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# **Comba**

## **COMBA TELECOM SYSTEMS HOLDINGS LIMITED**

### **京信通信系統控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2342)**

### **Interim results announcement for the six months ended 30 June 2021**

#### **FINANCIAL HIGHLIGHTS**

- Revenue increased by 8.0% to HK\$2,418 million
- Gross profit margin decreased by 4.3% points to 28.2%
- (Loss)/profit attributable to shareholders: HK\$(89) million (2020: HK\$53 million)
- Basic (loss)/earnings per share: HK(3.26) cents (2020: HK2.09 cents)

#### **RESULTS**

The board (the “Board”) of directors (the “Director(s)”) of Comba Telecom Systems Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021, together with the comparative figures for the same period in 2020. These interim condensed consolidated financial statements have not been audited, but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

## INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	Notes	For the six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
<b>REVENUE</b>	5	<b>2,418,128</b>	2,238,485
Cost of sales		<u>(1,737,142)</u>	<u>(1,511,875)</u>
Gross profit		<b>680,986</b>	726,610
Other income and gains	5	<b>67,984</b>	80,893
Research and development expenses		<b>(256,763)</b>	(174,204)
Selling and distribution expenses		<b>(235,734)</b>	(194,143)
Administrative expenses		<b>(216,705)</b>	(234,605)
Other expenses		<b>(112,307)</b>	(123,293)
Finance costs	7	<b>(21,425)</b>	(41,296)
Share of profit of a joint venture		<b>4,907</b>	–
<b>(LOSS)/PROFIT BEFORE TAX</b>	6	<b>(89,057)</b>	39,962
Income tax expense	8	<u><b>(26,943)</b></u>	<u>(39,139)</u>
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<u><b>(116,000)</b></u>	<u>823</u>
Attributable to:			
Owners of the parent		<b>(89,360)</b>	53,137
Non-controlling interests		<u><b>(26,640)</b></u>	<u>(52,314)</u>
		<u><b>(116,000)</b></u>	<u>823</u>
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	10		
Basic		<u><b>HK(3.26) cents</b></u>	<u>HK2.09 cents</u>
Diluted		<u><b>HK(3.26) cents</b></u>	<u>HK2.04 cents</u>

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>	<b>(116,000)</b>	823
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>80,085</u>	<u>(127,523)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>80,085</u>	<u>(127,523)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of tax	<u>10,866</u>	<u>–</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>10,866</u>	<u>–</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	<u>90,951</u>	<u>(127,523)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u><b>(25,049)</b></u>	<u>(126,700)</u>
Attributable to:		
Owners of the parent	536	(70,356)
Non-controlling interests	<u>(25,585)</u>	<u>(56,344)</u>
	<u><b>(25,049)</b></u>	<u>(126,700)</u>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June 2021 <i>HK\$'000</i> (Unaudited)	31 December 2020 <i>HK\$'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,325,877	1,357,251
Right-of-use assets		239,663	283,745
Goodwill		253,077	253,077
Deferred tax assets		205,236	213,276
Intangible assets		857,205	881,565
Equity investments designated at fair value through other comprehensive income		53,564	38,563
Equity investments designated at fair value through profit or loss		30,314	30,851
Restricted bank deposits		34,981	26,366
Investment in a joint venture		16,524	11,856
		3,016,441	3,096,550
<b>CURRENT ASSETS</b>			
Inventories	11	1,406,027	1,275,812
Trade receivables	12	4,149,449	4,130,899
Notes receivable		79,022	134,132
Prepayments, other receivables and other assets		631,064	835,805
Financial assets designated at fair value through profit or loss		1,301	1,475
Restricted bank deposits		141,062	133,702
Cash and cash equivalents		1,774,005	1,716,786
		8,181,930	8,228,611
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	3,950,374	4,030,825
Other payables and accruals		599,031	844,867
Interest-bearing bank borrowings	14	1,390,439	972,173
Tax payable		83,089	78,648
Provision for product warranties		75,025	74,313
		6,097,958	6,000,826
<b>NET CURRENT ASSETS</b>		<b>2,083,972</b>	<b>2,227,785</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,100,413</b>	<b>5,324,335</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	<i>Notes</i>	<b>30 June 2021 HK\$'000 (Unaudited)</b>	31 December 2020 HK\$'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	14	–	410,300
Deferred tax liabilities		<b>147,318</b>	148,501
Lease liabilities		<b>74,777</b>	103,592
Redeemable preferred shares in a subsidiary		<b>280,743</b>	111,908
		<hr/>	<hr/>
Total non-current liabilities		<b>502,838</b>	774,301
		<hr/>	<hr/>
Net assets		<b>4,597,575</b>	4,550,034
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		<b>275,793</b>	275,060
Treasury shares		<b>(22,818)</b>	(22,818)
Reserves		<b>3,887,254</b>	3,854,671
		<hr/>	<hr/>
		<b>4,140,229</b>	4,106,913
		<hr/>	<hr/>
<b>Non-controlling interests</b>		<b>457,346</b>	443,121
		<hr/>	<hr/>
Total equity		<b>4,597,575</b>	4,550,034
		<hr/>	<hr/>

## NOTES

### 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 operator telecommunication services and their value added services.

### 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2021 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 2020.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 9, HKAS 39  
and HKFRS 7, HKFRS 4  
and HKFRS 16

*Interest Rate Benchmark Reform – Phase 2*

Amendments to HKFRS 16

*Covid-19-Related Rent Concessions beyond 30 June 2021  
(early adopted)*

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognize hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the Covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK\$551,000 has been accounted for as a variable lease payment by derecognizing part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

#### 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 and services
- (b) Operator 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.

Period ended 30 June 2021	Wireless telecommunications network system equipment and services <i>HK\$'000</i> (Unaudited)	Operator telecommunication services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue	2,315,146	102,982	2,418,128
Loss before tax	(5,420)	(83,637)	(89,057)
Segment assets Elimination	10,300,253	1,815,825	12,116,078 (917,707)
Total assets			<u>11,198,371</u>
Segment liabilities Elimination	6,407,311	1,111,192	7,518,503 (917,707)
Total liabilities			<u>6,600,796</u>
Period ended 30 June 2020	Wireless telecommunications network system equipment and services <i>HK\$'000</i> (Unaudited)	Operator telecommunication services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue	2,161,726	76,759	2,238,485
Profit/(loss) before tax	135,987	(96,025)	39,962
Segment assets Elimination	9,821,676	1,917,637	11,739,313 (880,876)
Total assets			<u>10,858,437</u>
Segment liabilities Elimination	6,135,711	1,036,856	7,172,567 (880,876)
Total liabilities			<u>6,291,691</u>



## Geographical information

### (a) Revenue from external customers

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Mainland China	1,573,719	1,570,127
Other countries/areas in Asia Pacific	423,484	328,064
Americas	282,501	190,988
European Union	111,814	129,931
Middle East	11,176	13,724
Other countries	15,434	5,651
	<u>2,418,128</u>	<u>2,238,485</u>

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

### (b) Non-current assets

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
	Mainland China	1,278,062
Lao People's Democratic Republic	1,689,323	1,768,033
Other countries/regions	49,056	41,585
	<u>3,016,441</u>	<u>3,096,550</u>

## Information about major customers

Revenue of approximately HK\$391,022,000 (six months ended 30 June 2020: HK\$509,935,000), HK\$261,793,000 (six months ended 30 June 2020: HK\$232,693,000) and HK\$194,024,000 (six months ended 30 June 2020: HK\$186,635,000) was derived from 3 major customers, which accounted for 16.2% (six months ended 30 June 2020: 22.8%), 10.8% (six months ended 30 June 2020: 10.4%) and 8.0% (six months ended 30 June 2020: 8.3%) 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.

An analysis of revenue is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2021</b> <i>HK\$'000</i> (Unaudited)	<b>2020</b> <i>HK\$'000</i> (Unaudited)
<b>Revenue</b>		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	<b>2,315,146</b>	2,156,093
Maintenance services	–	5,633
Provision of operator telecommunication services	<b>102,982</b>	76,759
	<b><u>2,418,128</u></b>	<b><u>2,238,485</u></b>

### Revenue from contracts with customers

	<b>For the six months ended 30 June</b>	
	<b>2021</b> <i>HK\$'000</i> (Unaudited)	<b>2020</b> <i>HK\$'000</i> (Unaudited)
<b>Type of customers</b>		
PRC state-owned telecommunication operator groups	<b>846,839</b>	929,263
Other customers	<b>1,571,289</b>	1,309,222
	<b><u>2,418,128</u></b>	<b><u>2,238,485</u></b>

	<b>For the six months ended 30 June</b>	
	<b>2021</b> <i>HK\$'000</i> (Unaudited)	<b>2020</b> <i>HK\$'000</i> (Unaudited)
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<b>2,315,146</b>	2,156,093
Services transferred over time	<b>102,982</b>	82,392
	<b><u>2,418,128</u></b>	<b><u>2,238,485</u></b>

An analysis of other income and gains is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2021</b> <i>HK\$'000</i> (Unaudited)	<b>2020</b> <i>HK\$'000</i> (Unaudited)
<b>Other income and gains</b>		
Bank interest income	12,739	9,072
Government subsidies <sup>#</sup>	31,101	50,407
VAT refunds	4,963	8,293
Gain on disposal of items of property, plant and equipment	–	3,215
Gross rental income	4,210	2,967
Technical services income	10,121	2,794
Scrapped and recycled items sales income	1,407	1,897
Penalty income	1,100	92
Other miscellaneous income	2,343	2,156
	<u>67,984</u>	<u>80,893</u>

<sup>#</sup> 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.

## 6. (LOSS)/PROFIT BEFORE TAX

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

	<b>For the six months ended 30 June</b>	
	<b>2021</b> <i>HK\$'000</i> (Unaudited)	<b>2020</b> <i>HK\$'000</i> (Unaudited)
Cost of inventories sold and services provided	1,685,160	1,487,417
Depreciation of property, plant and equipment <sup>##</sup>	102,277	102,962
Depreciation of right-of-use assets	25,086	19,957
Amortization of computer software, technology and operating license <sup>##</sup>	15,371	14,092
Research and development expenses:		
Deferred expenditure amortized**	56,626	28,227
Current period expenditure	200,137	145,977
	<u>256,763</u>	<u>174,204</u>

	<b>For the six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Employee benefit expense (including directors' remuneration):		
Salaries and wages	<b>400,693</b>	360,091
Staff welfare expenses	<b>19,376</b>	25,309
Equity-settled share option expense	<b>11,481</b>	15,083
Awarded share expenses	<b>12,150</b>	–
Pension scheme contributions (defined contribution scheme)#	<b>34,630</b>	15,791
	<b>478,330</b>	416,274
Exchange loss, net*	<b>9,293</b>	15,476
Provision for product warranties^	<b>9,928</b>	11,933
Write-down of inventories to net realizable value^	<b>41,667</b>	5,720
Impairment of trade receivables and notes receivable### (Reversal)/impairment of financial assets included in prepayments, other receivables and other assets###	<b>18,503</b>	39,441
Loss/(gain) on disposal of items of property, plant and equipment###	<b>(2,900)</b>	7,905
Loss on fair value change of financial assets designated at fair value through profit or loss###	<b>5,985</b>	(3,215)
Loss on fair value change of redeemable preferred shares in a subsidiary###	<b>1,923</b>	661
Loss on equity investments designated at fair value through profit or loss###	<b>11,116</b>	–
	<b>926</b>	–

^ The provision for product warranties and write-down of inventories to net realizable value for the period were included in “Cost of sales” in the consolidated statement of profit or loss.

# At 30 June 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2020: Nil).

\* Net exchange loss is included in “Administrative expenses” in the consolidated statement of profit or loss.

\*\* The amortization for deferred development expense is included in “Research and development expenses” in the consolidated statement of profit or loss. The amount being capitalized during the period is HK\$31,709,000 (30 June 2020: HK\$63,857,000).

## The depreciation of property, plant and equipment and amortization of computer software and technology and operating license amounting to HK\$62,206,000 (six months ended 30 June 2020: HK\$60,441,000) and HK\$11,661,000 (six months ended 30 June 2020: HK\$11,661,000) are included in “Other expense” in the consolidated statement of profit or loss.

### Impairment of trade receivables and notes receivable, impairment of financial assets included in prepayments, other receivables and other assets, loss on disposal of items of property, plant and equipment, loss on fair value change of financial assets designated at fair value through profit or loss, loss on fair value change of redeemable preferred shares in a subsidiary and loss on equity investments designated at fair value through profit or loss are included in “Other expenses” in the consolidated statement of profit or loss.

## 7. FINANCE COSTS

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest on bank borrowings	19,630	39,739
Interest on factored trade receivables	84	–
Interest on lease liabilities	1,699	1,557
Others	12	–
Total	<u>21,425</u>	<u>41,296</u>

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2020: Nil). 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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current – charge for the period		
Hong Kong	–	–
Mainland China	9,703	6,774
Elsewhere	11,373	6,956
Current – underprovision in prior periods	–	10,926
Deferred	5,867	14,483
Total tax charge for the period	<u>26,943</u>	<u>39,139</u>

Under the relevant income tax law, the subsidiaries in Mainland China are subject to corporate income tax at a statutory rate of 25%, except for certain subsidiaries that entitled to the preferential tax rate of 15% based on the designation as High-New Technology Enterprises, on their respective taxable income during the period.

## 9. DIVIDENDS

	For the six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Final declared and paid – Nil (2020: HK1.2 cents) per ordinary share	–	32,895
Interim – Nil (six months ended 30 June 2020: HK0.7 cent) per ordinary share	–	19,224
	<u>–</u>	<u>52,119</u>

*Note:*

The Directors recommended that not to declare an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: HK0.7 cents per ordinary share).

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

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,737,662,000 (six months ended 30 June 2020: 2,536,938,000) in issue less shares held for the share award scheme of the Company (“Share Award Scheme”) during the period.

The calculation of the diluted (loss)/earnings per share amounts is based on the (loss)/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 loss per share amounts presented for the six months ended 30 June 2021 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted (loss)/earnings per share are based on:

	<b>For the six months ended 30 June</b>	
	<b>2021</b>	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(Loss)/earnings</b>		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	<b>(89,360)</b>	53,137
	<b>2,737,662,000</b>	2,536,938,000
	<b>–</b>	62,511,000
	<b>2,737,662,000</b>	<b>2,599,449,000</b>

## 11. INVENTORIES

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	31 December 2020 HK\$'000 (Audited)
Raw materials	<b>370,384</b>	315,394
Project materials	<b>106,133</b>	71,857
Work in progress	<b>62,198</b>	68,573
Finished goods	<b>581,950</b>	538,946
Inventories on site	<b>285,362</b>	281,042
	<b><u>1,406,027</u></b>	<u>1,275,812</u>

## 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 customers which are granted with a longer credit term. The balances also include retention money, which is for assurance that the product and services comply with agreed-upon specifications, 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. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	31 December 2020 HK\$'000 (Audited)
Within 3 months	<b>1,454,157</b>	1,630,971
4 to 6 months	<b>360,646</b>	467,199
7 to 12 months	<b>1,102,893</b>	625,451
More than 1 year	<b>1,803,863</b>	1,956,150
	<b>4,721,559</b>	4,679,771
Provision for impairment	<b>(572,110)</b>	(548,872)
	<b><u>4,149,449</u></b>	<u>4,130,899</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on groupings of various customer segments with similar loss patterns (i.e., geography, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 30 June 2021	Current	Past due			Total
		Less than 1 year	1-2 years	Over 2 years	
Expected credit loss rate	1.52%	2.15%	13.74%	57.62%	
Gross carrying amount (HK\$'000)	2,974,894	592,992	343,095	810,578	4,721,559
Expected credit losses (HK\$'000)	45,125	12,738	47,155	467,092	572,110

  

As at 31 December 2020	Current	Past due			Total
		Less than 1 year	1-2 years	Over 2 years	
Expected credit loss rate	1.55%	2.35%	14.82%	55.80%	
Gross carrying amount (HK\$'000)	2,748,975	794,891	356,643	779,262	4,679,771
Expected credit losses (HK\$'000)	42,504	18,664	52,837	434,867	548,872

### 13. TRADE AND BILLS PAYABLES

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

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	31 December 2020 HK\$'000 (Audited)
Within 3 months	<b>1,729,704</b>	2,085,758
4 to 6 months	<b>425,919</b>	622,696
7 to 12 months	<b>945,746</b>	423,889
More than 1 year	<b>849,005</b>	898,482
	<b><u>3,950,374</u></b>	<u>4,030,825</u>

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



#### 14. INTEREST-BEARING BANK BORROWINGS

	<b>30 June 2021 HK\$'000 (Unaudited)</b>	31 December 2020 HK\$'000 (Audited)
Analyzed into:		
Within 1 year or on demand	<b>1,390,439</b>	972,173
In the 2nd year	–	410,300
	<b><u>1,390,439</u></b>	<b><u>1,382,473</u></b>

As at 30 June 2021, loans denominated in Hong Kong dollars and RMB amounted to HK\$1,275,020,000 (31 December 2020: HK\$1,285,100,000) and HK\$115,419,000 (31 December 2020: HK\$97,373,000), respectively.

The Company and five of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited, Comba Telecom Limited, Comba Telecom Systems Limited and Comba Telecom Technology (Guangzhou) 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 2021 bear interest at rates ranging from 1.5% to 3.9% (31 December 2020: from 3.05% to 3.10%) per annum.

#### 15. 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS AND FINANCIAL REVIEW

Under the prolonged impact of the outbreak of the COVID-19, 5G construction worldwide (including China) has been delayed to a certain extent during the first half of 2021. However, in the second half of the year, as the Chinese government continued to push forward the implementation of the new infrastructure strategy, major domestic telecom operators have successively issued tender announcements in relation to 5G network infrastructure since May this year, which facilitated the 5G construction to forge ahead continuously.

#### Revenue

The Group reported the interim revenue of HK\$2,418,128,000 (2020: HK\$2,238,485,000) for the six months ended 30 June 2021 (the “Current Period”), representing an increase of 8.0% compared to the six months ended 30 June 2020 (the “Prior Period”). The increase in revenue was mainly attributable to the expansion of the overseas business, particularly the satisfactory results recorded from the network products.

#### *By Customers*

During the Current Period, revenue generated from China Mobile Communications Corporation and its subsidiaries decreased by 23.3% over the Prior Period to HK\$391,022,000 (2020: HK\$509,935,000), accounting for 16.2% of the Group’s revenue in the Current Period, compared to 22.8% in the Prior Period.

Revenue generated from China United Telecommunications Corporation and its subsidiaries increased by 4.0% over the Prior Period to HK\$194,024,000 (2020: HK\$186,635,000), accounting for 8.0% of the Group’s revenue in the Current Period, compared to 8.3% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries increased by 12.5% over the Prior Period to HK\$261,793,000 (2020: HK\$232,693,000), accounting for 10.8% of the Group’s revenue in the Current Period, compared to 10.4% in the Prior Period.

Revenue generated from China Tower Corporation Limited increased by 24.2% over the Prior Period to HK\$215,157,000 (2020: HK\$173,281,000), accounting for 8.9% of the Group’s revenue in the Current Period, compared to 7.8% in the Prior Period.

During the Current Period, revenue from other customers in Mainland China increased by 38.3% over the Prior Period to HK\$341,435,000 (2020: HK\$246,945,000) and represented 14.1% (2020: 11.0%) of the Group’s revenue.

On the international front, during the Current Period, revenue generated from international customers and core equipment manufacturers increased by 12.2% over the Prior Period to HK\$911,715,000 (2020: HK\$812,237,000), accounting for 37.7% of the Group's revenue in the Current Period, compared to 36.3% in the Prior Period. The increase was mainly due to the expansion of the Group's overseas business and the increase in sales of network products during the Current Period.

During the Current Period, revenue from ETL Company Limited ("ETL"), a middle and small-sized telecom operator in Laos and non-wholly-owned subsidiary of the Group, increased by 34.2% over the Prior Period to HK\$102,982,000 (2020: HK\$76,759,000), accounting for 4.3% of the Group's revenue in the Current Period (2020: 3.4%). The increase in revenue was mainly due to the promising improvement in the related business since the completion and full commercialization of the nationwide 4.5G network in Laos by ETL.

#### *By Business*

During the Current Period, revenue generated from the antennas and subsystems business decreased by 13.4% over the Prior Period to HK\$722,931,000 (2020: HK\$834,350,000), accounting for 29.9% (2020: 37.3%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to the delayed construction of certain 5G network capital projects by major domestic telecom operators under the influence of the COVID-19 pandemic, as a result of which the tender of centralized procurement of the related 5G antenna products only commenced in or after May 2021 successively and hence such sales have not been reflected in the financial statements for the Current Period.

During the Current Period, revenue generated from the network system business (including wireless enhancement and wireless access) increased by 27.3% over the Prior Period to HK\$671,699,000 (2020: HK\$527,451,000), accounting for 27.8% (2020: 23.6%) of the Group's revenue in the Current Period. The increase in revenue was mainly attributable to the continuous improvement in the overall operational efficiency of the Group's network system business segment after its restructuring and optimization, the good progress on the international new indoor coverage business as well as the expansion of vertical industrial application of Open RAN products and base station products which recorded satisfactory results.

During the Current Period, revenue from services increased by 14.5% over the Prior Period to HK\$782,882,000 (2020: HK\$683,765,000), accounting for 32.4% (2020: 30.5%) of the Group's revenue. The increase in revenue was mainly attributable to the fact that the Group optimized the servicing team and undertook higher quality construction projects.

During the Current Period, revenue from other business (including wireless transmission) increased by 18.5% over the Prior Period to HK\$137,634,000 (2020: HK\$116,160,000), accounting for 5.6% (2020: 5.2%) of the Group's revenue. Among which, revenue from the wireless transmission business increased significantly by 25.0% to HK\$136,384,000 (2020: HK\$109,130,000), mainly due to the product upgrade and market expansion of the Group's microwave business.

### *Gross Profit*

During the Current Period, the Group's gross profit decreased by 6.3% over the Prior Period to HK\$680,986,000 (2020: HK\$726,610,000). The Group's gross profit margin was 28.2% in the Current Period (2020: 32.5%), a decrease of 4.3 percentage points compared to the Prior Period. The decrease in the Group's gross profit margin during the Current Period was mainly attributable to the increase in costs as a result of the continuous rise in global bulk commodity prices this year and the prolonged impact of the COVID-19 pandemic on the global economy, which led to higher cost of operation, including transportation fees and others and in turn a corresponding decrease in gross profit margin of some of its products. The Group will continue to launch new 5G products to maintain a stable gross profit margin and improve competitiveness.

### **Research and Development (“R&D”) Expenses**

During the Current Period, R&D expenses increased by 47.4% over the Prior Period to HK\$256,763,000 (2020: HK\$174,204,000), accounting for 10.6% (2020: 7.8%) of the Group's revenue. As 5G technology gradually enters the stage of in-depth development, the Group increased the relevant investment in its R&D activities to get well-prepared for the launch of the 5G network and enhance the competitiveness of new 5G products, aiming to capture business opportunities amidst the digitalization of the mobile telecommunications industry.

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 5,100 patents as of the end of the Current Period (31 December 2020: approximately 4,800 patents).

### **Selling and Distribution (“S&D”) Expenses**

During the Current Period, S&D expenses increased by 21.4% over the Prior Period to HK\$235,734,000 (2020: HK\$194,143,000), accounting for 9.7% (2020: 8.7%) of the Group's revenue. In view of the Group's commitment to strengthening its business expansion, the relevant S&D expenses increased. The management expects such expenses to be improved to an optimal level in the future.

### **Administrative Expenses**

During the Current Period, administrative expenses decreased by 7.6% over the Prior Period to HK\$216,705,000 (2020: HK\$234,605,000), accounting for 9.0% (2020: 10.5%) of the Group's revenue. The decrease in administrative expenses was primarily due to the Group's strategy of optimizing the organizational management structure on an ongoing basis, which boosted the operational efficiency of the Company.

## **Finance Costs**

During the Current Period, finance costs decreased by 48.1% over the Prior Period to HK\$21,425,000 (2020: HK\$41,296,000), accounting for 0.9% (2020: 1.8%) of the Group's revenue. The decrease in finance costs was mainly due to the fact that the Group optimized the loan portfolio and the decrease in the interests arising from the lower market interest rates during the Current Period.

The management has constantly exercised prudence in managing credit risk and the level of bank borrowings as well as improving cash flows. To cope with the business growth, the management will closely monitor the latest trends in the financing market, changes in interest rates and financial policies on the market, and arrange the most appropriate financing for the Group, in order to improve the structure of its debts and thereby reduce its financing costs.

In addition, the management has leveraged the difference between interest rate and foreign exchange rate among different countries to minimize finance costs. As at 30 June 2021, the gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, was 12.4% compared with the gearing ratio of 12.2% as at 31 December 2020.

## **Other Expenses**

During the Current Period, other expenses decreased by 8.9% over the Prior Period to HK\$112,307,000 (2020: HK\$123,293,000), representing 4.6% (2020: 5.5%) of the Group's revenue. The decrease in other expenses was mainly due to the decrease in the provision of trade and other receivables during the Current Period.

## **Operating Loss**

During the Current Period, the operating loss of the Group was HK\$72,539,000 (2020: operating profit of HK\$81,258,000). The decrease in operating profit was mainly due to the decrease in the Group's gross profit and the increase in R&D expenses during the Current Period.

## **Tax**

During the Current Period, the Group's overall taxation charge of HK\$26,943,000 (2020: HK\$39,139,000) comprised an income tax expense of HK\$21,076,000 (2020: HK\$24,656,000) and a deferred tax charge of HK\$5,867,000 (2020: deferred tax charge of HK\$14,483,000). The decrease in overall tax charge was mainly due to the net loss recorded by the Group during the Current Period.

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

## **Net Loss**

During the Current Period, with the decrease in gross profit and increase in R&D expenses, loss attributable to owners of the parent of the Group was HK\$89,360,000 (2020: profit attributable to owners of the parent of HK\$53,137,000).

## **Dividend**

In view of the Group's operating results in the first half of 2021 and taking into consideration its long-term future development and the interests of the shareholders of the Company (the "Shareholders"), particularly those of minority Shareholders, the Board does not recommend the payment of an interim dividend for 2021 (2020: HK0.7 cent).

## **Prospects**

In 2021, the commercialization of stage 1 5G standards has commenced. Through the evolution of network and technological advancement, 5G application has become popular rapidly. As China continued to push forward the implementation of new infrastructure strategy, the centralised procurement biddings for related 5G antenna products of major domestic telecom operators have successively started, resuming the development of certain 5G network capital projects; certain countries and regions also took the path of in-depth 5G development gradually. As such, the Group is optimistic about the business development prospects and will continue to study advanced technology and innovative products in the 5G- and post-5G era so as to consistently provide products and services with high-cost efficiency for 5G network upgrade of global operators.

## **Products and Solutions**

### *Base Station Antenna and Subsystems*

Leveraging its extensive experience in mobile telecommunication network construction and its supreme technology in the integration and miniaturisation of integrated multi-frequency and multisystem antenna developed over the years, the Group has a long-established leading position in the base station antenna market. It has been widely recognized by numerous domestic and overseas telecommunication network operators, equipment manufacturers and integrators, with antenna business presence in more than 100 countries and regions globally.

The deployment of the 5G-era network faces challenges such as limited antenna base station location spaces, and high cost of network construction and operation. This has set higher standards for multisystem integrated antenna. The Group has been actively engaged in the R&D of new technologies and products. Following the development direction towards multi-frequency and multi-mode, integration and small and lightweight, the Group developed various base station antenna solutions in the 5G era that are applicable to different scenarios, such as the active 5G Massive MIMO antennas, 4G/5G convergent antenna product series, FDD ultra-multi-port multi-system shared antennas, TDD/FDD hybrid convergent antennas and "A + P" integrated convergent antenna. These products cater to customer needs in various scenarios and facilitate the building of the 5G network.

In spite of the global COVID-19 pandemic, the Group maintained a steady supply of all antennas for all sub6GHz frequencies during the Current Period. Thanks to the product technological innovation in, among other aspects, innovative multiplexing technology in wave transmission radiator and matrix space, highly integrated ultra-thin phasing-feed network technology, transmission based on electric device multiplexing and ultra-thin RET control system, innovative one-off welding technology based on overall heating on multi-dimensional welding sections and manufacturing process and technological innovation in, among other aspects, welding technology of highly integrated and complicated antennas, the Group has become highly competitive in the industry in term of product performance indicators, volume, weight and product quality of highly integrated and complicated antennas. The major customer base of international market is gradually expanding with many global large-scale operator customers added to the portfolio and the order size increased as compared to the Prior Period. The innovation-led 4G/5G(8TR) convergent antenna has officially become the main solution for 5G network coverage. The 700M and 2.1G 5G base station antenna products in the domestic market have successively won the bids for certain antenna product projects of major telecom operators in Mainland China; the antenna and subsystem R&D and cooperation business of core equipment manufacturers maintained stable market share.

In addition, the Group targeted the indoor coverage capacity of “5G broad indoor coverage” and introduced “innovative solutions of antenna for broad indoor coverage” and “innovative antenna and subsystem solution for 5G rail transit coverage” targeted to high-speed rail and tunnel coverage, which have commenced the large-scale application in various provinces in Mainland China. As 5G indoor coverage develops and operators increase investment in 5G coverage on roads, these new customized antennas will continue to contribute to future improvement of business performance.

#### *Network Product System Solutions*

Comba Network Systems Company Limited (“Comba Network”, together with its subsidiaries, collectively referred as the “Comba Network Group”), an indirect subsidiary of the Company, is principally engaged in the manufacture and sale of wireless telecommunications network system equipment and provision of related comprehensive solutions. It currently focuses on R&D, manufacturing and sale of network system products, including macro cells, small cells, related extended & in-depth coverage solutions and Open RAN products as well as provision of network solutions for the 5G vertical industry.

Comba Network Group is the pioneer of small cells that possesses the fully independent R&D ability in softwares and hardwares with general agreed-upon specifications for 4G/5G access network. Comba Network Group has diversified products with the depth and coverage capacity covering the entirely scenario-based high-power cells, micro cells, pico cells, femto cells and the co-constructing and sharing indoor coverage and Open RAN products in mobile telecommunication. In respect of 5G vertical industries, it provides fundamental networks and platform solutions catering to the specific needs and applications of the target industry, promotes the application and implementation of 5G in vertical industries such as industrial, mining and medical sectors and empowers the smart upgrade of the industries.



Comba Network Group's 5G small cell products have commenced commercial trial and commercial use of the 5G products of the three major operators in more than ten provinces. In addition, certain projects for the commercial use of 5G small cells in various provinces have been contracted. The value and advantage of our low-cost and rapid 5G network construction are highly recognized by customers. In the second half of the year, Comba Network Group will actively participate in the centralized procurement of China Mobile's 5G extended small cells.

Leveraging years of extensive experience in the design, development and deployment of radio frequency related products of mobile telecommunication, Comba Network Group has catered to the immediate demands of the global operator market for the open network technology of Open RAN and launched the standardized and platform-based high-power remote radio unit (RRU) product series, which has the advantage of supporting the advanced technologies such as multi-carrier and multi-mode, high efficiency and high capacity. This product series adopts ORAN Alliance's fronthaul gateway and thereby fulfills inter-connection and compatibility with the advanced manufacturers of base-band units in the industry. Furthermore, Comba Network Group has entered into strategic cooperation with the leading integrators in the industry. Recognized by the leading operator groups in the industry, the Open RAN RRU product series has participated in various deployment for commercial use and pilot schemes globally and has been widely applied in various scenarios of coverage application. In the first half of the year, Comba Network Group has launched the industry's first Open RAN dual-frequency and multi-mode Open RAN remote radio unit (RRU), thereby continuing to lead the technological innovation of the industry.

Given the accelerating development of 5G indoor coverage and industrial applications, Comba Network Group will pursue continuous innovation and offer competitive products and comprehensive solutions to customers and partners, so as to achieve win-win outcomes through cooperation and promote the 5G-empowered digital transformation of the industry.

## **MARKET EXPANSION**

### **Operator Business in China**

Although the COVID-19 outbreak in 2020 delayed 5G construction in Mainland China to a certain extent, the country took an irreversible step forward for 5G development and stably maintained its leadership in the global 5G market among the others. During the Current Period, the three major operators launched the 5G commercial network in an orderly manner. Mainland China has the largest number of 5G macro cells and 5G users in the world. Its 5G development has entered a new stage of more in-depth deployment.

Following the large-scale deployment of the 5G mobile network by the three major operators intensively, the construction of the 5G network faces new challenges. The width of network coverage has to be considered during network construction and the development of low- to mid- frequency 5G spectrum is underway. The Group successfully won the bids for certain antenna product projects of major telecom operators in Mainland China, ranking top 2 in both sectors, which has shown the customers' full recognition of the Group and showcased the Group's technological capability, innovation ability, manufacturing ability and comprehensive strength in the antenna sector and has laid a solid foundation for achieving the targeted performance in antenna and subsystem for this year and next year.



Furthermore, the deployment of 5G indoor coverage was widely discussed, which further optimized the coverage of the 5G network. In the first quarter of 2021, the Group successfully deployed its ComFlex Pro solution for 3 Hong Kong, enabling visitors and employees in various major landmark buildings in Hong Kong, China to enjoy 5G services seamlessly. The Group will continue to give full play to its R&D strengths developed over the years. In addition, it will continue to provide comprehensive business support to customers.

## **International Business**

The Group's international marketing platform expands the overseas market actively by exploring customer demands, developing the target markets, developing new products and maintaining competitiveness of products. The Group will continue the steady cooperation with international mobile operators and globally leading telecom core equipment manufacturers in network construction. Apart from offering advanced 5G application solution to customers globally, it will tap into the demand for 4G massive network construction in various countries or regions in the world with imbalanced network development, so as to strengthen its position in the global market continuously. During the Current Period, the Group achieved satisfactory results in the international business by capitalizing on its comprehensive strengths in product and technology. At the same time, its overall operation improved against the downward trend. In order to maintain its position as the leading supplier, the Group will continue to strengthen the close relationship with telecom core equipment manufactures in 5G development.

During the Current Period, the Group made substantial progress in the field of Open RAN. It announced the launch of first remote radio unit (RRU) in the Open RAN industry supporting multiple wireless access technologies and multiple frequencies, facilitating the wide application of emerging open standards worldwide and boosting more practical cases based on various scenarios. With the aim of promoting the growth of Open RAN industrial alliance, the Group will continue to expand the Open RAN ecosystem, seek strategic partners, explore sales channels and conduct joint product R&D.

## **New Business**

The three major applications for 5G, namely enhancement of mobile broadband, large-scale internet of things, and ultra-reliable and low latency communication, will bring revolutionary changes to the mode of production and people's daily lives. During the Current Period, the Group continued to explore areas such as "5G+vertical industry applications" and promoted the effective integration of 5G technology with various aspects of intelligent manufacturing, including intelligent manufacturing workshop, flexible production lines and intelligent machinery. For instance, the Group made technological breakthroughs in the "5G+Mobile Robot" product series, established the AGV mainstream car model series and commenced the related pilot projects. In the future, the Group will actively develop related innovative business and strive to make contributions to its business results.

## **CONCLUSION**

In the first half of 2021, amidst the global COVID-19 pandemic, the 5G network construction experienced delays to a certain extent. Nevertheless, following the massive vaccination and gradual recovery of economic activities, the Group is optimistic about the business development prospects for the second half of the year. Successively winning the bids for certain antenna product projects of major telecom operators in Mainland China has demonstrated the customers' full recognition of the Group and showcased the Group's technological capability, innovation ability, manufacturing ability and comprehensive strengths in the antenna sector and has laid a solid foundation for achieving the targeted performance in antenna for this year and next year. Co-construction and sharing for network products overseas, the new indoor coverage business and the continuous expansion of Open RAN market will certainly foster the sustained and rapid business growth in the future.

The Group will continue to proactively engage in the development of new 5G technologies and the research on advanced technology and innovative products in the post-5G era so as to consistently provide products and services with high-cost efficiency for the 5G network upgrade of the global operators. It will strive to create value for customers and Shareholders as a whole.

## **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 2021, the Group had net current assets of HK\$2,083,972,000. Current assets comprised inventories of HK\$1,406,027,000, trade receivables of HK\$4,149,449,000, notes receivable of HK\$79,022,000, prepayments, other receivables and other assets of HK\$631,064,000, financial assets designated at fair value through profit or loss of HK\$1,301,000, restricted bank deposits of HK\$141,062,000 and cash and cash equivalents of HK\$1,774,005,000. Current liabilities comprised trade and bills payables of HK\$3,950,374,000, other payables and accruals of HK\$599,031,000, interest-bearing bank borrowings of HK\$1,390,439,000, tax payable of HK\$83,089,000 and provision for product warranties of HK\$75,025,000.

The average receivable turnover for the Current Period was 312 days compared to 320 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 customers which are granted with longer credit term. The balances also include retention money, which is for assurance that the product and service comply with agreed-upon specifications, 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 419 days compared to 470 days for the Prior Period. The average inventory turnover for the Current Period was 141 days compared to 158 days for the Prior Period.

As at 30 June 2021, 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 3-year term loan facility agreement with certain financial institutions with the principal amount of HK\$980,000,000 on 30 January 2019 which was further increased to HK\$1,458,000,000 by way of accession. The related outstanding loan balance was fully settled in July 2021 by making use of new 3-year term loan facility agreements and the Group's own fund. Details of bank borrowings are set out in note 14 above.

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 2021, the Group has outstanding non-deliverable foreign currency option contracts in respect of Indonesian Rupiah, Indian Rupee and Brazilian Real with notional amount of nil, US\$6,000,000 and US\$5,000,000 respectively (31 December 2020: US\$3,000,000, US\$5,000,000 and US\$5,000,000 respectively).

The Group will also closely monitor the fluctuation of exchange rate in other currencies and will consider hedging such foreign currency should the need arise.

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 12.4% as at 30 June 2021 (31 December 2020: 12.2%).

In spite of the global outbreak of the COVID-19 pandemic, the Group's financial position remains sound with sufficient working capital.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

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

## **USE OF PROCEEDS**

On 28 April 2020, the top-up placing of a total of 282,000,000 ordinary shares of the Company of a nominal value of HK\$0.10 each at a placing price of HK\$3.05 per share to not less than six placees (who were professional, institutional and/or individual investors), together with their respective ultimate beneficial owners, are third parties independent of, not acting in concert and not connected with the Company or its connected persons (as defined under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) (the "Placing") was completed.

On 8 May 2020, 150,000,000 and 80,000,000 new ordinary shares of the Company of a nominal value of HK\$0.10 each were issued and allotted to Prime Choice Investments Limited and Wise Logic Investments Limited, the substantial Shareholders (as defined under the Listing Rules), respectively at a subscription price of HK\$3.05 per share (the “Subscription”).

The Placing and the Subscription were undertaken to supplement the Group’s long-term funding of its expansion and growth plan and to provide an opportunity to raise further capital for the Company whilst broadening the shareholder base and the capital base of the Company. The market price as stated in the daily quotations sheet issued by the Stock Exchange on 24 April 2020, being the date of execution of the agreement regarding the Placing and the Subscription, was HK\$3.17 per share.

The net proceeds from the Placing and the Subscription as disclosed in the announcements of the Company dated 23 April 2020, 24 April 2020, 28 April 2020 and 8 May 2020 are approximately HK\$686,235,000 (after deducting the related costs and expenses) and the net subscription price of each share of the Company was approximately HK\$2.98 (after deducting the related costs and expenses). As at 30 June 2021, the Company has utilized the net proceeds, details are set out as follow:

Net proceeds raised <i>HK\$'000</i>	Intended use of the net proceeds	Amounts utilized as at 31 December 2020 <i>HK\$'000</i>	Amounts utilized during the Current Period <i>HK\$'000</i>	Amounts unutilized as at 30 June 2021 <i>HK\$'000</i>	Expected timeline for utilizing the residual amount of net proceeds*
515,390	(a) R&D of 5G small cells and Open RAN, 5G antenna development and filter, and development of 5G+ vertical applications	144,357	72,365	298,668	by 30 June 2023
170,845	(b) expansion of production capacity, focusing on the production of 5G small cells and antenna products	44,496	38,148	88,201	by 30 June 2023
<u>686,235</u>		<u>188,853</u>	<u>110,513</u>	<u>386,869</u>	

\* The expected timeline for utilizing the residual amount of the net proceeds is based on the best estimation of the future market conditions made by the Group and will be subject to change based on future development of market conditions.

## **RESTRICTED BANK DEPOSITS**

Deposit balances of HK\$176,043,000 (31 December 2020: HK\$160,068,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

## **CONTINGENT LIABILITIES**

As at 30 June 2021, the Group had contingent liabilities of HK\$312,075,000 (31 December 2020: HK\$381,819,000), which mainly included guarantees given to banks in respect of performance bonds.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2021, the Group had approximately 6,000 staffs, out of which 1,300 staffs from ETL (31 December 2020: 6,000 staffs, out of which 1,300 staffs from ETL). The total staff costs, excluding capitalized development cost, for the Current Period were HK\$478,330,000 (30 June 2020: HK\$416,274,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal and regulatory 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, legal and regulatory requirements and in accordance with the share option scheme, share award scheme and share incentive scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staffs in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements in such jurisdictions. The Group also provides training to the staffs 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**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Period.

## **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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules 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.

## **AUDIT COMMITTEE**

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 the unaudited interim condensed consolidated 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 the unaudited interim condensed consolidated financial statements for the Current Period and has not given any disagreement.

## **PUBLICATION OF INTERIM REPORT**

2021 Interim Report containing all information required by the Listing Rules will be despatched to the Shareholders and published on the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.comba-telecom.com>) in due course.

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

Hong Kong, 26 August 2021

*As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Mr. XU Huijun, Mr. CHANG Fei Fu, Mr. BU Binlong and Ms. HUO Xinru; the following non-executive Director: Mr. WU Tielong; and the following independent non-executive Directors: Mr. LAU Siu Ki, Kevin, Dr. LIN Jin Tong, Ms. NG Yi Kum and Ms. WONG Lok Lam.*