

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

STAYING AHEAD THROUGH INNOVATION IN TECHNOLOGY

PURSUING EXCELLENCE THROUGH EFFECTIVE MANAGEMENT

科技創新續領先機

效益管理再建佳績



2012
Interim Report 中期報告

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling (*Chairman*)

Zhang Yue Jun (*Vice Chairman & President*)

Tong Chak Wai, Wilson

Wu Jiang Cheng

Yan Ji Ci

Zheng Guo Bao

Yeung Pui Sang, Simon

Zhang Yuan Jian

(appointed on 10 Feb 2012)

Independent Non-Executive Directors

Liu Cai

Lau Siu Ki, Kevin

Lin Jin Tong

(appointed on 21 May 2012)

Qian Ting Shuo

(appointed on 21 May 2012)

Yao Yan

(resigned on 21 May 2012)

COMPANY SECRETARY

Tong Chak Wai, Wilson

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin (*Chairman*)

Liu Cai

Lin Jin Tong

Qian Ting Shuo

NOMINATION COMMITTEE

Liu Cai (*Chairman*)

Lau Siu Ki, Kevin

Lin Jin Tong

Qian Ting Shuo

AUTHORIZED REPRESENTATIVES

Fok Tung Ling

Tong Chak Wai, Wilson

REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong Science Park

Tai Po, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 609

Grand Cayman KY1-1107

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited

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Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

During the first half of 2012, the global economic environment remained challenging characterized by increasing nervousness among the market about the exacerbating EURO zone sovereign debt crisis, the faltering economic recovery of the U.S., and the slowdown of economic growth in the PRC.

Although the momentum of mobile subscribers and data traffic increases continued, the Group recorded only a slight increase of its revenue for the six months ended 30 June 2012 (the "Current Period") as a result of the delay of some capital spending by mobile operators.

Revenue

The Group's revenue for the Current Period was HK\$2,591,529,000 (2011: HK\$2,545,114,000), representing a slight increase of 1.8% over the revenue for the six months ended 30 June 2011 (the "Prior Period"). The flattish growth was mainly attributable to the postponement of certain investment activities and inspection process by the PRC mobile operators, and thus some of the Group's projects revenue were not recognized in the Current Period and resulted in a decline in the Group's revenue of some major products as compared to the Prior Period.

On the other hand, as a result of the continuous efforts in overseas expansion despite global economic uncertainties, sales from the international markets (including core equipment manufacturers) increased moderately by 23.8% to HK\$432,983,000 (2011: HK\$349,648,000) as compared to the Prior Period and accounted for 16.7% of the Group's total revenue.

During the first half of 2012, sales from 3G mobile network projects reported a 48.7% increase year-on-year to HK\$991,153,000 and accounted for 38.2% of the Group's revenue, resulting from an increasing demand for 3G network deployment and optimization as a consequence of the rising number of 3G subscribers and the data usage.

Management Discussion and Analysis (Cont'd)

By customers

Revenue generated from the China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") declined by 6.9% to HK\$1,349,911,000 (2011: HK\$1,450,406,000) and accounted for 52.1% of the Group's revenue in the Current Period compared to 57.0% in the Prior Period.

During the Current Period, revenue generated from the China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased mildly by 8.3% to HK\$572,908,000 (2011: HK\$528,900,000) and accounted for 22.1% of the Group's revenue in the Current Period compared to 20.8% in the Prior Period.

Revenue generated from the China Telecommunications Corporation and its subsidiaries ("China Telecom Group") increased moderately by 24.8% to HK\$198,583,000 (2011: HK\$159,101,000) and accounted for 7.7% of the Group's revenue in the Current Period compared to 6.3% in the Prior Period.

During the Current Period, revenue generated from international customers and core equipment manufacturers increased moderately by 23.8% to HK\$432,983,000 (2011: HK\$349,648,000) and accounted for 16.7% of the Group's revenue in the Current Period compared to 13.7% in the Prior Period. The increase in revenue was primarily due to the network deployment in the international market and the continuous demand for total solutions for network upgrade in some emerging markets and further successful diversification of Group's international customer portfolios.

By businesses

Revenue generated from wireless access and transmission business in the Current Period increased significantly by 72.0% to HK\$355,640,000 (2011: HK\$206,775,000) and accounted for 13.7% of the Group's revenue in the Current Period. This business segment includes mainly Indoor Broadband Wireless Access System ("IB-WAS"), WLAN products, digital microwave systems ("DMS") and satellite emergency communication systems. During the Current Period, as a result of continuous increasing expenditure by the PRC mobile operators for WLAN build-outs to offload the heavy data traffic of 2G and 3G

Management Discussion and Analysis (Cont'd)

networks, WLAN recorded a good sales performance. However, the recently launched IB-WAS products have not achieved the sales scalability. The management expects IB-WAS will play a more important role in the second half and will gradually provide a meaningful contribution to the Group. In respect to DMS and satellite emergency communication systems, both product lines accounted for a relatively small portion of the Group's revenue during the Current Period.

Revenue generated from wireless enhancement business in the Current Period decreased by 20.5% to HK\$699,227,000 (2011: HK\$879,429,000) and accounted for 27.0% of the Group's revenue in the Current Period. The decline in revenue was mainly due to the postponement of certain investment activities and inspection process conducted by the PRC mobile operators, and some of the Group's projects revenue was not recognized in the Current Period. In addition, although some new products, such as multi-business distributed antennas systems ("MDAS"), displayed satisfactory sales performance, there was a keen competition of the traditional enhancement products which largely affected the overall performance of this business segment.

Revenue generated from the antennas and subsystems business in the Current Period increased slightly by 6.6% to HK\$869,990,000 (2011: HK\$816,493,000) and accounted for 33.6% of the Group's revenue in the Current Period. The increase in revenue was mainly due to a continuous increase in the demand for base station antennas by the mobile operators for replacement and extension of network coverage.

Revenue from services, including installation, network optimization, network upgrade, and after-sales maintenance services, increased slightly by 3.8% to HK\$666,672,000 (2011: HK\$642,417,000) and accounted for 25.7% of the Group's revenue in the Current Period compared to 25.2% in the Prior Period. Despite the impact by the postponement of certain investment activities and inspection process conducted by the PRC mobile operators in the first half, and some projects have been postponed to kick-off until the second half, the Group managed to achieve a flattish growth. The management expects services revenue will have a better performance in the second half as more project tenders are expected to be announced due to the seasonality reason.

Management Discussion and Analysis (Cont'd)

Gross profit

To alleviate the continued pricing pressure on the traditional product categories, the Group has been striving to optimize the product mix by launching new products and solutions into the markets, as well as to offer more services to the customers. Nevertheless, during the Current Period, the gross profit decreased by 25.6% to HK\$719,304,000 (2011: HK\$966,392,000) as compared with the Prior Period. Meanwhile, the Group's gross profit margin decreased by 10.2 percentage points to 27.8% in the Current Period, compared to 38.0% in the Prior Period, resulting from the structural change of the product demand and the increase in the cost of sales caused by the inflation, the unrealized sales scalability of new products and new businesses, and the increasingly fierce competition. For the year ended 31 December 2011, the gross profit margin was 36.6%.

To improve the gross profit margin, the Group will 1) continue to adopt stringent cost control initiatives including optimizing the product design through advanced research and development ("R&D") technology, streamlining the manufacturing process, improving the logistics management, and optimizing the internal organization and functions of the Group. 2) Moreover, the Group will continue to expand its market coverage and broaden its revenue sources to achieve economies of scale. The Group also provides installation, network optimization, network enhancement and after-sales maintenance services to customers in order to achieve higher product sales. 3) Meanwhile, the Group will continue to focus on developing advanced and high value-added products for customers.

Research and development costs

The Group has always attached great importance to R&D and is strongly committed to product innovation which enables the Group to stay at the forefront of the telecommunications industry riding on its strong R&D capability. During the Current Period, R&D costs increased by 73.0% to HK\$200,602,000, representing 7.7% of the Group's revenue (2011: HK\$115,951,000, representing 4.6% of the Group's revenue). The increase in R&D costs was mainly attributable to continuous investment in the development and expansion of product portfolio for IB-WAS and 2G, 3G, WLAN and LTE mobile networks in both domestic and overseas markets.

Management Discussion and Analysis (Cont'd)

With its continuous investment in R&D, the Group achieved significant accomplishments in creating solutions with intellectual property rights and has applied for approximately 1,100 patents (As at 31 December 2011: more than 940 patents) as at the end of the Current Period.

Selling and distribution costs

During the Current Period, selling and distribution costs increased by 48.5% to HK\$249,578,000, representing 9.6% of the Group's revenue (2011: HK\$168,094,000, representing 6.6% of the Group's revenue). The increase in selling and distribution costs was mainly due to the increases in sales staff salaries and global expansion of the sales and service networks of the Group.

Administrative expenses

During the Current Period, administrative expenses increased by 16.8% to HK\$425,723,000 representing 16.4% of the Group's revenue (2011: HK\$364,334,000, representing 14.3% of the Group's revenue). The increase in administrative expenses was mainly due to the increase in administration staff salaries and office expenses as a result of the enlarged support teams for the global operations.

Awarded shares expenses

On 12 April 2011, the Board of the Company resolved to award 26,000,000 awarded shares to 365 selected persons under the share award scheme adopted on 25 March 2011, by way of issue and allotment of new shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. These awarded shares will be held in trust for the selected persons by the trustee appointed by the Company until the end of each vesting period. For these awarded shares, there were four vesting dates, which are 12 July 2011, 12 April 2012, 12 April 2013, and 12 April 2014. Upon each vesting date, those awarded shares will be transferred at no cost to the selected persons.

Management Discussion and Analysis (Cont'd)

The fair value of the 26,000,000 awarded shares was approximately HK\$226 million, measured at the closing market price of HK\$9.32 per share at the date of grant and amortized over each of the vesting period up to 12 April 2014. During the Current Period, the awarded shares expenses amounted to approximately HK\$34 million. For the second half of 2012, the full years of 2013 and 2014, the awarded shares expenses are estimated at approximately HK\$20 million, HK\$23 million and HK\$4 million, respectively.

Finance costs

During the Current Period, finance costs rose 34.7% to HK\$16,468,000, representing 0.6% (2011: HK\$12,222,000, representing 0.5% of the Group's revenue) of the Group's revenue. The rise in finance costs was mainly due to the increase in bank borrowing as a consequence of more business activities.

The management has always been prudent on managing the credit risk and improving the cash flow in order to lower the bank borrowing level. To cope with the growth of the business, the management has closely monitored the latest developments of the financing market and arranged the most appropriate financing for the Group. In June 2012, the Group signed a US\$210 million (approximately HK\$1.63 billion) three-year term loan facility (the "Facility") with five financial institutions including Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Svenska Handelsbanken AB (publ), Hong Kong Branch, Hang Seng Bank Limited and Standard Chartered Bank (Hong Kong) Limited. The Facility served to further optimize the Group's capital structure and fuel the continued business development.

In addition, the management also utilized the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize the finance costs. As of 30 June 2012, the gross gearing ratio, defined as total interest-bearing borrowings divided by total assets, of the Group stood at a manageable level of 15.9% compared to 16.5% as of 30 June 2011. The gross gearing ratio of the Group was 11.7% as of 31 December 2011.

Management Discussion and Analysis (Cont'd)

Operating loss

During the Current Period, the operating loss was HK\$135,458,000 (2011: operating profit of HK\$399,227,000). During the Current Period, as a consequence of 1) the postponement of certain investment activities and inspection process conducted by the PRC telecommunications operators, some of the Group's projects revenue were not recognized in the Current Period and that resulted in a decline in the Group's revenue of some major products as compared to the Prior Period, 2) the decrease in the Group's overall gross profit margin due to the structural change of the product demand and the increase in the cost of sales caused by the inflation, the unrealized sales scalability of new products and new businesses, and the increasingly fierce competition, 3) the continuous investment in the development and expansion of product offerings as well as global expansion of sales and service networks of the Group resulted in the surge in operating costs.

Tax

During the Current Period, the overall taxation charge of HK\$15,129,000 (2011: HK\$71,609,000) was composed of profits tax charge of HK\$23,023,000 (2011: HK\$47,750,000) and deferred tax credit of HK\$7,894,000 (2011: deferred tax charge of HK\$23,859,000). The decrease in overall taxation charge was mainly due to the Net Loss recorded during the Current Period.

Net loss

During the Current Period, loss attributable to shareholders ("Net Loss") was HK\$160,960,000 (2011: net profit of HK\$317,224,000). The record of Net Loss was mainly due to 1) the decrease in the Group's overall gross profit margin, and 2) the increase in operating expenses during the Current Period.

Dividend

To better maintain the flexibility of the financial position of the Group in view of the uncertain economic situation, the Board of the Company does not recommend any interim dividend (2011: HK5 cents per share).

Management Discussion and Analysis (Cont'd)

PROSPECTS

It is expected that the global economic environment will remain gloomy in the near future. The downside risks in the external environment loom large in view of the lingering EURO zone sovereign debt crisis and sluggish recovery of the advanced economies. These developments will continue to weigh on the economies of Asia and other emerging countries. Therefore, the global telecommunications industry may also encounter a bumpy road in light of the mounting challenges of the macro-economic environment.

On the domestic front, the PRC's economy is expected to experience a decelerating growth continuously in the second half of 2012. Nevertheless, the PRC's economy, in the long run, is expected to stay firm underpinned by the strong determination of the Central Government to shift the growth in its economy to be more self-sustaining and driven by domestic consumption. As the mobile network is a core telecommunications infrastructure in the PRC, the Central Government has always attached great importance in promoting the advance of telecommunications technologies. Despite facing the uncertainties in the short term, the demand for telecom products and services, as well as the mobile operators' CAPEX, should persist in order to promote a healthy growth.

On the international front, despite the nervousness surrounding the global economy, mobile operators' CAPEX has tightened somewhat, but overall remains healthy. However, it must be noted that this spending is even more discerning towards cost-effective, innovative solutions that also addresses OPEX concerns in their projects. This includes the ongoing 2G enhancement projects and 3G networks rollouts which continue in certain parts of the world in addition to the rapid pace of LTE network trials and commercialization.

Driven by the growing popularity of smartphones and mobile internet in the world, the mobile subscribers have delivered a strong demand for broadband wireless telecommunications, contributing to the expedited development of the new generation of mobile communications technology, LTE. The Group has supplied products for trial in a number of cities in the PRC and has also deployed LTE-compatible products within certain markets in Asia Pacific, Americas and Middle East. The Group expected that the demand from these markets will escalate in the future.

Management Discussion and Analysis (Cont'd)

Overall, the Group is optimistic on the continued development of the international segment in the second half of the year.

As such, the management holds a cautious view towards its near term prospects and remains confident about the long-term growth of the Group. The management will adjust the mid to short-term strategies in a timely fashion to capture available opportunities in such a changeable environment.

On the market expansion front, the Group will stay focused on the PRC market along with the expansion of its footprint within potential high growth markets while at the same time deepening the business relationship with existing customers.

Technologically speaking, the Group believes that synergistic development of multiple networks (2G/3G/4G/WLAN) is the future trend, hence also the guideline for product innovation. The Group expects the revenue from 2G will remain solid, business from 3G and WLAN to gain more traction, and the contribution from 4G, both TD-LTE and FD-LTE, is expected to be more noteworthy in the year after next.

Wireless Access

The Group has made considerable investment in developing the IB-WAS system which is a typical small cell structure, extending the development of 2G, 3G, WLAN and LTE technologies. The remarkable values of the IB-WAS system include increasing the network capacity, extending the network coverage, enhancing the data traffic of hotspots and lowering the cost of quick network build-outs. As such, the IB-WAS system is gaining more importance in the industry and being deployed for commercial network build-outs. The Group strongly believes those products (including Nanocell) will become the mainstream products in the wireless communications as well as a key growth driver of the Group in the future.

As one of the first batch of entrants in the PRC for the small cell segment, the management expects the Group to establish a leading position in this market. To date, considerable progress has been made. 1) The Group has further extended its IB-WAS portfolio. In

Management Discussion and Analysis (Cont'd)

addition to the newly-launched IB-WAS for TD-SCDMA and GSM networks, the Group's IB-WAS for WCDMA network is also ready to be introduced in the second half of this year. 2) IB-WAS trials are scaling up and its first commercialized network in a major province in the PRC will be officially launched in September this year. This trend will continue to gain momentum in light of the growing maturity of the technology, increasing acceptance by customers, and urgent need for cost-effective devices to help offload the booming data traffic. 3) Orders have already been placed by customers and a small contribution from IB-WAS is expected to be made in the second half of this year. The management expects IB-WAS will come fully on stream starting from next year in view of current development pace.

WLAN (Wi-Fi) is an increasingly important supplement to mobile networks in the heavy data traffic areas because of its relatively low cost of deployment in offloading data traffic from the network. Another important factor is that people are looking for networks with ubiquitous coverage and convenient access to the internet for daily life and business activities. Increasingly, mobile devices are Wi-Fi enabled, and WLAN has become a strategic imperative for mobile operators to retain customers as well as to generate a new revenue stream. Thus WLAN is expected to continue to display a steady growth.

Although both IB-WAS and WLAN can help offload data traffic, they are expected to evolve in parallel directions rather than compete with each other. Each offers its own advantages and cannot be substituted for the other. IB-WAS can be deployed to improve macro network coverage (voice and data), whereas WLAN can be deployed as a pure data offloading option.

Looking ahead, the management believes that wireless access solutions will unleash its huge market potential in the small cell market.

Wireless Enhancement

The total number of mobile subscriptions globally was estimated to be more than 6.2 billion at the end of the first quarter 2012, with 1.1 billion mobile broadband (CDMA2000, EV-DO, HSPA, LTE, Mobile WiMAX and TD-SCDMA) users. In the PRC, total 3G subscriptions exceeded 170 million at the end of the Current Period, of which the number of 3G net

Management Discussion and Analysis (Cont'd)

additions has increased by more than 48 million since the beginning of the year. The growth of smartphones and hence data traffic increased manifold in just a few years. The result is smartphones and mobile broadband access have already become commonplace. Providing an excellent network with great coverage and data speed is essential to satisfy users and stand out among the competition.

Globally, the increase in spending by mobile operators and enterprises on in-building wireless systems ("IBS") continues, and industry analysts expect this segment to maintain its growth in the long term. In particular, the medium and large venues are deploying active distributed antenna systems ("DAS"), of which wireless enhancement products play a key role. As such, this trend is presenting opportunities for the Group's products on the international stage.

On the other hand, in the near future, the management expects more acute competition in the wireless enhancement market which will pose certain risks to the Group's margins in the mid-end market. To face these challenges, the Group has been adjusting its short-term strategy in order to maintain its current share and leading position in the market. Despite a short-term setback, the Group will stay the course with its long term strategy to drive the growth through innovative technology which the management believes is a core competitive advantage and differentiates itself from its peers.

Antennas & Subsystems

The growth of antennas and subsystems last year was attributable to the increase in demand by mobile operators to improve the network performance. The growth is expected to slow down this year as the demand becomes more rationalized. However, the commercialization of LTE at a later stage in the PRC may also give new impetus to the demand for antennas and subsystems.

The continued extension of 2G networks and rollout of 3G and 4G networks in the various international markets will continue to present opportunities since base station antennas and subsystems are essential components of any network rollout. In particular, developing markets in the Middle East, South America and South East Asia will be sources of demand.

Management Discussion and Analysis (Cont'd)

Generally, mobile operators are facing challenges with existing cell sites becoming overburdened as they service multiple systems. It is not uncommon to see multiple base station antennas on a single site supplying 2G, 3G services and even multiple mobile operators. As such, multi-band antennas and co-siting solutions are gaining traction in the market.

In the long run, antennas and subsystems are expected to provide a stable revenue contribution to the Group in the foreseeable future given the evolution of new mobile networks as well as the continuous product replacement cycle. The Group will strive to maintain its leading market presence leveraging its comprehensive product portfolio bundled with its unmatched end-to-end solutions and services.

Wireless Transmission

DMS is an attractive alternative wireline based backhaul solution in view of the growth of data demand on networks. The Group will exert greater efforts to market DMS products and provide more end-to-end DMS solutions to customers in the future. Good progress has been made in several southeast Asian countries, and the Group will deepen the relationship with its existing customers while further exploring new business opportunities with prospective customers to strengthen the Group's foothold in the respective market.

On the other hand, with the forthcoming deployment of LTE and all-IP networks, the management expects the demand for DMS will grow. To capture the potential opportunities, the Group will continue to develop new products and solutions and strive to improve its performance in the second half of this year.

On the satellite emergency communication systems front, the PRC's Central Government has placed an emphasis on developing emergency communication in recent years in view of more natural disasters and large scale events as well as international conferences and exhibitions. It is crucial to ensure reliable emergency communication when disasters strike. The Group's satellite emergency communication systems have been successfully deployed by local governments and authorities during the emergency drills with positive feedback received. The new product lines will bring more cross-selling opportunities and new technologies to the Group which promote the new products and market development.

Management Discussion and Analysis (Cont'd)

Moving forward, the Group will devote more efforts to explore the exciting market potential in both DMS and satellite emergency communication systems, and anticipates an increasing contribution from the wireless transmission business.

Services

The management expects that the contribution from services will stay firm given mobile operators' unabated focus on end-user satisfaction and operational efficiency. In coping with the increased demand for high-quality in both services and user experience, the Group has committed to providing all-around services including network design, consulting, assessment, network optimization, network modification and upgrade, system installation and maintenance services to the customers.

The increasing sophistication of mobile networks always poses new challenges to the management of mobile operators to deliver a better user experience which brings more opportunities to the Group. The professionalism and the wealth of experience that the Group has accumulated over the years have enabled it to succeed beyond all expectations, and it is now a trusted and reliable partner of mobile operators not only in the PRC but around the world.

Conclusion

The Group is experiencing a trough in its business under the twin pressures of global economic uncertainty and an industry slowdown. In the longer term, it is expected that the industry will prosper again as mobile telecommunication devices increasingly become an indispensable part of peoples' daily lives, and premium network quality is critical for these devices to display their value in fulfilling the communication needs of people nowadays. The management strongly believes that the Group's fundamentals remain intact and that the Group remains on the right track in its revolution of innovative product development. The Group is able to brave the buffeting of the winds and waves to achieve better results in good or bad times alike.

During this challenging period, the management will exert greater efforts to adopt cost and budget controls. The management has also taken various downsizing measures in order to control the costs and increase the profitability. With the successful downsizing measures,

Management Discussion and Analysis (Cont'd)

the Group is expected to turnaround in the second half of this year. At the same time, the Group will strictly adhere and implement KPIs set for different aspects of its business from sales growth, profitability ratios, liquidity ratios, cost of capital, inventory turnover, receivables turnover, cash conversion cycle, staff bonus scheme, etc.

Technology is constantly advancing, and the key to success to drive the business forward is to innovate and create new needs of customers. Despite stringent controls on costs and budgets, the Group is continuing to invest in R&D to sharpen its competitive edge.

Last but not least, the Board of the Company would like to extend its heartfelt thanks to all staff for their dedicated efforts and contributions to the Group in both good and bad times and greatly appreciates the continuous support of the customers, suppliers, shareholders, and business associates. Needless to say, the Group will strive its utmost to reward all stakeholders with remarkable results and maximum returns.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cashflow generated internally and bank borrowings. As at 30 June 2012, the Group had net current assets of HK\$2,623,776,000. Current assets comprised inventories of HK\$2,485,634,000, trade receivables of HK\$4,445,968,000, notes receivable of HK\$44,077,000, prepayments, deposits and other receivables of HK\$705,738,000, restricted bank deposits of HK\$21,263,000 and cash and cash equivalents of HK\$687,944,000. Current liabilities comprised trade and bills payables of HK\$2,919,117,000, other payables and accruals of HK\$1,178,813,000, derivative financial instrument of HK\$180,000, interest-bearing bank borrowings of HK\$1,526,924,000, tax payable of HK\$66,576,000 and provisions for product warranties of HK\$75,238,000.

The average receivable turnover for the Current Period was 315 days compared to 259 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness, except for those retention money generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The average payable turnover for the Current

Management Discussion and Analysis (Cont'd)

Period was 288 days compared to 266 days for the Prior Period. The average inventory turnover for the Current Period was 239 days compared to 229 days for the Prior Period.

As at 30 June 2012, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK\$") and United States dollars ("US\$") while the Group's bank borrowings were mainly denominated in US\$ and HK\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into two three-year term loan facility agreements (the "Facility Agreements"), amounted to US\$130,000,000 and US\$210,000,000 on 5 July 2010 and 26 June 2012 respectively, with certain financial institutions (the "Lenders").

Under the Facility Agreements, there are specific performance obligations that Mr. Fok Tung Ling who is the controlling shareholder of the Company and Mr. Zhang Yue Jun who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the facility agreement dated 26 June 2012, both Mr. Fok Tung Ling and Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. At the date of approval of these condensed consolidated interim financial statements, such obligations have been complied with.

As at 30 June 2012, the Group had fully utilized the facility of US\$130,000,000 (equivalent to HK\$1,009,593,000) in aggregate and had repaid a total amount of US\$52,000,000 (equivalent to HK\$403,359,000). As at 30 June 2012, the Group had not utilized the facility of US\$210,000,000 (equivalent to HK\$1,630,881,000).

Details of the Facility Agreements are set out in note 14 to condensed consolidated interim financial statements.

As at 30 June 2012, the Group held an interest rate swap contract designated as hedges in respect of expected interest payments for the above-mentioned US\$ floating rate loan under the facility agreement dated 5 July 2010.

Management Discussion and Analysis (Cont'd)

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

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 15.9% as at 30 June 2012 (31 December 2011: 11.7%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

CHARGE ON ASSETS

As at 30 June 2012, there was no charge on the Group's assets (31 December 2011: Nil).

CONTINGENT LIABILITIES

As at 30 June 2012, the Group had contingent liabilities of HK\$29,576,000 (31 December 2011: HK\$93,776,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group had approximately 11,200 staff. The total staff costs for the Current Period were HK\$600,196,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible staff based on the performance of such employees as well as the Group. Mandatory provident fund, or staff pension schemes are also provided to relevant staff in Hong Kong, the PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

Management Discussion and Analysis (Cont'd)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 22 May 2012, the Board of the Company resolved to budget a sum of up to HK\$35,000,000 (the "Budgeted Sum") for the purchase of shares of the Company from the market under the share award scheme which adopted on 25 March 2011 (the "Scheme"). The trustee and/or the administrator of the Scheme (the "Trustee/Administrator") applied approximately HK\$5,021,000 out of the Budgeted Sum to purchase an aggregate of 1,402,000 shares at the prevailing market price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the period from 22 May 2012 to 7 June 2012 in accordance with the terms of the Scheme. Save as disclosed herein, neither the Company, nor any of its subsidiaries purchased, redeemed or sold on the Stock Exchange or otherwise any of the Company's listed securities during the Current Period.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2012, the interests and short positions of the directors of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Management Discussion and Analysis (Cont'd)

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse	Through controlled corporation		
Mr. Fok Tung Ling ("Mr. Fok")	(a)	17,258,224	—	526,995,887	544,254,111	35.66
Mr. Zhang Yue Jun ("Mr. Zhang")	(b)	—	—	154,128,452	154,128,452	10.10
Mr. Tong Chak Wai, Wilson ("Mr. Tong")	(c)	4,438,560	—	—	4,438,560	0.29
Mr. Wu Jiang Cheng ("Mr. Wu")	(c)	9,451,987	—	—	9,451,987	0.62
Mr. Yan Ji Ci ("Mr. Yan")	(c)	7,974,435	—	—	7,974,435	0.52
Mr. Zheng Guo Bao ("Mr. Zheng")	(c)	3,397,176	—	—	3,397,176	0.23
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")	(c)	7,028,912	—	—	7,028,912	0.46
Mr. Zhang Yuan Jian	(d)	564,456	80,000	—	644,456	0.04
		50,113,750	80,000	681,124,339	731,318,089	47.92

Long positions in share options of the Company:

Name of director	Notes	No. of share options directly beneficially owned
Mr. Tong		500,000
Mr. Wu		500,000
Mr. Yan		500,000
Mr. Yeung		500,000
Mr. Zhang Yuan Jian	(d)	500,000
Mr. Liu Cai		342,000
Mr. Lau Siu Ki, Kevin		342,000
		3,184,000

Management Discussion and Analysis (Cont'd)

Notes:

- (a) 525,710,701 shares and 1,285,186 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master"), respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in the total of 526,995,887 shares owned by Prime Choice and Total Master.
- (b) These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 154,128,452 shares owned by Wise Logic.
- (c) As at 30 June 2012, each of Mr. Tong and Mr. Wu had 300,000 unvested awarded shares; each of Mr. Yan and Mr. Yeung had 260,000 unvested awarded shares; and Mr. Zheng had 60,000 unvested awarded shares under the share award scheme which was adopted on 25 March 2011 ("Share Award Scheme"). Subject to fulfillment of vesting conditions of the award, the awarded shares shall be vested and transferred to the above directors accordingly. Details of the Share Award Scheme are set out in note 16 to condensed consolidated interim financial statements.
- (d) On 10 February 2012, Mr. Zhang Yuan Jian was appointed as an executive director of the Company. As at 30 June 2012, he had 176,000 unvested awarded shares under the Share Award Scheme. He is also deemed to be interested in 80,000 shares of the Company beneficially held by his spouse personally, representing approximately 0.01% of the issued share capital of the Company. On 12 January 2012, the Company granted share options to Mr. Zhang Yuan Jian under the share option scheme adopted on 20 June 2003 entitling him to subscribe for 500,000 shares of the Company.

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

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

Save as disclosed above, as at 30 June 2012, none of the directors of the Company had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Management Discussion and Analysis (Cont'd)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and the heading "Share Option and Share Award Schemes" below, at no time during the Current Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of the Company or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement during the Current Period to enable the directors of the Company to acquire such rights in any other body corporate.

SHARE OPTION AND SHARE AWARD SCHEMES

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2012, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Prime Choice		Beneficial owner	525,710,701	34.45
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	544,254,111	35.66
Wise Logic		Beneficial owner	154,128,452	10.10
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	154,128,452	10.10

Management Discussion and Analysis (Cont'd)

Notes:

- (a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 544,254,111 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.
- (b) Mdm. Cai is the spouse of Mr. Zhang and is deemed to be interested in the 154,128,452 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

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

- (i) 525,710,701 shares between Prime Choice and Mdm. Chen; and
- (ii) 154,128,452 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 30 June 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of the Company reviewed daily governance of the Group in accordance with the code provisions (the "Code Provisions") as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, throughout the Current Period, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has fully complied with the Code Provisions.

There have been changes in the particulars of some of the directors of the Company since the date of the Company's 2011 annual report. Particulars of the changes are as follows:

1. Both Mr. Lin Jin Tong and Mr. Qian Ting Shuo were appointed as independent non-executive directors of the Company for an initial term of three years which commenced on 21 May 2012 and subject to compliance with the relevant requirements of the Listing Rules, and will continue thereafter until terminated by either party by giving not less than six months' written notice.
2. Both Mr. Lin Jin Tong and Mr. Qian Ting Shuo were also appointed as members of the audit committee, remuneration committee and nomination committee of the Company on 21 May 2012.

Management Discussion and Analysis (Cont'd)

3. Mr. Yao Yan resigned as an independent non-executive director of the Company and ceased to be the members of the audit committee, remuneration committee and nomination committee of the Company on 21 May 2012.

Moreover, during the Current Period, the Company has four independent non-executive directors, representing one-third of the members of the Board of the Company and at least one of the independent non-executive directors of the Company have appropriate professional qualifications or accounting or related financial management expertise.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its directors. Specific enquiries have been made to all directors of the Company, and they have confirmed their compliance with the required standard as set out in the Model Code throughout the Current Period.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect subsidiary of the Company, entered into two three-year term loan facility agreements (the "Facility Agreements"), amounted to US\$130,000,000 and US\$210,000,000 on 5 July 2010 and 26 June 2012 respectively, with certain financial institutions, which contain covenants requiring specific performance obligations of the controlling shareholder, namely Mr. Fok, and the substantial shareholder, namely Mr. Zhang, of the Company. Details of the Facility Agreements with covenants relating to the specific performance obligations of the controlling shareholder and the substantial shareholder are set out above under the heading "Liquidity, Financial Resources & Capital Structure".

AUDIT COMMITTEE

The Company has established the audit committee in accordance with the Listing Rules. The audit committee, together with the management, has reviewed the accounting principles, standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited accounts for the Current Period. The audit committee has given its consent to the accounting principles, standards and methods adopted by the Company for the unaudited condensed consolidated interim financial statements for the Current Period and has not given any disagreement.

Condensed Consolidated Income Statement

For the six months ended 30 June 2012

The board of directors (the "Board" or the "Directors") of Comba Telecom Systems Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2012, together with the comparative figures for the same period in 2011. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	5	2,591,529	2,545,114
Cost of sales		(1,872,225)	(1,578,722)
Gross profit		719,304	966,392
Other income and gains	5	23,840	81,874
Research and development costs		(200,602)	(115,951)
Selling and distribution costs		(249,578)	(168,094)
Administrative expenses		(425,723)	(364,334)
Other expenses		(2,699)	(660)
Finance costs	7	(16,468)	(12,222)
(LOSS)/PROFIT BEFORE TAX	6	(151,926)	387,005
Income tax expense	8	(15,129)	(71,609)
(LOSS)/PROFIT FOR THE PERIOD		(167,055)	315,396

Condensed Consolidated Income Statement (Cont'd)

For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
<hr/>			
Attributable to:			
Owners of the parent		(160,960)	317,224
Non-controlling interests		(6,095)	(1,828)
		<hr/>	
		(167,055)	315,396
		<hr/>	
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF			
THE PARENT (HK cents)			
	10		
Basic		(10.68)	21.62
		<hr/>	
Diluted		(10.68)	20.99
		<hr/>	

Details of the dividends payable and proposed for the period are disclosed in note 9 to condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(LOSS)/PROFIT FOR THE PERIOD	(167,055)	315,396
OTHER COMPREHENSIVE (LOSS)/INCOME		
Cash flow hedge		
Effective portion of changes in fair value of hedging instrument	518	1,180
Reclassification adjustments included in the condensed consolidated income statement	(170)	573
Income tax effect	(85)	(290)
	263	1,463
Exchange differences on translation of foreign operations	(67,460)	83,449
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(67,197)	84,912
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(234,252)	400,308
Attributable to:		
Owners of the parent	(227,477)	400,741
Non-controlling interests	(6,775)	(433)
	(234,252)	400,308

Condensed Consolidated Statement of Financial Position

30 June 2012

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		839,749	828,546
Prepaid land lease payments		30,840	31,374
Goodwill		28,571	28,571
Long-term trade receivables	12	110,940	118,648
Deferred tax assets		142,647	136,309
Intangible assets		30,114	28,216
Restricted bank deposits		5,112	7,033
Total non-current assets		1,187,973	1,178,697
CURRENT ASSETS			
Inventories	11	2,485,634	2,421,044
Trade receivables	12	4,445,968	4,268,084
Notes receivable		44,077	68,472
Prepayments, deposits and other receivables		705,738	450,810
Restricted bank deposits		21,263	79,813
Cash and cash equivalents		687,944	1,114,412
Total current assets		8,390,624	8,402,635
CURRENT LIABILITIES			
Trade and bills payables	13	2,919,117	2,981,163
Other payables and accruals		1,178,813	1,186,559
Derivative financial instrument		180	698
Interest-bearing bank borrowings	14	1,526,924	719,272
Tax payable		66,576	119,001
Provisions for product warranties		75,238	69,232
Total current liabilities		5,766,848	5,075,925

Condensed Consolidated Statement of Financial Position (Cont'd)

30 June 2012

	Note	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
NET CURRENT ASSETS		2,623,776	3,326,710
TOTAL ASSETS LESS CURRENT LIABILITIES		3,811,749	4,505,407
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	—	404,743
Deferred tax liabilities		17,840	17,840
Total non-current liabilities		17,840	422,583
Net assets		3,793,909	4,082,824
EQUITY			
Equity attributable to owners of the parent			
Issued capital		152,620	152,620
Treasury shares		(14,370)	(9,661)
Reserves		3,593,529	3,764,271
Proposed dividend		—	106,834
Non-controlling interests		3,731,779	4,014,064
		62,130	68,760
Total equity		3,793,909	4,082,824

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the parent											Total equity HK\$'000					
	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Share			Asset			Exchange fluctuation reserve HK\$'000		Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
					Share	Share-based compensation reserve HK\$'000	Capital revaluation reserve HK\$'000	Hedging reserve HK\$'000	Statutory reserve HK\$'000	Reserve HK\$'000							
At 1 January 2011	132,505	-	482,453	21,386	44,630	50,557	(1,849)	90,526	397,752	1,862,998	158,766	3,239,524	69,501	3,509,025			
Profit for the period	-	-	-	-	-	-	-	-	-	317,224	-	317,224	(1,828)	315,396			
Other comprehensive income for the period:																	
Cash flow hedge, net of tax	-	-	-	-	-	-	1,463	-	-	-	-	-	-	1,463	-	1,463	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	82,054	-	-	-	-	82,054	1,395	83,449	
Total comprehensive income for the period	-	-	-	-	-	-	1,463	-	82,054	317,224	-	400,741	(433)	400,308			
Share option scheme																	
- exercise of share options	2,116	-	25,040	(6,498)	-	-	-	-	-	-	-	-	-	20,658	-	20,658	
- value of services	-	-	-	11,595	-	-	-	-	-	-	-	-	-	11,595	-	11,595	
Share award scheme																	
- value of services	-	-	-	87,375	-	-	-	-	-	-	-	-	-	87,375	-	87,375	
- shares allotted	2,600	(2,600)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Issue of bonus shares	13,584	(227)	(13,357)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Equity-settled share expenses	-	-	-	-	437	-	-	-	-	-	-	-	-	437	357	794	
Final 2010 dividend declared	-	-	-	-	-	-	-	-	-	-	(163,005)	(163,005)	-	-	-	(163,005)	
Under-provision of final 2010 dividend	-	-	-	-	-	-	-	-	-	(4,239)	4,239	-	-	-	-	-	
Proposed interim 2011 dividend	-	-	-	-	-	-	-	-	-	(75,303)	75,303	-	-	-	-	-	
At 30 June 2011	150,605	(2,827)	494,136	113,858	45,067	50,557	(386)	90,526	479,806	2,100,680	75,303	3,597,325	69,425	3,666,750			

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

For the six months ended 30 June 2012

	Attributable to owners of the parent										Non-controlling interests	Total equity		
	Issued capital	Treasury shares	Share premium account	Share-based compensation reserve	Capital reserve	Asset revaluation reserve	Hedging reserve	Statutory reserve	Exchange fluctuation reserve	Retained profits			Proposed dividend	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
At 1 January 2012	152,620	(9,661)	596,260*	87,847*	45,504*	74,199*	520*	91,420*	533,943*	2,334,578*	106,834	4,014,064	68,760	4,082,824
Loss for the period	-	-	-	-	-	-	-	-	-	(160,960)	-	(160,960)	(6,095)	(167,055)
Other comprehensive loss for the period:														
Cash flow hedge, net of tax	-	-	-	-	-	-	263	-	-	-	-	263	-	263
Exchange differences on translation of foreign operation	-	-	-	-	-	-	-	-	(66,780)	-	-	(66,780)	(680)	(67,460)
Total comprehensive loss for the period	-	-	-	-	-	-	263	-	(66,780)	(160,960)	-	(227,477)	(6,775)	(234,252)
Share option scheme	-	-	-	23,001	-	-	-	-	-	-	-	23,001	-	23,001
— value of services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
— adjustment arising from lapse of share options	-	-	-	(591)	-	-	-	-	-	591	-	-	-	-
Share award scheme	-	-	-	-	-	-	-	-	-	-	-	-	-	-
— value of services	-	-	-	33,869	-	-	-	-	-	-	-	33,869	-	33,869
— shares purchased	-	-	-	-	177	-	-	-	-	-	-	177	-	177
— vested awarded shares transferred to selected persons	-	(5,021)	-	-	-	-	-	-	-	-	-	(5,021)	-	(5,021)
Equity-settled share expenses	-	312	47,504	(47,816)	-	-	-	-	-	-	-	-	-	-
Final 2011 dividend declared	-	-	-	-	-	-	-	-	-	-	(106,834)	(106,834)	-	(106,834)
At 30 June 2012	152,620	(14,370)	643,764*	96,310*	45,681*	74,199*	783*	91,420*	467,163*	2,174,209*	-	3,731,779	62,130	3,793,909

* These reserve accounts comprise the consolidated reserves of HK\$3,593,529,000 (31 December 2011: HK\$3,764,271,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash flows used in operating activities	(673,066)	(1,265,997)
Net cash flows from/(used in)		
investing activities	1,642	(190,758)
Net cash flows from financing activities	274,331	665,562
NET DECREASE IN CASH AND CASH EQUIVALENTS	(397,093)	(791,193)
Cash and cash equivalents at beginning of period	1,114,412	1,472,899
Effects of foreign exchange rate changes, net	(29,375)	43,553
CASH AND CASH EQUIVALENTS AT END OF PERIOD	687,944	725,259
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	687,944	725,259

Notes to Condensed Consolidated Financial Statements

30 June 2012

1. CORPORATE INFORMATION

Comba Telecom Systems Holdings Limited (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 current period for the six months ended 30 June 2012, the Company and its subsidiaries (collectively referred to as the "Group") principally engaged in the research, development, manufacture and sale of wireless telecommunications network enhancement 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 2012 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The 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 2011.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the above new standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the condensed consolidated interim 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 2012

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the research, development, manufacture and sale of wireless telecommunications network enhancement 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.

Information about major customers

For the six months ended 30 June 2012, revenue from continuing operations of approximately HK\$1,349,911,000 (six months ended 30 June 2011: HK\$1,450,406,000) and HK\$572,908,000 (six months ended 30 June 2011: HK\$528,900,000) were derived from two customers, which accounted for 52.1% (six months ended 30 June 2011: 57.0%) and 22.1% (six months ended 30 June 2011: 20.8%) of the total revenue of the Group respectively.

5. REVENUE, OTHER INCOME AND GAINS

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	2,495,824	2,469,984
Warranty services	95,705	75,130
	2,591,529	2,545,114
Other income and gains		
Bank interest income	4,635	1,123
Government subsidy	12,580	3,552
Exchange gains, net	—	24,201
Gain on bargain purchase	—	48,426
Others	6,625	4,572
	23,840	81,874

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold and services provided	1,833,484	1,542,551
Depreciation	57,854	42,077
Recognition of prepaid land lease payments	382	186
Amortization of intangible assets	2,604	1,159
Minimum lease payments under operating leases in respect of land and buildings	53,301	41,596
Employee benefits expense (including directors' emoluments):		
Salaries and wages	459,383	315,614
Staff welfare expenses	40,793	31,605
Equity-settled share option expenses (note 16(a))	23,001	11,595
Awarded share expenses	33,869	87,375
Pension scheme contributions*	43,150	27,958
	600,196	474,147
Exchange loss/(gain), net	23,502	(24,201)
Provision for product warranties	21,607	20,259
Loss on disposal of items of property, plant and equipment	—	452

* At 30 June 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2011: Nil).

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

7. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	16,468	12,222

8. INCOME TAX

Taxes on profits assessable 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current charge for the period		
Mainland China	20,938	46,261
Overseas	2,085	1,489
Deferred tax	(7,894)	23,859
Total tax charge for the period	15,129	71,609

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

8. INCOME TAX (Cont'd)

Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), being the manufacturing foreign invested enterprise located in Guangzhou, the PRC, is eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. In addition, Comba Technology was designated as a High-New Technology Enterprise by Guangdong Science and Technology Department on 16 December 2008. The qualification of Comba Technology being designated as a High-New Technology Enterprise was renewed on 23 August 2011. Being High-New Technology Enterprise, Comba Technology is entitled to the preferential tax rate of 15% for the year of 2012.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Systems (China) Limited ("Comba China"), another subsidiary of the Company established in the PRC, was entitled to an exemption from PRC corporate income tax for the two years commencing from 1 January 2008 to 31 December 2009 and thereafter was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2010 to 31 December 2012. Moreover, as Comba China is located in the Guangzhou Economic and Technology Development Zone, it is entitled to transitional income tax rates from 2008 to 2012. Therefore, the applicable income tax rates for Comba China in 2008, 2009, 2010, 2011 and 2012 are 0%, 0%, 11%, 12% and 12.5%, respectively.

9. DIVIDEND

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Proposed interim – Nil (2011: HK5 cents) per ordinary share	–	75,303

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2012.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

The calculation of basic and diluted (loss)/earnings per share is based on:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
(Loss)/earnings		
(Loss)/profit for the period attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculation	(160,960)	317,224
	<hr/>	
	Number of shares For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<hr/>	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	1,506,585,000	1,467,565,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	34,307,000
Awarded shares	–	9,422,000
	<hr/>	
	1,506,585,000	1,511,294,000
	<hr/>	

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

The computation of diluted loss per share for the six months ended 30 June 2012 does not assume the conversion of the Company's outstanding share options as the exercise prices are higher than the Company's share price. The effects of awarded shares have also been excluded from the computation of diluted loss per share for the six months ended 30 June 2012 as their effects would be anti-dilutive.

11. INVENTORIES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Raw materials	214,889	210,640
Project materials	148,907	149,682
Work in progress	213,320	229,129
Finished goods	480,556	484,349
Inventories on site	1,427,962	1,347,244
	2,485,634	2,421,044

12. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

12. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES (Cont'd)

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 3 months	1,707,305	2,334,378
4 to 6 months	294,634	424,407
7 to 12 months	1,534,617	728,759
More than 1 year	1,037,633	916,644
	4,574,189	4,404,188
Provision for impairment	(17,281)	(17,456)
	4,556,908	4,386,732
Current portion	(4,445,968)	(4,268,084)
Long-term portion	110,940	118,648

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Neither past due nor impaired	4,117,921	4,133,158
Less than 1 year past due	265,726	109,822
	4,383,647	4,242,980

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

12. TRADE RECEIVABLES AND LONG-TERM 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. The Group does not hold any collateral or other credit enhancements over these balances.

13. TRADE AND BILLS PAYABLES

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 3 months	1,615,136	1,811,429
4 to 6 months	399,112	614,598
7 to 12 months	725,042	415,022
More than 1 year	179,827	140,114
	2,919,117	2,981,163

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Analysed into:		
Within 1 year	1,526,924	719,272
In the second year	—	404,743
	1,526,924	1,124,015

All the bank loans at 30 June 2012 and 31 December 2011 were unsecured. Loans denominated in Hong Kong dollars amounted to HK\$764,591,000 (31 December 2011: HK\$314,530,000) and loans denominated in United States dollars amounted to HK\$762,333,000 (31 December 2011: HK\$809,485,000).

In addition to the short-term interest-bearing facilities, the Group had entered into two three-year term loan facility agreements (the "Facility Agreements"), amounted to US\$130,000,000 and US\$210,000,000 on 5 July 2010 and 26 June 2012 respectively, with certain financial institutions (the "Lenders").

Under the Facility Agreements, there are specific performance obligations that Mr. Fok Tung Ling who is the controlling shareholder of the Company and Mr. Zhang Yue Jun who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the facility agreement dated 26 June 2012, both Mr. Fok Tung Ling and Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. At the date of approval of these condensed consolidated interim financial statements, such obligations have been complied with.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

As at 30 June 2012, the Group had fully utilized the facility of US\$130,000,000 (equivalent to HK\$1,009,593,000) in aggregate and had repaid a total amount of US\$52,000,000 (equivalent to HK\$403,359,000). As at 30 June 2012, the Group had not utilized the facility of US\$210,000,000 (equivalent to HK\$1,630,881,000).

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, who act as guarantors, to guarantee punctual performance of the obligations under the Facility Agreements which, inter alia, include the satisfaction of the financial covenants under the Facility Agreements.

For the relevant period ended 30 June 2012, two of the financial covenants under the Facility Agreements were not satisfied. According to the relevant accounting standard, the long-term portion of the loans under the Facility Agreements, which amounted to HK\$202,371,000, are classified as current liability as at 30 June 2012.

Prior to the date of this report, the Group has applied and the Lenders of the Facility Agreements have granted to the Group waivers from strict compliance with the said financial covenants. All other terms of the Facility Agreements will continue in full force and effect.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

15. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:		
1 January 2011, 31 December 2011, 1 January 2012 and 30 June 2012	5,000,000,000	500,000
Issued and fully paid or credited as fully paid:		
At 1 January 2011	1,323,051,235	132,305
Exercise of share options	41,307,499	4,131
Issue of bonus shares	135,837,495	13,584
Shares allotted for share award scheme	26,000,000	2,600
At 31 December 2011 and 30 June 2012	1,526,196,229	152,620

As at 30 June 2012, the total number of issued ordinary shares of the Company was 1,526,196,229 shares (31 December 2011: 1,526,196,229 shares) which included 19,017,120 shares (31 December 2011: 20,733,270 shares) held under the Share Award Scheme (note 16(b)).

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

16. SHARE OPTION AND SHARE AWARD SCHEMES

(a) Share Option Scheme

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 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 issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(a) Share Option Scheme (Cont'd)

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

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

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(a) Share Option Scheme (Cont'd)

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

	2012		2011	
	Weighted average exercise price of share options* HK\$ per share	Number of share options '000	Weighted average exercise price of share options* HK\$ per share	Number of share options '000
At 1 January	6.57	34,400	3.48	78,333
Granted during the period	5.66	40,000	—	—
Forfeited during the period	6.57	(1,710)	6.55	(279)
Exercised during the period	—	—	0.92	(22,430)
At 30 June	6.07	72,690	4.50	55,624

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the bonus issues of shares approved by shareholders (the "Bonus Issues").

No options were exercised during the current period. The weighted average closing price of the Company's shares at the dates of exercise of the share options for the six months ended 30 June 2011 was HK\$8.45.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(a) Share Option Scheme (Cont'd)

Movements in the number of the Company's share options under the Scheme during the current period are as follows:

Name or category of participant	Number of share options					At 30 June 2012	Date of grant of share options *	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 January 2012	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Executive directors									
Mr. Tong Chak Wai, Wilson	–	500,000	–	–	–	500,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
Mr. Wu Jiang Cheng	–	500,000	–	–	–	500,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
Mr. Yan Ji Ci	–	500,000	–	–	–	500,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
Mr. Yeung Pui Sang, Simon	–	500,000	–	–	–	500,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
Mr. Zhang Yuan Jian	–	500,000	–	–	–	500,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
Independent non-executive directors									
Mr. Liu Cai	242,000	–	–	–	–	242,000	22 Jul 10	22 Jul 11–21 Jul 13	6.57
	–	100,000	–	–	–	100,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
	242,000	100,000	–	–	–	342,000			
Mr. Lau Siu Ki, Kevin	242,000	–	–	–	–	242,000	22 Jul 10	22 Jul 11–21 Jul 13	6.57
	–	100,000	–	–	–	100,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
	242,000	100,000	–	–	–	342,000			
Other employees in aggregate	33,916,150	–	–	–	(1,709,750)	32,206,400	22 Jul 10	22 Jul 11–21 Jul 13	6.57
	–	37,300,000	–	–	–	37,300,000	12 Jan 12	12 Jan 13–11 Jan 15	5.66
	33,916,150	37,300,000	–	–	(1,709,750)	69,506,400			
	34,400,150	40,000,000	–	–	(1,709,750)	72,690,400			

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

** The exercise price HK\$6.57 of share options per share was adjusted as a result of the Bonus Issues.

The Company granted 40,000,000 share options on 12 January 2012 with the exercise price HK\$5.66 of share options per share. The closing price of the Company's shares immediately before the date of such grant was HK\$5.51 per share.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(a) Share Option Scheme (Cont'd)

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

30 June 2012	Exercise price of share options HK\$ per share*	Exercise period
Number of share options '000		
32,690	6.570	22 July 2011 to 21 July 2013
40,000	5.660	12 January 2013 to 11 January 2015
72,690		

* The exercise price HK\$6.570 of share options per share was adjusted as a result of the Bonus Issues.

30 June 2011	Exercise price of share options HK\$ per share**	Exercise period
Number of share options '000		
5,525	1.341	21 July 2009 to 20 July 2011
14,077	0.434	4 November 2009 to 3 November 2011
36,022	6.570	22 July 2011 to 21 July 2013
55,624		

** The exercise prices of share options per share were adjusted as a result of the Bonus Issues.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(a) Share Option Scheme (Cont'd)

The fair value of the share options granted during the current period was HK\$48,900,000 (approximately HK\$1.22 each).

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

Dividend yield (%)	2.73
Expected volatility (%)	40
Risk-free interest rate (%)	0.43
Expected life of the share options (years)	3
Weighted average share price (HK\$ per share)	5.72

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

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

The expense recognized in the condensed consolidated income statement for employee services received during the current period is approximately HK\$23,001,000 (six months ended 30 June 2011: HK\$11,595,000).

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(a) Share Option Scheme (Cont'd)

At the end of the reporting period, the Company had 72,690,400 share options, of which 16,173,900 share options were vested and 56,516,500 share options were unvested, outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 72,690,400 additional ordinary shares of the Company and additional share capital of HK\$7,269,000 and share premium of HK\$433,904,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 71,903,500 share options outstanding under the Scheme, which represented approximately 4.7% of the Company's shares in issue as at that date.

(b) Share Award Scheme

The Company adopted a share award scheme (the "Share Award Scheme") on 25 March 2011 (the "Adoption Date"). The purposes and objectives of the Share Award Scheme are to recognize the contributions by certain employees and persons to the Group (the "Selected Persons") and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Unless it is early terminated by the board of directors (the "Board" or the "Directors") of the Company, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(b) Share Award Scheme (Cont'd)

The Board of the Company shall not make any further award of the Awarded Shares which will result in the nominal value of the shares awarded by the Board of the Company under the Share Award Scheme exceeding 5% of the issued share capital of the Company as at the Adoption Date. The maximum number of shares which may be awarded to a Selected Person under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date. The aforesaid limit may be refreshed or amended by approval of the shareholders in 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 Scheme) as so refreshed shall not exceed 10% of the shares in issue as at the date of approval of the limit. Awarded Shares or share options previously granted under the Share Award Scheme or the Scheme (including those vested, outstanding, cancelled, lapsed and exercised share options) 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 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.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(b) Share Award Scheme (Cont'd)

On 12 April 2011, the Board of the Company resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. Upon issue and allotment of the new Awarded Shares, the Trustee will hold the new Awarded Shares in trust for the Selected Persons and such new Awarded Shares shall be transferred to the Selected Persons upon the vesting conditions will have been met. The number of Awarded Shares granted to each of the Selected Persons is subject to their respective contributions to the Group. Among those 365 Selected Persons, there are 12 Selected Persons who are directors of members of the Group and accordingly connected persons (as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) to the Company (the "Connected Selected Person(s)") and the issue and allotment of the 3,332,000 new Awarded Shares (the "Connected Awarded Shares") to the Connected Selected Persons under the Share Award Scheme were approved by the independent shareholders other than the Connected Selected Persons and their respective associates in accordance with the Listing Rules at the extraordinary general meeting of the Company held on 23 May 2011.

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(b) Share Award Scheme (Cont'd)

Movements in the number of treasury shares held for the Share Award Scheme and Awarded Shares held for the Selected Persons for the six months ended 30 June 2011 and 2012 are as follows:

	Notes	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2012		2,329,170	18,404,100
Purchased at the market	(i)	1,402,000	—
Returned to the Share Award Scheme		758,250	(758,250)
Vested to the Selected Persons	(ii)	—	(3,118,150)
At 30 June 2012		4,489,420	14,527,700

(i) During the current period, the Trustee/Administrator of the Share Award Scheme acquired 1,402,000 shares of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately HK\$5,021,000.

(ii) During the current period, the Trustee of the Share Award Scheme transferred 3,118,150 ordinary shares of the Company to the Selected Persons upon vesting of the awarded shares.

		Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2011		—	—
Allotted under the Share Award Scheme		26,000,000	—
Bonus issue of shares		2,266,800	—
Granted to the Selected Persons		(28,266,800)	28,266,800
At 30 June 2011		—	28,266,800

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

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

(b) Share Award Scheme (Cont'd)

The 14,527,700 Awarded Shares outstanding as at 30 June 2012, have 2 remaining vesting dates, which are 12 April 2013 and 12 April 2014. Upon each vesting date, those Awarded Shares will be transferred at no cost to the Selected Persons.

17. RESERVES

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

18. CONTINGENT LIABILITIES

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Guarantees given to banks in respect of performance bonds	29,576	93,776

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

19. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	63,829	55,660
In the second to fifth years, inclusive	45,684	51,129
After five years	5,219	5,865
	114,732	112,654

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments for the buildings and the procurement of production facilities and furniture and fixtures at the end of the reporting period:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Contracted, but not provided for	22,992	43,689

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

21. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	9,330	7,905
Pension scheme contribution	133	104
Awarded shares expenses	3,902	7,931
Equity-settled share option expenses	1,246	234
Total compensation paid to key management personnel	14,611	16,174

22. COMPARATIVE AMOUNTS

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

Notes to Condensed Consolidated Financial Statements (Cont'd)

30 June 2012

23. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of the Company on 22 August 2012.

By order of the Board

COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling

Chairman

Hong Kong, 22 August 2012

The logo for Comba, featuring the word "Comba" in a bold, blue, sans-serif font.

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

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TD SCDMA WCDMA
4G GSM 2G F
WCDMA TD-LTE CD
HSPA+ WiFi GSM
CDMA 2000
TD SCDMA