of antenna technology and strengthen its cooperation with operators, core equipment manufacturers and academic institutions to develop new technology so as to be well positioned for the commercial 5G launch and ultimately to provide products with more cost-efficiency to its customers and further consolidate its leading position in the industry.

2. NETWORK PRODUCT SYSTEM SOLUTIONS

The group has been a leader in network system solutions in China for many years and has been committed to the R&D and technology innovation of indoor coverage network products and launched many solutions to network product system which can not only meet the multi-service in-depth coverage requirements of residential areas and in-building scenarios, but also significantly reduce cost of construction. According to statistics from the Ministry of Industry and Information Technology of the People's Republic of China, the per capita mobile Internet access traffic data (DOU) amounted to 4.24 GB in China in June 2018, increasing by 172.8% as compared with the corresponding period last year, which is expected to explode continuously. In response to the huge challenge of capacity surge, the Group launched the innovative digital cell coverage Solutions (iCell) for small-to-medium scenarios which can effectively satisfy the in-depth coverage needs in 4G times and realize the technology upgrade to 4.5G/5G.

In the age of 5G, a large number of new business models will be introduced. In order to solve the problem of poor coverage of high frequency signals and improve users' perception of new business, network capacity must be greatly improved. Therefore, the innovative digital indoor distribution coverage network solution represented by small cell products launched by our group will face a very good development opportunity.

Meanwhile, a large number of hot spots or industrial applications will be generated as the roll-out of 5G trial network. 5G will not only meet the "human needs" in depth, but also the "connection of things". 5G will bring the comprehensive reconstruction of network architecture. The Group has been intensifying its R&D efforts in 5G indoor distributed coverage technology, such as Software-Defined Networking (SDN), Mobile Edge Computing (MEC), Network Functions Virtualization (NFV) and Open Radio Access Network (ORAN), to provide its end-customers with a variety of quality broadband, high density network and sound user experience. Underpinned by its competitive edge in indoor distributed coverage sector and sustained innovation capability, we believe the Group is able to extend its technological advantages to 5G and bring new opportunities for its business expansion.

SPECIALIZED GOVERNMENT & ENTERPRISE NETWORK CONSTRUCTION AND RAILWAY COMMUNICATIONS MARKET

The global specialized network communication begins to step into an era of intelligent specialized networks, it is anticipated that the growth rate of market size of the specialized network communications industry in China will be about 15% in the coming five years, while such growth rate will be about 10% globally. By 2023, the global market size is expected to exceed RMB190 billion, which bodes a promising prospect for the industry.

With the implementation of 2017 investment plan for fixed assets nationwide in mainland China, governments put intensified efforts into infrastructure construction. Therefore, the achievements to be made in intercity railway construction and urban rail transit construction are anticipated to be well above expectation. According to the China Association of Urban Rail Transit, operational interconnection shall be taken into consideration in the phrase of network planning for construction in progress. In this regard, the networked urban rail transit will turn out to be more intelligent, while the interconnected and fully automated operation system (CBTC) will domain the development of urban rail transit in the future.

Riding on our long-term accumulated experience in railway communications industry for many years, the Group won the tender for the Communications Integrated General Contract project of Chengdu Metro Line 17 Phase I and Line 18 Phase I & II in July, following the successful tender of Chengdu Metro Line 8 Phase I Communications Integrated General Contract Project at the end of last year. Moreover, the Group has established strategic cooperation with several enterprises to form an efficient and reusable smart rail systematic solution. The Group will continue to consolidate its leading position in railway communication industry and steer the development of the booming information-based railway communications industry.

OTHER NEW BUSINESSES

With the continuous development of the new generation of information technology, big data, industrial Internet, artificial intelligence and other new technologies, the characteristics of the digital intelligent development of the manufacturing industry are increasingly emerging. Intelligent manufacturing is the development trend of the global manufacturing industry, and the social consensus to promote intelligent manufacturing has been gradually formed.

The Group has formulated various industrial-leading solutions including flexible and automated assembly line, operation and production visualization, visual inspection, automated testing and automated packaging by proactively seizing the development opportunity generating from industrial upgrade and relying on its experience in data collection, industrial network, industrial gateway and edge computing. Meanwhile, adhering to the principles of “mutual support of advantages and joint development”, the Group will strengthen its cooperation with the enterprises in vertical industries to facilitate the transformation and upgrade of digitalization and intelligentization among enterprises, create an industrial interconnecting big data platform and advance the realization of intelligentized factory, intelligentized workshop and intelligentized equipment for manufacturing enterprises, thus contributing to enhanced efficiency and cost reduction.

INTERNATIONAL BUSINESS

During the Current Period, the trend of economic growth was differentiated under the influence of global trade friction, the Federal Reserve’s continuous rate hike, high debt level in emerging market countries and other uncertainties. A robust growth was witnessed in developed economies such as the America and the Europe, and a marked improvement of economic growth was seen in BRICS such as India, Brazil and etc., representing a turnaround from recession to sound growth.

During the Current Period, we have embraced new development opportunity in terms of customers and products and the international business has continued to maintain rapid growth due to economic growth of certain economies around the world and the Group is actively seeking business opportunities for its international marketing platform and strengthening strategic cooperation with leading international equipment manufacturers. For example, the Group signed a base station antenna agreement with Ooredoo Group in the Middle East, thus becoming its preferred base station antenna supplier, delivered seamless wireless coverage for the underground extension of the Bangkok Metro's Blue Line, deployed in-building wireless solutions for The Dubai Frame, a newly built landmark in Dubai and provided wireless solutions for a premium large residential and commercial development in Philippines. These projects demonstrate the Group's extensive experience in expanding international market, as well as its advanced technology in providing wireless solutions.

In the meantime, in order to seize the initiative, major operators around the world began to initiate the deployment of 5G network. The Group will continue to strengthen its strategic partnership with the leading global operators and major equipment manufacturers, and develop and offer support for 5G products to meet the demand of such applications as big bandwidth, low latency and massive access in the 5G era, and enhance its competitiveness in the international market.

SMALL AND MEDIUM OPERATOR – ETL

The Group tapped into the small and medium operator business in the second half of last year. As an integral part of China's "going abroad" strategy, communications industry is comparable to the construction of road infrastructure in terms of importance. The economic development in Laos is in line with forecast with the support of China and its surrounding countries. It is anticipated that an economic growth of 6.7% would be witnessed in the first half of 2018. In addition, the China-Laos Railway is under construction, the vigorous promotion of the "One Belt One Road" initiative in China and the establishment of the China-ASEAN Free Trade Area will lay a solid foundation for the trading relationship between China and Laos. Being one of the countries in South Eastern Asia that experiences the highest growth rate in telecommunications subscribers and the lowest telephone density, Laos is politically stable with rising growth trend at a stable pace seen in overall micro economy, and also offers taxation and system preferential policies for foreign investors, all of which has provided a favorable development environment and convenient access for the Group to carry out its telecommunications business in the region.

As a leader in communications and information solutions for many years, the Group began to tap into the new business of small operators through ETL, thereby achieving its synergistic effect with ETL and facilitating the expansion of the Company's business scale.

CONCLUSION

During the Current Period, the business environment of communications industry is challenging amid the increasing uncertainties in the global economy. With rapid growth in network demand from users, quickly evolving communication technology and tremendous government policies support, the innovative 5G technology path is emerging and the full commercial use for 5G by 2020 is approaching. The Group will continue to adhere to its customer-centered core value of "Creating Ideal Value for Customers," and continue to explore market opportunities. The Group will also step up its efforts to the research and development of 5G in order to steer the development direction of 5G era, and be committed to the innovation of new technologies and products in order to better greet the 5G era.

Lastly, the Board would like to take this opportunity to express its heartfelt thanks to all staff for their efforts and contributions to the Group. We also wish to thank our customers, suppliers, shareholders and business partners for their continuous support. The Group will step up its efforts to seize technological, product and market advantages, develop clearly new strategies, enhance operational efficiency and concentrate on operating profits to maximize its enterprise value.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 30 June 2018, the Group had net current assets of HK\$2,044,831,000. Current assets comprised inventories of HK\$1,622,348,000, trade receivables of HK\$4,531,488,000, notes receivable of HK\$73,883,000, tax recoverable of HK\$65,569,000, prepayments, deposits and other receivables of HK\$965,203,000, restricted bank deposits of HK\$166,608,000, and cash and cash equivalents of HK\$1,012,251,000. Current liabilities comprised trade and bills payables of HK\$3,684,522,000, other payables and accruals of HK\$822,858,000, interest-bearing bank borrowings of HK\$1,812,840,000 and provisions for product warranties of HK\$72,299,000.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

The average receivable turnover for the Current Period was 331 days compared to 279 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. 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 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Period was 377 days compared to 284 days for the Prior Period. The average inventory turnover for the Current Period was 152 days compared to 127 days for the Prior Period.

As at 30 June 2018, the Group's cash and bank balances were mainly denominated in RMB, HK\$ and US\$ while the Group's bank borrowings were mainly denominated in RMB and HK\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a few term loan facility agreements with certain financial institutions. Details of bank borrowings are set out in note 14 to these condensed consolidated interim financial statements.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK\$ and US\$. In view of the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 30 June 2018, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 18.9% as at 30 June 2018 (31 December 2017: 14.5%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSITS

Deposit balances of HK\$283,530,000 (31 December 2017: HK\$333,990,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had contingent liabilities of HK\$298,015,000 (31 December 2017: HK\$302,276,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 7,600 staff, out of which 1,400 staff from ETL (31 December 2017: 7,900 staff, out of which 1,400 staff from ETL). The total staff costs, excluding capitalized development cost, for the Current Period were HK\$532,640,000 (31 December 2017: HK\$1,061,458,000). 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 employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the Mainland China 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. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management of the Group.

An employees incentive scheme is adopted by a subsidiary of the Company for the purpose of recognizing the contributions of its certain employees and persons.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Current Period, the Company repurchased a total of 50,752,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for an aggregate amount of HK\$71,410,000 before expenses. The repurchased shares were subsequently cancelled. The Board considered that the repurchases were effected for the benefit of the Company and its shareholders as a whole to enhance the earnings per share of the Company and create value for the shareholders of the Company. Details of the share repurchases during the Current Period are as follows:

Month	Number of shares repurchased	Purchase price per share		Aggregate amount paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
May 2018	50,752,000	1.53	1.14	71,410,000

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Period.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, 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 any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Approximately)
		Directly beneficially owned	Through spouse	Through controlled corporation		
Mr. Fok Tung Ling ("Mr. Fok")	(a)	27,794,537	–	782,164,931	809,959,468	33.47
Mr. Zhang Yue Jun	(b)	–	–	248,225,410	248,225,410	10.25
Mr. Zhang Yuan Jian		1,652,182	840	–	1,653,022	0.06
Mr. Bu Binlong ("Mr. Bu")		668,284	–	–	668,284	0.02
Mr. Wu Tielong ("Mr. Wu")		242,049	–	–	242,049	0.01

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Long positions in share options of the Company:

Name of Directors	Number of share options directly beneficially owned
Mr. Fok	805,253
Mr. Zhang Yue Jun	805,253
Mr. Chang Fei Fu	5,300,000
Mr. Zhang Yuan Jian	7,715,762
Mr. Bu	6,388,408
Mr. Wu	4,094,204
Mr. Lau Siu Ki, Kevin	471,049
Dr. Lin Jin Tong	471,049
Mr. Qian Ting Shuo	471,049

Notes:

- (a) 780,095,129 shares and 2,069,802 shares are beneficially owned by Prime Choice Investments Limited and Total Master Investments Limited, respectively. By virtue of 100% shareholding in each of Prime Choice Investments Limited and Total Master Investments Limited, Mr. Fok is deemed or taken to be interested in the total of 782,164,931 shares owned by Prime Choice Investments Limited and Total Master Investments Limited under the SFO.
- (b) These shares are beneficially owned by Wise Logic Investments Limited. By virtue of 100% shareholding in Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in the 248,225,410 shares owned by Wise Logic Investments Limited under the SFO.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code.

Save as disclosed above, at no time during the Current Period, the Directors or chief executive of the Company (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any of such rights, required to be disclosed under the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme and share award scheme in note 16 to these condensed consolidated interim financial statements, at no time during the Current Period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any Director, the chief executive of the Company or their respective spouses or children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Details of the share option scheme and share award scheme of the Company are set out in note 16 to these condensed consolidated interim financial statements.

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

As at 30 June 2018, the following substantial shareholders of the Company (other than a Director or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares and share options held	Percentage of the Company's issued share capital (Approximately)
Prime Choice Investments Limited		Beneficial owner	780,095,129	32.24
Madam Chen Jing Na	(a)	Interest of spouse	810,764,721	33.51
Wise Logic Investments Limited		Beneficial owner	248,225,410	10.25
Madam Cai Hui Ni	(b)	Interest of spouse	249,030,663	10.29

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in 809,959,468 shares and 805,253 share options in which Mr. Fok is interested or deemed to be interested for the purpose of the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in 248,225,410 shares and 805,253 share options in which Mr. Zhang Yue Jun is interested or deemed to be interested for the purpose of the SFO.

There are duplications of interests in the issued share capital of the Company in respect of:

- (i) 780,095,129 shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 248,225,410 shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 30 June 2018, no other persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board reviewed daily governance of the Company from time to time in accordance with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules and considered that, during the Current Period, the Company has complied with all Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealings in securities transactions of the Company by its Directors. Specific enquiries have been made to all Directors, and they have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions during the Current Period.

CHANGE IN PARTICULARS OF THE DIRECTOR

Pursuant to rule 13.51B(1) of the Listing Rules, change of Directors' particulars since the publication of the Company's 2017 Annual Report is set out below:

Effective Date	Change
23 May 2018	Mr. Lau Siu Ki, Kevin, an independent non-executive Director, is an independent non-executive director of TCL Multimedia Technology Holdings Limited as disclosed in the Company's 2017 Annual Report. On 23 May 2018, TCL Multimedia Technology Holdings Limited changed its name to TCL Electronics Holdings Limited.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), together with the management, have reviewed the accounting principles, standards and practices adopted by the Company, and discussed matters relating to auditing, risk management and internal control and financial reporting, including the review of these condensed consolidated interim financial statements for the Current Period. The Audit Committee has given its consent to the accounting principles, standards and practices adopted by the Company for these condensed consolidated interim financial statements for the Current Period and has not given any disagreement.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
REVENUE	5	2,493,733	2,721,948
Cost of sales		(1,784,821)	(1,952,116)
Gross profit		708,912	769,832
Other income and gains	5	66,560	55,756
Research and development costs		(141,820)	(120,800)
Selling and distribution expenses		(254,031)	(260,075)
Administrative expenses		(305,565)	(246,210)
Other expenses		(20,785)	(22,652)
Finance costs	7	(29,299)	(23,116)
Share of losses of:			
A joint venture		—	(916)
An associate		—	(811)
PROFIT BEFORE TAX	6	23,972	151,008
Income tax expense	8	(16,417)	(57,191)
PROFIT FOR THE PERIOD		7,555	93,817
Attributable to:			
Owners of the parent		21,028	94,205
Non-controlling interests		(13,473)	(388)
		7,555	93,817
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		HK0.86 cents	HK3.85 cents
Diluted		HK0.86 cents	HK3.85 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	7,555	93,817
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(77,760)	129,058
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(77,760)	129,058
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(77,760)	129,058
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(70,205)	222,875
Attributable to:		
Owners of the parent	(52,555)	221,434
Non-controlling interests	(17,650)	1,441
	(70,205)	222,875

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

		30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,031,690	1,106,877
Prepaid land lease payments		123,850	126,935
Goodwill		253,077	253,077
Deferred tax assets		126,479	123,538
Intangible assets		868,838	848,418
Available-for-sale investments		—	19,247
Equity instruments at fair value through profit or loss		31,899	—
Restricted bank deposits		116,922	99,221
Other non-current asset		9,250	—
Total non-current assets		2,562,005	2,577,313
CURRENT ASSETS			
Inventories	11	1,622,348	1,360,255
Trade receivables	12	4,531,488	4,522,757
Notes receivable		73,883	85,447
Tax recoverable		65,569	48,693
Prepayments, deposits and other receivables		965,203	886,365
Restricted bank deposits		166,608	234,769
Cash and cash equivalents		1,012,251	1,176,129
Total current assets		8,437,350	8,314,415
CURRENT LIABILITIES			
Trade and bills payables	13	3,684,522	3,682,536
Other payables and accruals		822,858	1,063,016
Interest-bearing bank borrowings	14	1,812,840	1,088,489
Provisions for product warranties		72,299	69,838
Total current liabilities		6,392,519	5,903,879

CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONT'D)

30 June 2018

	Notes	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
NET CURRENT ASSETS		2,044,831	2,410,536
TOTAL ASSETS LESS CURRENT LIABILITIES		4,606,836	4,987,849
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	269,261	493,891
Deferred tax liabilities		163,391	162,468
Total non-current liabilities		432,652	656,359
Net assets		4,174,184	4,331,490
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	241,937	246,958
Treasury shares		(22,818)	(22,818)
Reserves	17	3,407,536	3,542,171
		3,626,655	3,766,311
Non-controlling interests		547,529	565,179
Total equity		4,174,184	4,331,490

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the parent										Total equity	
	Issued capital	Treasury shares	Share premium account	Share based compensation	Capital reserve	Asset revaluation reserve	Statutory reserve	Exchange fluctuation reserve	Retained profits	Total		Non-controlling interests
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	246,106	(22,818)	650,071	30,553	45,827	57,755	157,225	(19,180)	2,291,848	3,437,687	55,462	3,493,149
Profit for the period	—	—	—	—	—	—	—	—	94,205	94,205	(388)	93,817
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	127,229	—	127,229	1,829	129,058
Total comprehensive income for the period	—	—	—	—	—	—	—	127,229	94,205	221,434	1,441	222,875
Share option scheme												
– value of services	—	—	—	10,385	—	—	—	—	—	10,385	—	10,385
– exercise of share options	38	—	680	(196)	—	—	—	—	—	522	—	522
– adjustment arising from lapse of share options	—	—	—	771	—	—	—	—	(771)	—	—	—
Transfer to retained profits	—	—	—	—	—	(1,805)	—	—	1,805	—	—	—
Final 2016 dividend declared	—	—	—	—	—	—	—	—	(19,692)	(19,692)	—	(19,692)
At 30 June 2017 (unaudited)	246,144	(22,818)	650,751	41,713	45,827	55,950	157,225	108,049	2,367,395	3,650,536	56,003	3,707,439

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

For the six months ended 30 June 2018

Notes	Attributable to owners of the parent											Non-controlling interests HK\$'000	Total equity HK\$'000
	issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Fair value reserve of equity instruments at FVOCI HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 31 December 2017	246,958	(22,818)	664,031*	44,071*	45,827*	54,146*	175,045*	273,459*	—*	2,285,592*	3,766,311	545,179	4,331,490
Adjustment on adoption of HKFRS 9, net of tax	—	—	—	—	—	—	—	—	(7,240)	(16,412)	(23,652)	—	(23,652)
Restated at 1 January 2018	246,958	(22,818)	664,031	44,071	45,827	54,146	175,045	273,459	(7,240)	2,269,180	3,742,659	545,179	4,307,838
Profit for the period	—	—	—	—	—	—	—	—	—	21,028	21,028	(13,473)	7,555
Other comprehensive loss for the period:	—	—	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(73,583)	—	—	(73,583)	(4,177)	(77,760)
Total comprehensive loss for the period	—	—	—	—	—	—	—	(73,583)	—	21,028	(52,555)	(17,650)	(70,205)
Share option scheme	—	—	—	—	—	—	—	—	—	—	—	—	—
– value of services	—	—	—	7,592	—	—	—	—	—	—	7,592	—	7,592
– exercise of share options	54	—	935	(273)	—	—	—	—	—	—	716	—	716
– adjustment arising from lapse of share options	—	—	—	986	—	—	—	—	—	(986)	—	—	—
Transfer to/from retained profits	—	—	—	—	—	(1,805)	6,108	—	—	(4,303)	—	—	—
Repurchase of shares	(5,075)	—	(66,335)	—	(347)	—	—	—	—	—	(71,757)	—	(71,757)
At 30 June 2018 (unaudited)	241,937	(22,818)	598,631*	52,376*	45,480*	52,341*	181,153*	199,876*	(7,240)*	2,284,919*	3,626,655	547,529	4,174,184

* These reserve accounts comprise the consolidated reserves of HK\$3,407,536,000 (31 December 2017: HK\$3,542,171,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		23,972	151,008
Adjustments for:			
Interest income	5	(4,891)	(4,510)
Finance costs	7	29,299	23,116
Share of losses of a joint venture and an associate		—	1,727
Depreciation	6	88,160	31,341
Recognition of prepaid land lease payments	6	1,455	1,417
Amortization of intangible assets		60,279	44,888
Gain on disposal of items of property, plant and equipment	5	(75)	(458)
Equity-settled share option expense	6	7,592	10,585
Gain on bargain purchase	5	—	(7,342)
Loss on remeasurement of the previously held interest in an associate	6	—	20,112
Gain on equity instruments at fair value through profit or loss	6	(20,661)	—
		185,130	271,884
(Increase)/decrease in inventories		(280,560)	31,003
Increase in trade receivables		(80,335)	(521,461)
Decrease/(increase) in notes receivable		10,404	(88,723)
Increase in prepayments, deposits and other receivables		(97,250)	(133,796)
Increase in trade and bills payables		51,980	208,648
Decrease in other payables and accruals		(235,727)	(185,988)
Increase in provisions for product warranties		3,409	8,894
		(442,949)	(409,539)
Cash used in operations		(442,949)	(409,539)
Mainland China profits tax paid		(29,603)	(71,332)
Overseas profits taxes paid		(8,046)	(1,515)

CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (CONT'D)

For the six months ended 30 June 2018

	For the six months ended 30 June		
	Notes	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Net cash flows used in operating activities		(480,598)	(482,386)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		4,891	4,510
Purchases of items of property, plant and equipment		(46,086)	(24,334)
Addition of intangible assets		(86,849)	(44,361)
Increase in investment in a joint venture		—	(5,886)
Acquisition of a subsidiary, net of cash acquired		—	4,462
Prepayment of acquisition of a subsidiary		—	(20,718)
Proceeds from disposal of items of property, plant and equipment		11,098	1,199
Decrease/(increase) in restricted bank deposits		45,926	(115,937)
Net cash flows used in investing activities		(71,020)	(201,065)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		763,237	938,065
Repayment of bank borrowings		(252,730)	(903,138)
Exercise of share options	15(ii)	716	522
Interest paid		(29,299)	(23,116)
Dividends paid		—	(19,678)
Repurchase of shares		(71,757)	—
Net cash flows from/(used in) financing activities		410,167	(7,345)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

For the six months ended 30 June 2018

	For the six months ended 30 June		
	Notes	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		(141,451)	(690,796)
Cash and cash equivalents at beginning of period		1,176,129	1,420,214
Effect of foreign exchange rate changes, net		(22,427)	39,120
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,012,251	768,538
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,010,816	767,207
Non-pledged time deposits with original maturity of less than three months when acquired		1,435	1,331
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		1,012,251	768,538

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE INFORMATION

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 period, the Group was principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment, the provision of related engineering services and the provision of telecommunication services and their value added services.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2017.

3. SIGNIFICANT 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 consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the period.

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and measurement of share- based payment transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28</i>
Amendments to HKAS 40	<i>Transfers of investment property</i>

Other than as further explained below, the directors of the Company (the "Directors") do not anticipate that the application of the new and revised HKFRSs above will have a material effect on these interim condensed consolidated financial statements and the disclosure.

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The standard introduces new requirements for classification and measurement and impairment. The Group adopted HKFRS 9 retrospectively with the initial application date of 1 January 2018 and the Group selected not to adjust the comparative information for the period beginning 1 January 2017. The impacts relate to the classification and measurement and the impairment requirements are summarized as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

HKFRS 9 FINANCIAL INSTRUMENTS (Cont'd)

(a) *Classification and measurement*

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortized cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instrument's contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI" criterion).

The new classification and measurement of the Group's financial assets are as follows:

- Debt instruments at amortized cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, amount due from joint ventures/associates and financial assets included in prepayments, deposits and other receivables.
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity instruments were classified as available-for-sale investments.
- Financial assets at FVPL include quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. Under HKAS 39, the Group's quoted equity securities were classified as available-for-sale investments.

30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

HKFRS 9 FINANCIAL INSTRUMENTS (Cont'd)

(a) *Classification and measurement (Cont'd)*

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The statement of financial position as at 1 January 2018 was restated, resulting in increases in equity instruments at FVPL and retained earnings amounting to HK\$171,000 and decreases in equity instruments at FVOCI and fair value reserve of equity instruments at FVOCI amounting to HK\$7,240,000.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

(b) *Impairment*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

HKFRS 9 FINANCIAL INSTRUMENTS (Cont'd)

(b) Impairment (Cont'd)

The Group considers a financial asset in default when contractual payment are 3 months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The statement of financial position as at 1 January 2018 was restated, resulting in decrease in trade receivables, other receivables and retained earnings amounting to HK\$10,203,000, HK\$6,347,000 and HK\$16,550,000, respectively.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

- (a) Wireless telecommunications network system equipment
- (b) Telecommunication services

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before tax.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

4. OPERATING SEGMENT INFORMATION (Cont'd)

Period ended 30 June 2018	Wireless telecommunications network system equipment HK\$'000	Telecommunication services HK\$'000	Total HK\$'000
Revenue	2,393,289	100,444	2,493,733
Profit/(loss) before tax	50,818	(26,846)	23,972
Segment assets	9,770,003	1,525,315	11,295,318
Elimination			(295,963)
Total assets			10,999,355
Segment liabilities	6,807,318	313,816	7,121,134
Elimination			(295,963)
Total liabilities			6,825,171

Period ended 30 June 2017	Wireless telecommunications network system equipment HK\$'000
Revenue	2,721,948
Profit before tax	151,008
Total assets	9,353,408
Total liabilities	5,645,969

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

4. OPERATING SEGMENT INFORMATION (Cont'd)
GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Mainland China	1,501,195	2,218,686
Other countries/areas in Asia Pacific	654,977	246,522
Americas	207,054	140,960
European Union	87,091	91,930
Middle East	40,092	22,394
Other countries	3,324	1,456
	2,493,733	2,721,948

The revenue information above is based on the location of the customers.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

4. OPERATING SEGMENT INFORMATION (Cont'd)
GEOGRAPHICAL INFORMATION (Cont'd)

(b) *Non-current assets*

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Mainland China	1,322,291	1,268,606
Lao People's Democratic Republic	1,212,398	1,271,836
Other countries/regions	27,316	36,871
	2,562,005	2,577,313

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue of approximately HK\$681,214,000 (six months ended 30 June 2017: HK\$670,341,000), HK\$392,901,000 (six months ended 30 June 2017: HK\$840,663,000) and HK\$208,891,000 (six months ended 30 June 2017: HK\$406,022,000) was derived from 3 major customers, which accounted for 27.3% (six months ended 30 June 2017: 24.6%), 15.8% (six months ended 30 June 2017: 30.9%) and 8.4% (six months ended 30 June 2017: 14.9%) of the total revenue of the Group, respectively.

5. REVENUE, OTHER INCOME AND GAINS

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

5. REVENUE, OTHER INCOME AND GAINS (Cont'd)

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	2,348,238	2,688,155
Maintenance services	45,051	33,793
Provision of telecommunication services	100,444	—
	2,493,733	2,721,948
Other income and gains		
Bank interest income	4,891	4,510
Government subsidies [#]	25,239	22,766
VAT refunds [*]	3,666	11,451
Gain on bargain purchase	—	7,342
Gain on disposal of items of property, plant and equipment	75	458
Gross rental income	9,338	2,684
Gain on equity instruments at fair value through profit or loss	20,661	—
Others	2,690	6,545
	66,560	55,756

[#] The government subsidies represent various cash payments and subsidies provided by the government authorities to the Group as encouragement to its technological innovation, intellectual property and investment of research and development. There are no unfulfilled conditions or contingencies relating to these subsidies.

^{*} During the periods ended 30 June 2017 and 2018, Comba Software Technology (Guangzhou) Limited ("Comba Software"), being designated as a software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

6. PROFIT BEFORE TAX

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

	Note	For the six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Cost of inventories sold and services provided		1,682,183	1,855,415
Depreciation		88,160	31,341
Recognition of prepaid land lease payments		1,455	1,417
Amortization of computer software, technology and operating license		17,718	1,881
Research and development costs:			
Deferred expenditure amortized [^]		42,561	43,007
Current period expenditure		141,820	120,800
		184,381	163,807
Minimum lease payments under operating leases		33,999	23,207
Employee benefit expense (including Directors' remuneration):			
Salaries and wages		440,390	380,156
Staff welfare expenses		40,846	34,757
Equity-settled share option expense	16(a)	7,592	10,585
Pension scheme contributions (defined contribution scheme) [#]		43,812	42,603
		532,640	468,101
Gain on bargain purchase		—	(7,342)
Loss on remeasurement of the previously held interest in an associate		—	20,112
Exchange loss, net [*]		14,138	3,471
Provision for product warranties [^]		10,058	20,153
Write-down of inventories to net realizable value [^]		1,431	30,309
Impairment of trade receivables		3,912	—
Impairment of other receivables		230	—
Gain on disposal of items of property, plant and equipment		(75)	(458)
Gain on equity instruments at fair value through profit or loss		(20,661)	—

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2018

6. PROFIT BEFORE TAX (Cont'd)

- [^] The amortization of deferred development costs, provision for product warranties and write-down of inventories to net realizable value for the period were included in "Cost of sales" in the condensed consolidated statement of profit or loss.
- [#] At 30 June 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2017: Nil).
- ^{*} Exchange loss for the period was included in "Administrative expenses" in the condensed consolidated statement of profit or loss.

7. FINANCE COSTS

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Interest on bank loans	29,299	23,116

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Current – charge for the period		
Hong Kong	693	2,284
Mainland China	3,801	25,238
Elsewhere	15,622	5,257
Deferred	(3,699)	24,412
Total tax charge for the period	16,417	57,191

Under the relevant income tax law, the subsidiaries in Mainland China are subject to corporate income tax at a statutory rate of 25% on their respective taxable income during the period.

Comba Telecom Technology (Guangzhou) Limited, Comba Telecom Systems (China) Limited and Comba Software were entitled to the preferential tax rate of 15% for the period ended 30 June 2018 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the period ended 30 June 2018.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

9. DIVIDENDS

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Final – Nil (2016: HK0.8 cents) per ordinary share	—	19,692
Interim – Nil (six months ended 30 June 2017: Nil) per ordinary share	—	—

No dividend per ordinary share was declared in respect of the year ended 31 December 2017 (six months ended 30 June 2017: a final dividend of HK0.8 cents per ordinary share was declared and paid for the year ended 31 December 2016) to shareholders during the current period.

The Directors recommended that not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

30 June 2018

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,452,934,000 (six months ended 30 June 2017: 2,444,616,000) in issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2018 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	21,028	94,205

30 June 2018

**10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY
EQUITY HOLDERS OF THE PARENT (Cont'd)**

	Number of shares For the six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	2,452,934,000	2,444,616,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2018

11. INVENTORIES

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Raw materials	311,949	283,378
Project materials	163,406	92,956
Work in progress	77,745	93,350
Finished goods	639,186	473,768
Inventories on site	430,062	416,803
	1,622,348	1,360,255

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable to over 1 year depending on the credit worthiness of customers. 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 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years 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 minimize the credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

12. TRADE RECEIVABLES (Cont'd)

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 3 months	1,639,371	1,916,966
4 to 6 months	191,452	293,207
7 to 12 months	997,171	802,015
More than 1 year	1,874,638	1,672,950
	4,702,632	4,685,138
Provision for impairment	(171,144)	(162,381)
	4,531,488	4,522,757

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Neither past due nor impaired	1,933,206	2,994,778
Less than 1 year past due	764,204	736,849
1 to 2 years past due	250,126	228,726
More than 2 years past due	468,868	532,754
	3,416,404	4,493,107

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2018

12. TRADE RECEIVABLES (Cont'd)

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 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.

13. TRADE AND BILLS PAYABLES

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 3 months	1,630,956	1,913,780
4 to 6 months	780,740	564,563
7 to 12 months	634,021	599,709
More than 1 year	638,805	604,484
	3,684,522	3,682,536

The trade payables are non-interest-bearing and are normally settled within a period of 3 months and are extendable to a longer period.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Analyzed into:		
Within 1 year	1,812,840	1,088,489
In the 2nd to 3rd years, inclusive	269,261	493,891
	2,082,101	1,582,380

As at 30 June 2018, loans denominated in Hong Kong dollars, RMB and EURO amounted to HK\$1,646,103,000 (31 December 2017: HK\$1,239,228,000), HK\$435,593,000 (31 December 2017: HK\$343,152,000) and HK\$405,000 (31 December 2017: Nil), respectively.

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 bank loans acting as guarantors, to guarantee punctual performance of the obligations under the loan facilities.

Bank loans as at 30 June 2018 bear interest at rates ranging from 1.3% to 5.0% (31 December 2017: from 2.1% to 5.0%) per annum.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

15. SHARE CAPITAL

	Notes	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:			
1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018		5,000,000,000	500,000
Issued and fully paid or credited as fully paid:			
At 1 January 2017		2,461,058,124	246,106
Exercise of share options	(i)	8,522,736	852
At 31 December 2017 and 1 January 2018		2,469,580,860	246,958
Exercise of share options	(ii)	538,000	54
Cancellation of repurchased shares	(iii)	(50,752,000)	(5,075)
At 30 June 2018		2,419,366,860	241,937

As at 30 June 2018, the total number of issued ordinary shares of the Company was 2,419,366,860 shares (31 December 2017: 2,469,580,860 shares) which included 16,637,136 shares (31 December 2017: 16,637,136 shares) held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (the "Adoption Date") (note 16(b)).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2018

15. SHARE CAPITAL (Cont'd)

Notes:

- (i) During the year ended 31 December 2017, the subscription rights attaching to 5,206,486 share options and 3,316,250 share options were exercised at the adjusted exercise prices of HK\$1.354 per share and HK\$1.255 per share respectively, resulting in the issue of 8,522,736 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$11,211,000.
- (ii) During the period ended 30 June 2018, the subscription rights attaching to 404,000 share options and 134,000 share options were exercised at the adjusted exercise prices of HK\$1.354 per share and HK\$1.255 per share respectively, resulting in the issue of 538,000 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$716,000.
- (iii) During the period ended 30 June 2018, the Company repurchased a total of 50,752,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for an aggregate amount of approximately HK\$71,410,000 before expenses ranging from HK\$1.140 to HK\$1.530 per share. The repurchased shares were subsequently cancelled.

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) SHARE OPTION SCHEME

The Company operates a share option scheme adopted on 3 June 2013 (the "2013 Scheme") which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for 10 years from that date.

The purposes of the 2013 Scheme are to provide incentives and rewards to eligible persons who contribute to the success of the Group's operations. Eligible persons of the 2013 Scheme include Directors (including independent non-executive Directors), employees, holders of any securities, business or joint venture partners, contractors, agents or representatives of, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors of, or customers, licencees, wholesalers, retailers, traders or distributors of goods or services of members of the Group, the Company's controlling shareholders or companies controlled by the Company's controlling shareholders.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme (note 16(b)) and any other incentive or share option schemes of the Company shall not exceed 30% of the shares of the Company in issue at any time. The maximum number of shares already issued and to be issued upon exercise of share options granted to each eligible person under the 2013 Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding share options) in any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

Share options granted under the 2013 Scheme to a Director, the chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted under the 2013 Scheme and any other share option schemes of the Company (including share options exercised, cancelled and outstanding) to a substantial shareholder of the Company or an independent non-executive Director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant of the share options) in excess of HK\$5 million, in any 12-month period up to and including the date of such grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the 2013 Scheme may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted under the 2013 Scheme is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share options granted under the 2013 Scheme is determinable by the Directors, but shall not be less than the highest of: (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 trading days immediately preceding the date of offer of the share options.

Share options granted under the 2013 Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings of the Company.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

The following number of share options were outstanding under the 2013 Scheme during the six months ended 30 June 2018:

	For the six months ended 30 June			
	2018		2017	
	Weighted average exercise price of each share option HK\$	Number of share options	Weighted average exercise price of each share option HK\$	Number of share options
At 1 January	1.294	119,585,162	1.296	131,934,337
Exercised during the period	1.329	(538,000)	1.354	(385,776)
Lapsed during the period	1.281	(1,493,770)	1.336	(1,117,381)
Granted during the period	1.170	50,000,000	—	—
At 30 June	1.257	167,553,392	1.296	130,431,180

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) **SHARE OPTION SCHEME (Cont'd)**

Movements in the number of the Company's share options under the 2013 Scheme during the six months ended 30 June 2018 are as follows:

Name or category of participant	At 1 January 2018	Granted during the period	Number of share options				At 30 June 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
			Adjusted during the period	Exercised during the period	Expired during the period	Lapsed during the period				
Executive Directors										
Mr. Fok Tung Ling	805,253	—	—	—	—	—	805,253	11 Apr 14	11 Apr 15-10 Apr 19	1.354
Mr. Zhang Yue Jun	805,253	—	—	—	—	—	805,253	11 Apr 14	11 Apr 15-10 Apr 19	1.354
Mr. Chang Fei Fu (appointed on 23 February 2018)	3,300,000	—	—	—	—	—	3,300,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	2,000,000	—	—	—	—	2,000,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	3,300,000	2,000,000	—	—	—	—	5,300,000			
Mr. Zhang Yuan Jian	2,415,762	—	—	—	—	—	2,415,762	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	3,300,000	—	—	—	—	—	3,300,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	2,000,000	—	—	—	—	2,000,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	5,715,762	2,000,000	—	—	—	—	7,715,762			
Mr. Bu Binlong (appointed on 12 April 2018)	1,288,408	—	—	—	—	—	1,288,408	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	3,300,000	—	—	—	—	—	3,300,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	1,800,000	—	—	—	—	1,800,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	4,588,408	1,800,000	—	—	—	—	6,388,408			
Mr. Wu Tielong (appointed on 12 April 2018)	644,204	—	—	—	—	—	644,204	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	1,650,000	—	—	—	—	—	1,650,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	1,800,000	—	—	—	—	1,800,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	2,294,204	1,800,000	—	—	—	—	4,094,204			

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

Name or category of participant	At 1 January 2018	Granted during the period	Number of share options				At 30 June 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
			Adjusted during the period	Exercised during the period	Expired during the period	Lapsed during the period				
Executive Directors (Cont'd)										
Mr. Yeung Pui Sang, Simon (resigned on 24 May 2018)	2,415,762	—	—	—	—	—	2,415,762	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	3,300,000	—	—	—	—	—	3,300,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	2,000,000	—	—	—	—	2,000,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	5,715,762	2,000,000	—	—	—	—	7,715,762			
Independent non-executive Directors										
Mr. Lau Siu Ki, Kevin	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	200,000	—	—	—	—	200,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	271,049	200,000	—	—	—	—	471,049			
Dr. Lin Jin Tong	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	200,000	—	—	—	—	200,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	271,049	200,000	—	—	—	—	471,049			
Mr. Qian Ting Shuo	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	200,000	—	—	—	—	200,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	271,049	200,000	—	—	—	—	471,049			

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

Name or category of participant	At 1 January 2018	Granted during the period	Number of share options				At 30 June 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share
			Adjusted during the period	Exercised during the period	Expired during the period	Lapsed during the period				
Other employees in aggregate	38,760,623	—	—	(404,000)	—	(388,270)	37,968,353	11 Apr 14	11 Apr 15-10 Apr 19	1.354
	56,786,750	—	—	(134,000)	—	(1,105,500)	55,547,250	26 Aug 16	26 Aug 17-25 Aug 21	1.255
	—	39,800,000	—	—	—	—	39,800,000	10 Apr 18	10 Apr 19-9 Apr 23	1.170
	95,547,373	39,800,000	—	(538,000)	—	(1,493,770)	133,315,603			
119,585,162	50,000,000	—	(538,000)	—	(1,493,770)	167,553,392				

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

50,000,000 share options were granted on 10 April 2018 with an exercise price of HK\$1.170 under the 2013 Scheme during the current period. The closing price of the Company's shares immediately before the date on which the options were granted is HK\$1.100.

The fair value of the share options granted during the current period was approximately HK\$18,716,000 (HK\$0.37 each), of which the Group recognized a share option expense of approximately HK\$2,005,000 during the current period.

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

The fair value of equity-settled share options granted during the current period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	—
Expected volatility (%)	42.25
Risk-free interest rate (%)	2.44
Expected life of the share options (years)	1.2-2.2
Weighted average share price (HK\$ per share)	1.076

The expected life of the share options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

30 June 2018

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

The exercise prices and exercise periods of the share options outstanding under the 2013 Scheme as at the end of the reporting period are as follows:

30 June 2018 Number of share options	Exercise price of share options HK\$ per share	Exercise period
46,826,142	1.354	11 April 2015 to 10 April 2019
70,727,250	1.255	26 August 2017 to 25 August 2021
50,000,000	1.170	10 April 2019 to 9 April 2023
167,553,392		

30 June 2017 Number of share options	Exercise price of share options HK\$ per share	Exercise period
53,631,180	1.354	11 April 2015 to 10 April 2019
76,800,000	1.255	26 August 2017 to 25 August 2021
130,431,180		

The expense recognized in the condensed consolidated statement of profit or loss for employee services received during the six months ended 30 June 2018 is approximately HK\$7,592,000 (six months ended 30 June 2017: HK\$10,585,000).

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

At the end of the reporting period, the Company had 167,553,392 share options outstanding under the 2013 Scheme, of which 62,113,392 were vested and 105,440,000 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 167,553,392 additional ordinary shares of the Company and additional share capital of approximately HK\$16,755,000 and share premium of approximately HK\$193,910,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 166,489,982 share options outstanding under the 2013 Scheme, which represented approximately 6.88% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 28 May 2018, the Company may further grant 246,516,486 share options (being 10% of the total number of issued shares of the Company as at 28 May 2018). Since no share option was granted under the refreshed limit, the total number of unissued share options under the scheme limit remained at 246,516,486, representing approximately 10.19% of the Company's shares in issue as at 30 June 2018.

(b) SHARE AWARD SCHEME

The Company adopted a Share Award Scheme on the Adoption Date. The purposes and objectives of the Share Award Scheme are to recognize the contributions made by certain employees and persons to the Group (the "Selected Persons") and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Unless it is early terminated by the Board in accordance with the terms therein, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Cont'd)

(b) SHARE AWARD SCHEME (Cont'd)

Pursuant to the Share Award Scheme, (i) awarded shares (the "Awarded Shares") will be acquired by the trustee and/or the administrator of the Share Award Scheme ("Trustee/Administrator") at the cost of the Company at the prevailing market price and be held in trust for the Selected Persons until the end of each vesting period; or (ii) new Awarded Shares may be allotted and issued to the Trustee/Administrator under general mandates granted or to be granted by the shareholders at general meetings from time to time and be held in trust for Selected Persons until the end of each vesting period.

The Board shall not make any further award of the Awarded Shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company as at the Adoption Date (or the refreshed or amended limit as approved by the shareholders). The maximum number of shares which may be awarded to a Selected Person under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date (or the refreshed or amended limit as approved by the shareholders). The aforesaid limit may be refreshed or amended by approval of the shareholders in a general meeting. Nevertheless, the total number of the Awarded Shares which may be issued under the Share Award Scheme and the exercise of all options to be granted under other incentive and option schemes of the Company (including the 2013 Scheme) as so refreshed shall not exceed 10% of the shares in issue as at the date of approval of the refreshed limit. Awarded Shares or share options previously granted under the Share Award Scheme or the 2013 Scheme (including those vested, outstanding, cancelled and lapsed) will not be counted for the purpose of calculating the limit as refreshed. The Company will not issue any Awarded Shares under the Share Award Scheme which would result in the total number of the Awarded Shares together with shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme or any other incentive or share option schemes of the Company representing in aggregate over 30% of the shares in issue as at the date of such grant.

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16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(b) SHARE AWARD SCHEME (Cont'd)

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded 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.

Movements in the number of treasury shares held for the Share Award Scheme for the six months ended 30 June 2017 and 2018 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	16,637,136

No Awarded Shares held for the Selected Persons were outstanding as at 30 June 2018.

17. RESERVES

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

18. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Guarantees given to banks in respect of performance bonds	298,015	302,276

19. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 4 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 June 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 1 year	3,124	4,675
In the 2nd to 5th years, inclusive	1,932	3,188
	5,056	7,863

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2018

19. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) AS LESSEE

The Group leases certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 10 years.

As at 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 1 year	40,613	44,061
In the 2nd to 5th years, inclusive	62,967	66,946
After 5 years	29,667	33,639
	133,247	144,646

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Contracted, but not provided for: Plant and machinery	30,939	1,564

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2018

21. RELATED PARTY TRANSACTIONS

- (a) The Group had no significant transactions with related parties during the period and had no significant outstanding balances with related parties as at the end of the reporting period.
- (b) Compensation of key management personnel of the Group (all being the Directors):

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Short-term employee benefits	20,819	14,336
Pension scheme contributions	107	117
Equity-settled share option expense	1,095	1,007
	22,021	15,460

Note: During the six months ended 30 June 2018, one additional executive Director was appointed on 23 February 2018 and two additional executive Directors were appointed on 12 April 2018. On the other hand, two executive Directors were resigned on 23 March 2018 and 24 May 2018 respectively (during the six months ended 30 June 2017, one independent non-executive Director was resigned on 31 March 2017).

22. EVENT AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the date of approval of the financial statements.

23. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board on 22 August 2018.

By order of the Board
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman

Hong Kong, 22 August 2018

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Comba

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