

Comba

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

股份編號 Stock Code : 2342

2017

INTERIM REPORT 中期報告



Exploring Opportunities + Creating Value

開拓商機 + 創新價值

Reforming Mechanism + Enhancing Efficiency

變革機制 + 提升效能

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling (*Chairman*)

Zhang Yue Jun

(*Vice Chairman and President*)

Zheng Guo Bao

Yeung Pui Sang, Simon

Zhang Yuan Jian

Independent Non-Executive Directors

Lau Siu Ki, Kevin

Lin Jin Tong

Qian Ting Shuo

Liu Cai

(resigned on 31 March 2017)

COMPANY SECRETARY

Chan Siu Man

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin (*Chairman*)

Lin Jin Tong

Qian Ting Shuo

Liu Cai

(resigned on 31 March 2017)

NOMINATION COMMITTEE

Lin Jin Tong (*Chairman*)

(appointed as Chairman
on 31 March 2017)

Lau Siu Ki, Kevin

Qian Ting Shuo

Liu Cai

(resigned on 31 March 2017)

AUTHORIZED REPRESENTATIVES

Fok Tung Ling

Chan Siu Man

REGISTERED OFFICE

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

611 East Wing

No. 8 Science Park West Avenue

Hong Kong Science Park

Tai Po

Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House – 3rd Floor

24 Shedden Road

P.O. Box 1586

Grand Cayman KY1-1110

Cayman Islands

(changed with effect from 12 May
2017)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

Shops 1712–1716 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

In the first half of 2017, with a favorable recovery of the global economy, the Chinese economy was growing at a reasonable and stable pace. The increased coverage of the fourth generation of mobile telecommunications (“4G”) network and the development of network traffic data applications led to a slower 4G growth with saturation of mobile phone users and decreased capital expenditure from operators. However, the rapid growth of the data traffic propelled re-farming and expansion of certain networks. As a result, operators intensified their investments in 4.5G network expansion and construction, as well as the fifth generation of mobile telecommunications (“5G”) network and the Internet-of-things (“IoT”).

REVENUE

Comba Telecom Systems Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) reported revenue amounting to HK\$2,721,948,000 (2016: HK\$3,098,952,000) for the six months ended 30 June 2017 (the “Current Period”), representing a decline of 12.2% compared to the six months ended 30 June 2016 (the “Prior Period”). The decrease was mainly due to general transition of the PRC mobile network operators from 4G to 5G after basic completion of their 4G network build-out, and their exercising greater prudence in their investment schedule to secure a balance between their own performance and external investment.

By Customers

During the Current Period, revenue generated from China Mobile Communications Corporation and its subsidiaries decreased by 18.1% over the Prior Period to HK\$670,341,000 (2016: HK\$818,165,000), accounting for 24.6% of the Group’s revenue in the Current Period, compared to 26.4% in the Prior Period.

Revenue generated from China United Telecommunications Corporation and its subsidiaries decreased by 56.9% over the Prior Period to HK\$406,022,000 (2016: HK\$941,879,000), accounting for 14.9% of the Group’s revenue in the Current Period, compared to 30.4% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries increased by 44.8% over the Prior Period to HK\$840,663,000 (2016: HK\$580,571,000), accounting for 30.9% of the Group’s revenue in the Current Period, compared to 18.7% in the Prior Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and specialized government and enterprise network customers, increased by 8.5% over the Prior Period to HK\$167,543,000 (2016: HK\$154,454,000) and represented 6.2% (2016: 5.0%) of the Group's revenue in the Current Period. China Tower is a new customer of the Group and in view of the growing demand for wireless solutions for enterprise networks, the management expects the significance of the revenue contribution by China Tower and specialized network customers will be gradually increasing in the future.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 5.5% over the Prior Period to HK\$637,379,000 (2016: HK\$603,883,000), accounting for 23.4% of the Group's revenue in the Current Period, compared to 19.5% in the Prior Period.

By Businesses

During the Current Period, revenue generated from the antennas and subsystems business decreased by 17.1% over the Prior Period to HK\$1,239,508,000 (2016: HK\$1,495,337,000), accounting for 45.5% (2016: 48.3%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to declining overall market demand as 4G network build-outs were basically completed.

During the Current Period, revenue generated from the network system business (including wireless enhancement and wireless access) increased by 8.5% over the Prior Period to HK\$643,789,000 (2016: HK\$593,524,000), accounting for 23.7% (2016: 19.1%) of the Group's revenue in the Current Period. Among which, revenue generated from wireless enhancement business decreased by 6.6% over the Prior Period to HK\$519,180,000 (2016: HK\$555,959,000). However, revenue generated from wireless access business increased significantly by 231.7% over the Prior Period to HK\$124,609,000 (2016: HK\$37,565,000), especially the revenue from Small Cell products greatly increased by 264.0% over the Prior Period to HK\$116,559,000 (2016: HK\$32,022,000). In view of mobile network operators' increasing focus on densifying networks to manage rising mobile data traffic consumption, the management expects the scale of the network system business to be further expanded over the next few years.

During the Current Period, revenue from services decreased by 16.8% over the Prior Period to HK\$740,802,000 (2016: HK\$890,020,000), accounting for 27.2% (2016: 28.7%) of the Group's revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

During the Current Period, revenue from other business (including wireless transmission and specialized enterprise network) decreased by 18.5% over the Prior Period to HK\$97,849,000 (2016: HK\$120,071,000), accounting for 3.6% (2016: 3.9%) of the Group's revenue. Among which, revenue from wireless transmission decreased 25.4% due to the shrinking of the traditional microwave business, however, the business for the newly launched maritime satellite communications including Internet-of-Vessels and VSAT (Very Small Aperture Terminal) equipments is gradually progressing well. Meanwhile, revenue from specialized enterprise network increased significantly by 82.0% over the Prior Period to HK\$13,941,000 (2016: HK\$7,659,000) which was mainly due to the further expansion and development of the Company's railway communications business.

GROSS PROFIT

During the Current Period, the Group's gross profit decreased by 17.6% over the Prior Period to HK\$769,832,000 (2016: HK\$934,013,000). The Group's gross profit margin was 28.3% in the Current Period (2016: 30.1%), down by 1.8 percentage points compared to the Prior Period mainly due to decreased revenue resulting from more intensified market competition.

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

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Period, R&D costs slightly decreased by 5.2% over the Prior Period to HK\$120,800,000 (2016: HK\$127,454,000), accounting for 4.4% (2016: 4.1%) of the Group's revenue. To keep up with the rapid evolution of mobile networks, the Group has been making steady, continuous and long-term investments. Moreover, the Group has proactively developed 5G technology and applications to keep abreast of technological advances in the industry.

On top of its own R&D investments, the Group is looking for collaborations with other enterprises, and is striving to explore innovation to meet the needs of customers and expand new areas of business in order to create value for customers, while consolidating its existing market. Meanwhile, the trend of the Group creating new business models and revenue streams shows no signs of abating, and it is strengthening its R&D capabilities intending to drive more new revenue opportunities in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

As a result of its strong commitment to R&D, the Group has achieved significant accomplishments in creating its own solutions utilizing its own proprietary intellectual property and has applied for more than 2,500 patents as of the end of the Current Period (As of 31 December 2016: approximately 2,400 patents).

SELLING AND DISTRIBUTION (“S&D”) EXPENSES

During the Current Period, S&D expenses decreased by 6.9% over the Prior Period to HK\$260,075,000 (2016: HK\$279,443,000), accounting for 9.6% (2016: 9.0%) of the Group’s revenue. The decrease in S&D expenses was mainly due to decreased revenue and implementation of the cost control plan by the Group to further enhance its operating efficiency.

ADMINISTRATIVE EXPENSES

During the Current Period, administrative expenses decreased by 22.0% over the Prior Period to HK\$246,210,000 (2016: HK\$315,581,000), accounting for 9.0% (2016: 10.2%) of the Group’s revenue. The decline in the administrative expenses fully reflected the results from the Group’s continuous commitment to optimize its operating structure and human resources.

FINANCE COSTS

During the Current Period, finance costs decreased by 10.6% over the Prior Period to HK\$23,116,000 (2016: HK\$25,843,000), accounting for 0.8% (2016: 0.8%) of the Group’s revenue. The decrease in finance costs was mainly due to a decline of lower average bank borrowing rates.

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

In addition, the management has utilized the advantages of interest and foreign exchange rate differentiation among different countries in order to minimize finance costs. As of 30 June 2017, the gross gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, stood at a healthy level of 15.0% compared to 15.3% as of 31 December 2016.

OPERATING PROFIT

During the Current Period, the operating profit of the Group decreased by 11.3% over the Prior Period to HK\$175,851,000 (2016: HK\$198,183,000). The decrease in the operating profit was mainly attributable to the decrease in gross profit during the Current Period. However, due to effective cost control measures actively implemented by the Group, the administrative expenses also substantially decreased and there was no negative impact from the impairment loss in trade receivables of overseas markets and the fair value loss of derivative financial assets compared to the Prior Period.

TAX

During the Current Period, the Group's overall taxation charge of HK\$57,191,000 (2016: HK\$57,944,000) comprised an income tax expense of HK\$32,779,000 (2016: HK\$42,759,000) and a deferred tax charge of HK\$24,412,000 (2016: deferred tax charge of HK\$15,185,000). The decrease in the overall taxation charge was mainly due to the decrease in operating profit of the Group.

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

NET PROFIT

During the Current Period, with the decline of administrative expenses, finance costs and other expenses, profit attributable to owners of the parent of the Group ("Net Profit") was HK\$94,205,000 (2016: HK\$112,508,000), representing a decrease of 16.3% compared to the Prior Period.

DIVIDEND

In view of the Group's operating results in the first half of 2017 and taking into consideration its long-term future development and its flexibility of financial position, the board of directors (the "Board" or the "Directors") of the Company does not recommend the payment of 2017 interim dividend (2016: HK1.5 cents).

PROSPECTS

According to a global economic research report, Mainland China's GDP continued to record healthy growth in the first half of 2017, up 6.9% year-on-year. With basic completion of the 4G network build-out, operators are more prudent in their budgeting and capital expenditure. However, due to the development of 5G & IoT technologies, uninterrupted expansion of the mobile subscriber base and the increasing demand for data traffic, capacity expansion, blind area coverage and optimization will be implemented within specified networks by operators. As such, the Group remains cautiously optimistic about its prospects. Furthermore, the Group will closely monitor market changes and adjust strategies in a timely manner.

NETWORK BUSINESS FOR OPERATORS

1. *Antenna and base station subsystems*

The Group has a long-established leading position in the antenna market. According to the latest global market research report published by EJM Wireless Research, an industry analyst firm, Comba Telecom has been named as a global Tier 1 Supplier for five consecutive years since 2011. Meanwhile, the Group has a wide antenna products portfolio ranging from single-frequency to multi-frequency, single-system to multi-system covering all frequencies and standards, which can meet various requirements of different customers. Recognition of the Group's prowess is that it has won the first prize of the 2016 Science and Technology Awards in Guangdong Province for its "New Miniaturized Multi-system Shared Electricity Base Station Antenna System Product and Key Technology." This new antenna is smaller and lighter in weight, marking another milestone of the Group's technological evolution.

In the meantime, in order to protect their 4G investment, the operators have been trying to integrate the RRU into the antennas and use Massive MIMO antennas to effectively enhance the capacity and transmission rate of the network system so as to keep the transition from 4.5G to 5G. The use of the above-mentioned antennas will help upgrade the value of the antenna. The Group continues to allocate more resources to develop the latest technology, so as to further consolidate its leading-edge position in the industry by continuously providing more cost-effective products to its customers.

Looking ahead, despite the current early stage of 5G investment and construction, the operators are actively arranging the 5G network layout and setting the timetable for 5G commercial use. As the major antenna supplier, the Group will develop the antenna and base station subsystem business segment with diligence and care, and continue to advance its R&D and innovation by proactively consolidating resources so as to thoroughly prepare for 5G development, and extend its competitive advantages to 5G technology. The Group is confident that it can maintain a strong position in spite of the intensified market competition.

2. *Network product system solutions*

According to the three major applications for 5G, namely enhanced mobile broadband (eMBB), ultra-reliable and low latency communications (uRLLC) and massive machine type communications (mMTC), the mobile telecommunications network in the future will continue to bring in additional mobile data traffic. Present mobile networks have increasingly reached their capacity limits at hotspots, thus creating abundant opportunities in the areas of capacity expansion and construction of network access, which would make the enhancement of in-building coverage and access to high-capacity networks more important in a later period of network build-outs.

The technological innovation of the Group's wireless access products represented by its Small Cell series has been at the forefront of the industry. After years of R&D and technological innovation, the Group's Small Cell products which were jointly developed by the Group and a domestic well-known research institute have been put into commercial and trial use in a number of provinces in mainland China. The Small Cell solution effectively provides large data traffic access for areas with weak or non-existent coverage through hotspot coverage and in-depth coverage. The Group believes that the product and solution will be widely used in network build-out in the future, and provides a good network experience to end customers.

In the meantime, the Group has also launched several network product system solutions including a Small-Cell based Densified Networking, Innovative Indoor Coverage System, MDAS (Multi-Service Fiber Optic Distributed Access System) and DAS (Distributed Antenna System), among others.

In-building is a main scenario of mobile Internet applications, and the Group's network product system solutions will effectively meet the multi-business in-depth coverage requirements of communities and in-building scenarios. The Group will continue to proactively invest in 5G technology and application, and expand its technological advantages to 5G. We believe that this expansion will present new development opportunities for the Group.

SPECIALIZED ENTERPRISE NETWORK CONSTRUCTION AND INFORMATION SERVICE

Another developing sector in the telecommunications market is the specialized enterprise network. With the emergence of such new applications as IoT, cloud computing, big data and artificial intelligence, the demand for specialized network solutions has also increased in various industries and areas, including rail transit, power, airport, ocean and intelligent manufacturing, forming a huge market. With a determined focus, the Group intends to grasp the social and industry development trends to develop integrated information, communications and intelligent solutions, so as to enhance ICT application service capacity for specialized network customers.

The Group will continue to strengthen the railway communication business, explore the specialized railway communication market and strengthen promotion and implementation of new railway products, solutions and businesses.

In the meantime, the Group has commenced to engage in the maritime VSAT (Very Small Aperture Terminal) communication and internet-of-vessels businesses, to provide solutions to such marine industry customers as large cruise ships and fishing and cargo vessels.

Meanwhile, the demand for informatization services by specialized network customers is increasingly growing with greater personalized, customized, and agile requirements. The Group will also fully develop the integration of its information and communication technology (ICT) business and intelligent manufacturing business by integrating information and communication based on the requirements from the customers, so as to continuously improve its capabilities of providing ICT application services for enterprise customers. Moreover, the Group expects to grasp the opportunities in the areas of digital transformation, digital interconnect, industry interconnect and intelligent communication, among others.

Looking ahead, while strengthening the layout and construction of specialized enterprise network in different scenarios, the Group will develop various integrated solutions to meet different requirements of customers, and extend its success to more areas in a target-oriented manner, to provide convenient, tailor-made and secure services for a greater number of more specialized enterprise customers.

OPERATOR BUSINESS IN ETL, LAO P.D.R

While actively consolidating and developing its traditional businesses, the Group continued to explore new business growth opportunities. On 1 September, 2016, the Group announced that it had entered into the Joint Venture Agreement with the Lao Government to acquire a 51% interest in ETL Public Company Ltd ("ETL Company"). ETL Company is the sole state-owned telecom operator and also the third largest telecom operator in Lao P.D.R, it holds a full license of telecom operations and a nationwide mobile network, it also has important advantages in transmission network infrastructure, which would lay a solid foundation for the further development.

In early August this year, the Group announced that it had completed the acquisition of the 51% interest in ETL Company and established the joint venture ETL Company Limited ("ETL Limited") in cooperation with the government of Laos, and also formed new management team to assume the operation of ETL Limited. The newly established ETL Limited is the first Sino-Laotian joint venture telecom operator in Laos. With the Group's competitive advantages in network construction, operation management, technology products and services over the years, capitalizing on the Group's leading global communications network and information solutions as well as its network construction experience accumulated from the advances of mobile communications technology over the past two decades, the Group will accelerate its business penetration in the telecommunications market in Laos through light asset operation strategy to achieve appreciation of its business model.

Laos is strategically located in the PRC's "One Belt One Road" corridor, it has a population of 7 million and the economy grows fast. The social economy and telecommunications development are advancing by leaps and bounds with the support of China and its surrounding countries. The wide spectrum of customers of ETL Company spans from the government departments to leading industrial and commercial enterprises in Lao P.D.R. Meanwhile, the Group will be able to provide comprehensive network solutions, including 2G, 3G and 4G mobile networks for the newly established joint venture, the joint venture will be able to provide new market space for the Group's new products (such as microwave, satellite, Small Cell and etc.) as well.

The Group believes that, under the leadership of ETL Company Limited's new management team and with the support of the Government of Laos, the investment project will certainly help promote the development of telecommunications network construction in Laos and enhancement of the telecommunications network quality there, thus offering better services and experience to users. The substantial economic and social benefits brought by the project will also foster the livelihood and well-being of Laotian citizens.

INTERNATIONAL BUSINESS

The Group continues to actively expand its international market by exploring more business opportunities, so as to further enhance its market share. During the Current Period, the Group participated in the wireless network coverage project of the South Island Line (East) of the MTR in Hong Kong, and reached a cooperation agreement with an Australian telecommunications operator to provide wireless network enhancement projects throughout Australia and cooperated with a leading in-building wireless system supplier in Vietnam. These projects demonstrate the Group's advanced technology and extensive experience in wireless solutions across a wide geographical area.

In the meantime, the Group will also strengthen its strategic partnership with the leading global network providers and work closely with them to develop products that support 5G networks to satisfy the demand from customers generated by industrial transformation and upgrade. As 5G networks are coming, the Group believes that the strategic cooperation between enterprises will substantially enhance its competitiveness and will further strengthen its growth and position in the international market.

ORGANIZATIONAL REFORM ACHIEVING INCLUSIVE EXCELLENCE

In today's fast-moving environment, change is unavoidable, particularly in the mobile telecommunications industry. Organizations need to be innovative in their business and articulate new strategies to successfully grow with the times as well as to cope with the increasingly challenging environment. In addition to the new strategies, new products and technologies or new businesses mentioned above, talent is also the key in the winning formula enabling the organization to drive towards its strategic goals. To that end, the Group has been implementing a progressive structural transformation aiming to promote alignment among diverse business units and functional departments within its organization, thereby maximizing its overall effectiveness. In the meantime, the Group has made gradual enhancement across a wide spectrum of operating areas, such as project and quality management, policy enforcement, production enhancement, budget control and financial liquidity, among others so as to continuously drive greater business innovation while improving operational effectiveness and management excellence.

CONCLUSION

The number of users is substantially increasing after 4G has been fully put into commercial use, which accelerates the evolution of information infrastructure to higher-speed, fuller coverage and greater intelligence. The testing of 5G has entered into a new stage, and the IoT represents a new development pattern. Over the years, adhering to the principle of pragmatic innovation and with the overall business objective of "Exploring Opportunities, Creating Value, Reforming Mechanism, Enhancing Efficiency", the Group is committed to exploring the needs for innovation of its customers and expanding new customer areas in order to create value for customers.

The year marks the 20th anniversary of the Group since its establishment. The Board would like to take this opportunity to express its heartfelt thanks to all staff for their efforts and contributions to the Group. We also wish to thank our customers, suppliers, shareholders and business partners for their continuous support. The Group, for its part, will develop towards a more open digital direction, continue to focus on enhancement of its management performance, while improving and optimizing operations, striving to build a brighter future for society through executing the strategies presented above.

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 2017, the Group had net current assets of HK\$2,793,081,000. Current assets comprised inventories of HK\$1,369,076,000, trade receivables of HK\$4,484,085,000, notes receivable of HK\$137,107,000, tax recoverable of HK\$29,046,000, prepayments, deposits and other receivables of HK\$800,198,000, restricted bank deposits of HK\$298,684,000, and cash and cash equivalents of HK\$768,538,000. Current liabilities comprised trade and bills payables of HK\$3,192,422,000, other payables and accruals of HK\$954,933,000, interest-bearing bank borrowings of HK\$864,630,000 and provisions for product warranties of HK\$81,668,000.

The average receivable turnover for the Current Period was 279 days compared to 247 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 284 days compared to 269 days for the Prior Period. The average inventory turnover for the Current Period was 127 days compared to 136 days for the Prior Period.

As at 30 June 2017, the Group's cash and bank balances were mainly denominated in RMB, HK\$ and US\$ while the Group's bank borrowings were mainly denominated in RMB and HK\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into 3-year term loan facility agreements with certain financial institutions. Details are set out in note 14 to these condensed consolidated interim financial statements.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK\$ and US\$. In view of the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 30 June 2017, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 15.0% as at 30 June 2017 (31 December 2016: 15.3%).

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\$329,808,000 (31 December 2016: HK\$207,398,000) represented the restricted deposits given to banks in respect of bills payable, performance bonds and letter of credit.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had contingent liabilities of HK\$222,244,000 (31 December 2016: HK\$209,426,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had approximately 7,000 staff (31 December 2016: 7,000 staff). The total staff costs, excluding capitalized development cost, for the Current Period were HK\$468,101,000 (31 December 2016: HK\$1,138,982,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management of the Group.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 2017, 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)	27,794,537	–	782,164,931	809,959,468	32.90
Mr. Zhang Yue Jun	(b)	–	–	248,225,410	248,225,410	10.08
Mr. Zheng Guo Bao ("Mr. Zheng")		5,471,184	–	–	5,471,184	0.22
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")		14,863,253	–	–	14,863,253	0.60
Mr. Zhang Yuan Jian		4,452,182	128,840	–	4,581,022	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	805,253
Mr. Zhang Yue Jun	805,253
Mr. Yeung	5,715,762
Mr. Zhang Yuan Jian	5,715,762
Mr. Lau Siu Ki, Kevin	271,049
Dr. Lin Jin Tong	271,049
Mr. Qian Ting Shuo	271,049

Notes:

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

Save as disclosed above 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 2017, 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 of the Company 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 these condensed consolidated interim financial statements, at no time during the Current Period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any Director, the chief executive of the Company or their respective spouses or children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

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

As at 30 June 2017, the following substantial shareholders of the Company (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	780,095,129	31.69
Madam Chen Jing Na	(a)	Interest of spouse	810,764,721	32.93
Wise Logic Investments Limited		Beneficial owner	248,225,410	10.08
Madam Cai Hui Ni	(b)	Interest of spouse	249,030,663	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 809,959,468 shares and 805,253 share options in which Mr. Fok is interested or deemed to be interested for the purpose of the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in 248,225,410 shares and 805,253 share options in which Mr. Zhang Yue Jun is interested or deemed to be interested for the purpose of the SFO.

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

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

Save as disclosed above, as at 30 June 2017, 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 corporate governance practices of the Company and considered that, during the Current Period, the Company has complied with all 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 2016 Annual Report are set out below:

Effective Date	Change
28 June 2017	Mr. Lau Siu Ki, Kevin, an independent non-executive Director, has generally retired as independent supervisor of the sixth session of the supervisory committee of Beijing Capital International Airport Co., Ltd., the shares of which are listed on the main board of the Stock Exchange.
5 July 2017	Dr. Lin Jin Tong, an independent non-executive Director, has been appointed as an independent director of Tongding Interconnection Information Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange.

AUDIT COMMITTEE

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

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 2017, together with the comparative figures for the same period in 2016. 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	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
REVENUE	5	2,721,948	3,098,952
Cost of sales		(1,952,116)	(2,164,939)
Gross profit		769,832	934,013
Other income and gains	5	55,756	83,198
Research and development costs		(120,800)	(127,454)
Selling and distribution expenses		(260,075)	(279,443)
Administrative expenses		(246,210)	(315,581)
Other expenses		(22,652)	(96,550)
Finance costs	7	(23,116)	(25,843)
Share of losses of:			
A joint venture		(916)	—
An associate		(811)	(1,390)
PROFIT BEFORE TAX	6	151,008	170,950
Income tax expense	8	(57,191)	(57,944)
PROFIT FOR THE PERIOD		93,817	113,006

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

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
	Notes		
Attributable to:			
Owners of the parent		94,205	112,508
Non-controlling interests		(388)	498
		93,817	113,006
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		HK3.85 cents	HK4.60 cents (Restated)
Diluted		HK3.85 cents	HK4.60 cents (Restated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	93,817	113,006
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	129,058	(117,088)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	129,058	(117,088)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	129,058	(117,088)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	222,875	(4,082)
Attributable to:		
Owners of the parent	221,434	(3,276)
Non-controlling interests	1,441	(806)
	222,875	(4,082)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		544,512	537,970
Prepaid land lease payments		123,403	121,264
Goodwill		28,571	28,571
Deferred tax assets		87,532	109,409
Intangible assets		215,235	209,259
Investment in a joint venture		10,702	5,575
Investment in an associate		—	21,683
Available-for-sale investment		7,241	7,241
Prepayments		418,354	397,636
Restricted bank deposits		31,124	29,168
Total non-current assets		1,466,674	1,467,776
CURRENT ASSETS			
Inventories	11	1,369,076	1,357,700
Trade receivables	12	4,484,085	3,842,680
Notes receivable		137,107	46,919
Tax recoverable		29,046	—
Prepayments, deposits and other receivables		800,198	641,440
Restricted bank deposits		298,684	178,230
Cash and cash equivalents		768,538	1,420,214
Total current assets		7,886,734	7,487,183
CURRENT LIABILITIES			
Trade and bills payables	13	3,192,422	2,893,459
Other payables and accruals		954,933	1,105,620
Interest-bearing bank borrowings	14	864,630	693,660
Tax payable		—	11,159
Provisions for product warranties		81,668	70,571
Total current liabilities		5,093,653	4,774,469

CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONT'D)

30 June 2017

	Notes	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NET CURRENT ASSETS		2,793,081	2,712,714
TOTAL ASSETS LESS CURRENT LIABILITIES		4,259,755	4,180,490
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	538,522	673,152
Deferred tax liabilities		13,794	14,189
Total non-current liabilities		552,316	687,341
Net assets		3,707,439	3,493,149
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	246,144	246,106
Treasury shares		(22,818)	(22,818)
Reserves	17	3,427,210	3,214,399
		3,650,536	3,437,687
Non-controlling interests		56,903	55,462
Total equity		3,707,439	3,493,149

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent										Total equity HK\$'000		
	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
At 1 January 2016		203,377	(22,530)	692,154	19,327	45,827	61,364	134,221	287,762	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	16(a)	—	—	—	4,019	—	—	—	—	—	4,019	—	4,019
— adjustment arising from lapse of share options		—	—	—	178	—	—	—	—	(178)	—	—	—
Issue of bonus shares	15(ii)	20,337	(137)	(20,200)	—	—	—	—	—	—	—	—	—
Transfer to retained profits		—	—	—	—	—	(1,805)	—	—	1,805	—	—	—
Final 2015 dividend declared	9	—	—	—	—	—	—	—	—	(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

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

For the six months ended 30 June 2017

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 2017	246,106	(22,818)	650,071*	30,553*	45,827*	57,755*	157,525*	(19,180)*	2,291,848*	3,437,687	55,462	3,493,149
Profit for the period	—	—	—	—	—	—	—	—	94,205	94,205	(388)	93,817
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	127,229	—	127,229	1,829	129,058
Total comprehensive income for the period	—	—	—	—	—	—	—	127,229	94,205	221,434	1,441	222,875
Share option scheme												
— value of services	—	—	—	10,585	—	—	—	—	—	10,585	—	10,585
— exercise of share options	38	—	680	(196)	—	—	—	—	—	522	—	522
— adjustment arising from lapses of share options	—	—	—	771	—	—	—	—	(771)	—	—	—
Transfer to retained profits	—	—	—	—	—	(1,805)	—	—	1,805	—	—	—
Final 2016 dividend declared	—	—	—	—	—	—	—	—	(19,692)	(19,692)	—	(19,692)
At 30 June 2017 (unaudited)	246,144	(22,818)	650,751*	41,713*	45,827*	55,950*	157,525*	108,049*	2,367,395*	3,650,536	56,903	3,707,439

* These reserve accounts comprise the consolidated reserves of HK\$3,427,210,000 (31 December 2016: HK\$3,214,399,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		151,008	170,950
Adjustments for:			
Interest income	5	(4,510)	(3,913)
Finance costs	7	23,116	25,843
Share of losses of a joint venture and an associate		1,727	1,390
Depreciation	6	31,341	39,917
Recognition of prepaid land lease payments	6	1,417	1,435
Amortization of intangible assets		44,888	39,075
Gain on disposal of items of property, plant and equipment	5	(458)	(355)
Equity-settled share option expense	6	10,585	4,019
Gain on bargain purchase	5	(7,342)	—
Loss on remeasurement of the previously held interest in an associate	6	20,112	—
Loss on financial instrument at fair value through profit or loss, net	6	—	48,026
		271,884	326,387
Decrease in inventories		31,003	187,050
Increase in trade receivables		(521,461)	(545,666)
Increase in notes receivable		(88,723)	(6,609)
Increase in prepayments, deposits and other receivables		(133,796)	(76,395)
Increase/(decrease) in trade and bills payables		208,648	(72,466)
Decrease in other payables and accruals		(185,988)	(23,347)
Increase in provisions for product warranties		8,894	6,087
		(409,539)	(204,959)
Cash used in operations		(409,539)	(204,959)
Mainland China profits tax paid		(71,332)	(79,839)
Overseas profits taxes paid		(1,515)	(15,099)

CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (CONT'D)

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
	Notes		
Net cash flows used in operating activities		(482,386)	(299,897)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	4,510	3,913
Purchases of items of property, plant and equipment		(24,334)	(18,749)
Addition of intangible assets		(44,361)	(30,470)
Purchase of an available-for-sale investment		—	(8,518)
Increase in investment in a joint venture		(5,886)	—
Acquisition of a subsidiary, net of cash acquired	18	4,462	—
Prepayment of acquisition of a subsidiary		(20,718)	—
Proceeds from disposal of items of property, plant and equipment		1,199	1,985
(Increase)/decrease in restricted bank deposits		(115,937)	154
Net cash flows used in investing activities		(201,065)	(51,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		938,065	331,500
Repayment of bank borrowings		(903,138)	(599,557)
Exercise of share options	15(iii)	522	—
Interest paid		(23,116)	(25,843)
Dividends paid		(19,678)	(36,608)
Net cash flows used in financing activities		(7,345)	(330,508)

CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (CONT'D)

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(690,796)	(682,090)
Cash and cash equivalents at beginning of period	1,420,214	1,747,360
Effect of foreign exchange rate changes, net	39,120	(53,213)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	768,538	1,012,057
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	767,207	1,012,057
Non-pledged time deposits with original maturity of less than three months when acquired	1,331	—
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	768,538	1,012,057
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	768,538	1,012,057

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

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 2017 have been prepared in accordance with Hong Kong Accounting Standard 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 2016.

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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. 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 2017

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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Mainland China	2,218,686	2,559,983
Other countries/areas in Asia Pacific	246,522	177,013
Americas	140,960	195,967
European Union	91,930	143,195
Middle East	22,394	22,101
Other countries	1,456	693
	2,721,948	3,098,952

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

30 June 2017

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\$840,663,000 (six months ended 30 June 2016: HK\$580,571,000), HK\$670,341,000 (six months ended 30 June 2016: HK\$818,165,000) and HK\$406,022,000 (six months ended 30 June 2016: HK\$941,879,000) was derived from 3 major customers, which accounted for 30.9% (six months ended 30 June 2016: 18.7%), 24.6% (six months ended 30 June 2016: 26.4%) and 14.9% (six months ended 30 June 2016: 30.4%) 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 2017

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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	2,688,155	2,945,895
Maintenance services	33,793	153,057
	2,721,948	3,098,952
Other income and gains		
Exchange gain	—	63,028
Bank interest income	4,510	3,913
Government subsidies [#]	22,766	2,923
VAT refunds [*]	11,451	3,479
Gain on bargain purchase	7,342	—
Gain on disposal of items of property, plant and equipment	458	355
Gross rental income	2,684	2,116
Others	6,545	7,384
	55,756	83,198

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

^{*} 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 2017

6. PROFIT BEFORE TAX

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

	Notes	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Cost of inventories sold and services provided		1,855,415	2,010,623
Depreciation		31,341	39,917
Recognition of prepaid land lease payments		1,417	1,435
Amortization of computer software and technology		1,881	1,704
Research and development costs:			
Deferred expenditure amortized [^]		43,007	37,371
Current period expenditure		120,800	127,454
		163,807	164,825
Minimum lease payments under operating leases		23,207	27,588
Employee benefit expense (including directors' remuneration):			
Salaries and wages		380,156	423,931
Staff welfare expenses		34,757	35,406
Equity-settled share option expense	16(a)	10,585	4,019
Pension scheme contributions (defined contribution scheme) [#]		42,603	46,666
		468,101	510,022
Gain on bargain purchase	18	(7,342)	—
Loss on remeasurement of the previously held interest in an associate		20,112	—
Exchange loss/(gain), net*		3,471	(63,028)
Provision for product warranties [^]		20,153	19,394
Write-down of inventories to net realizable value [^]		30,309	92,655
Impairment of trade receivables		—	41,276
Loss on financial instrument at fair value through profit or loss, net		—	48,026
Gain on disposal of items of property, plant and equipment		(458)	(355)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2017

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 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2016: Nil).
- ^{*} Exchange loss for the period and exchange gain for the last period were included in "Administrative expenses" and "Other income and gains" in the condensed consolidated statement of profit or loss, respectively.

7. FINANCE COSTS

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest on bank loans	23,116	25,843

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Current – charge for the period		
Hong Kong	2,284	5,322
Mainland China	25,238	29,150
Elsewhere	5,257	8,287
Deferred	24,412	15,185
Total tax charge for the period	57,191	57,944

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 Systems (China) Limited, Comba Software Technology (Guangzhou) Limited and Comba Telecom Systems (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the period ended 30 June 2017 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 2017.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

9. DIVIDENDS

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Final – HK0.8 cents (2015: HK1.8 cents) per ordinary share	19,692	36,608
Interim – Nil (six months ended 30 June 2016: HK1.5 cents) per ordinary share	—	33,557

A final dividend of HK0.8 cents per ordinary share was declared in respect of the year ended 31 December 2016 (six months ended 30 June 2016: a final dividend of HK1.8 cents per ordinary share was declared and paid for the year ended 31 December 2015) to shareholders during the current period.

The Directors recommended that not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: HK1.5 cents).

30 June 2017

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 2,444,616,000 (six months ended 30 June 2016 (restated): 2,444,221,000) in issue during the period, as adjusted to reflect bonus issue during the period from 1 July 2016 to 30 June 2017.

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

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2017 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	94,205	112,508

30 June 2017

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

	Number of shares For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	2,444,616,000	2,444,221,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2017

11. INVENTORIES

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Raw materials	230,886	185,317
Project materials	172,190	168,005
Work in progress	59,903	61,666
Finished goods	417,401	388,741
Inventories on site	488,696	553,971
	1,369,076	1,357,700

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 2017

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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 3 months	1,777,884	1,412,098
4 to 6 months	270,565	298,888
7 to 12 months	808,282	631,684
More than 1 year	1,774,053	1,646,583
	4,630,784	3,989,253
Provision for impairment	(146,699)	(146,573)
	4,484,085	3,842,680

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Neither past due nor impaired	2,856,730	2,342,668
Less than 1 year past due	788,666	712,726
1 to 2 years past due	251,355	295,102
More than 2 years past due	587,334	492,184
	4,484,085	3,842,680

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2017

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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 3 months	1,552,779	1,458,277
4 to 6 months	642,026	641,136
7 to 12 months	506,237	372,124
More than 1 year	491,380	421,922
	3,192,422	2,893,459

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

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Analyzed into:		
Within 1 year	864,630	693,660
In the 2nd to 3rd years, inclusive	538,522	673,152
	1,403,152	1,366,812

As at 30 June 2017, loans denominated in Hong Kong dollars, United States dollars, RMB and EURO amounted to HK\$1,060,000,000 (31 December 2016: HK\$890,000,000), Nil (31 December 2016: HK\$21,389,000), HK\$343,152,000 (31 December 2016: HK\$454,770,000) and Nil (31 December 2016: HK\$653,000), respectively.

During the year ended 31 December 2016, the Group entered into 3-year term loan facility agreements (the "Facility Agreements") amounting to HK\$730,857,000 with certain financial institutions.

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

As at 30 June 2017, the Group had utilized amounts of HK\$673,152,000 of the Facility Agreements. As at 30 June 2017, the outstanding term loan balances amounted to HK\$673,152,000, of which, HK\$134,630,000 and HK\$538,522,000 are repayable within 1 year and in the 2nd to 3rd years inclusive, respectively.

Bank loans as at 30 June 2017 bear interest at rates ranging from 1.6% to 4.5% (31 December 2016: from 1.3% to 4.5%) per annum.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

15. SHARE CAPITAL

	Notes	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:			
1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017		5,000,000,000	500,000
Issued and fully paid or credited as fully paid:			
At 1 January 2016		2,033,767,128	203,377
Exercise of share options	(i)	187,967	19
Bonus issue of shares	(ii)	427,103,029	42,710
At 31 December 2016 and 1 January 2017		2,461,058,124	246,106
Exercise of share options	(iii)	385,776	38
At 30 June 2017		2,461,443,900	246,144

As at 30 June 2017, the total number of issued ordinary shares of the Company was 2,461,443,900 shares (31 December 2016: 2,461,058,124 shares) which included 16,637,136 shares (31 December 2016: 16,637,136 shares) held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (the "Adoption Date") (note 16(b)).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2017

15. SHARE CAPITAL (Cont'd)

Notes:

- (i) During the year ended 31 December 2016, the subscription rights attaching to 187,967 share options were exercised at the adjusted exercise prices ranging from HK\$1.354 to HK\$1.489 per share, resulting in the issue of 187,967 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$274,000.
- (ii) Pursuant to the annual general meeting and the extraordinary general meeting held on 27 May 2016 (the "May 2016 Bonus Issue") and 11 October 2016 (the "Oct 2016 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. 203,376,682 bonus shares and 223,726,347 bonus shares were issued under the May 2016 Bonus Issue and the Oct 2016 Bonus Issue respectively. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.
- (iii) During the period ended 30 June 2017, the subscription rights attaching to 385,776 share options were exercised at the adjusted exercise prices of HK\$1.354 per share, resulting in the issue of 385,776 shares of HK\$0.10 each for a total cash consideration, before expenses of approximately HK\$522,000.

30 June 2017

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) SHARE OPTION SCHEME

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

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

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

30 June 2017

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

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

The exercise price of the share options granted under the 2013 Scheme is determinable by the Directors, but shall not be less than the highest of: (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet issued by The Stock Exchange 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 2017

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 2017:

	For the six months ended 30 June			
	2017		2016	
	Weighted average exercise price of share options HK\$ per share	Number of share options	Weighted average exercise price of share options* HK\$ per share	Number of share options*
At 1 January	1.296	131,934,337	1.489	52,821,750
Exercised during the period	1.354	(385,776)	—	—
Lapsed during the period	1.336	(1,117,381)	1.489	(201,596)
At 30 June	1.296	130,431,180	1.489	52,620,154

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the May 2016 Bonus Issue. The weighted average exercise price of each share option as at 1 January 2016 was adjusted from HK\$1.638 per share to HK\$1.489 per share. The number of share options as at 1 January 2016 was adjusted from 48,019,773 to 52,821,750.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

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 2017 are as follows:

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 2017	Granted during the period	Adjusted during the period	Exercised during the period	Expired during the period	Lapsed during the period	At 30 June 2017			
Executive Directors										
Mr. Fok Tung Ling	805,253	—	—	—	—	—	805,253	11 Apr 14	11 Apr 15-10 Apr 19	1.354†
Mr. Zhang Yue Jun	805,253	—	—	—	—	—	805,253	11 Apr 14	11 Apr 15-10 Apr 19	1.354†
Mr. Yeung Pui Sang, Simon	2,415,762	—	—	—	—	—	2,415,762	11 Apr 14	11 Apr 15-10 Apr 19	1.354†
	3,300,000	—	—	—	—	—	3,300,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255†
	5,715,762	—	—	—	—	—	5,715,762			
Mr. Zhang Yuan Jian	2,415,762	—	—	—	—	—	2,415,762	11 Apr 14	11 Apr 15-10 Apr 19	1.354†
	3,300,000	—	—	—	—	—	3,300,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255†
	5,715,762	—	—	—	—	—	5,715,762			

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

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 2017	Granted during the period	Adjusted during the period	Exercised during the period	Expired during the period	Lapsed during the period	At 30 June 2017			
Independent non-executive Directors										
Mr. Lau Siu Ki, Kevin	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354 [#]
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255 [†]
	271,049	—	—	—	—	—	271,049			
Dr. Lin Jin Tong	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354 [#]
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255 [†]
	271,049	—	—	—	—	—	271,049			
Mr. Qian Ting Shuo	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354 [#]
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255 [†]
	271,049	—	—	—	—	—	271,049			
Mr. Liu Cai (resigned on 31 March 2017)	161,049	—	—	—	—	—	161,049	11 Apr 14	11 Apr 15-10 Apr 19	1.354 [#]
	110,000	—	—	—	—	—	110,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255 [†]
	271,049	—	—	—	—	—	271,049			

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

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 2017	Granted during the period	Adjusted during the period	Exercised during the period	Expired during the period	Lapsed during the period	At 30 June 2017			
Other employees in aggregate	47,848,111	—	—	(385,776)	—	(917,381)	46,544,954	11 Apr 14	11 Apr 15-10 Apr 19	1.35 [#]
	69,960,000	—	—	—	—	(200,000)	69,760,000	26 Aug 16	26 Aug 17-25 Aug 21	1.255 [^]
	117,808,111	—	—	(385,776)	—	(1,117,381)	116,304,954			
	131,934,337	—	—	(385,776)	—	(1,117,381)	130,431,180			

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

The exercise price of each share option was adjusted as a result of the May 2016 Bonus Issue and the Oct 2016 Bonus Issue.

^ The exercise price of each share option was adjusted as a result of the Oct 2016 Bonus Issue.

30 June 2017

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

30 June 2016 Number of share options	Exercise price of share options HK\$ per share	Exercise period
52,620,154 [#]	1.489 [#]	11 April 2015 to 10 April 2019

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

^{*} The exercise price of each share option and the number of share options were adjusted as a result of the Oct 2016 Bonus Issue.

[#] The exercise price of each share option and the number of share options were adjusted as a result of the May 2016 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 2017 is approximately HK\$10,585,000 (six months ended 30 June 2016: HK\$4,019,000).

30 June 2017

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 130,431,180 share options outstanding under the 2013 Scheme, of which 39,563,610 were vested and 90,867,570 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 130,431,180 additional ordinary shares of the Company and additional share capital of HK\$13,043,000 and share premium of HK\$155,958,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 129,781,087 share options outstanding under the 2013 Scheme, which represented approximately 5.27% 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 as at 3 June 2015). Since 70,000,000 shares were granted on 26 August 2016 under the refreshed limit, the total number of unissued share options under the scheme limit became 98,071,158, representing approximately 3.98% of the Company's shares in issue as at 30 June 2017.

(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 made by certain employees and persons to the Group (the "Selected Persons") and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

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

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(b) SHARE AWARD SCHEME (Cont'd)

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

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

30 June 2017

16. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Cont'd)

(b) SHARE AWARD SCHEME (Cont'd)

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

Movements in the number of treasury shares held for the Share Award Scheme for the six months ended 30 June 2016 and 2017 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2017 and 30 June 2017	16,637,136
	Treasury shares held for the Share Award Scheme
At 1 January 2016	13,749,702
Bonus issue of shares	1,374,969
At 30 June 2016	15,124,671

No Awarded Shares held for the Selected Persons were outstanding as at 30 June 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2017

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. BUSINESS COMBINATION

On 14 May 2017, the Group entered into an agreement to acquire the rest of 80% equity interest in an associate (the "Acquisition"), which is engaged in the research and development of telecommunication technology and provision of related consultancy services. The Acquisition was made as part of the Group's strategy to expand its market share of telecommunications industry. On 1 June 2017, the Group obtained control over the associate which then became a subsidiary of the Group.

As a result of the remeasurement of the Group's previous investment in the 20% equity interest in the associate from its carrying amount of HK\$21,948,000 to its fair value of HK\$1,836,000 immediately before the Acquisition, a loss of HK\$20,112,000 was recognized in the condensed consolidated statement of profit or loss during the period ended 30 June 2017.

The fair values of the identifiable assets and liabilities of the associate as at the date of acquisition were as follows:

	Fair value recognized on acquisition HK\$'000
Property, plant and equipment	641
Prepayments, deposits and other receivables	5,024
Cash and bank balances	4,462
Other payables and accruals	949
Total identifiable net assets at fair value	9,178
Gain on bargain purchase	7,342
Satisfied by:	
Cash	—
Previously held equity interest remeasured at acquisition-date fair value	1,836

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

18. BUSINESS COMBINATION (Cont'd)

No transaction costs were incurred in this acquisition.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash and bank balances acquired	4,462
Net inflow of cash and cash equivalents included in cash flows from investing activities	4,462

Since the Acquisition, the subsidiary contributed Nil to the Group's revenue and HK\$916,000 loss to the consolidated profit for the period ended 30 June 2017.

Had the combination taken place at the beginning of the period, the revenue from continuing operations of the Group and the profit of the Group for the period would have been HK\$2,721,948,000 and HK\$90,642,000, respectively, as compared to revenue and profit for the Group amounting to HK\$2,721,948,000 and HK\$93,817,000 for the current period, respectively.

19. CONTINGENT LIABILITIES

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Guarantees given to banks in respect of performance bonds	222,244	209,426

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

20. 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 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 1 year	5,921	4,462
In the 2nd to 5th years, inclusive	5,602	4,361
After 5 years	—	178
	11,523	9,001

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2017

20. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) AS LESSEE

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

As at 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 1 year	37,775	40,152
In the 2nd to 5th years, inclusive	40,975	35,965
After 5 years	1,060	—
	79,810	76,117

21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Contracted, but not provided for:		
Plant and machinery	1,922	415
Capital contribution payable to the associate	—	2,232
Capital contribution payable to the joint venture	17,658	—
	19,580	2,647

30 June 2017

22. 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Short-term employee benefits	14,336	21,484
Pension scheme contributions	117	108
Equity-settled share option expense	1,007	623
	15,460	22,215

23. EVENT AFTER THE REPORTING PERIOD

On 31 August 2016, the Group has entered into an agreement (the "Agreement") with the Government of the Lao People's Democratic Republic ("LAOGOV") for the acquisition of the 51% interest in ETL Public Company Ltd, a State-owned company incorporated under the Laws of Lao P.D.R. ETL Public Company Ltd is principally engaged in providing telecommunication services and their value added services. Pursuant to the Agreement, the proposed cash consideration for 51% interest in ETL Public Company Ltd was approximately US\$91,800,000. On 11 July 2017, a side letter relating to the Agreement was entered into between LAOGOV and the Group whereas both parties acknowledged that, as of 18 July 2017, the Group became shareholders holding 51% shares of and delegated directors to ETL Public Company Ltd, accomplishing the acquisition.

30 June 2017

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

On 23 June 2017, the Group entered into an agreement to acquire the rest of 48.86% interest in a joint venture, which is engaged in research and development and sale of telecommunications equipment and provision of related consultancy services. The purchase consideration for the acquisition was HK\$20,718,000. The acquisition was made as part of the Group's strategy to expand its market share of telecommunications industry. On 13 July 2017, the Group obtained control over the joint venture which then became a subsidiary of the Group.

24. COMPARATIVE AMOUNTS

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

25. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board on 23 August 2017.

By order of the Board
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman

Hong Kong, 23 August 2017

Comba

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Comba Telecom Systems Holdings Limited

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