

Comba

京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 2342

2011

中期報告 Interim Report



**Promoting growth with innovation
Seizing opportunities with technology**
用創新推動成長 憑科技再取先機



FINANCIAL HIGHLIGHTS

- Revenue increased by 27.1% to HK\$2,545 million
- Gross profit increased by 20.0% to HK\$966 million
- Profit attributable to ordinary equity holders of the parent increased by 13.7% to HK\$317 million
- Basic earnings per share increased by 10.6% to HK21.62 cents
- Interim dividend of HK5 cents per share (2010: HK6 cents per share)
- Net asset value per share increased by 7.2% to HK\$2.39, as compared to HK\$2.23 (restated) as at 31 December 2010

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling (*Chairman & President*)

Zhang Yue Jun

Tong Chak Wai, Wilson

Wu Jiang Cheng

Yan Ji Ci

Zheng Guo Bao

Yeung Pui Sang, Simon

Independent Non-Executive Directors

Yao Yan

Lau Siu Ki, Kevin

Liu Cai

COMPANY SECRETARY

Tong Chak Wai, Wilson

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin

Yao Yan

Liu Cai

AUTHORIZED REPRESENTATIVES

Fok Tung Ling

Tong Chak Wai, Wilson

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

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 609

Grand Cayman KY1-1107

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

During the first half of 2011, the global economy was clouded with many uncertainties and faced strong headwinds from Japan's nuclear disaster, the US economic stagnation and looming debt issue as well as the escalating sovereign debt crisis in the European countries. Despite such a bearish market sentiment, China, on the other hand, continued to maintain a steady economic growth. Meanwhile, the Chinese Telecom regulator, the Ministry of Industry and Information Technology reported that the industry capital expenditure ("capex") was RMB143.1 billion in the first half of 2011, representing an increase of 56.5% compared to the corresponding period of last year, and the mobile subscribers reached more than 900 million. Hence, the Group continued to deliver solid financial results for the six months ended 30 June 2011 (the "Current Period") with a desirable growth in revenue and profit, thanks to the solid and continuous demand for wireless network enhancement.

Revenue

The Group's revenue for the Current Period was HK\$2,545,114,000 (2010: HK\$2,002,261,000), representing an increase of 27.1% over the revenue for the six months ended 30 June 2010 (the "Prior Period"). The increase was mainly driven by the growing demand from the global mobile operators for network optimization. As a result of continuous efforts in overseas expansion, sales from the international markets (including core equipment manufacturers) jumped 47.2% from the Prior Period to HK\$349,648,000 (2010: HK\$237,490,000) and accounted for 13.7% of the Group's total revenue.

During the first half of 2011, network enhancement for second generation ("2G") mobile communications continued uninterruptedly with the aim to further enhance the penetration rate throughout China and, in particular, within rural areas. On the other hand, sales from third generation ("3G") mobile network projects reported a 91.7% increase year-on-year to HK\$666,418,000 and accounted for 26.2% of the Group's total revenue, resulting from stronger demand for 3G network deployment and optimization as a consequence of the escalating number of 3G subscribers and the data usage by the subscribers.

Management Discussion and Analysis (Cont'd)

By customers

Revenue generated from the China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") rose significantly by 39.4% to HK\$1,450,406,000 (2010: HK\$1,040,710,000) and accounted for 57.0% of the Group's revenue in the Current Period compared to 52.0% in the Prior Period. The raise in revenue from China Mobile Group was primarily due to the continuous network enhancement in the 2G mobile network and replacement of base transceiver station antennas to improve the network quality.

During the Current Period, revenue generated from the China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased slightly by 3.8% to HK\$528,900,000 (2010: HK\$509,728,000) and accounted for 20.8% of the Group's revenue in the Current Period compared to 25.5% in the Prior Period.

Revenue generated from the China Telecommunications Corporation and its subsidiaries ("China Telecom Group") decreased by 12.7% to HK\$159,101,000 (2010: HK\$182,218,000) and accounted for 6.3% of the Group's revenue in the Current Period compared to 9.1% in the Prior Period. The decrease in revenue from China Telecom Group was primarily due to the delay of some network enhancement projects. However, the management expects the projects will be expedited in the second half of the year.

During the Current Period, revenue generated from international customers and core equipment manufacturers increased remarkably by 47.2% to HK\$349,648,000 (2010: HK\$237,490,000) and accounted for 13.7% of the Group's revenue in the Current Period compared to 11.9% in the Prior Period. The increase in revenue was primarily due to the network deployment in the international market and the strong demand for total solutions for network upgrade in some emerging markets and further successful diversification of Group's international customer portfolios. Notwithstanding the slower-than-expected recovery of the Indian market, the overall growth of the international market has not been affected.

By businesses

Revenue generated from wireless enhancement business in the Current Period increased by 26.9% to HK\$879,429,000 (2010: HK\$693,173,000) and accounted for 34.6% of the Group's revenue in the Current Period. The increase in revenue was mainly contributed by

Management Discussion and Analysis (Cont'd)

the continuous 2G mobile network enhancement and also the increasing number of 3G mobile network enhancement projects which substantially drove the sales of remote radio units.

Revenue generated from the antennas and subsystems business in the Current Period increased by 17.7% to HK\$816,493,000 (2010: HK\$693,519,000) and accounted for 32.1% of the Group's revenue in the Current Period compared to 34.6% in the Prior Period. The growth in revenue was mainly driven by strong demand for the replacement of base transceiver station antennas.

Revenue generated from wireless access business increased significantly by 124.3% to HK\$206,775,000 (2010: HK\$92,183,000) and accounted for 8.1% of the Group's revenue in the Current Period compared to 4.6% in the Prior Period. The increase was mainly due to the accelerated expenditure by PRC mobile operators for WLAN build-out to offload the heavy traffic of 2G and 3G mobile networks.

Revenue from services, including installation, network optimization, network upgrade, and after-sales maintenance services, increased by 22.7% to HK\$642,417,000 (2010: HK\$523,386,000) and accounted for 25.2% of the Group's revenue in the Current Period compared to 26.2% in the Prior Period. The management expects services will have greater sales contribution in the second half of 2011 as most of projects in the pipeline will be completed by the end of this year. Furthermore, the Group has been working to strengthen its position as a turnkey solution provider by offering more professional and value-added services to its customers.

During the Current Period, the Group introduced some new solutions and new products, such as the multiple distributed antenna system ("MDAS") and the multi-mode remote radio unit ("MRRU"), to accommodate increasing complexity of the projects and different needs from the customers. The Group believes its capability to offer such professional services will differentiate itself from its peers, and further solidify its leading position in the market.

Management Discussion and Analysis (Cont'd)

Gross profit

To alleviate the continued pricing pressure on the traditional product categories, the Group has been striving to optimize the product mix by launching new products and solutions into the markets, as well as to offer more services to the customers leveraging its strong research and development ("R&D") and engineering capability. During the Current Period, the gross profit increased by 20.0% to HK\$966,392,000 (2010: HK\$805,119,000) as compared with the Prior Period. In addition, the Group's gross profit margin decreased mildly by 2.2% points to 38.0% in the Current Period, compared to 40.2% in the Prior Period. For the year ended 31 December 2010, the gross profit margin was 37.4%.

In addition, the Group continued to adopt stringent cost control initiatives including optimizing the product design through advanced R&D technology, streamlining the manufacturing process, improving the logistics management, and negotiating with suppliers for better pricing and payment terms in order to reduce the impact of raising labor and material costs. Moreover, the Group continued to expand its market coverage and broaden its revenue sources to achieve economies of scale. The Group also provided installation, network optimization, network enhancement and after-sales maintenance services to customers in order to achieve higher product sales. In order to maintain a reasonable gross profit margin, the Group continued to focus on developing advanced and high value-added products for customers.

Negative goodwill

On 20 June 2011, the Group entered into an agreement to acquire 100% interest in the subsidiaries, which are engaged in the research and development, manufacturing and sales of telecommunications products with a view to expanding the Group's market share in the telecommunications equipment. The Group paid a cash consideration of approximately HK\$84 million, which resulted in a negative goodwill of approximately HK\$48 million, mainly arising from an appreciation of the land and buildings.

Research and development costs

The Group has always attached great importance to R&D, and is strongly committed to product innovation which enables the Group to stay at the forefront of the telecommunications industry riding on its strong R&D capability.

Management Discussion and Analysis (Cont'd)

During the Current Period, R&D costs increased by 48.6% to HK\$1 15,951,000, representing 4.6% of the Group's revenue (2010: HK\$78,041,000, representing 3.9% of the Group's revenue). The increase in R&D costs was mainly attributable to (1) expansion of the R&D teams; (2) continuous investment in the development and expansion of product portfolio for all 2G, 3G, WLAN and long-term evolution ("LTE") mobile networks in both domestic and overseas markets; and (3) investment in improvement of product quality for higher operational efficiency and greater cost effectiveness.

With its continuous investment in R&D, the Group achieved significant accomplishments in creating solutions with intellectual property rights and has applied for more than 770 patents (As at 31 December 2010: more than 680 patents) as at the end of the Current Period.

Selling and distribution costs

During the Current period, selling and distribution costs increased by 38.8% to HK\$168,094,000, representing 6.6% of the Group's revenue (2010: HK\$121,140,000, representing 6.1% of the Group's revenue). The increase in selling and distribution costs was mainly due to the increases in sales staff salaries and their related awarded share expenses, and consultancy fees as a result of the increased consolidated revenue and global expansion of the sales and service networks for the Group.

Administrative expenses

During the Current Period, administrative expenses increased by 40.9% to HK\$364,334,000 representing 14.3% of the Group's revenue (2010: HK\$258,634,000, representing 12.9% of the Group's revenue). The increase in administrative expenses was mainly due to the increases in administration staff salaries and their related awarded share expenses, and office expenses as a result of the enlarged support teams for the global operations.

Awarded shares expenses

On 12 April 2011, the Board resolved to award 26,000,000 awarded shares to 365 selected persons under the share award scheme adopted on 25 March 2011, by way of issue and allotment of new shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. These awarded shares will be held in trust for the selected persons by the

Management Discussion and Analysis (Cont'd)

trustee appointed by the Company until the end of each vesting period. For these awarded shares, there were 4 vesting dates, which are 12 July 2011, 12 April 2012, 12 April 2013, and 12 April 2014. Upon each vesting date, those awarded shares will be transferred at no cost to the selected persons.

The fair value of the 26,000,000 awarded shares was approximately HK\$226 million, measured at the closing market price of HK\$9.32 per share at the date of grant and amortized over each of the vesting period up to 12 April 2014. During the Current Period, the awarded shares expenses amounted to approximately HK\$87 million. For the second half of 2011, the full years of 2012, 2013 and 2014, the awarded shares expenses are estimated at approximately HK\$58 million, HK\$54 million, HK\$23 million and HK\$4 million, respectively.

Finance costs

During the Current Period, finance costs rose 50.3% to HK\$12,222,000, representing 0.5% (2010: HK\$8,134,000, representing 0.4% of the Group's revenue) of the Group's revenue. The raise in finance costs was mainly due to the increase in bank borrowing as a consequence of more business activities.

The management has always been prudent on managing the credit risk and improving the cash flow in order to lower the bank borrowing level. To cope with the growth of the business, the management has closely monitored the latest developments of the financing market and arranged the most appropriate financing for the Group. The management also utilized the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize the finance costs. As of 30 June 2011, the gearing ratio of the Group stood at a healthy level of 16.5% compared to 10.2% as of 30 June 2010. The gearing ratio of the Group was 8.2% as of 31 December 2010.

Operating profit

During the Current Period, the operating profit increased by 12.5% to HK\$399,227,000 (2010: HK\$354,900,000) as compared with the Prior Period. During the Current Period, as a consequence of different product mix and the expense incurred due to the share award scheme, the operating profit margin decreased by 2.0% points to 15.7% in the Current Period, as compared with 17.7% in the Prior Period.

Management Discussion and Analysis (Cont'd)

Tax

During the Current Period, excluding those major non-taxable items of negative goodwill and awarded share expenses, the effective tax rate was slightly increased to 16.8% (2010: 16.6%). The overall taxation charge of HK\$71,609,000 (2010: HK\$57,592,000) was composed of profits tax charge of HK\$47,750,000 (2010: HK\$51,418,000) and deferred tax charge of HK\$23,859,000 (2010: HK\$6,174,000). The increase in overall taxation charge was mainly due to the reversal of deferred tax credit arising from a reduced unrealized profit on intra-group transactions during the Current Period as compared with the Prior Period.

Net profit

During the Current Period, profit attributable to shareholders ("Net Profit") increased by 13.7% to HK\$317,224,000 (2010: HK\$278,989,000). The raise in Net Profit was mainly due to the increase of revenue which was partially offset by the decrease in gross profit margin and additional expenses incurred due to the share award scheme, amounting to HK\$87 million. Hence, the Group's net margin was lowered by 1.4% points to 12.5% (2010: 13.9%). However, excluding the extraordinary items of awarded shares and negative goodwill arising from acquisition, the Group's net margin would be 14.0% (2010: 13.9%).

Dividend

The Group has put much emphasis on the returns to and interests of shareholders, in particular the interests of minority shareholders. To balance the shareholders' returns and the Group's future long-term development, the Board proposed an interim dividend of HK5 cents (2010: HK6 cents) per share. The payout ratio, on the basis of basic EPS, is 23.1% (2010: 25.4% based on the number of shares issued as at 30 June 2010).

Record date for interim dividend

The record date for determination of entitlements under the interim dividend will be on Thursday, 8 September 2011. Shareholders whose names appear on the register of members of the Company as at the close of business on Thursday, 8 September 2011 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong

Management Discussion and Analysis (Cont'd)

Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 pm on Thursday, 8 September 2011. Dividend warrants will be despatched on Monday, 19 September 2011.

AWARDS AND RECOGNITION

The Group is committed to maintaining proactive, consistent and timely communications with the investment community. To enhance our communications between shareholders and investors, the Group organized regular meetings to maintain on-going dialogue with them.

In April 2011, the Group has been honored for its excellence in *FinanceAsia's* 11th annual Asia's Top Companies poll. It was the second consecutive year for the Group to receive this honor, and for the first time the Group was rated as the No. 1 "Best Mid-Cap" company along with top ten rankings in four other categories including "Most Committed to a Strong Dividend Policy", "Best in Corporate Social Responsibility", "Best Corporate Governance", and "Best Managed Company" in *FinanceAsia's* poll.

Furthermore, the Group has been dedicated to developing innovative products in line with the ever-changing market and customer needs, and has offered unparalleled quality services to the customers over the years. During the Current Period, the Group was selected for inclusion in the "2011 Info Tech 100 China" ranking 33rd by Business Next in Taiwan and Ceocio China in Mainland China. These top 100 IT companies were selected according to five statistical indicators: turnover, turnover growth rate, return on shareholders' equity, yield rate and rate of return.

PROSPECT

The economies of the US and Europe continue to be sluggish and are undeniably affecting the global economy, nonetheless, China's economy, increasingly supported by strong domestic demand, is less vulnerable to this turmoil and continues to play a vital role in global economic growth.

The fundamental strength of the China's economy is conducive to the sustainable growth for China telecommunications industry. China's telecommunications sector revenue grew 10.1% in the first half of 2011. Meanwhile, the number of mobile phone users increased

Management Discussion and Analysis (Cont'd)

by over 6 million with the penetration rate rising from 64% at the end of 2010 to 69% at the end of June 2011, which is still relatively low compared to the rate of mobile cellular penetration in the developed countries at over 100%. In other words, there are still enormous rooms for increased penetration within the telecommunications market in the PRC.

The PRC market remains as the Group's major focus in the years to come, and the management is confident that the Group's revenue will continue to grow against the backdrop of the current difficult economic climate in the US and Europe. At present, the number of mobile users in the PRC surpassed 900 million in the first half of 2011 with 91% being 2G users. On the other hand, 3G users jumped rapidly by 71.1% to more than 80 million in the first six months of 2011, and about 55% of the new mobile users are 3G users. Although 2G will remain dominant, 3G and wireless broadband users are growing rapidly as a result of the popularity and the enhancement of smartphones.

The Group has increased its penetration into the international markets and has deepened its business with the international operators and core equipment vendors which have driven sales in the first half of 2011. The Group's strategy of securing major long-term projects, diversification of customer base, and expansion of existing customer relationships will continue to drive solution sales and expansion into the international markets. Notwithstanding the international market is affected by the uncertainties surrounding the global economy, the management is still optimistic towards the expansion of the international market and the business growth.

It is expected that the subscriber number growth will continue unabatedly with robust 3G growth leading the way. Globally, the telecommunications industry is healthy and the number of mobile users will continue to grow considerably. With the proliferation of cheaper and better smartphones, the rapidly growing popularity of social media, and the development of mobile data services boosted by the smartphone phenomenon, mobile operators need to handle the data traffic surge as well as provide an optimum quality of experience for high-value mobile applications. It is, therefore, inevitable for the mobile operators to continue the optimization of 2G networks, and at the same time to expedite 3G network upgrade.

Management Discussion and Analysis (Cont'd)

While maintaining a leadership position in the PRC market, the Group is proactively expanding its presence in developing countries where its major international markets are located. The Group is also looking for added opportunities in the new markets such as Mexico where a new office has recently been established.

Wireless Enhancement

Wireless network upgrade is a long-term and ongoing business, and the management expects this business will continue to be the largest revenue contributor to the Group, and demand for wireless network upgrade in both the PRC and emerging markets will remain strong in coming years.

It is noted that the capex of PRC mobile operators peaked a few years ago, but the management has observed the trend that spending from the mobile operators has been gradually transferred to network optimization from network build-out. As such, the Group will benefit from persistent expansion of capacity and optimization of wireless networks.

With strong expertise in wireless enhancement implementation and a proven track record in providing quality large-scale turnkey solutions, Comba has become a preferred partner of the mobile operators for wireless network enhancement solutions. Recently, the Group has completed the 2G/3G wireless enhancement projects for the world's longest cross-sea "Qingdao Bay Bridge" and the Universiades Shenzhen 2011 for the PRC mobile operators. These projects have achieved a high customer satisfaction which blended innovative technology with practical know-how that enables operators to improve network performance without increased costs.

Globally, operators are facing spectrum allocation issues and time to market for new 3G network rollouts. Previously, the Group launched a portfolio of spectrum refarming solutions that is now gaining deeper market penetration in the international markets.

On the other hand, mobile data traffic is skyrocketing as more people gain access to mobile data networks. The anticipated strong data uptake may lead to network congestion and deteriorate network quality, thus driving greater demand for wireless enhancement solutions.

Management Discussion and Analysis (Cont'd)

The network trial of China's homegrown TD-LTE ("Time Division-Long Term Evolution") 4G telecommunications technology is underway in major cities. The TD-LTE is expected to go global and many overseas mobile operators have already expressed interests in deploying TD-LTE network. Comba is proud to be one of the major equipment providers for indoor network coverage and distribution system for the network trial in China.

Comba is LTE ready for not only TD-LTE, but also FDD-LTE ("Frequency Division Duplexing-Long Term Evolution") technologies in the way that the Group has taken proactive measures in promoting their applications in various regions. The Group has been successful in deploying these solutions in network trials and rollouts throughout the world. The management is confident that Comba will participate in the larger scale of LTE network testing in the later stages, and is well-poised to seize the huge opportunities when LTE is commercialized in China.

Antennas and Subsystems

The Group recorded a satisfactory revenue growth for antennas and subsystems business during the period under review. As a market leader in the PRC and worldwide major supplier in both base station antennas and tower-mounted solutions to many of the major multinational operators, the Group, by leveraging on the its persistent efforts in innovation and quality enhancement, is determined to provide strong support to clients' network optimization and product upgrade, and the demand attributable to 3G network build-out and network upgrade will also contribute partly to growth this year.

For future growth, the Group has developed a portfolio of LTE antennas and subsystems which has been deployed successfully in a number of LTE trials and actual LTE network rollout around the globe. The management is optimistic that such solutions will be a driver for future growth.

Wireless Access

Demand for WLAN equipment surged vigorously following the aggressive WLAN deployment plans by the three PRC mobile operators launched early this year in the hope that WLAN will provide support for their insufficient 3G coverage and offload busy 3G traffic at hot spot areas. The initial stage of network deployment comprising millions of hotspots are planned to be built in different PRC cities during the coming years. Mobile

Management Discussion and Analysis (Cont'd)

data traffic is expected to grow rapidly with more people using laptops, tablet computers and smartphones to access the internet through WLAN services, and WLAN coverage will be further expanded. As the leading WLAN equipment supplier in the PRC, the management anticipates the current strong demand for WLAN equipment to be sustained and the contribution from WLAN business will further increase in the near future.

After the impact of the telecommunications policy in the Indian market in 2010, the Group actively explored business opportunities in other countries in order to decentralize the geographical customers and maximize the returns. Based on this strategy, the management is pleased to see a very positive return in this business and is optimistic that the foundations have been set for continuing growth of the Group's business.

Services

The Group expects the contribution from the services business segment will continue to grow given tremendous demand from both the PRC and international markets.

Capitalizing on the professional and reliable service team of over 5,600 technical sales and service engineers globally, and its experience with self-developed, top-notch and comprehensive product lines, the Group is capable of offering value-added and customized turnkey solutions to customers. Over the years, the Group has undertaken numerous projects to provide a broad range of services. These services include network design, consulting, assessment, network optimization, network modification and upgrade, system installation and after-sales service to customers. Moreover, most of the customers commissioned Comba to provide on-going maintenance services upon completion of the projects. Thus, the more projects the Group has undertaken, the more recurring income will be generated. More importantly, this business model will help create more cross selling opportunities for products and achieve multiple beneficial effects to the Group.

With the relentless efforts made over the years, the Group has become a global leading wireless enhancement solutions provider, and has successfully established a long-term partnership with customers. Furthermore, the Group believes that services will continue to be an important business segment globally and is actively expanding its service capabilities with local resources in its various international offices to drive solutions sales and to create additional revenue streams for the future.

Management Discussion and Analysis (Cont'd)

Conclusion

Despite the challenging global economic environment, the management is optimistic about the future of the global telecommunications industry.

The Group believes that China will continue to accelerate the rapid development of its telecommunications industry and construct key network infrastructure, while the telecommunications industry in emerging markets is also to some extent following the pattern of China's development and their potential cannot be underestimated.

Over the years, the Group has built up a solid foundation and achieved a sound financial position that enables consistent growth, effectively capturing expansion opportunities, and addressing various challenges and uncertain situations. The Group intends to remain focused on sustaining our leading position in the PRC market and plans to continue its relentless efforts to propel the growth in overseas market via product and project innovation as well as professional end-to-end services coupled with an extensive business network, and effective marketing strategies.

The Group will continue to adhere to the strategy to sharpen our competitive edge via innovative technology and solutions. Towards this end, the Group will continue to devote resources to R&D, and launch new products and solutions to address the growing needs of customers. The new products and solutions will not only meet the needs of the customers, but also optimize the product portfolio of the Group which enables the maintenance of desirable margins and profitability.

On the other hand, the management continues to be on the lookout for lucrative opportunities that befit the Group's growth strategy, with a view to generating maximum returns for shareholders.

The Board of Directors would like to thank all of our staff for their dedicated commitment and contribution, and our customers, suppliers, shareholders, and business associates for their support. The Group will strive unremittingly to achieve better performance.

Management Discussion and Analysis (Cont'd)

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cashflow generated internally and bank borrowings. As at 30 June 2011, the Group had net current assets of HK\$3,410,827,000. Current assets comprised inventories of HK\$2,226,630,000, trade receivables of HK\$4,326,049,000, notes receivable of HK\$59,344,000, prepayments, deposits and other receivables of HK\$585,511,000, restricted bank deposits of HK\$28,240,000 and cash and cash equivalents of HK\$725,259,000. Current liabilities comprised trade and bills payables of HK\$2,444,097,000, other payables and accruals of HK\$1,008,107,000, derivative financial instrument of HK\$1,793,000, interest-bearing bank borrowings of HK\$847,591,000, tax payable of HK\$173,486,000 and provisions for product warranties of HK\$65,132,000.

The average receivable turnover for the Current Period was 259 days compared to 222 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness, except for those retention money generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The average payable turnover for the Current Period was 266 days compared to 262 days for the Prior Period. The average inventory turnover for the Current Period was 229 days compared to 251 days for the Prior Period.

As at 30 June 2011, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK\$") and United States dollars ("US\$") while the Group's bank borrowings were mainly denominated in US\$ and HK\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

During the Current Period, in addition to those short-term interest-bearing facilities, the Group had a three-year term loan facility agreement (the "Facility Agreement"), amounted to US\$130,000,000, with a group of financial institutions. The facility was granted for the purpose of financing the Group's capital expenditure, research and development initiatives, additional working capital as well as for the purpose of refinancing the outstanding loan drawn under the old three-year term loan facility agreement dated 3

Management Discussion and Analysis (Cont'd)

July 2009. Under the Facility Agreement, there is a specific performance obligation that Mr. Fok Tung Ling who is a controlling shareholder and Mr. Zhang Yue Jun who is a substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. As at 30 June 2011, the Group utilized the facility of US\$130,000,000.

As at 30 June 2011, the Group held an interest rate swap contract designated as hedges in respect of expected interest payments for the above-mentioned US\$ floating rate loan under the Facility Agreement.

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

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 16.5% as at 30 June 2011 (31 December 2010: 8.2%).

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the "Business and Financial Review" under the heading "Negative goodwill", the Group has not conducted any material acquisitions and disposals of subsidiaries and associated companies during the Current Period.

CHARGE ON ASSETS

Refer to the acquisition as disclosed in the "Business and Financial Review" under the heading "Negative goodwill", the newly acquired subsidiary has pledged its own property for a bank facility up to approximately HK\$97,500,000 prior to the completion of the acquisition. As at 30 June 2011, the aforesaid charge has not been discharged yet. The Group plans to negotiate with the relevant bank in relation to the release of the aforesaid charge. Save as disclosed herein, there was no other charge on the Group's assets (31 December 2010: Nil).

Management Discussion and Analysis (Cont'd)

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had contingent liabilities of HK\$39,823,000 (31 December 2010: HK\$39,225,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group had approximately 10,400 staff. The total staff costs for the Current Period were HK\$474,584,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible staff based on the performance of such employees as well as the Group. Mandatory provident fund, or staff pension schemes are also provided to relevant staff in Hong Kong, PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise any of the Company's listed securities during the Current Period.

Management Discussion and Analysis (Cont'd)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2011, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation			
Mr. Fok Tung Ling ("Mr. Fok")	(a)	17,258,224	520,366,887	537,625,111	35.70	
Mr. Zhang Yue Jun ("Mr. Zhang")	(b)	–	153,328,452	153,328,452	10.18	
Mr. Tong Chak Wai, Wilson ("Mr. Tong")	(c)	5,208,560	–	5,208,560	0.35	
Mr. Wu Jiang Cheng ("Mr. Wu")	(c)	7,396,352	–	7,396,352	0.49	
Mr. Yan Ji Ci ("Mr. Yan")	(c)	6,253,415	–	6,253,415	0.41	
Mr. Zheng Guo Bao ("Mr. Zheng")	(c)	3,397,176	–	3,397,176	0.22	
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")	(c)	5,359,484	–	5,359,484	0.36	
		44,873,211	673,695,339	718,568,550	47.71	

Management Discussion and Analysis (Cont'd)

Long positions in share options of the Company:

Name of Director	No. of options directly beneficially owned
Mr. Tong	550,000
Mr. Wu	3,555,635
Mr. Yan	3,792,043
Mr. Zheng	805,255
Mr. Yeung	3,379,428
Mr. Yao Yan	242,000
Mr. Lau Siu Ki, Kevin	242,000
Mr. Liu Cai	242,000
	<hr/>
	12,808,361

Notes:

- (a) 519,081,701 shares and 1,285,186 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master") respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in the total of 520,366,887 shares owned by Prime Choice and Total Master.
- (b) These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 153,328,452 shares owned by Wise Logic.
- (c) On 12 April 2011, the Company granted 26,000,000 new awarded shares ("Awarded Shares") to 365 selected persons ("Selected Person(s)") under the share award scheme which adopted on 25 March 2011, in which each of Mr. Tong and Mr. Wu were granted 600,000 Awarded Shares; each of Mr. Yan and Mr. Yeung were granted 520,000 Awarded Shares; and Mr. Zheng was granted 120,000 Awarded Shares. The Company appointed a trustee to hold the Awarded Shares in trust for the Selected Persons and such Awarded Shares shall be transferred to the Selected Persons upon the vesting conditions will have been met. Details of share award scheme are set out in note 13 to the condensed consolidated financial statements.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Management Discussion and Analysis (Cont'd)

Save as aforesaid and save for Mr. Zheng beneficially holding 32% equity interest in WaveLab Holdings Limited (a non wholly-owned indirect subsidiary of the Company), none of the Directors has any beneficial interest in any debt or equity securities of the subsidiaries of the Company.

Save as disclosed above, as at 30 June 2011, none of the directors had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and the heading "Share Option and Share Award Schemes" below, at no time during the Current Period were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any director or their respective spouse or minor 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 arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION AND SHARE AWARD SCHEMES

The Company operates a share option scheme and a share award scheme, detailed in note 13 to the condensed consolidated financial statements, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Also, to retain them for the continual operation and development of the Group and to attract suitable personnel for future development of the Group.

Management Discussion and Analysis (Cont'd)

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

At 30 June 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Prime Choice		Beneficial owner	519,081,701	34.47
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	537,625,111	35.70
Wise Logic		Beneficial owner	153,328,452	10.18
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	153,328,452	10.18

Notes:

- (a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 537,625,111 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.
- (b) Mdm. Cai is the spouse of Mr. Zhang and is deemed to be interested in the 153,328,452 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

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

- (i) 519,081,701 shares between Prime Choice and Mdm. Chen; and
- (ii) 153,328,452 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 30 June 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Management Discussion and Analysis (Cont'd)

CODE ON CORPORATE GOVERNANCE PRACTICES

During the Current Period, the Board reviewed daily governance of the Group in accordance with the code provisions (the "Code Provision(s)") of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, from 1 January 2011 to 30 June 2011, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and that their divisions of responsibility should be clearly established and set out in writing. Mr. Fok Tung Ling, chairman of the Board is currently holding the office of chief executive officer during the Current Period. Accordingly, the Company currently has not complied with Code Provision A.2.1 as the Company considers that through the supervision of the Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

Moreover, the Company has appointed not less than three independent non-executive Directors during the Current Period.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director's securities transactions. Specific enquiry has been made to all Directors, and the Directors have confirmed that they have complied with all relevant requirements as set out in the Model Code during the Current Period.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect subsidiary of the Company, entered into a United States dollars term loan facility agreement (the "Facility Agreement") dated 5 July 2010, which contain covenants requiring a specific performance obligation of the controlling shareholder, namely Mr. Fok, and the substantial shareholder, namely Mr. Zhang, of the Company. Details of the Facility Agreement with covenants relating to the specific performance obligation of the controlling shareholder and the substantial shareholder are set out above under the heading "Liquidity, Financial Resources & Capital Structure".

Management Discussion and Analysis (Cont'd)

UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Mr. Lau Siu Ki, Kevin, an independent non-executive director of the Company, has resigned as an independent non-executive director of Carry Wealth Holdings Limited which is listed on the main board of the Stock Exchange with effect from 13 July 2011. Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

The Company has established the audit committee (the "Audit Committee") which currently comprises three independent non-executive Directors, in accordance with the Listing Rules. The Audit Committee, together with the management, has reviewed the accounting principles, standards and methods adopted by the Group, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited accounts for the Current Period. The Audit Committee has given its consent to the accounting principles, standards and methods adopted by the Group for the unaudited condensed consolidated interim financial statements for the Current Period and has not given any disagreement.

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

The board of directors (the “Board” or the “Directors”) of Comba Telecom Systems Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2011, together with the comparative figures for the same period in 2010. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

		For the six months ended 30 June	
		2011	2010
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE	3	2,545,114	2,002,261
Cost of sales		(1,578,722)	(1,197,142)
Gross profit		966,392	805,119
Other income and gains	3	81,874	8,807
Research and development costs		(115,951)	(78,041)
Selling and distribution costs		(168,094)	(121,140)
Administrative expenses		(364,334)	(258,634)
Other expenses		(660)	(1,211)
Finance costs	5	(12,222)	(8,134)
PROFIT BEFORE TAX	4	387,005	346,766
Income tax expense	6	(71,609)	(57,592)
PROFIT FOR THE PERIOD		315,396	289,174

Condensed Consolidated Income Statement (Cont'd)

For the six months ended 30 June 2011

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
<hr/>			
Attributable to:			
Owners of the parent		317,224	278,989
Non-controlling interests		(1,828)	10,185
		<hr/>	<hr/>
		315,396	289,174
		<hr/>	<hr/>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)			
	8		
Basic		21.62	19.55
			(restated)
Diluted		20.99	18.74
			(restated)

Details of the dividends payable and proposed for the period are disclosed in note 7 to the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	315,396	289,174
OTHER COMPREHENSIVE INCOME		
Cash flow hedges :		
Effective portion of changes in fair value of hedging instrument	1,180	—
Amounts transferred to the initial carrying amount of hedged items	573	—
Income tax effect	(290)	—
	1,463	—
Exchange differences on translation of foreign operations	83,449	33,397
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	400,308	322,571
Attributable to:		
Owners of the parent	400,741	311,649
Non-controlling interests	(433)	10,922
	400,308	322,571

Condensed Consolidated Statement of Financial Position

30 June 2011

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		664,478	537,488
Prepaid land lease payments		31,544	14,175
Goodwill		28,571	28,571
Deferred tax assets		109,761	131,219
Intangible assets		36,028	9,142
Restricted bank deposits		6,240	10,249
Total non-current assets		876,622	730,844
CURRENT ASSETS			
Inventories	9	2,226,630	1,731,457
Trade receivables	10	4,326,049	2,895,568
Notes receivable		59,344	49,035
Prepayments, deposits and other receivables		585,511	372,184
Restricted bank deposits		28,240	10,439
Cash and cash equivalents		725,259	1,472,899
Total current assets		7,951,033	6,531,582
CURRENT LIABILITIES			
Trade and bills payables	11	2,444,097	2,155,090
Other payables and accruals		1,008,107	947,419
Derivative financial instrument		1,793	2,973
Interest-bearing bank borrowings		847,591	118,563
Tax payable		173,486	189,495
Provisions for product warranties		65,132	57,038
Total current liabilities		4,540,206	3,470,578

Condensed Consolidated Statement of Financial Position (Cont'd)

30 June 2011

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	Notes		
NET CURRENT ASSETS		3,410,827	3,061,004
TOTAL ASSETS LESS CURRENT LIABILITIES		4,287,449	3,791,848
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		607,202	474,252
Deferred tax liabilities		13,497	8,571
Total non-current liabilities		620,699	482,823
Net assets		3,666,750	3,309,025
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	150,605	132,305
Reserves	14	3,371,417	2,948,453
Proposed dividends		75,303	158,766
Non-controlling interests		3,597,325	3,239,524
		69,425	69,501
Total equity		3,666,750	3,309,025

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the parent											
	Issued capital	Share premium account	Share award scheme	Share-based compensation	Capital reserve	Asset revaluation reserve	Hedging reserve	Statutory reserve	Exchange fluctuation	Retained profits	Proposed dividends	Total equity
	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 2010	106,547	455,669	—	18,945	45,756	37,389	—	90,351	285,212	1,370,616	127,857	2,556,542
Profit for the period	—	—	—	—	—	—	—	—	—	278,989	—	278,989
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	56,773
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	32,660	—	—	10,185
												2,593,115
Total comprehensive income for the period	—	—	—	—	—	—	—	—	32,660	278,989	—	311,649
Share option scheme	—	—	—	—	—	—	—	—	—	—	—	10,922
— exercise of share options	1,190	17,566	—	(3,906)	—	—	—	—	—	—	—	14,850
— value of services	—	—	—	3,006	—	—	—	—	—	—	—	3,006
— adjustment arising from lapse of share options	—	—	—	(1)	—	—	—	—	—	1	—	—
— share options cancelled at expiry date	—	—	—	(56)	—	—	—	—	—	56	—	—
Issue of bonus shares	10,763	(10,763)	—	—	—	—	—	—	—	—	—	—
Equity-settled share expenses	—	—	—	—	437	—	—	—	—	—	—	437
Final 2009 dividend declared	—	—	—	—	—	—	—	—	—	—	(129,154)	(129,154)
Under-provision of final 2009 dividend	—	—	—	—	—	—	—	—	—	(1,297)	1,297	—
Proposed interim 2010 dividend	—	—	—	—	—	—	—	—	—	(71,100)	71,100	—
												68,052
At 30 June 2010	118,500	462,472	—	17,988	44,195	37,389	—	90,351	317,872	1,577,265	71,100	2,757,150
												2,805,182

Condensed Consolidated Statement of Changes in Equity (Cont'd)

For the six months ended 30 June 2011

	Attributable to owners of the parent											
	Shares											
	Issued capital	Share premium account	Share award scheme	Share-based compensation reserve	Capital reserve	Asset revaluation reserve	Hedging reserve	Statutory reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total equity
HK\$'000	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 2011	132,305	482,453*	-*	21,386*	44,630*	50,357*	(1,849)*	90,526*	397,752*	1,862,998*	156,766	3,309,025
Profit for the period	-	-	-	-	-	-	-	-	-	317,224	-	3,309,025
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	3,309,025
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	-	-	3,309,025
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,463	-	-	-	-	1,463
	-	-	-	-	-	-	-	-	82,054	-	-	83,449
Total comprehensive income for the period	-	-	-	-	-	-	1,463	-	82,054	317,224	-	400,741
Share option scheme	-	-	-	-	-	-	-	-	-	-	-	(433)
— exercise of share options	2,116	25,040	-	(6,498)	-	-	-	-	-	-	-	20,658
— value of services	-	-	-	11,595	-	-	-	-	-	-	-	11,595
Share award scheme	-	-	-	-	-	-	-	-	-	-	-	-
— shares allotted for share award scheme	-	-	-	87,375	-	-	-	-	-	-	-	87,375
Issue of bonus shares	2,600	(2,600)	-	-	-	-	-	-	-	-	-	-
Equity-settled share expenses	13,584	(13,557)	(227)	-	-	-	-	-	-	-	-	-
Final 2010 dividend declared	-	-	-	-	437	-	-	-	-	-	(163,005)	794
Under-provision of final 2010 dividend	-	-	-	-	-	-	-	-	-	-	(163,005)	(163,005)
Proposed interim 2011 dividend	-	-	-	-	-	-	-	-	-	(4,239)	4,239	-
	-	-	-	-	-	-	-	-	(75,305)	75,305	-	-
At 30 June 2011	150,605	494,136*	(2,827)*	113,858*	45,067*	50,557*	(366)*	90,526*	479,806*	2,100,680*	75,303	3,666,750

* These reserve accounts comprise the consolidated reserves of HK\$3,371,417,000 (31 December 2010: HK\$2,948,453,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash flows used in operating activities	(1,265,997)	(645,242)
Net cash flows used in investing activities	(190,758)	(66,604)
Net cash flows from financing activities	665,562	50,843
NET DECREASE IN CASH AND CASH EQUIVALENTS	(791,193)	(661,003)
Cash and cash equivalents at beginning of period	1,472,899	1,145,957
Effects of foreign exchange rate changes, net	43,553	33,397
CASH AND CASH EQUIVALENTS AT END OF PERIOD	725,259	518,351
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	725,259	518,351

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2011

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010. Except for the changes in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements. They have been prepared under the historical cost convention, except for the Group’s certain buildings and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised HKFRSs and HKASs

HKAS 24 (Revised) *Related Party Disclosures*

HK (IFRIC) – Int 19 *Extinguishing Financial Liabilities with Equity Instruments*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. While the adoption of the revised standard resulted in changes in the accounting policy, the revised standard does not have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

1. ACCOUNTING POLICIES (Cont'd)

Impact of new and revised HKFRSs and HKASs (Cont'd)

HK (IFRIC) – Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognized in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. While the adoption of the revised standard resulted in changes in the accounting policy, the revised standard did not have any financial impact on the Group.

Improvement to HKFRSs

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group has adopted the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has a significant financial impact on the Group. Those amendments that have a significant impact on the Group's policies are as follows:

- (a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations which acquisition dates precede the application of HKFRS 3 (as revised in 2008).

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

1. ACCOUNTING POLICIES (Cont'd)

Improvement to HKFRSs (Cont'd)

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their fair value on acquisition date, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

1. ACCOUNTING POLICIES (Cont'd)

Improvement to HKFRSs (Cont'd)

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures For First-time Adopters</i>
HK (IFRIC) – Int 14 Amendments	Amendments to HK (IFRIC) – Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HKAS 32 Amendment	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>

2. OPERATING SEGMENT INFORMATION

The management considers the performance of the business in the PRC and non-PRC segments. The reportable operating segments derive their revenue from manufacturing and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. All of the Group's products are of the similar nature.

No operating segments have been aggregated to form the above reportable operating segments.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

2. OPERATING SEGMENT INFORMATION (Cont'd)

Management monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Research and development costs and corporate expenses are managed on a group basis and are not allocated to operating segments.

Period ended 30 June 2011

	PRC HK\$'000	Non-PRC HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue				
External customers	2,278,137	266,977	—	2,545,114
Intersegment sales	138,557	—	—	138,557
	2,416,694	266,977	—	2,683,671
<i>Reconciliation:</i>				
Elimination of intersegment sales				(138,557)
Revenue from operations				2,545,114
Results				
Depreciation and amortisation	32,712	1,667	9,043	43,422
Segment profit/(loss)	485,035	20,109	¹ (118,139)	387,005
Assets				
⁴ Capital expenditure	184,540	6,325	—	190,865
Operating assets	8,197,245	623,541	²6,869	8,827,655
Operating liabilities	3,665,609	32,406	³1,462,890	5,160,905

1 Segment operating profit does not include research and development costs HK\$115,951,000 and unallocated corporate expenses HK\$2,188,000.

2 Segment assets do not include unallocated corporate assets HK\$6,869,000.

3 Segment liabilities do not include interest-bearing bank borrowings HK\$1,454,793,000 and other unallocated corporate liabilities HK\$8,097,000

4 Capital expenditure consists of additions of property, plant and equipment and intangible assets and acquisition of subsidiaries (Note 15).

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

2. OPERATING SEGMENT INFORMATION (Cont'd)

Period ended 30 June 2010

	PRC HK\$'000	Non-PRC HK\$'000	Others HK\$'000	Total HK\$'000
Revenue				
External customers	1,884,358	117,903	–	2,002,261
Intersegment sales	77,864	–	–	77,864
	1,962,222	117,903	–	2,080,125
<i>Reconciliation:</i>				
Elimination of intersegment sales				(77,864)
Revenue from operations				2,002,261
Results				
Depreciation and amortisation	24,489	1,326	9,842	35,657
Segment profit/(loss)	456,170	(31,405)	¹ (77,999)	346,766
Assets				
⁴ Capital expenditure	54,825	1,322	–	56,147
Operating assets	5,844,374	187,127	² 2,514	6,034,015
Operating liabilities	2,593,196	22,357	³ 613,280	3,228,833

1 Segment operating profit does not include research and development costs HK\$78,041,000 and unallocated corporate income HK\$42,000.

2 Segment assets do not include unallocated corporate assets HK\$2,514,000.

3 Segment liabilities do not include interest-bearing bank borrowings HK\$612,458,000 and other unallocated corporate liabilities HK\$822,000.

4 Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered during the period, net of value-added tax, and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	2,469,984	1,933,949
Warranty services	75,130	68,312
	2,545,114	2,002,261
Other income and gains		
Bank interest income	1,123	2,985
Government subsidy	3,552	2,706
Exchange gains, net	24,201	—
Negative goodwill	48,426	—
Others	4,572	3,116
	81,874	8,807

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cost of inventories sold and services provided	1,542,551	1,164,983
Depreciation	42,077	34,549
Recognition of prepaid land lease payments	186	173
Amortisation of intangible assets	1,159	935
Minimum lease payments under operating leases in respect of land and buildings	41,596	32,678
Employee benefit expenses (including directors' emoluments):		
Salaries and wages	315,614	275,764
Awarded share expense	87,375	—
Equity-settled share expense	437	437
Staff welfare expenses	31,605	26,586
Equity-settled share option expense	11,595	3,006
Pension scheme contributions*	27,958	20,339
	474,584	326,132
Exchange (gain)/loss, net	(24,201)	43
Write-off of inventories	430	—
Cash flow hedges (transferred from equity)	573	—
Provisions for product warranties	20,259	21,376
Negative goodwill	(48,426)	—
Loss on disposal of items of property, plant and equipment	452	1,020
Bank interest income	(1,123)	(2,985)

* At 30 June 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2010: Nil).

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

5. FINANCE COSTS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	12,222	7,965
Interest on discounted bills	—	89
Interest on added confirmation of documentary credits	—	80
	12,222	8,134

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong during the period (six months ended 30 June 2010: 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	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current period provision:		
Mainland China	46,261	51,193
Overseas	1,489	225
Deferred tax charge	23,859	6,174
Total tax charge for the period	71,609	57,592

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

6. INCOME TAX (Cont'd)

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and has become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises which results in an adjustment of income tax rate to 25%. Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou") and Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), being the manufacturing foreign invested enterprises located in Guangzhou, the PRC, are eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. In addition, Comba Guangzhou and Comba Technology were designated as a High-New Technology Enterprise by Guangdong Science and Technology Department on 14 December 2009 and 16 December 2008 respectively. Being the High-New Technology Enterprises, Comba Guangzhou and Comba Technology are entitled to the preferential tax rate of 15% for the year of 2011.

7. DIVIDEND

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Proposed Interim – HK5 cents		
(2010: HK6 cents) per ordinary share	75,303	71,100

At the board meeting held on 24 August 2011, the directors resolved to declare an interim dividend of HK5 cents per ordinary share for the six months ended 30 June 2011.

No deduction or withholding tax will be imposed on the payment of dividends by the Company to its shareholders.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

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

The calculation of basic earnings per share for the period is based on the profit attributable to ordinary equity holders of the parent of HK\$317,224,000 (six months ended 30 June 2010: HK\$278,989,000), and the weighted average number of 1,467,565,000 (six months ended 30 June 2010 (restated): 1,426,932,000) ordinary shares in issue as adjusted by the bonus issues during the period from 1 July 2010 to 30 June 2011.

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity holders of the parent of HK\$317,224,000 (six months ended 30 June 2010: HK\$278,989,000). The weighted average number of ordinary shares used in the calculation is the 1,467,565,000 (six months ended 30 June 2010 (restated): 1,426,932,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 43,729,000 (six months ended 30 June 2010 (restated): 61,672,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options and awarded shares during the period.

9. INVENTORIES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Raw materials	263,730	155,964
Project materials	159,773	118,884
Work in progress	201,970	148,052
Finished goods	484,789	305,413
Inventories on site	1,116,368	1,003,144
	2,226,630	1,731,457

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management.

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 3 months	1,701,395	1,696,941
4 to 6 months	463,767	358,029
7 to 12 months	1,445,839	409,904
More than 1 year	732,103	447,387
	4,343,104	2,912,261
Provision for impairment	(17,055)	(16,693)
	4,326,049	2,895,568

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

10. TRADE RECEIVABLES (Cont'd)

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Neither past due nor impaired	4,159,677	2,822,207
Less than 1 year past due	166,372	73,361
	4,326,049	2,895,568

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

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

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

11. 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 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 3 months	1,547,550	1,243,947
4 to 6 months	274,545	445,204
7 to 12 months	470,019	374,671
More than 1 year	151,983	91,268
	2,444,097	2,155,090

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

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

12. SHARE CAPITAL

	Notes	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:			
1 January 2010, 31 December 2010, 1 January 2011 and 30 June 2011		5,000,000,000	500,000
Issued and fully paid or credited as fully paid:			
At 1 January 2010		1,065,475,095	106,547
Share options exercised		30,666,625	3,067
Bonus issues of shares		226,909,515	22,691
At 31 December 2010 and 1 January 2011			
Share options exercised	(a)	21,163,758	2,116
Bonus issues of shares	(b)	135,837,495	13,584
Shares allotted for share award scheme	(c)	26,000,000	2,600
At 30 June 2011		1,506,052,488	150,605

As at 30 June 2011, the total number of issued ordinary shares of the Company was 1,506,052,488 shares (as at 31 December 2010: 1,323,051,235 shares) which included 26,000,000 shares (year ended 31 December 2010: Nil) held under the share award scheme (note 13).

During the period, the movements in share capital were as follows:

- (a) The subscription rights attaching to 21,163,758 share options were exercised at the adjusted exercise prices ranged from HK\$0.434 to HK\$1.341 per share, resulting in issue of 21,163,758 shares of HK\$0.10 each for a total cash consideration, before expenses of HK\$20,658,000.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

12. SHARE CAPITAL (Cont'd)

- (b) Pursuant to the annual general meeting held on 23 May 2011, bonus issue of shares on the basis of one share for every ten shares held was approved. 135,837,495 bonus shares were issued under the bonus issue and the amount of HK\$13,584,000 was capitalised from the Company's share premium account. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.
- (c) Pursuant to the announcement dated 12 April 2011 and the subsequent extraordinary general meeting of the Company held on 23 May 2011, the Company allotted total 26,000,000 ordinary shares to the trustee for the purpose of granting awarded shares under the share award scheme (note 13).

13. SHARE OPTION AND SHARE AWARD SCHEMES

(a) Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors (including independent non-executive directors), employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, 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 and customers, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholder or companies controlled by a Company's controlling shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share Option Scheme (Cont'd)

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and the share award scheme shall not exceed 30% of the shares of the Company in issue of any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within 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.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their 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 price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options 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 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 is determinable by the directors, but may not be less than the higher of: (i) the nominal value of the Company's shares; and (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share Option Scheme (Cont'd)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the current period:

	2011 Weighted average exercise price of share options* HK\$ per share	Number of share options*	2010 Weighted average exercise price of share options** HK\$ per share	Number of share options**
At 1 January	3.48	78,332,858	1.15	65,908,143
Forfeited during the period	6.55	(279,087)	1.10	(294,635)
Exercised during the period	0.92	(22,429,412)	1.14	(12,973,895)
Expired during the period	—	—	2.16	(99,022)
At 30 June	4.50	55,624,359	1.14	52,540,591

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the bonus issue of shares approved on 23 May 2011 (the "Bonus Issue").

** The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the bonus issue of shares approved on 24 May 2010.

The weighted average share price at the date of exercise for share options exercised during the current period was HK\$8.45 (six months ended 30 June 2010: HK\$9.44).

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share Option Scheme (Cont'd)

Name or category of participant	At 1 January 2011	Granted during the period	Number of share options				At 30 June 2011	Date of grant of share options*	Exercise period of share options	Adjusted exercise price of share options** HK\$ per share
			Adjusted during the period†	Exercised during the period	Expired during the period	Forfeited during the period				
Executive Directors										
Mr. Tong	2,000,700	–	125,070	(1,575,770)	–	–	550,000	21 Jul 2008	21 Jul 2009-20 Jul 2011	1.341
	732,050	–	5,000	(737,050)	–	–	–	4 Nov 2008	4 Nov 2009-3 Nov 2011	0.434
	2,732,750	–	130,070	(2,312,820)	–	–	550,000			
Mr. Wu	1,903,330	–	190,333	(1,216,000)	–	–	877,663	21 Jul 2008	21 Jul 2009-20 Jul 2011	1.341
	2,434,520	–	243,452	–	–	–	2,677,972	4 Nov 2008	4 Nov 2009-3 Nov 2011	0.434
	4,337,850	–	433,785	(1,216,000)	–	–	3,555,635			
Mr. Yan	1,200,930	–	120,093	(750,000)	–	–	571,023	21 Jul 2008	21 Jul 2009-20 Jul 2011	1.341
	2,928,200	–	292,820	–	–	–	3,221,020	4 Nov 2008	4 Nov 2009-3 Nov 2011	0.434
	4,129,130	–	412,913	(750,000)	–	–	3,792,043			
Mr. Zheng	732,050	–	73,205	–	–	–	805,255	21 Jul 2008	21 Jul 2009-20 Jul 2011	1.341
Mr. Yeung	2,196,150	–	219,615	(1,130,000)	–	–	1,285,765	21 Jul 2008	21 Jul 2009-20 Jul 2011	1.341
	1,903,330	–	190,333	–	–	–	2,093,663	4 Nov 2008	4 Nov 2009-3 Nov 2011	0.434
	4,099,480	–	409,948	(1,130,000)	–	–	3,379,428			
Independent non-executive Directors										
Mr. Yao Yan	220,000	–	22,000	–	–	–	242,000	22 Jul 2010	22 Jul 2011-21 Jul 2013	6.570
Mr. Lau Siu Ki, Kevin	220,000	–	22,000	–	–	–	242,000	22 Jul 2010	22 Jul 2011-21 Jul 2013	6.570
Mr. Liu Cai	220,000	–	22,000	–	–	–	242,000	22 Jul 2010	22 Jul 2011-21 Jul 2013	6.570
Other employees in aggregate	7,942,637	–	295,954	(6,802,836)	–	(264)	1,435,491	21 Jul 2008	21 Jul 2009-20 Jul 2011	1.341
	14,237,792	–	799,569	(8,952,102)	–	(452)	6,084,807	4 Nov 2008	4 Nov 2009-3 Nov 2011	0.434
	32,340,000	–	3,234,000	–	–	(278,300)	35,295,700	22 Jul 2010	22 Jul 2011-21 Jul 2013	6.570
	54,520,429	–	4,329,523	(15,754,938)	–	(279,016)	42,815,998			
	71,211,689	–	5,855,444	(21,163,758)	–	(279,016)	55,624,359			

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share Option Scheme (Cont'd)

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise prices of the share options were adjusted as a result of the Bonus Issue.
- *** The weighted average closing price of the Company's share immediately before the exercise dates of the share options was HK\$8.36 per share.
- * The options were adjusted as a result of the Bonus Issue, the total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 58,555,121 options granted under the Scheme was adjusted from 58,555,121 ordinary shares of HK\$0.1 each to 64,410,565 ordinary shares of HK\$0.1 each.

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

30 June 2011 Number of share options	Adjusted exercise price of share options* HK\$ per share	Exercise period
5,525,197	1.341	21 July 2009 to 20 July 2011
14,077,462	0.434	4 November 2009 to 3 November 2011
36,021,700	6.570	22 July 2011 to 21 July 2013
55,624,359		

- * The exercise prices of the share options were adjusted as a result of the Bonus Issue.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(a) Share Option Scheme (Cont'd)

30 June 2010 Number of share options	Adjusted exercise price of share options** HK\$ per share	Exercise period
4,736,835	1.972	22 December 2006 to 21 December 2010
23,370,566	1.623	21 July 2009 to 20 July 2011
24,433,190	0.525	4 November 2009 to 3 November 2011
52,540,591		

** The exercise prices of the share options were adjusted as a result of the bonus issue of shares approved on 24 May 2010.

The expense recognized in the condensed consolidated income statement for employee services received during the current period is approximately HK\$11,595,000 (six months ended 30 June 2010: approximately HK\$3,006,000).

Despite of options adjustments arising from the bonus issue of shares, the 21,163,758 share options exercised during the current period resulted in the issue of 21,163,758 ordinary shares of the Company and new share capital of HK\$2,116,000 and share premium of HK\$25,040,000.

At the end of the reporting period, the Company had 55,624,359 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 55,624,359 additional ordinary shares of the Company and additional share capital of HK\$5,562,000 and share premium of HK\$244,619,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 46,419,496 share options outstanding under the Scheme, which represented approximately 3.1% of the Company's shares in issue as at that date.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (Cont'd)

(b) Share Award Scheme

The Company adopted a share award scheme (the "Share Award Scheme") on 25 March 2011 (the "Adoption Date"). The purposes and objectives of the Share Award Scheme are to recognize the contributions 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, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

Pursuant to the Share Award Scheme, (i) the awarded shares (the "Awarded Shares") will be acquired by the trustee of the Company (the "Trustee") 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 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 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. 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. The aforesaid limit may be refreshed or amended by approval of the shareholders in general meeting. Nevertheless, the total number of Awarded Shares which may be issued under the Share Award Scheme and the exercise of all options to be granted under other incentive and options schemes of the Company (including the Scheme) as so refreshed shall not exceed 10% of the shares in issue as at the date of approval of the limit. Awards or options previously granted under the Share Award Scheme or the 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 but yet to be exercised under the Scheme or any other incentive or options schemes of the Company representing in aggregate over 30% of the shares in issue as at the date of such grant.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

13. SHARE OPTION AND SHARE AWARD SCHEMES (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. Upon issue and allotment of the new Awarded Shares, the Trustee will hold the new Awarded Shares in trust for the Selected Persons and such new Awarded Shares shall be transferred to the Selected Persons upon the vesting conditions will have been met. The number of Awarded Shares granted to each of the Selected Person is subject to their respective contributions to the Group. Among those 365 Selected Persons, there are 12 Selected Persons who are directors of members of the Group and accordingly connected persons (as defined in Chapter 14A of the Listing Rules) to the Company (the "Connected Selected Person(s)") and the issue and allotment of the 3,332,000 new Awarded Shares (the "Connected Awarded Shares") to the Connected Selected Persons under the Share Award Scheme were approved by the independent shareholders other than the Connected Selected Persons and their respective associates in accordance with the Listing Rules at the extraordinary general meeting of the Company held on 23 May 2011. The fair value of the Awarded Shares was approximately HK\$226,381,000 for the total 26,000,000 Awarded Shares at the closing market price HK\$9.32 at the date of grant. As at 30 June 2011, there were 28,266,800 unvested Awarded Shares, including 2,266,800 bonus shares arising from the Awarded Shares, held for the Share Award Scheme.

14. 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 the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

15. BUSINESS COMBINATION

On 20 June 2011, the Group entered into an agreement to acquire 100% interest in subsidiaries (the "Acquisition"), which are engaged in the research and development, manufacture and sales of telecommunications equipment. The Acquisition was made as part of the Group's strategy to expand its market share of telecommunications equipment. The purchase consideration of HK\$84,259,000 for the Acquisition was in the form of cash.

	Fair value recognized on acquisition HK\$'000
Property, plant and equipment#	74,396
Prepaid land lease payment	17,225
Intangible assets	25,150
Inventories	48,731
Trade receivables and prepayments, deposits and other receivables	95,376
Restricted bank deposits#	10,592
Cash and cash equivalents	6,710
Trade and bills payables and other payables and accruals#	(98,439)
Interest-bearing bank borrowings#	(42,130)
Deferred tax liabilities	(4,926)
Total identifiable net assets at fair value	132,685
Negative goodwill on acquisition	(48,426)
Satisfied by cash	84,259

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

15. BUSINESS COMBINATION (Cont'd)

An analysis of the cash flows in respect of the Acquisition is as follows:

	HK\$'000
Cash considerations	84,259
Cash and bank balances acquired	(6,710)
Net outflow of cash and cash equivalents included in cash flows from investing activities	77,549

- * HK\$26,481,000 of bills payable and HK\$24,074,000 of interest-bearing bank borrowing are secured by:
- (1) mortgage over a subsidiary's property, which had an aggregate carrying value at the end of the reporting period of approximately HK\$55,000,000; and/or
 - (2) restricted bank deposits of HK\$10,592,000.

16. CONTINGENT LIABILITIES

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Guarantees given to banks in respect of performance bonds	39,823	39,225

17. OPERATING LEASE ARRANGEMENTS

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 one to nine years.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

17. OPERATING LEASE ARRANGEMENTS (Cont'd)

As lessee (Cont'd)

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	52,012	38,293
In the second to fifth years, inclusive	53,699	50,941
After five year	6,951	6,501
	112,662	95,735

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following capital commitments for the buildings and the procurement of production facilities and furniture and fixture at the end of reporting period:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Contracted, but not provided for	77,620	57,038

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

19. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	7,905	8,685
Pension scheme contribution	104	103
Awarded shares expenses	7,931	—
Equity-settled share option expenses	234	920
Total compensation paid to key management personnel	16,174	9,708

20. EVENTS AFTER THE REPORTING PERIOD

Repurchase of Shares for Share Award Scheme

On 21 July 2011, the Board has resolved that a sum of HK\$20 million (the "Budgeted Sum") will be provided for the purchase of shares of HK\$0.10 each in the share capital of the Company to be awarded under the Share Award Scheme adopted on 25 March 2011. The Budgeted Sum has been paid to the Trustee. The Trustee has applied approximately HK\$7,690,000 out of the Budgeted Sum to purchase an aggregate of 1,062,500 shares at the prevailing market price during the period from 21 July 2011 to 22 July 2011 in accordance with the terms of the Share Award Scheme. The average purchase price of the shares is approximately HK\$7.24 per share.

Notes to the Condensed Consolidated Financial Statements (Cont'd)

For the six months ended 30 June 2011

21. COMPARATIVE AMOUNTS

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

22. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of directors on 24 August 2011.

By order of the Board

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling

Chairman and President

Hong Kong, 24 August 2011

Comba

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