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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling (*Chairman*)

Zhang Yue Jun

(*Vice Chairman & President*)

Zheng Guo Bao

Yeung Pui Sang, Simon

Zhang Yuan Jian

Tong Chak Wai, Wilson

(resigned on 6 June 2016)

Independent Non-Executive Directors

Liu Cai

Lau Siu Ki, Kevin

Lin Jin Tong

Qian Ting Shuo

COMPANY SECRETARY

Chan Siu Man

(appointed on 30 June 2016)

Tong Chak Wai, Wilson

(resigned on 30 June 2016)

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin (*Chairman*)

Liu Cai

Lin Jin Tong

Qian Ting Shuo

NOMINATION COMMITTEE

Liu Cai (*Chairman*)

Lau Siu Ki, Kevin

Lin Jin Tong

Qian Ting Shuo

AUTHORIZED REPRESENTATIVES

Fok Tung Ling

Chan Siu Man

(appointed on 30 June 2016)

Tong Chak Wai, Wilson

(resigned on 30 June 2016)

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

Royal Bank of Canada Trust

Company (Cayman) Limited

4th Floor Royal Bank House

24 Shedden Road George Town

Grand Cayman KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

Shops 1712–1716 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

A deceleration in macro-economic environment has been affecting the global economy by and large, yet, Mainland China continues to be a key source of growth and stability for the global economy. Rapid 4G migration and growing demands for data and capacity continue to drive the telecom industry growth forward, nonetheless, the overall investment intensity has been hampered by the tightened capital spending by most global mobile network operators.

REVENUE

In light of the above-mentioned factors, Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has registered a decline of 7.4% to HK\$3,098,952,000 (2015: HK\$3,345,331,000) in its interim revenue for the six months ended 30 June 2016 (the "Current Period") compared to the six months ended 30 June 2015 (the "Prior Period").

During the Current Period, revenue from 4G projects surged by 24.8% to HK\$1,342,755,000 (2015: HK\$1,075,717,000), in aggregate, accounting for 43.3% (2015: 32.2%) of the Group's revenue.

By Customers

During the Current Period, the overall Mainland China market experienced a decrease of 9.2% to HK\$2,495,069,000 (2015: HK\$2,749,000,000) in its interim revenue. In view of the distinctive business strategies adopted by PRC mobile network operators as well as their differing investment levels and focuses, the respective revenue contributions and year-on-year growth rates by such major customers of the Group also varied.

Revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") registered a drop of 20.7% to HK\$818,165,000 (2015: HK\$1,031,474,000), accounting for 26.4% of the Group's revenue in the Current Period, compared to 30.8% in the Prior Period.

Revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") increased by 16.8% to HK\$941,879,000 (2015: HK\$806,571,000), accounting for 30.4% of the Group's revenue in the Current Period, compared to 24.1% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") decreased by 26.3% to HK\$580,571,000 (2015: HK\$787,244,000), accounting for 18.7% of the Group's revenue in the Current Period, compared to 23.5% in the Prior Period.

Revenue from other customers, including mainly China Tower Corporation Limited ("China Tower"), increased by 24.9% to HK\$154,454,000 (2015: HK\$123,711,000) and represented 5.0% (2015: 3.8%) of the Group's revenue in the Current Period. China Tower is a new customer of the Group and the management expects the significance of the revenue contribution by China Tower will be gradually increasing in the future.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 1.3% to HK\$603,883,000 (2015: HK\$596,331,000), accounting for 19.5% (2015: 17.8%) of the Group's revenue in the Current Period. During the Current Period, the revenue contributed by the international customers increased, but it was mostly offset by the decline in the revenue generated by core equipment manufacturers.

By Businesses

Revenue generated from the antennas and subsystems business decreased by 9.5% over the Prior Period to HK\$1,495,337,000 (2015: HK\$1,652,770,000), accounting for 48.3% (2015: 49.4%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to a slowdown in product demand.

Revenue generated from the wireless enhancement business in the Current Period decreased by 7.4% to HK\$555,959,000 (2015: HK\$600,373,000) over the Prior Period, accounting for 17.9% (2015: 17.9%) of the Group's revenue. In view of mobile network operators' increasing focus on densifying networks to manage rising mobile data traffic consumption, and due to the positive impacts driven by mobile network enhancement phase, the management expects that this business unit will be improved in the second half of 2016.

Revenue generated from the wireless access and transmission business in the Current Period increased by 7.2% over the Prior Period to HK\$149,977,000 (2015: HK\$139,890,000) and accounted for 4.8% (2015: 4.2%) of the Group's revenue. The major source of such increase in revenue was Small Cell and microwave businesses. The management expects the scales of Small Cell business will be further expanded through the year.

Revenue from services dropped mildly by 5.7% to HK\$897,679,000 during the Current Period (2015: HK\$952,298,000), accounting for 29.0% (2015: 28.5%) of the Group's revenue. The management expects that the revenue from services will continue to be stable through the year.

GROSS PROFIT

During the Current Period, the Group's gross profit decreased by 4.1% over the Prior Period to HK\$934,013,000 (2015: HK\$973,504,000) due to decreased revenue. However, the gross profit margin increased by 1 percentage point over the Prior Period to 30.1% (2015: 29.1%) in the Current Period despite recording a write-off of HK\$92,655,000 for obsolete inventories during the Current Period, equivalent to 3 percentage points of the gross profit margin. The improvement in gross profit margin was mainly due to higher efficiency via optimizing operation and manufacturing processes coupled with growing revenue contribution from some high-end products.

To further improve the gross profit margin, the Group will continue to optimize the product mix, implement stringent cost control measures and ramp up the scale of new products and new businesses in order to achieve greater economies of scale.

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Period, R&D costs increased by 11.3% over the Prior Period to HK\$127,454,000 (2015: HK\$114,513,000), representing 4.1% (2015: 3.4%) of the Group's revenue. The increase in R&D costs was mainly due to a greater investment in R&D as a result of the rapid evolution of mobile networks and the Group's strategy to keep abreast of technological advances in the industry so as to capture more new business opportunities amidst the gradual digitalization of the mobile telecommunications industry.

On top of its own R&D investments, the Group is looking for some collaborations in exploring more innovation breakthroughs. During the Current Period, the Group announced that it would collaborate with the Hong Kong Applied Science and Technology Research Institute (ASTRI) to jointly establish the ASTRI-Comba Joint Research and Development Laboratory, focusing on Smart City and Smart Home technologies. As the trend for enterprises to create new business models and revenue streams through the Internet-of-things ("IoT") shows no signs of slowing down, the Group is strengthening its R&D capabilities intending to drive more new revenue opportunities.

With its strong commitment to R&D, the Group has achieved significant accomplishments in creating its own solutions with proprietary intellectual property rights and has applied for more than 2,200 patents as at the end of the Current Period (As at 31 December 2015: approximately 2,100 patents).

SELLING AND DISTRIBUTION ("S&D") EXPENSES

During the Current Period, S&D expenses increased by 4.7% over the Prior Period to HK\$279,443,000 (2015: HK\$266,986,000), representing 9.0% (2015: 8.0%) of the Group's revenue, as a result of more marketing activities.

ADMINISTRATIVE EXPENSES

During the Current Period, administrative expenses decreased by 14.9% over the Prior Period to HK\$315,581,000 (2015: HK\$370,952,000), representing 10.2% (2015: 11.1%) of the Group's revenue. The decline in the administrative expenses during the Current Period over the Prior Period was mainly due to an absence of substantial exchange loss impact as compared to the Prior Period.

FINANCE COSTS

During the Current Period, finance costs decreased by 28.2% over the Prior Period to HK\$25,843,000 (2015: HK\$35,973,000), representing 0.8% (2015: 1.1%) of the Group's revenue. With the improvement in liquidity and a net cash position of HK\$179,791,000 (2015: net debt position of HK\$411,478,000) of the Group, bank borrowings of the Group have decreased significantly by 33.9% over the Prior Period, resulting in a decrease in bank borrowing costs.

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

As of 30 June 2016, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a healthy level of 12.1% compared to 14.3% as of 31 December 2015.

OPERATING PROFIT

During the Current Period, the operating profit of the Group decreased by 9.6% to HK\$198,183,000 (2015: HK\$219,108,000). The decrease in the operating profit was mainly attributable to the decrease in overall gross profit resulting from the decreased revenue and accrual of an impairment loss in trade receivables of certain overseas markets during the Current Period at HK\$41,276,000 (2015: HK\$16,025,000).

TAX

During the Current Period, the Group's overall taxation charge of HK\$57,944,000 (2015: HK\$72,589,000) comprised income tax expense of HK\$42,759,000 (2015: HK\$50,885,000) and deferred tax charge of HK\$15,185,000 (2015: deferred tax charge of HK\$21,704,000). During the Current Period, the decrease in the overall taxation charge was mainly due to decrease of the assessable profits recorded in certain subsidiaries.

Details of a tax holiday and/or reduced tax rates enjoyed by major operating subsidiaries are set out in note 8 to condensed consolidated financial statements.

NET PROFIT

During the Current Period, as a result of the reduced finance costs and taxation charge, profit attributable to owners of the parent ("Net Profit") of the Group was HK\$112,508,000, up 3.4% as compared to Prior Period (2015: HK\$108,803,000).

DIVIDEND AND BONUS ISSUE

In view of the Group's operating results in the first half of 2016 and taking into consideration its long-term future development and the interests of shareholders of the Company (the "Shareholders"), particularly those of minority Shareholders, the Board proposes an interim dividend for 2016 of HK1.5 cents (2015: HK1.5 cents) per ordinary share. The total payout ratio, on the basis of basic earnings per share, is 29.6% (2015: 25.4% based on the number of shares issued as at 30 June 2015).

In addition to the distribution of dividends, the Board also proposes to distribute 1 bonus share for every 10 existing ordinary shares (2015: 1 bonus share for every 10 existing ordinary shares) held by Shareholders whose names appear on the Company's share register on Tuesday, 18 October 2016.

PROSPECTS

As the growing list of concerns for the global economy becomes increasingly palpable, the Group expects the uncertain environment will likely persist through the year and thus it will remain prudent in driving the business forward. In contrast to the slow and sporadic recovery of the advanced economies, Mainland China's growth remained constant with a satisfactory GDP growth of 6.7% year-on-year for the first half of 2016. Additionally, a particularly evident trend is that more companies are attempting to capitalize on IoT initiatives to achieve a strategic competitive advantage, thus driving sustained capital expenditure and upgrading networks to support a higher volume of mobile data traffic and continued 4G migration.

NEW MARKET LANDSCAPE

To meet different customers' needs, the Group is committed to achieving innovation and development in the telecommunications and information service areas so as to provide customers with excellent communications and information service solutions. The Group will expand its business into three areas. The first area is the public networks of mobile network operators. In the area of public networks, with the expanding mobile data traffic brought by mobile internet, mobile networks have increasingly reached their capacity limits at hotspots, thus driving abundant opportunities in the areas of capacity expansion and construction of network access.

The second one is the enterprise network construction and information service. Construction of enterprise informatization and in pursuit of wireless access, big data and cloud platform unfold a broader prospect for the development of the Group.

Thirdly, given that thing-to-thing and thing-to-human information interaction become the increasing concerns of the society following the settlement of human-to-human communication through information services, the Group is ready to focus on the area of IoT.

PUBLIC NETWORK BUSINESS FOR OPERATORS

1. *Antenna and base station subsystems*

As a leading global provider of wireless solutions, Comba Telecom continues to develop and enhance a variety of antenna technologies, in order to lead the development of antenna solutions to address the difficulties in capacity and coverage expansion during network rollout.

The Group is engaged in the development of diversified and multi-mode multi-frequency 4G products, enabling the mobile network operators to enhance the overall cell capacity, extend the coverage of wireless transmission as well as limit signal interference and reduce construction costs. Meanwhile, the Group has further expanded its antenna portfolio and has recently launched a new generation of ultra-wideband compact 4G antennas with even lighter weight and smaller form factor, marking another milestone of the Group's technological evolution. The new series of antennas have been deployed in several cities across Mainland China, providing a rapid fix for the issue of weak coverage in high wireless traffic areas, while enabling scalability and further improvement in antenna solutions for the global 4G network.

At the same time, as a pioneer in RF technology, the Group has made active preparation for the kick-off of the 5G era by investing in R&D efforts. The Group's 5G R&D works with a major focus on the technology of active array antennas achieved a breakthrough. This effectively drives the Group's product innovation for future antenna products.

Having said that, as massive 4G network build-outs have gradually accomplished while 5G era is yet to come, the Group expects market demand for base station antennas may reach a plateau of slow growth or even experience a slight decline through the year.

2. *In-building distribution system solutions*

In-building and Community Coverage

Enhancement of in-building coverage and access to high-capacity network is increasingly important in later period of network build-outs, since the data and data traffic consumption of mobile internet mostly occurs in buildings. In view of the market imperative for in-building wireless coverage and to align with the strategy to diversify the revenue stream, the Group's in-building distribution system solution offerings have been proliferating to encompass MDAS (Multi-Service Fiber Optic Distributed Access System) and DAS (Distributed Antenna System) solutions, intensive Small Cell deployment solutions and wireless broadband solutions, among others. The wireless experts of the Group assess customers' needs and requirements, survey the site and then design and implement a solution that leverages in-depth expertise and best practices to guarantee improved coverage in difficult indoor environments and high capacity of hotspots.

In addition, with the increasing emergence of small community, a variety types of communication products are required to satisfy different business needs of the subscribers, who expect for stable and high-speed wireless networks in indoor environment. The new generation of enhancement equipment such as MDAS is multifunctional supporting wireless multi-operators and multi-frequency bands, enabling access via Ethernet and optical fiber, integrating with remote power supply and compression algorithm systems, etc.. The Group offers an intensive new coverage solution for residence community by capitalizing on MDAS products. As referred to in the solution, being imported into the access unit, 2G, 3G and LTE signals are delivered to the extension unit through optical fiber, and then transmitted to various types of coverage units via optical fiber/network cable, so as to meet the multi-service intensive coverage requirements in various residence community scenarios. The all-IP access of Small Cell can lead to fast realization of regional coverage and capacity access.

In the overseas market, the Group has been commissioned by a major regional mobile network operator in Argentina where it has delivered a high quality wireless solution to the nation's busiest international airport, which handles an annual traffic volume of more than 10.8 million people. Being at the leading edge of network technology, the Group's high quality reliable wireless solutions have a strong impact on end-user experience and customer satisfaction. With the increasing demand for seamless wireless solutions, the Group expects in-building wireless solutions will continue to be an essential element of the network.

Capacity Access and Coverage

Currently, there are more than three billion smartphone subscriptions across the globe and the majority of cellular data sessions originate inside a building. The management believes that wireless enhancement has gradually become the focal point for value creation following an aggressive 4G network build-out. However, the Group will adjust its strategy to focus more on the commercial side to undertake more high-end customized wireless solution projects with better margins instead of pursuing on a large scale volume business.

Thanks to increasing take-up of smartphones and tablets, wireless subscribers are using more network resources than ever before and that volume of consumption continues to rise. With so many smartphone users looking to do anything from playing online games and tweeting an update to sharing a photo or video of their experiences via social media, it is vital that mobile network operators have a robust network in place via adding more capacity to their networks to continue handling the heavy traffic while providing the network speeds, compatibility and inter-connectivity that those users have come to expect.

Small Cell technology is one of the major next generation of mobile networks. It is clear that there is growing appetite among mobile network operators to adopt Small Cell technology. Against the backdrop, the mobile network operators are exploring more new services and solutions that can be enabled through Small Cell deployment. Together with the fast penetration of 4G networks in Mainland China, the Group expects the demand for wireless access products will be strong throughout the year.

Through swift technological evolution and huge marketing efforts accumulated in the previous years, Small Cell is rapidly gaining traction. The Group's Small Cell is now widely utilized for commercial purposes in more than 20 provinces across Mainland China. Moreover, the Group has recently won tenders to supply NanoCell of China Mobile. In fact, Comba Telecom has long been at the forefront of Small Cell technology in Mainland China. Building on its expertise in Small Cell technology, strength in R&D and diversity in wireless solutions, Comba Telecom intends to continue its efforts in enhancing wireless coverage and capacity access for mobile network operators as well as in driving industry development.

ENTERPRISE NETWORK CONSTRUCTION AND INFORMATION SERVICE

Regional communication solutions have emerged as another viable approach to enterprise network construction to improve connectivity in a cost-effective manner. Many local governments in Mainland China are vigorously pushing smart city construction striving to enhance the level of smart services in transportation, public security, medical care and environmental protection. Growing investments in smart city projects should spur the further demand for wireless connectivity solutions. For instance, the Group has successfully deployed wireless solutions for public transportation in certain Chinese cities with the application of vehicle wireless equipment, 4G data backhaul, big data analytics, cloud service platform, etc. As such, the Group expects that the demand for customized solutions will continue to accelerate. Likewise in overseas markets, commercial wireless solutions could be deployed to empower employees to work more efficiently. The Group has won the tender for a turnkey wireless broadband network project that connects the 10,300 chain stores of an Indonesian retailer, Alfamart, to a private central network, replacing the leased network they had been using. The Group is to provide a series of 5GHz Wi-Fi base stations, customer premise equipment (CPE) and wireless backhaul which forms the core of a customized secure network to handle inter-store communications and financial transactions. Bundled with other wireless equipment, the Group believes the commercial wireless business could be ramped up in the near future.

IoT

The rapid growth of the IoT is fueling the need for more comprehensive wireless solutions which benefit IoT implementation and applications including ubiquitous coverage, managed quality of service and seamless interoperability. Driven by emerging applications and business models, the number of connected devices, such as automobiles and consumer electronics, continues to rise. In the long run, all things are becoming smarter and connected to the internet, enabling greater communication and new data-driven services based on increased analytics capabilities. Most of the current wireless networks may not be sophisticated enough to enable developers to prepare themselves for comprehensive IoT applications. As a leading player in wireless solutions, the Group believes that the scale of business opportunities and growth potential derived from IoT could now only begin to be imagined.

In alignment with the development of IoT by mobile network operators and building on the existing sizable GSM access deployment, the Group will develop an IoT system enabling long distance access and large number of user access for the NB-IoT, allowing a sustainable opportunity for the development of the Group's access system.

In the area of enterprise network, the Group will render information services concerning railway and internet-of-vessels. Such businesses involving IoT, big data analysis and cloud platform will expand the scope of business for the development of the Group.

CONCLUSION

As networks evolve to manage the increasing challenges, the Group continues to deeply explore the needs of mobile network operators and further develops the market of mobile network operators by leveraging its expertise and capabilities in the specific fields. Meanwhile, the Group devotes its efforts to develop enterprise network customers, deeply explores customers' needs for values, connects to network resources opened by mobile network operators, and innovatively develops solutions and information services of enterprise networks and IoT to create ideal values for customers. Though the economy still faces strong headwinds, the Group, motivated by its passion for innovation, intends to pursue the goals of strengthening the existing core business areas and to continue to build strengths in key capabilities to underpin both the new and existing business areas.

Last but not least, the Board would like to extend its heartfelt gratitude to all the staff for their dedicated effort and contributions. The Group also greatly appreciates the continuous support of its customers, suppliers, shareholders and business associates. Comba Telecom always strives to be better in all areas, from R&D, customer services and product innovation to management and operational excellence in order to achieve satisfactory results.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 30 June 2016, the Group had net current assets of HK\$2,840,606,000. Current assets comprised inventories of HK\$1,505,616,000, trade receivables of HK\$4,425,251,000, notes receivable of HK\$100,847,000, prepayments, deposits and other receivables of HK\$679,251,000, restricted bank deposits of HK\$227,984,000, and cash and cash equivalents of HK\$1,012,057,000. Current liabilities comprised trade and bills payables of HK\$3,112,918,000, other payables and accruals of HK\$1,020,371,000, derivative financial instrument of HK\$49,494,000, interest-bearing bank borrowings of HK\$826,021,000, tax payable of HK\$12,009,000 and provisions for product warranties of HK\$89,587,000.

The average receivable turnover for the Current Period was 247 days compared to 253 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. Those retention money are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Period was 269 days compared to 257 days for the Prior Period. The average inventory turnover for the Current Period was 136 days compared to 162 days for the Prior Period.

As at 30 June 2016, the Group's cash and bank balances were mainly denominated in RMB, HK\$ and US\$ while the Group's bank borrowings were mainly denominated in RMB, HK\$ and US\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a 3-year term loan facility agreement with certain financial institutions with facility amount of US\$200,000,000 entered into on 15 June 2015 (the "2015 Facility Agreement").

Under the 2015 Facility Agreement, there are specific performance obligations that Mr. Fok Tung Ling, who is the controlling Shareholder, and Mr. Zhang Yue Jun, who is the substantial Shareholder, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 30% of the shares (of each class) of, and equity interests in the Company free from any security and either of them shall maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. As at the date of approval of these unaudited condensed consolidated interim financial statements, the above specific performance obligations under the 2015 Facility Agreement have been complied with.

Details of the 2015 Facility Agreement are set out in note 14 to these unaudited condensed consolidated interim financial statements.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK\$ and US\$. In view of the devaluation of the RMB in 2016 and the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 30 June 2016, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings) over total assets, was 12.1% as at 30 June 2016 (31 December 2015: 14.3%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSIT

Deposit balances of HK\$265,129,000 (31 December 2015: HK\$271,301,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had contingent liabilities of HK\$214,976,000 (31 December 2015: HK\$177,277,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had approximately 7,900 staff. The total staff costs, excluding capitalized development cost, for the Current Period were HK\$510,022,000 (30 June 2015: HK\$531,706,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the People's Republic of China or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the Current Period. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Period.

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

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Notes	Number of ordinary shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse	Through controlled corporation			
Mr. Fok Tung Ling ("Mr. Fok")	(a)	25,267,761	—	711,059,029	736,326,790	32.91	
Mr. Zhang Yue Jun	(b)	—	—	225,659,464	225,659,464	10.08	
Mr. Zheng Guo Bao ("Mr. Zheng")		4,973,804	—	—	4,973,804	0.22	
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")		13,512,049	—	—	13,512,049	0.60	
Mr. Zhang Yuan Jian		4,047,439	117,128	—	4,164,567	0.18	

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Long positions in share options of the Company:

Name of Directors	Number of share options directly beneficially owned
Mr. Fok	732,050
Mr. Zhang Yue Jun	732,050
Mr. Yeung	2,196,150
Mr. Zhang Yuan Jian	2,196,150
Mr. Liu Cai	146,410
Mr. Lau Siu Ki, Kevin	146,410
Dr. Lin Jin Tong	146,410
Mr. Qian Ting Shuo	146,410

Notes:

- (a) 709,177,390 shares and 1,881,639 shares are beneficially owned by Prime Choice Investments Limited and Total Master Investments Limited, respectively. By virtue of 100% shareholding in each of Prime Choice Investments Limited and Total Master Investments Limited, Mr. Fok is deemed or taken to be interested in the total of 711,059,029 shares owned by Prime Choice Investments Limited and Total Master Investments Limited under the SFO.
- (b) These shares are beneficially owned by Wise Logic Investments Limited. By virtue of 100% shareholding in Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in the 225,659,464 shares owned by Wise Logic Investments Limited under the SFO.

Save as disclosed above and save for Mr. Zheng beneficially holds 32% equity interest in WaveLab Holdings Limited, an indirect non wholly-owned subsidiary of the Company, as at 30 June 2016, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive are deemed or taken to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

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

As at 30 June 2016, the following substantial Shareholders (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO, or as otherwise notified to the Company and/or the Stock Exchange as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares and share options held	Percentage of the Company's issued share capital
Prime Choice Investments Limited		Beneficial owner	709,177,390	31.70
Madam Chen Jing Na	(a)	Interest of spouse	737,058,840	32.94
Wise Logic Investments Limited		Beneficial owner	225,659,464	10.08
Madam Cai Hui Ni	(b)	Interest of spouse	226,391,514	10.11

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in the 736,326,790 shares and 732,050 share options in which Mr. Fok is interested or deemed to be interested for the purpose of the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 225,659,464 shares and 732,050 share options in which Mr. Zhang Yue Jun is interested or deemed to be interested for the purpose of the SFO.

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

- (i) 709,177,390 shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 225,659,464 shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 30 June 2016, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board reviewed the governance practices of the Company and considered that, during the Current Period, the Company has complied with the Code Provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

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

CHANGE IN PARTICULARS OF THE DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, change of Directors' particulars since the publication of the Company's 2015 Annual Report are set out below:

Effective Date	Change
12 April 2016	Mr. Lau Siu Ki, Kevin, an independent non-executive Director, has been appointed as company secretary of Expert Systems Holdings Limited, the shares of which are listed on the growth enterprise market of the Stock Exchange.
11 May 2016	Mr. Liu Cai, an independent non-executive Director, has generally retired as independent director of China United Network Communications Limited, with its A shares listed on the Shanghai Stock Exchange.
11 August 2016	Dr. Lin Jin Tong, an independent non-executive Director, has been appointed as director of Jiangsu Zhongtian Technology Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect wholly-owned subsidiary of the Company, entered into the 2015 Facility Agreement with certain financial institutions, which contain covenants requiring specific performance obligations of Mr. Fok, the controlling Shareholder and Mr. Zhang Yue Jun, the substantial Shareholder. As at the date of approval of these unaudited condensed consolidated interim financial statements, the obligations under the 2015 Facility Agreement have been complied with. Details of the 2015 Facility Agreement are set out in note 14 to these unaudited condensed consolidated interim financial statements.

AUDIT COMMITTEE

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

RECORD DATE FOR INTERIM DIVIDEND

The record date for determination of entitlements under the interim dividend will be on 5 September 2016. Shareholders whose names appear on the register of members of the Company on 5 September 2016 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 Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 5 September 2016. Dividend warrants will be despatched to the Shareholders on 14 September 2016.

CLOSURE OF REGISTER OF MEMBERS FOR BONUS ISSUE

The Board proposed to increase the share capital of the Company by capitalizing the share premium of the Company and issuing bonus shares on the basis of 1 bonus share for every 10 existing ordinary shares held by the Shareholders. Please refer to the Company's circular dated 14 September 2016 for details of the bonus issue.

For the purpose of determining Shareholders' entitlements under the bonus issue, the register of members of the Company will be closed from 17 October 2016 to 18 October 2016, both days inclusive, during which period no transfer of shares will be registered. The record date for determination of entitlements under the bonus issue will be on 18 October 2016. Shareholders whose names appear on the register of members of the Company on 18 October 2016 will be entitled to receive the bonus shares. In order to qualify for the bonus issue, 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 Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 14 October 2016. Bonus shares will be allotted, issued and despatched to the Shareholders on 26 October 2016 subject to the Shareholders' approval at the forthcoming extraordinary general meeting.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

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 2016, together with the comparative figures for the same period in 2015. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE	5	3,098,952	3,345,331
Cost of sales		(2,164,939)	(2,371,827)
Gross profit		934,013	973,504
Other income and gains	5	83,198	15,864
Research and development costs		(127,454)	(114,513)
Selling and distribution expenses		(279,443)	(266,986)
Administrative expenses		(315,581)	(370,952)
Other expenses		(96,550)	(17,809)
Finance costs	7	(25,843)	(35,973)
Share of loss of an associate		(1,390)	—
PROFIT BEFORE TAX	6	170,950	183,135
Income tax expense	8	(57,944)	(72,589)
PROFIT FOR THE PERIOD		113,006	110,546

CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS (CONT'D)

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Attributable to:			
Owners of the parent		112,508	108,803
Non-controlling interests		498	1,743
		113,006	110,546
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		HK5.06 cents	HK4.89 cents (Restated)
Diluted		HK5.06 cents	HK4.88 cents (Restated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	113,006	110,546
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(117,088)	(27,553)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(117,088)	(27,553)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(117,088)	(27,553)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(4,082)	82,993
Attributable to:		
Owners of the parent	(3,276)	81,219
Non-controlling interests	(806)	1,774
	(4,082)	82,993

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		575,265	607,950
Prepaid land lease payments		127,857	132,054
Goodwill		28,571	28,571
Deferred tax assets		121,870	140,256
Intangible assets		198,702	211,838
Investment in an associate		22,541	23,903
Restricted bank deposits		37,145	22,009
Available-for-sale investment		8,518	—
Total non-current assets		1,120,469	1,166,581
CURRENT ASSETS			
Inventories	11	1,505,616	1,731,068
Trade receivables	12	4,425,251	3,967,602
Notes receivable		100,847	96,376
Prepayments, deposits and other receivables		679,251	616,596
Restricted bank deposits		227,984	249,292
Cash and cash equivalents		1,012,057	1,747,360
Total current assets		7,951,006	8,408,294
CURRENT LIABILITIES			
Trade and bills payables	13	3,112,918	3,257,652
Other payables and accruals		1,020,371	1,067,397
Derivative financial instrument		49,494	1,501
Interest-bearing bank borrowings	14	826,021	595,478
Tax payable		12,009	65,331
Provisions for product warranties		89,587	85,394
Total current liabilities		5,110,400	5,072,753

CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONT'D)

30 June 2016

	Notes	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
NET CURRENT ASSETS		2,840,606	3,335,541
TOTAL ASSETS LESS CURRENT LIABILITIES		3,961,075	4,502,122
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	271,374	775,354
Deferred tax liabilities		14,585	14,981
Total non-current liabilities		285,959	790,335
Net assets		3,675,116	3,711,787
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	223,714	203,377
Treasury shares		(22,667)	(22,530)
Reserves	17	3,415,619	3,471,684
		3,616,666	3,652,531
Non-controlling interests		58,450	59,256
Total equity		3,675,116	3,711,787

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the parent												
	Notes	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2015		167,882	(13,114)	722,878	52,730	45,827	64,973	104,412	514,263	2,049,940	3,709,791	56,164	3,765,955
Profit for the period		—	—	—	—	—	—	—	—	108,803	108,803	1,743	110,546
Other comprehensive loss for the period:		—	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	(27,584)	—	(27,584)	31	(27,553)
Total comprehensive income for the period		—	—	—	—	—	—	—	(27,584)	108,803	81,219	1,774	82,993
Share option scheme		—	—	—	4,993	—	—	—	—	—	4,993	—	4,993
—value of services	16(a)	—	—	—	(674)	—	—	—	—	—	3,932	—	3,932
—exercise of share options	15(i)	199	—	4,407	—	—	—	—	—	—	—	—	—
—adjustment arising from lapse of share options		—	—	—	(74)	—	—	—	—	74	—	—	—
—share options cancelled at expiry date		—	—	—	(41,932)	—	—	—	—	41,932	—	—	—
Issue of bonus shares		16,807	(64)	(16,743)	—	—	—	—	—	—	—	—	—
Transfer to retained profits		—	—	—	—	(1,805)	—	—	—	1,805	—	—	—
Final 2014 dividend declared	9	—	—	—	—	—	—	—	—	(21,852)	(21,852)	—	(21,852)
At 30 June 2015 (unaudited)		184,888	(13,178)	710,542	15,043	45,827	63,148	104,412	486,679	2,180,702	3,778,083	57,938	3,836,021

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

For the six months ended 30 June 2016

		Attributable to owners of the parent										Total equity HK\$'000	
		Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		Non-controlling interests HK\$'000
Notes													
At 1 January 2016		203,377	(22,530)	692,154*	19,327*	45,827*	61,364*	134,221*	289,762*	2,229,029*	3,652,531	59,256	3,711,787
Profit for the period		—	—	—	—	—	—	—	—	112,508	112,508	498	113,006
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations		—	—	—	—	—	—	—	(115,784)	—	(115,784)	(1,304)	(117,088)
Total comprehensive loss for the period		—	—	—	—	—	—	—	(115,784)	112,508	(3,276)	(806)	(4,082)
Share option scheme													
— value of services		—	—	—	4,019	—	—	—	—	—	4,019	—	4,019
— adjustment arising from lapse of share options		—	—	—	178	—	—	—	—	(178)	—	—	—
Issue of bonus shares		20,337	(137)	(20,200)	—	—	—	—	—	—	—	—	—
Transfer to retained profits		—	—	—	—	—	(1,805)	—	—	1,805	—	—	—
Final 2015 dividend declared		—	—	—	—	—	—	—	—	(36,608)	(36,608)	—	(36,608)
At 30 June 2016 (unaudited)		223,714	(22,667)	671,954*	23,524*	45,827*	59,559*	134,221*	173,978*	2,306,556*	3,616,666	58,450	3,675,116

* These reserve accounts comprise the consolidated reserves of HK\$3,415,619,000 (31 December 2015: HK\$3,471,684,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		170,950	183,135
Adjustments for:			
Interest income	5	(3,913)	(5,080)
Finance costs	7	25,843	35,973
Share of loss of an associate		1,390	—
Depreciation	6	39,917	52,198
Recognition of prepaid land lease payments	6	1,435	643
Amortization of intangible assets		39,075	38,414
(Gain)/loss on disposal of items of property, plant and equipment	6	(355)	2,288
Equity-settled share option expense	6	4,019	4,993
Loss on fair value change of the derivative financial instrument	6	48,026	—
		326,387	312,564
Decrease in inventories		187,050	250,936
Increase in trade receivables		(545,666)	(494,599)
Decrease in long-term trade receivables		—	8,634
(Increase)/decrease in notes receivable		(6,609)	12,248
Increase in prepayments, deposits and other receivables		(76,395)	(34,102)
Decrease in trade and bills payables		(72,466)	(177,489)
(Decrease)/increase in other payables and accruals		(23,347)	29,258
Increase in provisions for product warranties		6,087	15,147
		(204,959)	(77,403)
Cash used in operations		(204,959)	(77,403)
Mainland China profits tax paid		(79,839)	(62,676)
Overseas profits taxes paid		(15,099)	(12,651)

CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (CONT'D)

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Net cash flows used in operating activities		(299,897)	(152,730)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	3,913	5,080
Purchases of items of property, plant and equipment		(18,749)	(22,126)
Addition of intangible assets		(30,470)	(56,210)
Purchase of available-for-sale investment		(8,518)	—
Increase in long-term prepayment		—	(86,229)
Proceeds from disposal of items of property, plant and equipment		1,985	331
Decrease in restricted bank deposits		154	28,350
Net cash flows used in investing activities		(51,685)	(130,804)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		331,500	1,183,193
Repayment of bank borrowings		(599,557)	(1,173,252)
Exercise of share options	15(i)	—	3,932
Interest paid		(25,843)	(35,973)
Dividends paid	9	(36,608)	(21,852)
Net cash flows used in financing activities		(330,508)	(43,952)

CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (CONT'D)

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		1,747,360	1,274,796
Effect of foreign exchange rate changes, net		(53,213)	(28,628)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,012,057	918,682
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,012,057	918,682

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The adoption of the new standards and interpretations has had no material effect on these interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single operating segment.

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Mainland China	2,559,983	2,825,984
Other countries/areas in Asia Pacific	177,013	156,943
Americas	195,967	228,499
European Union	143,195	91,563
Middle East	22,101	26,373
Other countries	693	15,969
	3,098,952	3,345,331

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

30 June 2016

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

(b) Non-current assets

Because majority of the Group's non-current assets and capital expenditure were located/incurred in Mainland China, no related geographical information of non-current assets is presented.

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue of approximately HK\$941,879,000 (six months ended 30 June 2015: HK\$806,571,000), HK\$818,165,000 (six months ended 30 June 2015: HK\$1,031,474,000) and HK\$580,571,000 (six months ended 30 June 2015: HK\$787,244,000) was derived from 3 major customers, which accounted for 30.4% (six months ended 30 June 2015: 24.1%), 26.4% (six months ended 30 June 2015: 30.8%) and 18.7% (six months ended 30 June 2015: 23.5%) of the total revenue of the Group, respectively.

5. REVENUE, OTHER INCOME AND GAINS

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

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

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	2,945,895	3,145,093
Maintenance services	153,057	200,238
	3,098,952	3,345,331
Other income and gains		
Exchange gain	63,028	—
Bank interest income	3,913	5,080
Government subsidy	2,923	1,275
VAT refunds*	3,479	4,824
Gross rental income	2,116	3,087
Others	7,739	1,598
	83,198	15,864

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

6. PROFIT BEFORE TAX

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

	Note	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Cost of inventories sold and services provided		2,010,623	2,222,545
Depreciation		39,917	52,198
Recognition of prepaid land lease payments		1,435	643
Amortization of computer software and technology		1,704	4,813
Research and development costs:			
Deferred expenditure amortized [^]		37,371	33,601
Current period expenditure		127,454	114,513
		164,825	148,114
Minimum lease payments under operating leases		27,588	36,125
Employee benefit expense (including directors' remuneration):			
Salaries and wages		423,931	454,281
Staff welfare expenses		35,406	30,068
Equity-settled share option expense	16(a)	4,019	4,993
Pension scheme contributions (defined contribution scheme) [#]		46,666	42,364
		510,022	531,706
Exchange (gain)/loss, net*		(63,028)	54,798
Provision for product warranties [^]		19,394	22,996
Write-down of inventories to net realizable value [^]		92,655	85,388
Impairment of trade receivables**		41,276	16,025
Loss on fair value change of the derivative financial instrument**		48,026	—
(Gain)/loss on disposal of items of property, plant and equipment		(355)	2,288

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2016

6. PROFIT BEFORE TAX (Cont'd)

- [^] The amortization of deferred development costs, provision for product warranties and write-down of inventories to net realizable value for the period were included in "Cost of sales" in the condensed consolidated statement of profit or loss.
- [#] At 30 June 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2015: Nil).
- ^{*} Exchange gain for the period and exchange loss for the last period were included in "Other income and gains" and "Administrative expenses" in the condensed consolidated statement of profit or loss, respectively.
- ^{**} Impairment of trade receivables and loss on fair value change of the derivative financial instrument for the period were included in "Other expenses" in the condensed consolidated statement of profit or loss.

7. FINANCE COSTS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest on bank loans	25,843	35,973

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current — charge for the period		
Hong Kong	5,322	91
Mainland China	29,150	44,294
Elsewhere	8,287	6,500
Deferred	15,185	21,704
Total tax charge for the period	57,944	72,589

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

Comba Telecom Technology (Guangzhou) Limited and Comba Telecom Systems (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the period ended 30 June 2016 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the period ended 30 June 2016.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

9. DIVIDEND

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Final dividend paid	36,608	21,852
Interim dividend declared — HK1.5 cents (six months ended 30 June 2015: HK1.5 cents) per ordinary share	33,557	25,182

A final dividend of HK1.8 cents per ordinary share was paid in respect of the year ended 31 December 2015 (six months ended 30 June 2015: a final dividend of HK1.3 cents per ordinary share was paid for the year ended 31 December 2014) to shareholders during the current period.

The Directors determined that an interim dividend of HK1.5 cents (six months ended 30 June 2015: HK1.5 cents) per ordinary share should be paid to the shareholders of the Company whose names appear on the register of members on 5 September 2016.

30 June 2016

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,222,019,000 (six months ended 30 June 2015 (restated): 2,227,249,000) in issue during the period, as adjusted to reflect bonus issue during the period.

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

The effects of share options were excluded from the calculation of diluted earnings per share for the six months ended 30 June 2016 as their effects would be anti-dilutive.

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	112,508	108,803

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

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

	Number of shares For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,222,019,000	2,227,249,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	2,960,000
	2,222,019,000	2,230,209,000

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

11. INVENTORIES

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Raw materials	187,863	216,484
Project materials	188,648	195,187
Work in progress	72,905	76,030
Finished goods	467,441	429,772
Inventories on site	588,759	813,595
	1,505,616	1,731,068

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable to over 1 year depending on the credit worthiness of customers. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize the credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

12. TRADE RECEIVABLES (Cont'd)

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 3 months	1,807,641	1,517,274
4 to 6 months	347,478	398,619
7 to 12 months	821,476	708,671
More than 1 year	1,595,153	1,436,353
	4,571,748	4,060,917
Provision for impairment	(146,497)	(93,315)
	4,425,251	3,967,602

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Neither past due nor impaired	2,976,594	2,624,563
Past due but not impaired	1,448,657	1,318,771
	4,425,251	3,943,334

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2016

12. TRADE RECEIVABLES (Cont'd)

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors 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.

13. TRADE AND BILLS PAYABLES

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 3 months	1,608,345	1,774,133
4 to 6 months	661,917	583,917
7 to 12 months	495,541	582,978
More than 1 year	347,115	316,624
	3,112,918	3,257,652

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Analyzed into:		
Within 1 year	826,021	595,478
In the 2nd to 3rd years, inclusive	271,374	775,354
	1,097,395	1,370,832

As at 30 June 2016, loans denominated in Hong Kong dollars, United States dollars and Renminbi amounted to HK\$240,000,000 (31 December 2015: Nil), HK\$659,051,000 (31 December 2015: HK\$969,192,000) and HK\$198,344,000 (31 December 2015: HK\$401,640,000), respectively.

The Group entered into a 3-year term loan facility agreement amounting to US\$200,000,000 on 15 June 2015 (the "2015 Facility Agreement") with certain financial institutions.

Under the 2015 Facility Agreement, there are specific performance obligations that Mr. Fok Tung Ling, who is the controlling shareholder of the Company, and Mr. Zhang Yue Jun, who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 30% of the shares (of each class) of and equity interests in the Company free from any security. Pursuant to the 2015 Facility Agreement, either Mr. Fok Tung Ling or Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. As at the date of approval of these condensed consolidated interim financial statements, such obligations have been complied with.

30 June 2016

14. INTEREST-BEARING BANK BORROWINGS (Cont'd)

The Company and three of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited and Comba Telecom Limited, were parties to the 2015 Facility Agreement acting as guarantors, to guarantee punctual performance of the obligations under the 2015 Facility Agreement.

As at 30 June 2016, the Group had utilized the amount of US\$85,000,000 (equivalent to HK\$659,051,000) under the 2015 Facility Agreement. As at 30 June 2016, the outstanding term loan balance amounted to HK\$659,051,000, of which, HK\$387,677,000 and HK\$271,374,000 are repayable within 1 year and in the 2nd to 3rd years inclusive, respectively. The term loan bears interest at 3.8% per annum.

Other short-term bank loans are guaranteed by companies within the Group and bear interest at rates ranging from 1.6% to 4.6% (31 December 2015: from 4.4% to 4.6%) per annum.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

15. SHARE CAPITAL

	Notes	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:			
1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016		5,000,000,000	500,000
Issued and fully paid or credited as fully paid:			
At 1 January 2015		1,678,815,837	167,882
Exercise of share options	(i)	1,992,250	199
Bonus issue of shares	(ii)	352,959,041	35,296
At 31 December 2015 and 1 January 2016		2,033,767,128	203,377
Bonus issue of shares	(iii)	203,376,682	20,337
At 30 June 2016		2,237,143,810	223,714

As at 30 June 2016, the total number of issued ordinary shares of the Company was 2,237,143,810 shares (31 December 2015: 2,033,767,128 shares) which included 15,124,671 shares (31 December 2015: 13,749,702 shares) held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (the "Adoption Date") (note 16(b)).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2016

15. SHARE CAPITAL (Cont'd)

Notes:

- (i) During the year 2015, the subscription rights attaching to 1,992,250 share options were exercised at the adjusted exercise prices ranging from HK\$1.802 to HK\$1.982 per share, resulting in the issue of 1,992,250 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$3,932,000.
- (ii) Pursuant to the annual general meeting and the extraordinary general meeting held on 3 June 2015 (the "Jun 2015 Bonus Issue") and 12 October 2015 (the "Oct 2015 Bonus Issue") respectively, bonus issues of shares on the basis of 1 bonus share for every 10 existing shares held on the respective record dates were approved respectively. 168,071,141 bonus shares and 184,887,900 bonus shares were issued under the Jun 2015 Bonus Issue and the Oct 2015 Bonus Issue respectively. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.
- (iii) Pursuant to the annual general meeting held on 27 May 2016 (the "2016 Bonus Issue"), a bonus issue of shares on the basis of 1 bonus share for every 10 existing shares held was approved. 203,376,682 bonus shares were issued under the 2016 Bonus Issue. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) SHARE OPTION SCHEME

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

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

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

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

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

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

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

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

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

The following number of share options were outstanding under the 2013 Scheme during the six months ended 30 June 2016:

	For the six months ended 30 June			
	2016		2015	
	Weighted average exercise price of share options* HK\$ per share	Number of share options* '000	Weighted average exercise price of share options# HK\$ per share	Number of share options# '000
At 1 January	1.489	52,822	1.802	48,400
Exercised during the period	—	—	1.802	(2,182)
Lapsed during the period	1.489	(202)	1.802	(1,788)
At 30 June	1.489	52,620	1.802	44,430

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the 2016 Bonus Issue. The weighted average exercise price of share options as at 1 January 2016 was adjusted from HK\$1.638 per share to HK\$1.489 per share. The number of share options outstanding as at 1 January 2016 was adjusted from 48,020,000 to 52,822,000.

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 8 October 2014 (the "2014 Bonus Issue") and the Jun 2015 Bonus Issue.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

Movements in the number of the Company's share options under the 2013 Scheme during the six months ended 30 June 2016 are as follows:

Name or category of participant	Number of share options						At 30 June 2016	Date of grant of share options**	Exercise period of share options	Exercise price of share options† HK\$ per share
	At 1 January 2016	Granted during the period	Adjusted during the period*	Exercised during the period	Expired during the period	Lapsed during the period				
Executive directors										
Mr. Fok Tung Ling	666,000	—	67,000	—	—	—	733,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Mr. Zhang Yue Jun	666,000	—	67,000	—	—	—	733,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Mr. Yeung Pui Sang, Simon	1,997,000	—	200,000	—	—	—	2,197,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Mr. Zhang Yuan Jian	1,997,000	—	200,000	—	—	—	2,197,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Independent non-executive directors										
Mr. Liu Cai	133,000	—	13,000	—	—	—	146,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Mr. Lau Siu Ki, Kevin	133,000	—	13,000	—	—	—	146,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Dr. Lin Jin Tong	133,000	—	13,000	—	—	—	146,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
Mr. Qian Ting Shuo	133,000	—	13,000	—	—	—	146,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

Name or category of participant	Number of share options							Date of grant of share options**	Exercise period of share options	Exercise price of share options# HK\$ per share
	At 1 January 2016	Granted during the period	Adjusted during the period*	Exercised during the period	Expired during the period	Lapsed during the period	At 30 June 2016			
Other employees in aggregate	42,162,000	—	4,197,000	—	—	(183,000)	46,176,000	11 Apr 14	11 Apr 15-10 Apr 19	1.489
	48,020,000	—	4,783,000	—	—	(183,000)	52,620,000			

* The share options were adjusted as a result of the 2016 Bonus Issue. The number of ordinary shares of HK\$0.10 each in the share capital of the Company to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 47,836,762 share options granted under the 2013 Scheme was adjusted to 52,620,154 ordinary shares of HK\$0.10 each.

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

The exercise price of share options per share was adjusted as a result of the 2016 Bonus Issue.

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

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

30 June 2016 Number of share options [^] '000	Exercise price of share options [^] HK\$ per share	Exercise period
52,620	1.489	11 April 2015 to 10 April 2019

30 June 2015 Number of share options [#] '000	Exercise price of share options [#] HK\$ per share	Exercise period
44,430	1.802	11 April 2015 to 10 April 2019

[^] The exercise price of the share options per share and the number of share options were adjusted as a result of the 2016 Bonus Issue.

[#] The exercise price of the share options per share and the number of share options were adjusted as a result of the 2014 Bonus Issue and the Jun 2015 Bonus Issue.

The expense recognized in the condensed consolidated statement of profit or loss for employee services received during the six months ended 30 June 2016 is approximately HK\$4,019,000 (six months ended 30 June 2015: HK\$4,993,000).

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(a) SHARE OPTION SCHEME (Cont'd)

At the end of the reporting period, the Company had 52,620,154 share options outstanding under the 2013 Scheme, of which 25,058,854 were vested and 27,561,300 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 52,620,154 additional ordinary shares of the Company and additional share capital of HK\$5,262,000 and share premium of HK\$73,089,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 52,568,911 share options outstanding under the 2013 Scheme, which represented approximately 2.35% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 3 June 2015, the Company may further grant 168,071,158 share options (being 10% of the total number of issued shares of the Company on 3 June 2015). Since no share option was granted under the refreshed limit, the total number of unissued share options under the scheme limit remains at 168,071,158, representing approximately 7.51% of the Company's shares in issue as at 30 June 2016.

(b) SHARE AWARD SCHEME

The Company adopted a Share Award Scheme. 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 in accordance with the terms therein, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(b) SHARE AWARD SCHEME (Cont'd)

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

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

30 June 2016

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(b) SHARE AWARD SCHEME (Cont'd)

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010.

Movements in the number of treasury shares held for the Share Award Scheme and Awarded Shares held for the Selected Persons for the six months ended 30 June 2015 and 2016 are as follows:

	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2016	13,749,702	—
Bonus issue of shares	1,374,969	—
At 30 June 2016	15,124,671	—

	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2015	6,453,557	—
Bonus issue of shares	645,355	—
At 30 June 2015	7,098,912	—

No Awarded Shares held for the Selected Persons were outstanding as at 30 June 2016.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

17. RESERVES

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

18. CONTINGENT LIABILITIES

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Guarantees given to banks in respect of performance bonds	214,976	177,277

19. OPERATING LEASE ARRANGEMENTS

(a) **AS LESSOR**

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 June 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 year	4,600	4,593
In the 2nd to 5th years, inclusive	6,484	8,780
After 5 years	340	553
	11,424	13,926

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2016

19. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) AS LESSEE

The Group leases certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 5 years.

As at 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 year	39,017	36,535
In the 2nd to 5th years, inclusive	21,441	26,279
After 5 years	—	821
	60,458	63,635

20. COMMITMENTS

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Contracted, but not provided for:		
Plant and machinery	200	1,207
Capital contribution payable to the associate	2,333	2,386
	2,533	3,593

30 June 2016

21. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Short-term employee benefits	21,484	5,368
Pension scheme contributions	108	123
Equity-settled share option expense	623	903
	22,215	6,394

22. EVENT AFTER THE REPORTING PERIOD

On 19 August 2016, the Board proposed to increase the share capital of the Company by capitalizing the share premium of the Company and bonus shares will be allotted, issued and despatched to the shareholders on the basis of 1 bonus share for every 10 existing ordinary shares held by the shareholders whose names are shown on the register of members of the Company on 18 October 2016, being the record date for determination of entitlements to the bonus issue. Based on the total of 2,237,143,810 shares in issue as at 30 June 2016 and assuming no further shares will be issued or purchased before 18 October 2016, approximately 223,714,381 bonus shares will be issued by the Company. The share capital of the Company will increase from HK\$223,714,000 to approximately HK\$246,085,000 upon completion of the bonus issue. The amount of approximately HK\$22,371,000 will be capitalized from the Company's share premium account.

30 June 2016

22. EVENT AFTER THE REPORTING PERIOD (Cont'd)

The bonus issue and the increase in the Company's share capital will be subject to, among others, shareholders' approval at the forthcoming extraordinary general meeting, the grant of listing approval of the bonus shares and compliance with the relevant legal procedures and requirement (if any) under the applicable laws of the Cayman Islands and the articles of association of the Company.

23. COMPARATIVE AMOUNTS

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

24. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board on 19 August 2016.

By order of the Board
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman

Hong Kong, 19 August 2016

Comba

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

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