

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

Innovation, Transformation
and Exploitation of the Future

創新、變革、開拓未來



2014

INTERIM REPORT
中期報告

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BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling (*Chairman*)

Zhang Yue Jun

(*Vice Chairman & President*)

Tong Chak Wai, Wilson

Wu Jiang Cheng

(*Retired on 26 August 2014*)

Yan Ji Ci

(*Retired on 26 August 2014*)

Zheng Guo Bao

Yeung Pui Sang, Simon

Zhang Yuan Jian

Independent Non-Executive Directors

Liu Cai

Lau Siu Ki, Kevin

Lin Jin Tong

Qian Ting Shuo

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

Royal Bank of Canada Trust

Company (Cayman) Limited

4th Floor Royal Bank House

24 Shedden Road George Town

Grand Cayman KY1-1110

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

Shops 1712–1716 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai Hong Kong

BUSINESS AND FINANCIAL REVIEW

Although there are still uncertainties in external economic environment, the global development of telecom equipment industry in the first half of 2014 is relatively optimistic and the overall domestic market condition of telecom equipment is positive. In the era of digital, the use of mobile data grows rapidly in a sustainable way, driving more mobile network operators at home and abroad to accelerate the deployment of 4G networks. By the end of June 2014, over 300 4G networks have been commercially launched worldwide; and since the granting of 4G licenses in Mainland China at the end of last year, domestic mobile network operators' large-scale investment in 4G has increased, significantly putting more efforts in mobile network deployment. Riding by these positive factors, the results of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") therefore for the six months ended 30 June 2014 (the "Current Period") were seen improved.

Revenue

During the Current Period, the revenue of the Group was HK\$3,023,575,000 (2013: HK\$2,162,422,000), representing a significant rise of 39.8% over the revenue for the six months ended 30 June 2013 (the "Prior Period"). The increase of revenue was mainly attributable to the gradual recovery of global economy and the 4G network deployment after the granting of 4G LTE licenses in Mainland China last year, which led to a substantial increase of revenue from the base station antennas and services of the Group.

During the Current Period, revenue from 3G and 4G mobile networks projects increased significantly to HK\$1,950,001,000 (2013: HK\$990,580,000 (including revenue from 3G only)), in aggregate accounting for 64.5% (2013: 45.8%) of the Group's revenue.

By customers

Revenue generated from China Mobile Communications Corporation and its subsidiaries increased by 12.1% to HK\$1,322,843,000 (2013: HK\$1,180,104,000), accounting for 43.8% of the Group's revenue in the Current Period, compared to 54.6% in the Prior Period.

Revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") increased by 21.5% to HK\$371,813,000 (2013: HK\$306,102,000), accounting for 12.3% of the Group's revenue in the Current Period, compared to 14.2% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the “China Telecom Group”) increased sharply by 177.8% to HK\$596,452,000 (2013: HK\$214,701,000), accounting for 19.7% of the Group’s revenue in the Current Period, compared to 9.9% in the Prior Period.

Performance of international customers and core equipment manufacturers were also encouraging, with revenue increased by 58.7% to HK\$684,963,000 (2013: HK\$431,739,000), accounting for 22.7% (2013: 20.0%) of the Group’s revenue in the Current Period. During the Current Period, the Group successfully provided comprehensive wireless coverage to world-class stadiums, representing another milestone in the course of business. The increase of revenue from international customers and core equipment manufacturers was mainly attributable to the completion and inspection of large stadium projects undertaken and the rising demand from core equipment manufacturers for 4G products in Mainland China.

By businesses

Revenue generated from the antennas and subsystems business in the Current Period increased significantly by 90.4% to HK\$1,355,771,000 (2013: HK\$711,931,000), accounting for 44.9% (2013: 32.9%) of the Group’s revenue. The increase in revenue was mainly attributable to the proactive 4G network deployment by mobile network operators after the granting of TD-LTE licenses in Mainland China last year, which led to a substantial increase of demand for base station antennas.

Revenue generated from the wireless enhancement business in the Current Period increased slightly by 4.0% to HK\$578,901,000 (2013: HK\$556,900,000) over the last year, accounting for 19.1% (2013: 25.8%) of the Group’s revenue. The management expected that the wireless enhancement market would gradually recover, and the bidding project suspended last year were also resumed. While the customers’ demand for new generation wireless enhancement products is picking up, it is expected that the trend will continue to the second half of the year.

Revenue generated from the wireless access and transmission business in the Current Period decreased by 21.1% to HK\$143,452,000 (2013: HK\$181,897,000), accounting for 4.7% (2013: 8.4%) of the Group’s revenue. Despite the maturing market of WLAN products led to a lower demand, the revenue from microwave transmission products and Small Cell system increased compared to the Prior Period, and as the management expected, will continue to increase.

Revenue from services in the Current Period increased by 32.8% to HK\$945,451,000 (2013: HK\$711,694,000), accounting for 31.3% (2013: 32.9%) of the Group's revenue. The Group's services business strategy has been adjusted by strictly selecting service projects with higher profit potential as its priorities, striving to improve the overall profitability and liquidity of the Group.

Gross Profit

During the Current Period, the Group's gross profit increased by 54.4% to HK\$851,668,000 (2013: HK\$551,675,000) as compared to the Prior Period. Meanwhile, the Group's gross profit margin increased by 2.7 percentage points to 28.2% (2013: 25.5%) in the Current Period. The increase in gross profit margin was mainly caused by the adjustment of product mix by the Group in the Current Period and the increased efforts to improve the contribution from certain products with higher gross profit margin. For the year ended 31 December 2013, the gross profit margin was 23.9%.

As the strategic adjustment is now bearing results, the Group will continue to optimize the revenue mix, implement stringent cost control measures, ramp up the scale of new products and new businesses, expand its market coverage and broaden other revenue sources to achieve more economies of scale, thus to further improve the gross profit margin.

Research and Development ("R&D") Costs

During the Current Period, R&D costs (after capitalization) increased by 23.5% to HK\$106,797,000, representing 3.5% of the Group's revenue (2013: HK\$86,461,000, representing 4.0% of the Group's revenue in the Prior Period). The increase in R&D costs was mainly attributable to: 1) continue to invest in the development and expansion of new product portfolio, and 2) invest in the improvement of product quality to achieve higher operational efficiency and better cost-effectiveness. The management considers the R&D investment to be reasonable and will endeavour to maintain it within this level in the future.

The Group is spending great efforts on R&D and product innovation. As at the end of the Current Period, the Group achieved significant accomplishments in creating new products and solutions utilizing its own intellectual property rights and has applied for more than 1,700 patents (as at 31 December 2013: more than 1,600 patents). In addition, the Group determined to make investment in building new R&D facilities in the vicinity of the R&D headquarters in the Current Period for the latest technical development and innovation, and to further strengthen its R&D capabilities.

Selling and Distribution Expenses

During the Current Period, selling and distribution expenses increased slightly by 3.8% to HK\$246,340,000, representing 8.1% of the Group's revenue (2013: HK\$237,351,000, representing 11.0% of the Group's revenue in the Prior Period). The rise in selling and distribution expenses was mainly due to the significant increase of the Group's revenue, resulting in an increased selling and distribution expenses.

Administrative Expenses

During the Current Period, administrative expenses increased slightly by 7.2% to HK\$381,056,000, representing 12.6% of the Group's revenue (2013: HK\$355,307,000, representing 16.4% of the Group's revenue in the Prior Period). The slight increase of administrative expenses was mainly due to the significant increase of the Group's revenue, resulting in an increased global operation support.

Awarded Share Expense

On 12 April 2011, the board of directors (the "Board" or the "Directors") of the Company resolved to award 26,000,000 awarded shares to 365 selected persons under the share award scheme adopted by the Company on 25 March 2011, by way of issue and allotment of new shares pursuant to the general mandate granted to the Directors by the shareholders of the Company at the annual general meeting held on 24 May 2010. These awarded shares were 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 were 12 July 2011, 12 April 2012, 12 April 2013 and 12 April 2014 respectively. Upon each vesting date, those awarded shares were transferred at no cost to the selected persons.

The fair value of the 26,000,000 awarded shares was approximately HK\$226 million, measured at the closing market price of HK\$9.32 per share at the date of grant and amortized over each of the vesting periods up to 12 April 2014. During the Current Period, the awarded shares expenses amounted to approximately HK\$4 million.

Finance Costs

During the Current Period, finance costs decreased slightly by 5.0% to HK\$24,721,000, representing 0.8% of the Group's revenue (2013: HK\$26,033,000, representing 1.2% of the Group's revenue in the Prior Period). The slight decrease in finance costs was mainly due to a slight decline of bank borrowings.

The management has always been prudent in managing credit risk and the level of bank borrowings as well as improving cash flow. 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. Under these circumstances, the Group entered into a 3-year term loan facility agreement amounted to US\$125,000,000 (equivalent to HK\$969,000,000) on 18 June 2014 with four international financial institutions, including The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, China CITIC Bank International Limited and Hang Seng Bank Limited, for repayment of an existing loan of the Group as well as strengthening its working capital requirement, enabling the implementation of its long-term development plan.

In addition, the management has utilized the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize finance costs. As of 30 June 2014, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a manageable level of 14.8%, compared to 16.5% as of 30 June 2013. The gross gearing ratio of the Group was 15.1% as of 31 December 2013.

Operating Profit

During the Current Period, the operating profit of the Group was HK\$135,299,000 (2013: operating loss of HK\$110,526,000). The turnaround was attributable to: 1) the gradual recovery of global economy and the 4G network deployment after the granting of 4G LTE licenses last year in Mainland China, delivering a significant increase of the Group's revenue; 2) the improvement in gross profit margin; and 3) the benefits of economy of scale and effective cost control measures, resulting in a decline in the operating expenses as a percentage of the Group's total revenue.

Tax

During the Current Period, the overall taxation charge of HK\$36,783,000 (2013: HK\$18,174,000) comprised income tax expense of HK\$44,927,000 (2013: HK\$15,433,000) and deferred tax credit of HK\$8,144,000 (2013: deferred tax debit of HK\$2,741,000). During the Current Period, the overall taxation charge was mainly due to the assessable profits recorded in certain subsidiaries.

Net Profit

During the Current Period, profit attributable to shareholders of the Company was HK\$72,305,000 (2013: net loss of HK\$150,676,000) owing to the Group benefited from the strong growth in its antennas and service business and the improvement of gross profit margin as well as the decline in the operating expenses as a percentage of the Group's total revenue.

PROSPECTS

Looking into the second half of 2014, despite some uncertainties, global economy (including Mainland China) is expected to continue its steady recovery and the government is anticipated to use targeted control measures to achieve moderate or even faster growth.

The Group is cautiously optimistic about the prospects of telecom equipment sectors in both global and Mainland China markets in the second half of 2014. According to market estimates, as of the end of the first half of 2014, the number of global mobile subscriptions was more than 6.8 billion, of which over 2.3 billion were mobile broadband subscriptions, representing an increase of 35% year-on-year. In addition, there were over 300 4G LTE networks commercially launched worldwide as at early June 2014, and more than 350 LTE networks is expected by the end of the year. With regard to China, the largest mobile network market in the world, according to the statistics issued by the Ministry of Industry and Information Technology (the "MIIT") of the People's Republic of China, as of the end of the first half of 2014, the number of mobile subscriptions was more than 1.26 billion, with a penetration rate of mobile phone of more than 92.6%. Despite slower growth in the number of mobile phone subscriptions, there were more evidences for 3G and 4G LTE replacements, the share of mobile broadband subscriptions increasing rapidly. The number of 3G and 4G LTE subscriptions increased by 83.129 million to 485 million during the first half, with a penetration rate of 38.5% relative to mobile phone subscriptions. Moreover, as at the end of June 2014, the MIIT officially approved China Unicom Group and China Telecom Group to commence the hybrid network trial for two kinds of 4G LTE based networks (namely TD-LTE and LTE FDD) in 16 cities respectively, and indicated that it will issue LTE FDD licenses when appropriate. The management believes that the 4G LTE network in Mainland China will soon enter its golden years, which will bring more opportunities for the Group.

In addition to increased growth in subscriptions and the faster pace of 4G LTE networks development by mobile network operators, rapid growth of mobile phone data traffic was the more important drive. Phone users are more willing to connect to the internet on phone as access to mobile internet become more and more convenient, mobile apps are getting increasingly prominent and the price of broadband internet continues to fall, which has been driving mobile internet users to continuously grow. For example, in Mainland China, the number of mobile internet users was 824 million as of the end of the first half of 2014, with a penetration rate of 65.3% relative to mobile phone subscriptions. On the other hand, driven by the growing popularity of smart devices, mobile internet traffic continue to grow rapidly. As of the end of the first half of 2014, the average traffic for mobile internet connection per day amounted to 4.68 million G and average traffic for mobile internet connection per user per month exceeded 175M, representing an increase of 44.7% year-on-year. Of which, internet traffic on phone amounted to 728 million G, representing an increase of 93.2% year-on-year and accounting for 84.1% of total mobile internet connection traffic. The average internet traffic on phone per user per month amounted to 149.9M, representing an increase of 86.2% year-on-year. Therefore, the Group is confident that telecom equipment sectors in both global and Mainland China markets will continue to grow with good momentum in the foreseeable future as driven by such positive factors.

Antennas and Subsystems

As the development of 4G LTE networks is accelerating worldwide, the management believes the antennas and subsystems business will continue its growth trend. The Group has established itself as a leading first-class antenna vendor globally and has developed a line of MIMO (multiple input, multiple output) antennas with industry leading specification and performance. Featuring multi-system, multi-operator functionality, the Company's MIMO antennas have been well received by the clients. In Mainland China, these antennas are already widely deployed in the 4G LTE networks, making the Group one of the major suppliers of 4G LTE compatible base station antennas in the market.

Entering the 4G LTE era, due to increasing orders for our base station antennas and in order to match up the need for future business expansion, the Group invested to improve its production capability and a new plant was commenced operations during the Current Period. Located in Guangzhou Development Zone, the new plant is adjacent to the Group's existing manufacturing base, with site area of approximately 24,000 square meters. It is used to improve the production capability for base station antennas and wireless enhancement products, and will be utilized in a flexible way to cooperate the expansion of different businesses as the need arises. The rapid operation of the new plant significantly improved the Group's delivery capability and helped the Group achieve greater economies of scale, which enabled the Group to effectively meet the need for developing 4G LTE networks by mobile network operators.

Furthermore, the Group will allocate more resources to on-going R&D and innovation activities to consolidate its industry position. Therefore, the Group will build new R&D facilities at the R&D headquarters, including some larger microwave anechoic chambers with higher precision and more advanced testing platforms to match the latest technological developments and innovation.

Wireless Access

Major global mobile network operators consider Small Cell as an important model for 4G LTE network deployment. The development of smart devices and mobile internet drives mobile data traffic to grow explosively. Small Cell not only can relieve the traffic pressure for macrocell, but also can solve the indoor coverage problem. Hence, it is used to wider application and plays an increasingly important role in the development of 4G LTE networks. Marketing efforts made by the Group to promote Small Cell over the past several years gradually receive award, with its usage, affordability, stability, receptivity and application flexibility well received by customers. In addition, the service and technical support provided by the Group with respect to such innovative product have been in leading position in the industry. Therefore, the scale of Small Cell business is expected to significantly expand during the year. During the Current Period, Small Cell for 2G and 3G was commercially launched in 13 provinces and cities, and Small Cell for 4G pilots had also been extended to 11 provinces and cities. Currently, the Group is also preparing for Small Cell bidding process, in hope to expedite the improvement of economies of scale.

Wireless Enhancement

Revenue from the wireless enhancement products represented negative growth over the past two years, principally due to various uncertainties such as economic environment and different network deployment strategies of mobile network operators. In the first half of 2014, revenue generated from the wireless enhancement business slightly increased. The management believes that the worst time for the wireless enhancement market has passed, and the customers also gradually renew their tender initiatives, with the most prominent of the Group's multi-service digital distributed access system ("MDAS"). During the tender process in recent months, the system successfully stood out in a number of tender initiatives and delivered encouraging results. This is of great importance to the subsequent product promotion and market expansion. The Group's MDAS products meet the demand of the market, providing a new model among many scenario constructions for the mobile network operators.

For the global business, the Group also recorded robust results. Following the success in obtaining the wireless projects for the just past World Cup in Brazil and the Winter Games in Russia, the Group has started to prepare for tendering the wireless coverage projects of other international large-scale events. Capitalizing on its abundant experience of providing wireless solutions for various world famous stadiums in the past, the Group is confident to carry the success to a higher level and strive for more stadiums projects to further enhance the image and position of Comba Telecom in the international market.

Wireless Transmission

Digital Microwave Systems

Entering the 4G LTE era, there have been growing signs of IP-based and broadband architecture for the LTE business. The Group's new digital microwave systems not only support a smooth transition to all-IP networks, but enable both voice and data transmission with high throughput. As many mobile network operators throughout the world have accelerated their 4G LTE network deployments, and microwave is the access device of the last kilometer of mobile backhaul network, the new digital microwave systems are expected to become more widely adopted by mobile network operators to meet the new demand for the mobile backhaul network in LTE times.

Satellite Emergency Communications

Comba Telecom is a full wireless coverage and transmission solutions provider, as natural disasters and large-scale events often occur, the emergency communication system is an integral part of its product offerings. The management expects the development of emergency communication products to remain stable to strive to assist customers to resume the communications in the disaster area when it occurs and ensure the provision of communication support during the large-scale events.

Services

The Group has made a strategic adjustment to its services business to enhance its profitability and strengthen its liquidity. During the Current Period, the Group separately organized a dedicated team to coordinate, assess, deploy, support and monitor the planning, tender, progress of construction, resources integration and allocation of global services. The management expects the revenue contribution from the services business to continue to grow, and insists on the provision of high-end and value-added services, including network and technical design, network planning, project management and after-sales maintenance, etc., thus to continuously create and enhance value for customers.

Rail Communications

The established rail transportation construction remains one of key infrastructure projects in the PRC in view of urbanization planning. Accordingly, the management believes that the future potential of rail communications business remains very extensive. The rail communications business was stable during the Current Period, and the Group participated in a number of rail communications projects. To capture more opportunities, the Group will continue to strengthen and improve the solutions for wireless rail communication projects and actively negotiate and communicate with various rail companies, in hope to engage in more rail communication project in the second half of 2014.

Conclusion

After more than two years of efforts, the Group is making great progress in its product and business transformation with businesses significantly improved, proving that the decision for transformation is correct and necessary. Now is a great time for big data and 4G LTE, the management is confident that the robust results can be achieved again based on sustainable development with continuous innovation and more efforts made on transformational change.

The Group remains committed to cost control, optimization of operational structure and human resources, and will continue to speed up the enhancement of its growth, profitability, liquidity and efficiency.

In addition, during the period from the date of the results announcement of the Company for the first half of 2014 to the date of publication of this report, the composition of the Board has changed as Mr. Wu Jiang Cheng and Mr. Yan Ji Ci, both being members of the Board, retired from office with effect from 26 August 2014. The Board would like to take this opportunity to express its sincere gratitude to these two members of the Board for their valuable contributions to the Group over the years, enabling the Group to face various challenges and achieve impressive results, and wish them every success in future.

Last but not least, the Board would like to extend its heartfelt gratitude to all staff for their dedicated efforts and contributions. We also greatly appreciate the continuous support of customers, suppliers, shareholders and business associates. The Group is consistently sparing no effort to achieve satisfactory results through our innovative products and commitment to excellence in management.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 30 June 2014, the Group had net current assets of HK\$3,470,229,000. Current assets comprised inventories of HK\$2,514,759,000, trade receivables of HK\$5,055,867,000, notes receivable of HK\$165,730,000, prepayments, deposits and other receivables of HK\$777,388,000, restricted bank deposits of HK\$41,148,000, and cash and cash equivalents of HK\$791,523,000. Current liabilities comprised trade and bills payables of HK\$3,844,945,000, other payables and accruals of HK\$1,218,342,000, interest-bearing bank borrowings of HK\$683,305,000, tax payable of HK\$54,526,000 and provisions for product warranties of HK\$75,068,000.

The average receivable turnover for the Current Period was 293 days compared to 388 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months and is extendable up to 2 years depending on the credit worthiness of customers, except for those retention money generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the 1 to 2 years warranty periods granted to customers. The average payable turnover for the Current Period was 323 days compared to 364 days for the Prior Period. The average inventory turnover for the Current Period was 200 days compared to 257 days for the Prior Period.

As at 30 June 2014, 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 RMB, HK\$ and US\$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into two 3-year term loan facility agreements with certain financial institutions respectively, one with facility amount of US\$210,000,000 entered into on 26 June 2012 (the "2012 Facility Agreement") and the other with facility amount of US\$125,000,000 entered into on 18 June 2014 (the "2014 Facility Agreement", together with the 2012 Facility Agreement collectively known as the "Facility Agreements"). The loan balance under the 2012 Facility Agreement was fully repaid on 26 June 2014.

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 (i) beneficial ownership in aggregate, directly or indirectly, of at least 35% of the shares (of each class) of, and equity interests in the Company free from any security and (ii) 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, the loan balance under the 2012 Facility Agreement was fully repaid and the above specific performance obligations under the 2014 Facility Agreement have been complied with.

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

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK\$ and US\$. As the Group's revenue is substantially denominated in RMB, the Board currently considers that the fluctuation of RMB exchange rate in a narrow band should not have a material impact on the Group's business and no hedging arrangement was thus engaged.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 14.8% as at 30 June 2014 (31 December 2013: 15.1%).

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 2014, there was no charge on the Group's assets (31 December 2013: Nil).

CONTINGENT LIABILITIES

As at 30 June 2014, the Group had contingent liabilities of HK\$99,464,000 (31 December 2013: HK\$98,555,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group had approximately 9,000 staff. The total staff costs, excluding capitalized development cost, for the Current Period were HK\$586,604,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option schemes and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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

As at 30 June 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Notes	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse	Through controlled corporation		
Mr. Fok Tung Ling ("Mr. Fok")	(a)	17,258,224	—	526,995,887	544,254,111	35.66
Mr. Zhang Yue Jun	(b)	—	—	154,128,452	154,128,452	10.10
Dr. Tong Chak Wai, Wilson ("Dr. Tong")		3,676,060	—	—	3,676,060	0.24
Mr. Yan Ji Ci ("Mr. Yan")		7,974,435	—	—	7,974,435	0.52
Mr. Zheng Guo Bao ("Mr. Zheng")		3,397,176	—	—	3,397,176	0.22
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")		7,028,912	—	—	7,028,912	0.46
Mr. Zhang Yuan Jian		564,456	80,000	—	644,456	0.04

Long positions in share options of the Company:

Name of Directors	Number of share options directly beneficially owned
Mr. Fok	500,000
Mr. Zhang Yue Jun	500,000
Dr. Tong	2,300,000
Mr. Wu Jiang Cheng	1,000,000
Mr. Yan	1,000,000
Mr. Yeung	2,000,000
Mr. Zhang Yuan Jian	2,000,000
Mr. Liu Cai	200,000
Mr. Lau Siu Ki, Kevin	200,000
Dr. Lin Jin Tong	100,000
Mr. Qian Ting Shuo	100,000

Notes:

- (a) 525,710,701 shares and 1,285,186 shares are beneficially owned by Prime Choice Investments Limited and Total Master Investments Limited, respectively. By virtue of 100% shareholding in each of Prime Choice Investments Limited and Total Master Investments Limited, Mr. Fok is deemed or taken to be interested in the total of 526,995,887 shares owned by Prime Choice Investments Limited and Total Master Investments Limited.
- (b) These shares are beneficially owned by Wise Logic Investments Limited. By virtue of 100% shareholding in Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in the 154,128,452 shares owned by Wise Logic Investments Limited.

Save as aforesaid and save for Mr. Zheng beneficially holding 32% equity interest in WaveLab Holdings Limited, an indirect non wholly-owned subsidiary of the Company, as at 30 June 2014, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option schemes and share award scheme in note 16 to the financial statements, at no time during the Current Period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any Director, the chief executive or their respective spouses or 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 arrangements to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

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

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

As at 30 June 2014, the following persons (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange were as follows:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares and share options held	Percentage of the Company's issued share capital
Prime Choice Investments Limited		Beneficial owner	525,710,701	34.45
Madam Chen Jing Na	(a)	Interest of spouse	544,754,111	35.69
Wise Logic Investments Limited		Beneficial owner	154,128,452	10.10
Madam Cai Hui Ni	(b)	Interest of spouse	154,628,452	10.13

Notes:

- (a) Madam Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in the 544,254,111 shares and 500,000 share options in which Mr. Fok is deemed or taken to be interested for the purpose of the SFO.
- (b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 154,128,452 shares and 500,000 share options in which Mr. Zhang Yue Jun is deemed or taken to be interested for the purpose of the SFO.

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

- (i) 525,710,701 shares between Prime Choice Investments Limited and Madam Chen Jing Na; and
- (ii) 154,128,452 shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 30 June 2014, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section “Directors’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board reviewed daily governance of the Group in accordance with the code provisions (the “Code Provisions”) as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and considered that, during the Current Period, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has complied with the Code Provisions during the Current Period.

DIRECTORS’ SECURITIES TRANSACTIONS

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

CHANGE IN PARTICULARS OF THE DIRECTORS

Particular of the following Director has been changed since the publication of the Company's 2013 annual report in the following respect which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules:

Effective Date	Change
30 June 2014	Mr. Lau Siu Ki, Kevin, an independent non-executive Director, has been appointed as an independent supervisor of the sixth session of the supervisory committee of Beijing Capital International Airport Company Limited, the shares of which are listed on the main board of the Stock Exchange.

Save as disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect wholly-owned subsidiary of the Company, entered into the Facility Agreements with certain financial institutions, which contain covenants requiring specific performance obligations of Mr. Fok, the controlling shareholder of the Company and Mr. Zhang Yue Jun, the substantial shareholder of the Company. At the date of approval of these condensed consolidated interim financial statements, the loan balance under the 2012 Facility Agreement was fully repaid and the obligations under the 2014 Facility Agreement have been complied with. Details of the Facility Agreements are set out in note 14 to these condensed consolidated interim financial statements.

AUDIT COMMITTEE

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

RECORD DATE FOR INTERIM DIVIDEND

The record date for determination of entitlements under the interim dividend will be on Monday, 8 September 2014. Shareholders whose names appear on the register of members of the Company on Monday, 8 September 2014 will be entitled to receive interim dividend. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 8 September 2014. Dividend warrants will be despatched on Thursday, 18 September 2014.

CLOSURE OF REGISTER OF MEMBERS FOR BONUS ISSUE

For the purpose of determining shareholders' entitlements to the bonus issue, the register of members of the Company will be closed from Tuesday, 14 October 2014 to Wednesday, 15 October 2014, both days inclusive, during which period no transfer of shares will be registered. The record date for determination of entitlements under the bonus issue will be on Wednesday, 15 October 2014. Shareholders whose names appear on the register of members of the Company on Wednesday, 15 October 2014 will be entitled to receive the bonus shares. In order to qualify for the bonus issue, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 13 October 2014. The bonus shares will be allotted and issued to the shareholders of the Company on Thursday, 23 October 2014.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

The board of directors (the "Board" or the "Directors") of Comba Telecom Systems Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2014, together with the comparative figures for the same period in 2013. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

	Notes	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
REVENUE	5	3,023,575	2,162,422
Cost of sales		(2,171,907)	(1,610,747)
Gross profit		851,668	551,675
Other income and gains	5	40,488	18,614
Research and development costs		(106,797)	(86,461)
Selling and distribution expenses		(246,340)	(237,351)
Administrative expenses		(381,056)	(355,307)
Other expenses		(22,664)	(1,696)
Finance costs	7	(24,721)	(26,033)
PROFIT/(LOSS) BEFORE TAX	6	110,578	(136,559)
Income tax expense	8	(36,783)	(18,174)
PROFIT/(LOSS) FOR THE PERIOD		73,795	(154,733)

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

For the six months ended 30 June 2014

		For the six months ended 30 June	
	Notes	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Attributable to:			
Owners of the parent		72,305	(150,676)
Non-controlling interests		1,490	(4,057)
		73,795	(154,733)
EARNINGS/LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)			
	10		
Basic		4.76	(9.98)
Diluted		4.76	(9.98)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	73,795	(154,733)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(87,691)	30,426
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(87,691)	30,426
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(87,691)	30,426
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(13,896)	(124,307)
Attributable to:		
Owners of the parent	(14,022)	(121,105)
Non-controlling interests	126	(3,202)
	(13,896)	(124,307)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Notes	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		715,963	760,841
Prepaid land lease payments		53,391	51,789
Goodwill		28,571	28,571
Long-term trade receivables	12	33,791	83,322
Deferred tax assets		120,835	115,948
Intangible assets		152,603	133,302
Restricted bank deposits		35,335	30,655
Total non-current assets		1,140,489	1,204,428
CURRENT ASSETS			
Inventories	11	2,514,759	2,240,395
Trade receivables	12	5,055,867	4,530,279
Notes receivable		165,730	85,703
Prepayments, deposits and other receivables		777,388	621,476
Restricted bank deposits		41,148	46,735
Cash and cash equivalents		791,523	1,589,261
Total current assets		9,346,415	9,113,849
CURRENT LIABILITIES			
Trade and bills payables	13	3,844,945	3,839,472
Other payables and accruals		1,218,342	1,074,167
Interest-bearing bank borrowings	14	683,305	1,232,409
Tax payable		54,526	25,861
Provisions for product warranties		75,068	76,182
Total current liabilities		5,876,186	6,248,091

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

30 June 2014

	Notes	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NET CURRENT ASSETS		3,470,229	2,865,758
TOTAL ASSETS LESS CURRENT LIABILITIES		4,610,718	4,070,186
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	872,215	325,667
Deferred tax liabilities		16,233	16,628
Total non-current liabilities		888,448	342,295
Net assets		3,722,270	3,727,891
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	152,620	152,620
Treasury shares		(13,055)	(13,572)
Reserves	17	3,510,170	3,534,748
Proposed dividend		18,314	—
		3,668,049	3,673,796
Non-controlling interests		54,221	54,095
Total equity		3,722,270	3,727,891

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the parent										Total equity HK\$'000		
	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000		Non-controlling interests HK\$'000	
At 1 January 2013	152,620	(14,370)	643,764	131,008	45,827	72,191	91,420	549,637	2,133,325	—	3,805,622	56,537	3,862,159
Loss for the period	—	—	—	—	—	—	—	—	(150,676)	—	(150,676)	(4,057)	(154,733)
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	29,571	—	—	29,571	855	30,426
Total comprehensive loss for the period	—	—	—	—	—	—	—	29,571	(150,676)	—	(121,105)	(3,202)	(124,307)
Share option scheme	—	—	—	—	—	—	—	—	—	—	—	—	—
— value of services	—	—	—	4,554	—	—	—	—	—	—	4,554	—	4,554
— adjustment arising from forfeiture of share options	—	—	—	(681)	—	—	—	—	681	—	—	—	—
Share award scheme	—	—	—	—	—	—	—	—	—	—	—	—	—
— value of services	—	—	—	14,942	—	—	—	—	—	—	14,942	—	14,942
— vested awarded shares transferred to selected persons	—	798	47,018	(47,816)	—	—	—	—	—	—	—	—	—
At 30 June 2013 (unaudited)	152,620	(13,572)	690,782	102,007	45,827	72,191	91,420	579,208	1,983,130	—	3,704,013	53,335	3,757,348

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

For the six months ended 30 June 2014

	Attributable to owners of the parent										Total equity HK\$'000		
	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000		Total HK\$'000	Non-controlling interests HK\$'000
At 1 January 2014	152,620	(13,572)	690,782*	85,763*	45,827*	68,582*	91,420*	626,787*	1,925,589*	—	3,673,796	54,095	3,727,891
Profit for the period	—	—	—	—	—	—	—	—	72,305	—	72,305	1,490	73,795
Other comprehensive loss for the period	—	—	—	—	—	—	—	—	—	—	—	—	—
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(86,327)	—	—	(86,327)	(1,364)	(87,691)
Total comprehensive loss for the period	—	—	—	—	—	—	—	(86,327)	72,305	—	(14,022)	126	(13,896)
Share option scheme	—	—	—	—	—	—	—	—	—	—	—	—	—
— value of services	—	—	—	3,626	—	—	—	—	—	—	3,626	—	3,626
— adjustment arising from forfeiture of share options	—	—	—	(201)	—	—	—	—	201	—	—	—	—
Share award scheme	—	—	—	—	—	—	—	—	—	—	—	—	—
— value of services	—	—	—	—	—	—	—	—	—	—	—	—	—
— vested awarded shares transferred to selected persons	—	517	47,289	(47,816)	—	—	—	—	—	—	—	—	—
Transfer to retained profits	—	—	—	—	—	(1,805)	—	—	1,805	—	—	—	—
Interim 2014 dividend declared	—	—	—	—	—	—	—	—	(18,314)	18,314	—	—	—
At 30 June 2014 (unaudited)	152,620	(13,055)	738,081*	46,021*	45,827*	66,777*	91,420*	540,460*	1,981,584*	18,314	3,668,049	54,221	3,722,270

* These reserve accounts comprise the consolidated reserves of HK\$3,510,170,000 (31 December 2013: HK\$3,534,748,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		110,578	(136,559)
Adjustments for:			
Interest income	5	(6,701)	(5,031)
Finance costs	7	24,721	26,033
Depreciation	6	62,768	51,678
Recognition of prepaid land lease payments	6	597	491
Amortization of intangible assets		38,910	5,092
Equity-settled share option expense	6	3,626	4,554
(Gain)/loss on disposal of items of property, plant and equipment	6	(438)	1,605
Awarded share expense	6	4,649	14,942
		238,710	(37,195)
Increase in inventories		(274,259)	(61,501)
Increase in trade receivables		(524,162)	(77,374)
Decrease in long-term trade receivables		51,580	41,260
(Increase)/decrease in notes receivable		(77,919)	50,503
Increase in prepayments, deposits and other receivables		(150,585)	(96,177)
Increase/(decrease) in trade and bills payables		5,473	(115,393)
Increase/(decrease) in other payables and accruals		97,755	(214,772)
Decrease in provisions for product warranties		(2,988)	(1,009)
Cash used in operations		(636,395)	(511,658)
Mainland China profits tax paid		(9,962)	(41,757)
Overseas profits taxes paid		(827)	(2,523)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Net cash flows used in operating activities		(647,184)	(555,938)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	6,701	5,031
Purchases of items of property, plant and equipment		(30,428)	(30,238)
Acquisition of intangible assets		(61,198)	(94,079)
Addition to prepaid land lease payments		(3,345)	(21,555)
Proceeds from disposal of items of property, plant and equipment		514	—
Decrease in time deposits with original maturity of over 3 months		132,259	—
Decrease in restricted bank deposits		2,810	70
Net cash flows from/(used in) investing activities		47,313	(140,771)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		1,087,802	383,965
Repayment of bank borrowings		(1,086,763)	(356,739)
Interest paid	7	(24,721)	(26,033)
Net cash flows (used in)/from financing activities		(23,682)	1,193

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		(623,553)	(695,516)
Cash and cash equivalents at beginning of period		1,290,858	1,536,638
Effect of foreign exchange rate changes, net		(41,926)	23,048
CASH AND CASH EQUIVALENTS AT END OF PERIOD		625,379	864,170
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		625,379	864,170
Time deposits with original maturity of over 3 months		166,144	—
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		791,523	864,170
Less: time deposits with original maturity of over 3 months		(166,144)	—
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		625,379	864,170



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these 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 2013, except for the adoption of new standards and interpretations as of 1 January 2014, noted below:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i>
HK(IFRIC)-Int 21	<i>Levies</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 these 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.

30 June 2014

4. OPERATING SEGMENT INFORMATION

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

Information about major customers

Revenue of approximately HK\$1,322,843,000 (six months ended 30 June 2013: HK\$1,180,104,000), HK\$596,452,000 (six months ended 30 June 2013: HK\$214,701,000) and HK\$371,813,000 (six months ended 30 June 2013: HK\$306,102,000) were derived from 3 major customers, which accounted for 43.8% (six months ended 30 June 2013: 54.6%), 19.7% (six months ended 30 June 2013: 9.9%) and 12.3% (six months ended 30 June 2013: 14.2%) of the total revenue of the Group, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2014

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 (the "VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services	2,829,134	1,986,888
Warranty services	194,441	175,534
	3,023,575	2,162,422
Other income and gains		
Bank interest income	6,701	5,031
Government subsidy	1,385	2,010
VAT refunds*	6,370	11,573
Gross rental income	1,808	—
Exchange gain	22,341	—
Others	1,883	—
	40,488	18,614

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2014

6. PROFIT/(LOSS) BEFORE TAX

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

	Note	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cost of inventories sold and services provided		2,127,039	1,585,416
Depreciation		62,768	51,678
Recognition of prepaid land lease payments		597	491
Amortization of computer software and technology		6,768	3,954
Research and development costs:			
Deferred expenditure amortized		32,142	1,138
Current period expenditure		106,797	85,323
		138,939	86,461
Minimum lease payments under operating leases in respect of land and buildings		43,808	53,379
Employee benefit expense (including directors' remuneration):			
Salaries and wages		498,940	378,746
Staff welfare expenses		34,142	38,642
Equity-settled share option expense	16(a)	3,626	4,554
Awarded share expense		4,649	14,942
Pension scheme contributions [#]		45,247	37,234
		586,604	474,118
Exchange (gain)/loss, net		(22,341)	24,978
Provision for product warranties		21,089	14,843
Write-down of inventories to net realizable value		14,319	—
Impairment of trade receivables		17,876	—
(Gain)/loss on disposal of items of property, plant and equipment		(438)	1,605

[#] At 30 June 2014, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2013: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2014

7. FINANCE COSTS

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within 5 years	24,721	26,033

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Current — charge for the period		
Hong Kong	711	2,454
Mainland China	43,705	11,719
Elsewhere	511	1,260
Deferred	(8,144)	2,741
Total tax charge for the period	36,783	18,174

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 June 2014

8. INCOME TAX (Cont'd)

Comba Telecom Systems (Guangzhou) Limited and Comba Telecom Systems (China) Limited were entitled to the preferential tax rate of 15% for the period ended 30 June 2014 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the period ended 30 June 2014.

9. DIVIDEND

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Proposed interim dividend — HK1.2 cents (six months ended 30 June 2013: Nil) per ordinary share	18,314	—

On 21 August 2014, the Directors resolved to declare an interim dividend of HK1.2 cents per ordinary share for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

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

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Earnings/loss		
Profit/(loss) for the period attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/loss per share calculations	72,305	(150,676)

	Number of shares For the six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/loss per share calculation	1,517,429,000	1,510,387,000
Effect of dilution — weighted average number of ordinary shares:		
Awarded shares	2,148,000	—
	1,519,577,000	1,510,387,000

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

The calculation of diluted earnings per share for the six months ended 30 June 2014 is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of the ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all potential dilutive ordinary shares arising from the awarded shares into ordinary shares. The effects of share options have been excluded from the diluted earnings per share calculation as their effects would be anti-dilutive.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2013 in respect of a dilution as the impact of the share options and awarded shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

11. INVENTORIES

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Raw materials	390,891	259,095
Project materials	296,533	137,350
Work in progress	103,146	98,992
Finished goods	487,418	416,382
Inventories on site	1,236,771	1,328,576
	2,514,759	2,240,395

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12. LONG-TERM TRADE RECEIVABLES AND TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months and is extendable up to 2 years depending on the credit worthiness of customers. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the 1 to 2 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 minimize the credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances.

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 3 months	1,874,960	1,899,831
4 to 6 months	362,210	478,763
7 to 12 months	1,206,786	744,908
More than 1 year	1,712,531	1,537,170
Provision for impairment	5,156,487 (66,829)	4,660,672 (47,071)
Current portion	5,089,658 (5,055,867)	4,613,601 (4,530,279)
Long-term portion	33,791	83,322

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

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Neither past due nor impaired	4,293,916	4,116,829
Less than 1 year past due	356,689	157,053
	4,650,605	4,273,882

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 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.

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13. TRADE AND BILLS PAYABLES

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 3 months	1,950,111	1,687,390
4 to 6 months	1,179,438	625,916
7 to 12 months	387,962	1,034,540
More than 1 year	327,434	491,626
	3,844,945	3,839,472

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

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Analyzed into:		
Within 1 year	683,305	1,232,409
In the 2nd to 3rd years, inclusive	872,215	325,667
	1,555,520	1,558,076

As at 30 June 2014, loans denominated in Hong Kong dollars, United States dollars and Renminbi amounted to HK\$250,200,000 (31 December 2013: HK\$279,873,000), HK\$1,124,186,000 (31 December 2013: HK\$1,132,061,000) and HK\$181,134,000 (31 December 2013: HK\$146,142,000), respectively.

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

The Group entered into a 3-year term loan facility agreement amounting to US\$125,000,000 on 18 June 2014 (the "2014 Facility Agreement") with certain financial institutions.

Under the 2014 Facility Agreement, there are specific performance obligations that Mr. Fok Tung Ling, who is the controlling shareholder of the Company, and Mr. Zhang Yue Jun, who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the shares (of each class) of and equity interests in the Company free from any security. Pursuant to the 2014 Facility Agreement, 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.

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 2014 Facility Agreement act as guarantors, to guarantee punctual performance of the obligations under the 2014 Facility Agreement.

As at 30 June 2014, the Group had fully utilized the amount of US\$125,000,000 (equivalent to HK\$969,128,000) under the 2014 Facility Agreement. As at 30 June 2014, the outstanding term loan balance amounted to HK\$969,128,000, of which, HK\$96,913,000 and HK\$872,215,000 are repayable within 1 year and in the 2nd to 3rd years inclusive, respectively. The term loan bears interest at 4.6% per annum.

The interest-bearing bank borrowings as at 31 December 2013 included a loan balance of HK\$977,002,000 under a 3-year term loan facility agreement amounting to US\$210,000,000 (equivalent to HK\$1,628,323,000) entered into between the Group and certain financial institutions on 26 June 2012 (the "2012 Facility Agreement"). The loan balance under the 2012 Facility Agreement was fully repaid on 26 June 2014.

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

Certain short-term loans amounting to HK\$155,058,000 were guaranteed by a standby letter of credit issued by a bank. The bank loans bear interest at 1.7% (31 December 2013: 1.7%) per annum.

Other short-term bank loans bear interest at rates ranging from 1.9% to 6.6% (31 December 2013: from 1.9% to 6.0%) per annum.

15. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorized:		
1 January 2013, 31 December 2013, 1 January 2014 and 30 June 2014	5,000,000,000	500,000
Issued and fully paid or credited as fully paid:		
1 January 2013, 31 December 2013, 1 January 2014 and 30 June 2014	1,526,196,229	152,620

As at 30 June 2014, the total number of issued ordinary shares of the Company was 1,526,196,229 shares (31 December 2013: 1,526,196,229 shares) which included 5,866,870 shares (31 December 2013: 11,035,700 shares) held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (the "Adoption Date") (note 16(b)).

16. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

(a) Share Option Schemes

The Company operates a share option scheme adopted on 20 June 2003 (the "2003 Scheme") and had a term of 10 years. The 2003 Scheme terminated and expired upon the adoption of a new share option scheme on 3 June 2013 (the "2013 Scheme", together with the 2003 Scheme are collectively referred to as the "Schemes") which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for 10 years from that date. All outstanding options under the 2003 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2003 Scheme.

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

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

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

(a) Share Option Schemes (Cont'd)

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

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

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

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

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

(a) Share Option Schemes (Cont'd)

The Company granted 40,000,000 share options on 11 April 2014 with an exercise price of HK\$2.18 per share under the 2013 Scheme. The closing price of the Company's shares immediately before the date of such grant was HK\$2.17 per share.

The following share options were outstanding under the 2013 Scheme during the six months ended 30 June 2014:

	2014		2013	
	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	—	—	—	—
Granted during the period	2.18	40,000	—	—
At 30 June	2.18	40,000	—	—

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

(a) Share Option Schemes (Cont'd)

The following share options were outstanding under the 2003 Scheme during the six months ended 30 June 2014:

	2014		2013	
	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	5.66	34,590	6.06	70,900
Forfeited during the period	5.66	(1,390)	5.90	(3,904)
At 30 June	5.66	33,200	6.07	66,996

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

No share options granted under the 2003 Scheme were exercised during the six months ended 30 June 2014.

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2014

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

(a) Share Option Schemes (Cont'd)

Movements in the number of the Company's share options under the Schemes during the six months ended 30 June 2014 are as follows:

Name or category of participant	Number of share options					At 30 June 2014	Date of grant of share options †	Exercise period of share options	Exercise price of share options HK\$ per share
	At 1 January 2014	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Executive Directors									
Mr. Fok Tung Ling	—	500,000	—	—	—	500,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
Mr. Zhang Yue Jun	—	500,000	—	—	—	500,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
Dr. Tong Chak Wai, Wilson	500,000	—	—	—	—	500,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	1,800,000	—	—	—	1,800,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	500,000	1,800,000	—	—	—	2,300,000			
Mr. Wu Jiang Cheng	500,000	—	—	—	—	500,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	500,000	—	—	—	500,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	500,000	500,000	—	—	—	1,000,000			
Mr. Yan Ji Ci	500,000	—	—	—	—	500,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	500,000	—	—	—	500,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	500,000	500,000	—	—	—	1,000,000			
Mr. Yeung Pui Sang, Simon	500,000	—	—	—	—	500,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	1,500,000	—	—	—	1,500,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	500,000	1,500,000	—	—	—	2,000,000			
Mr. Zhang Yuan Jian	500,000	—	—	—	—	500,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	1,500,000	—	—	—	1,500,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	500,000	1,500,000	—	—	—	2,000,000			

NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2014

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

(a) Share Option Schemes (Cont'd)

Name or category of participant	Number of share options					At 30 June 2014	Date of grant of share options #	Exercise period of share options	Exercise price of share options HK\$ per share
	At 1 January 2014	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Independent non-executive Directors									
Mr. Liu Cai	100,000	—	—	—	—	100,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	100,000	—	—	—	100,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	100,000	100,000	—	—	—	200,000			
Mr. Lau Siu Ki, Kevin	100,000	—	—	—	—	100,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	100,000	—	—	—	100,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	100,000	100,000	—	—	—	200,000			
Dr. Lin Jin Tong	—	100,000	—	—	—	100,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
Mr. Qian Ting Shuo	—	100,000	—	—	—	100,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
Other employees in aggregate	31,890,000	—	—	—	(1,390,000)	30,500,000	12 Jan 12	12 Jan 13– 11 Jan 15	5.66
	—	32,800,000	—	—	—	32,800,000	11 Apr 14	11 Apr 15– 10 Apr 19	2.18
	31,890,000	32,800,000	—	—	(1,390,000)	63,300,000			
	34,590,000	40,000,000	—	—	(1,390,000)	73,200,000			

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

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

(a) Share Option Schemes (Cont'd)

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

30 June 2014 Number of share options '000	Exercise price of share options HK\$ per share	Exercise period
33,200	5.66	12 January 2013 to 11 January 2015
40,000	2.18	11 April 2015 to 10 April 2019
73,200		

30 June 2013 Number of share options '000	Exercise price of share options HK\$ per share	Exercise period
29,871 [^]	6.57 [^]	22 July 2011 to 21 July 2013
37,125	5.66	12 January 2013 to 11 January 2015
66,996		

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

The fair value of the share options granted during the period was HK\$29,670,000 (HK\$0.74 each), of which the Group recognized a share option expense of HK\$3,300,000 during the six months ended 30 June 2014.

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

(a) Share Option Schemes (Cont'd)

The fair value of equity-settled share options granted during the six months ended 30 June 2014 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 (%)	52.00
Risk-free interest rate (%)	1.34
Expected life of the share options (years)	1.5–2.5
Weighted average share price (HK\$ per share)	2.18

The expected life of the share options is based on the historical data 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 statement of profit or loss for employee services received during the six months ended 30 June 2014 is approximately HK\$3,626,000 (six months ended 30 June 2013: HK\$4,554,000).

At the end of the reporting period, the Company had 33,200,000 share options outstanding under the 2003 Scheme, all of which were vested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 33,200,000 additional ordinary shares of the Company and additional share capital of HK\$3,320,000 and share premium of HK\$184,592,000 (before issue expenses).

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

(a) Share Option Schemes (Cont'd)

At the end of the reporting period, the Company had 40,000,000 share options outstanding under the 2013 Scheme, all of which were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 40,000,000 additional ordinary shares of the Company and additional share capital of HK\$4,000,000 and share premium of HK\$83,200,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 73,200,000 share options outstanding under the Schemes, which represented approximately 4.8% of the Company's shares in issue as at that date.

(b) Share Award Scheme

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

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

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

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

(b) Share Award Scheme (Cont'd)

The Board shall not make any further award of the Awarded Shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company as at the Adoption Date. 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 Schemes) 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 Schemes (including those vested, outstanding, cancelled and lapsed) will not be counted for the purpose of calculating the limit as refreshed. The Company will not issue any Awarded Shares under the Share Award Scheme which would result in the total number of the Awarded Shares together with shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Schemes 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.

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

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16. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME (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 2013 and 2014 are as follows:

	Note	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2014		5,404,190	5,631,510
Lapsed and returned to the Share Award Scheme		462,680	(462,680)
Vested to the Selected Persons	(i)	—	(5,168,830)
At 30 June 2014		5,866,870	—

	Note	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2013		4,628,560	14,388,560
Lapsed and returned to the Share Award Scheme		502,280	(502,280)
Vested to the Selected Persons	(i)	—	(7,981,420)
At 30 June 2013		5,130,840	5,904,860

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

(b) Share Award Scheme (Cont'd)

- (i) During the current period, the Trustee transferred 5,168,830 ordinary shares of the Company (six months ended 30 June 2013: 7,981,420 ordinary shares) to the Selected Persons upon vesting of the Awarded Shares.

No Awarded Shares were outstanding as at 30 June 2014. All Awarded Shares were 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 the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Guarantees given to banks in respect of performance bonds	99,464	98,555

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19. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at 30 June 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 1 year	5,103	5,587
In the 2nd to 5th years, inclusive	15,979	18,495
After 5 years	1,159	1,391
	22,241	25,473

(b) As lessee

The Group leases certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 7 years.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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19. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) *As lessee (Cont'd)*

As at 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 1 year	56,003	65,487
In the 2nd to 5th years, inclusive	40,501	44,588
After 5 years	2,444	3,881
	98,948	113,956

20. COMMITMENTS

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Contracted, but not provided for:		
Buildings	1,974	1,974
Plant and machinery	2,672	2,154
	4,646	4,128

30 June 2014

21. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Short-term employee benefits	4,396	6,285
Pension scheme contributions	136	136
Awarded share expense	546	1,756
Equity-settled share option expense	616	307
Total compensation paid to key management personnel	5,694	8,484

22. EVENT AFTER THE REPORTING PERIOD

On 21 August 2014, the Board proposed to increase the share capital of the Company by capitalizing the share premium of the Company and bonus shares will be allotted and issued to the shareholders on the basis of 1 bonus share for every 10 ordinary shares held by the shareholders whose names are shown on the register of members of the Company on 15 October 2014, being the record date for determination of entitlements to the bonus issue. Based on the total of 1,526,196,229 shares in issue as at 30 June 2014 and assuming no further shares will be issued or purchased before 15 October 2014, approximately 152,619,622 bonus shares will be issued by the Company. The share capital of the Company will increase from HK\$152,620,000 to approximately HK\$167,882,000 upon completion of the bonus issue. The amount of approximately HK\$15,262,000 will be capitalized from the Company's share premium account.

The bonus issue and the increase in the Company's share capital will be subject to, among others, the shareholders' approval at the forthcoming extraordinary general meeting and the grant of listing approval on the bonus shares.



NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONT'D)

30 June 2014

23. COMPARATIVE AMOUNTS

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

24. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorized for issue by the Board on 21 August 2014.

By order of the Board
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman

Hong Kong, 21 August 2014



Comba

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