# COMBA TELECOM SYSTEMS HOLDINGS LIMITED
# 京 信 通 信 系 統 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code : 2342)**

# Interim results announcement
# For the six months ended 30 June 2013

## RESULTS

The board of directors (the "Board" or the "Directors") of Comba Telecom Systems Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2013, together with the comparative figures for the same period in 2012. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

# CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2013*

| | Notes | For the six months ended 30 June 2013 (Unaudited) HK$'000 | 2012 (Unaudited) HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **2,162,422** | 2,591,529 |
| Cost of sales | | **(1,610,747)** | (1,872,225) |
| Gross profit | | **551,675** | 719,304 |
| Other income and gains | 5 | **18,614** | 23,840 |
| Research and development costs | | **(86,461)** | (200,602) |
| Selling and distribution expenses | | **(237,351)** | (249,578) |
| Administrative expenses | | **(355,307)** | (425,723) |
| Other expenses | | **(1,696)** | (2,699) |
| Finance costs | 7 | **(26,033)** | (16,468) |
| LOSS BEFORE TAX | 6 | **(136,559)** | (151,926) |
| Income tax expense | 8 | **(18,174)** | (15,129) |
| LOSS FOR THE PERIOD | | **(154,733)** | (167,055) |
| Attributable to: | | | |
| Owners of the parent | | **(150,676)** | (160,960) |
| Non-controlling interests | | **(4,057)** | (6,095) |
| | | **(154,733)** | (167,055) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) | 10 | | |
| Basic | | **(9.98)** | (10.68) |
| Diluted | | **(9.98)** | (10.68) |

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 2013*

| | For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| LOSS FOR THE PERIOD | **(154,733)** | (167,055) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Cash flow hedge: | | |
| Effective portion of changes in fair value of hedging instrument arising during the period | **—** | 518 |
| Reclassification adjustments included in the condensed consolidated income statement | **—** | (170) |
| Income tax effect | **—** | (85) |
| | **—** | 263 |
| Exchange differences on translation of foreign operations | **30,426** | (67,460) |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | **30,426** | (67,197) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | **30,426** | (67,197) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | **(124,307)** | (234,252) |
| Attributable to: | | |
| Owners of the parent | **(121,105)** | (227,477) |
| Non-controlling interests | **(3,202)** | (6,775) |
| | **(124,307)** | (234,252) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*30 June 2013*

| | Notes | 30 June 2013 (Unaudited) HK$'000 | 31 December 2012 (Audited) HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **790,080** | 826,277 |
| Prepaid land lease payments | | **51,914** | 30,807 |
| Goodwill | | **28,571** | 28,571 |
| Long-term trade receivables | *12* | **93,435** | 134,695 |
| Deferred tax assets | | **131,757** | 132,423 |
| Intangible assets | | **119,900** | 30,257 |
| Restricted bank deposits | | **9,595** | 7,650 |
| Total non-current assets | | **1,225,252** | 1,190,680 |
| CURRENT ASSETS | | | |
| Inventories | *11* | **2,297,369** | 2,243,009 |
| Trade receivables | *12* | **4,521,490** | 4,452,866 |
| Notes receivable | | **12,691** | 63,194 |
| Prepayments, deposits and other receivables | | **667,887** | 580,957 |
| Restricted bank deposits | | **21,843** | 24,367 |
| Cash and cash equivalents | | **864,170** | 1,536,638 |
| Total current assets | | **8,385,450** | 8,901,031 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *13* | **3,138,311** | 3,281,193 |
| Other payables and accruals | | **974,044** | 1,206,888 |
| Interest-bearing bank borrowings | *14* | **1,585,882** | 1,558,656 |
| Tax payable | | **61,122** | 87,174 |
| Provisions for product warranties | | **76,654** | 78,315 |
| Total current liabilities | | **5,836,013** | 6,212,226 |
| NET CURRENT ASSETS | | **2,549,437** | 2,688,805 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **3,774,689** | 3,879,485 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*30 June 2013*

| | **30 June 2013 (Unaudited)** | 31 December 2012 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| NON-CURRENT LIABILITIES | | |
| Deferred tax liabilities | **17,341** | 17,326 |
| Total non-current liabilities | **17,341** | 17,326 |
| Net assets | **3,757,348** | 3,862,159 |
| EQUITY | | |
| **Equity attributable to owners of the parent** | | |
| Issued capital | **152,620** | 152,620 |
| Treasury shares | **(13,572)** | (14,370) |
| Reserves | **3,564,965** | 3,667,372 |
| | **3,704,013** | 3,805,622 |
| **Non-controlling interests** | **53,335** | 56,537 |
| Total equity | **3,757,348** | 3,862,159 |

# *Notes*

## 1. CORPORATE INFORMATION

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

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

During the current period, the Group 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 2013 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 2012.

## 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 2012, except for the adoption of new standards and interpretations as of 1 January 2013, noted below:

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities* |
| HKFRS 10 | *Consolidated Financial Statements* |
| HKFRS 11 | *Joint Arrangements* |
| HKFRS 12 | *Disclosure of Interests in Other Entities* |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance* |
| HKFRS 13 | *Fair Value Measurement* |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income* |
| HKAS 19 (2011) | *Employee Benefits* |
| HKAS 27 (2011) | *Separate Financial Statements* |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures* |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| *Annual Improvements 2009–2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012 |

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.

## 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 from continuing operations of approximately HK$1,180,104,000 (six months ended 30 June 2012: HK$1,349,911,000) and HK$306,102,000 (six months ended 30 June 2012: HK$572,908,000) were derived from two major customers, which accounted for 54.6% (six months ended 30 June 2012: 52.1%) and 14.2% (six months ended 30 June 2012: 22.1%) of the total revenue of the Group respectively.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered during the period, net of value-added tax (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 | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services | **1,986,888** | 2,495,824 |
| Warranty services | **175,534** | 95,705 |
| | **2,162,422** | 2,591,529 |
| **Other income and gains** | | |
| Bank interest income | **5,031** | 4,635 |
| Government subsidy | **2,010** | 12,580 |
| VAT refunds* | **11,573** | — |
| Others | **—** | 6,625 |
| | **18,614** | 23,840 |

* 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 Municipal Office, SAT, P.R. China (廣州市國家稅務局) and received by Comba Software.

## 6. LOSS BEFORE TAX

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold and services provided | **1,585,416** | 1,833,484 |
| Depreciation | **51,678** | 57,854 |
| Recognition of prepaid land lease payments | **491** | 382 |
| Amortization of computer software and technology | **3,954** | 2,604 |
| Research and development costs: | | |
| Deferred expenditure amortized | **1,138** | — |
| Current period expenditure | **85,323** | 200,602 |
| | **86,461** | 200,602 |
| Minimum lease payments under operating leases in respect of land and buildings | **53,379** | 53,301 |
| Employee benefit expense (including directors' emoluments): | | |
| Salaries and wages | **378,746** | 459,383 |
| Staff welfare expenses | **38,642** | 40,793 |
| Equity-settled share option expense | **4,554** | 23,001 |
| Awarded share expense | **14,942** | 33,869 |
| Pension scheme contributions# | **37,234** | 43,150 |
| | **474,118** | 600,196 |
| Exchange loss, net | **24,978** | 23,502 |
| Provision for product warranties | **14,843** | 21,607 |
| Loss on disposal of items of property, plant and equipment | **1,605** | — |

# *At 30 June 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2012: Nil).*

## 7. FINANCE COSTS

| | For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans wholly repayable within five years | **26,033** | 16,468 |

## 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 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 | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current — charge for the period | | |
| Hong Kong | **2,454** | — |
| Mainland China | **11,719** | 20,938 |
| Elsewhere | **1,260** | 2,085 |
| Deferred | **2,741** | (7,894) |
| Total tax charge for the period | **18,174** | 15,129 |

Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou") and Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), subsidiaries of the Company established in the PRC, were designated as High-New Technology Enterprises on 14 December 2009 and 16 December 2008, respectively. The qualification of Comba Guangzhou and Comba Technology being designated as High-New Technology Enterprises were renewed in April 2013 and August 2011, respectively. Being High-New Technology Enterprises, Comba Guangzhou and Comba Technology were entitled to the preferential tax rate of 15% for the period ended 30 June 2013.

## 9. DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

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

The calculation of basic and diluted loss per share is based on:

| | For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Loss** | | |
| Loss for the period attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculations | **(150,676)** | (160,960) |

| | Number of shares For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation | **1,510,387,000** | 1,506,585,000 |

The computation of diluted loss per share for the six months ended 30 June 2013 and 2012 does not assume the conversion of the Company's outstanding share options as the exercise price is higher than the Company's share price. The effects of awarded shares have also been excluded from the computation of diluted loss per share for the six months ended 30 June 2013 and 2012 as their effects would be anti-dilutive.

## 11. INVENTORIES

| | **30 June** | 31 December |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **201,015** | 168,603 |
| Project materials | **138,917** | 122,008 |
| Work in progress | **202,729** | 168,700 |
| Finished goods | **455,683** | 429,797 |
| Inventories on site | **1,299,025** | 1,353,901 |
| | **2,297,369** | 2,243,009 |

## 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 for a period of three months and is extendable up to two 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 six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management.

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

| | **30 June 2013 (Unaudited)** | 31 December 2012 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **1,238,082** | 1,928,491 |
| 4 to 6 months | **459,039** | 723,420 |
| 7 to 12 months | **1,514,810** | 823,579 |
| More than 1 year | **1,420,846** | 1,129,660 |
| | **4,632,777** | 4,605,150 |
| Provision for impairment | **(17,852)** | (17,589) |
| | **4,614,925** | 4,587,561 |
| Current portion | **(4,521,490)** | (4,452,866) |
| Long term portion | **93,435** | 134,695 |

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

| | **30 June 2013 (Unaudited)** | 31 December 2012 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **4,083,081** | 4,201,023 |
| Past due | **505,428** | 373,790 |
| | **4,588,509** | 4,574,813 |

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

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

## 13. TRADE AND BILLS PAYABLES

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

| | **30 June 2013 (Unaudited)** *HK$'000* | 31 December 2012 (Audited) *HK$'000* |
|---|---|---|
| Within 3 months | **1,353,668** | 1,474,001 |
| 4 to 6 months | **570,476** | 678,770 |
| 7 to 12 months | **880,806** | 759,928 |
| More than 1 year | **333,361** | 368,494 |
| | **3,138,311** | 3,281,193 |

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

## 14. INTEREST-BEARING BANK BORROWINGS

| | **30 June 2013 (Unaudited)** *HK$'000* | 31 December 2012 (Audited) *HK$'000* |
|---|---|---|
| Analysed into: | | |
| Within 1 year | **1,585,882** | 1,558,656 |

All the bank loans at 30 June 2013 and 31 December 2012 were unsecured. Loans denominated in Hong Kong dollars amounted to HK$292,399,000 (31 December 2012: Nil) and loans denominated in United States dollars amounted to HK$1,293,483,000 (31 December 2012: HK$1,558,656,000).

In addition to the short-term interest-bearing facilities, the Group had entered into a three-year term loan facility agreement amounted to US$210,000,000 on 26 June 2012 (the "Facility Agreement") with certain financial institutions (the "Lenders").

Under the 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 entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the 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 Facility Agreement who act as guarantors, to guarantee punctual performance of the obligations under the Facility Agreement which, inter alia, include the satisfaction of the financial covenants under the Facility Agreement.

As at 30 June 2013, the Group had utilized US$171,000,000 (equivalent to HK$1,325,860,000) and repaid US$34,200,000 (equivalent to HK$265,172,000) under the Facility Agreement.

For the six months ended 30 June 2013, one of the financial covenants under the Facility Agreement was not satisfied. According to the relevant accounting standard, the long-term portion of the loans under the Facility Agreement, which amounted to HK$530,345,000, was classified as a current liability as at 30 June 2013.

Prior to the date of approval of these condensed consolidated interim financial statements, the Group had applied and the Lenders of the Facility Agreement had granted to the Group waivers from strict compliance with the said financial covenant. All other terms of the Facility Agreement will continue in full force and effect.

**15. COMPARATIVE AMOUNTS**

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

# Management Discussion and Analysis

## BUSINESS AND FINANCIAL REVIEW

During the first half of 2013, the global economic environment remained challenging while showing signs of improvement. Recent market indicators showed that the U.S. economy was returning to healthy growth and the recession in the Eurozone was fading to some extent. On the other hand, growth in China's GDP slowed down to 7.6% in the first half of 2013. Moreover, weaker domestic demand and slower-than-expected growth within several key emerging market economies were additional concerns weighing on the market.

### Revenue

For the six months ended 30 June 2013 (the "Current Period"), the Group's revenue was HK$2,162,422,000 (2012: HK$2,591,529,000), representing a decrease of 16.6% over the revenue for the six months ended 30 June 2012 (the "Prior Period"). The decline was mainly attributable to the tight monetary supply in the PRC and the postponement of certain investment activities as PRC mobile operators were more prudent in the timing of investments.

In respect to international markets (including core equipment manufacturers), the Group recorded revenue of HK$431,739,000 (2012: HK$432,983,000), accounting for 20.0% (2012: 16.7%) of the Group's total revenue. The growth in international customers was offset by the decline in core equipment manufacturers, resulting in a stable trend of the overall revenue of international markets.

During the Current Period, sales from third generation of mobile communications ("3G") mobile network projects reported stable revenue of HK$990,580,000 (2012: HK$991,153,000), accounting for 45.8% (2012: 38.2%) of the Group's total revenue.

*By customers*

Revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") decreased by 12.6% to HK$1,180,104,000 (2012: HK$1,349,911,000), accounting for 54.6% of the Group's revenue in the Current Period compared to 52.1% in the Prior Period.

Revenue generated from China United Network Communications Group Company Limited (formerly known as "China United Telecommunications Corporation") and its subsidiaries (collectively referred to as the "China Unicom Group") decreased by 46.6% to HK$306,102,000 (2012: HK$572,908,000), accounting for 14.2% of the Group's revenue in the Current Period compared to 22.1% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") increased by 8.1% to HK$214,701,000 (2012: HK$198,583,000), accounting for 9.9% of the Group's revenue in the Current Period compared to 7.7% in the Prior Period.

Revenue generated from international customers and core equipment manufacturers stabilized at HK$431,739,000 (2012: HK$432,983,000), accounting for 20.0% of the Group's revenue in the Current Period compared to 16.7% in the Prior Period. The international customers recorded an increase in revenue as a result of network deployment for some international sports tournaments and infrastructure such as the Brazil World Cup and Sochi Winter Games in Russia as well as the continuous demand for wireless solutions within certain international customers. However, the increase from international customers was offset by the decline in demands from the core equipment manufacturers.

*By businesses*

Revenue generated from the wireless access and transmission business in the Current Period decreased by 48.9% to HK$181,897,000 (2012: HK$355,640,000) and accounted for 8.4% (2012: 13.7%) of the Group's revenue. The decline in revenue was mainly due to lower-than-expected sales from WLAN products due to change in market demand and the fact that Small Cell products have yet to reach large-scale ramp-up. However, the management expects the Small Cell revenue contribution should rise in the second half of this year in view of new network rollouts and upgrades.

Revenue generated from the wireless enhancement business in the Current Period decreased by 20.4% to HK$556,900,000 (2012: HK$699,227,000), accounting for 25.8% (2012: 27.0%) of the Group's revenue. The decline in revenue was mainly due to the postponement of certain investment activities by mobile operators and fierce market competition within the traditional wireless enhancement products which substantially affected the overall performance of this business segment.

Revenue generated from the antennas and subsystems business decreased by 18.2% to HK$711,931,000 (2012: HK$869,990,000), accounting for 32.9% (2012: 33.6%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to a decrease in the demand for base station antennas as a result of the postponement of certain investment activities by the PRC mobile operators.

Thanks to the increasing contribution from system integration and maintenance projects, revenue from services increased by 6.8% to HK$711,694,000 (2012: HK$666,672,000), accounting for 32.9% (2012: 25.7%) of the Group's revenue in the Current Period. Owing to the seasonal nature of the industry, most of the inspections will be completed in the second half of the year, thus the management expects the performance of the services segment will improve in the second half.

**Gross profit**

During the Current Period, the gross profit declined by 23.3% to HK$551,675,000 (2012: HK$719,304,000) as compared to the Prior Period. Meanwhile, the Group's gross profit margin dropped slightly to 25.5% in the Current Period, compared to 27.8% in the Prior Period. The slight decline was mainly caused by the change of product mix and the intense market competition. For the year ended 31 December 2012, the gross profit margin was 25.5%.

To improve the gross profit margin, the Group will strive to optimize the product mix by launching new products and solutions as well as to expand the scope of services to customers. In addition, the Group will continue to implement stringent cost control measures, ramp up the scale of new products and businesses, expand its market coverage and broaden its revenue sources to achieve economies of scale.

**Research and development ("R&D") costs**

During the Current Period, R&D costs decreased by 56.9% to HK$86,461,000, representing 4.0% of the Group's revenue (2012: HK$200,602,000, representing 7.7% of the Group's revenue). The decrease in R&D costs was mainly attributable to: 1) capitalization of certain R&D costs amounting to HK$92,212,000; 2) the stringent cost control initiatives and the resources optimization and re-allocation devoted to the development and expansion of product portfolio.

Despite lowering R&D costs, the Group has always attached great importance to R&D as it is strongly committed to 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 1,400 patents (as at 31 December 2012: more than 1,300 patents).

**Selling and distribution ("S&D") expenses**

During the Current Period, S&D expenses decreased slightly by 4.9% to HK$237,351,000, representing 11.0% of the Group's revenue (2012: HK$249,578,000, representing 9.6% of the Group's revenue). The decrease in S&D expenses was mainly attributable to the decrease in revenue and the cost saving program implemented by the Group since last year.

**Administrative expenses**

During the Current Period, administrative expenses were reduced by 16.5% to HK$355,307,000 representing 16.4% of the Group's revenue (2012: HK$425,723,000, representing 16.4% of the Group's revenue). The decrease in administrative expenses was mainly due to the optimization of the administrative staff and office organizational structure.

**Awarded shares expenses**

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

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$15 million. For the second half of 2013 and the full year of 2014, the awarded shares expenses are estimated to be approximately HK$8 million and HK$4 million respectively.

**Finance costs**

During the Current Period, finance costs rose 58.1% to HK$26,033,000, representing 1.2% of the Group's revenue (2012: HK$16,468,000, representing 0.6% of the Group's revenue). The rise in finance costs was mainly due to the increase in the borrowing costs and 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.

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 2013, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a manageable level of 16.5% compared to 15.9% as of 30 June 2012. The gross gearing ratio of the Group was 15.4% as of 31 December 2012.

**Operating loss**

During the Current Period, the operating loss was HK$110,526,000 (2012: operating loss of HK$135,458,000) owing to decreases in both revenue and gross profit margin.

**Tax**

During the Current Period, the overall taxation charge of HK$18,174,000 (2012: HK$15,129,000) was composed of a profits tax charge of HK$15,433,000 (2012: HK$23,023,000) and a deferred tax debit of HK$2,741,000 (2012: credit of HK$7,894,000). During the Current Period, the overall taxation charge was mainly due to the assessable profits in certain subsidiaries and a deferred tax debit.

**Net loss**

During the Current Period, loss attributable to shareholders was HK$150,676,000 (2012: net loss of HK$160,960,000). The net loss was mainly due to the decrease in the Group's revenue during the Current Period.

## PROSPECTS

Despite an uncertain economic environment, the telecommunications industry continued to show positive performance with uninterrupted growth of both mobile subscribers and data usage. As at 30 June 2013, the number of global mobile subscriptions was more than 6.4 billion and is expected to reach 9.1 billion by the end of 2018, according to the market estimates. Thanks to the growing popularity of affordable smartphones, smartphone penetration has maintained a strong upward trend. At present, there are more than 1.2 billion smartphone subscriptions worldwide, and China alone accounts for approximately 20%, with growth showing no signs of abating.

Based on market projections, global data traffic will increase in multiples, driven by fast rising mobile data subscriptions, more data-hungry devices and rapid development of mobile apps. To meet the accelerating growth in mobile communications and data traffic, upgrade of existing networks and commercial launches of fourth generation of mobile communications ("4G") long-term evolution ("LTE") services around the world are gathering pace. 4G brings a better user experience by providing faster internet access. In China, the market is expecting the Ministry of Industry and Information Technology to release 4G telecommunications licenses by the end of this year. In addition to yearly investments in network upgrades and maintenance, mobile operators are anticipated to continue increasing their investments in 4G networks for service rollout and network migration. These investments will present immense opportunities to the Group in the future. Globally, against the backdrop of economic recovery, with its efforts at strengthening branding and reputation, improving product quality together with its greater market experience, the management expects that the Group's international markets should continue to grow next year.

Under these circumstances, the management remains cautiously optimistic about the future prospects of the industry and the Group.

**Wireless access**

The Group has remained at the forefront of technological innovation within the industry, consistently demonstrating its leadership in product innovation such as in the development and deployment of a series of Small Cell products within mobile networks. These advances greatly enhance its core competitiveness and mark a new milestone in the Group's progress. Small Cell business development in China is progressing well, with commercialization and trial runs in different provinces. Small Cell solutions alleviate costly network traffic congestion by offloading hotspot traffic while providing better coverage of blind spots and weak coverage areas. It also helps accelerate overall LTE network deployment and provide end users with a better mobile experience.

With the rapid development of the mobile internet and the substantially increasing demand for data usage driven by the increasing numbers of mobile users, it is believed that greater investment will be directed towards both network upgrades and rollouts of 4G LTE networks. The Group plans to seize the huge opportunities thus presented by further strengthening its core competitiveness and achieving business transformation via Small Cell products.

**Wireless enhancement**

As mobile network development has evolved far beyond simple connectivity, mobile operators must address new network challenges. This need will only intensify with the advent of LTE which requires higher capacities and enhanced performance. Hence, wireless enhancement becomes an on-going mission of mobile operators to ensure network quality and to address customers' growing data demand thereby providing an optimal mobile user experience, especially when enhancing multi-network co-ordination. The Group's new generation of wireless solutions help facilitate rapid network rollouts for mobile operators. The Multi-Service Fiber Optic Distributed Access System ("MDAS") solutions launched by the Group last year are able to support 4G, 3G, 2G and WLAN simultaneously and have been successfully identified by some mobile operators as a key product for both network coverage and enhancement. MDAS solutions are especially suitable for large scale applications such as within stadiums and shopping malls. In view of the increasing long-term demand, the Group intends to continue to develop and offer more end-to-end wireless solutions.

Globally, the Group continues to actively expand into international markets and explore more opportunities to further strengthen its market presence there. It has achieved several landmark wins including wireless projects for the 2014 World Cup in Brazil and the 2014 Winter Games in Russia. In particular, the Group completed the initial phase of the World Cup project in time for the recent 2013 Confederations Cup which are held in the same World Cup venues and are now proceeding to full implementation in time for the tournament. In Russia, the Group has already completed the first phase of a multi-stage project to supply wireless solutions at venues hosting the 2014 Winter Games events to be held in Sochi. In addition, the Group will be expanding the scope of solutions and providing solutions to more sporting venues for the 2014 Winter Games. Looking ahead, capitalizing on its abundant experience of providing wireless solutions for prestigious projects, the Group is striving to expand its project portfolio across different regions.

## Antennas and subsystems

The Group has consistently demonstrated its leadership in product quality as evidenced by being ranked among the top three suppliers of base station antennas by market share, according to the latest global market research report conducted by EJL Wireless Research in 2012. The Group has an extensive antenna product portfolio from single-band to multi-band, covering all frequencies and standards to cater to different needs of customers. Early this year, the Group unveiled a new generation of LTE antennas which can support ultra-wideband with large range of variable electronic tilt, excellent beam shaping features and high reliability, thereby providing customers with a smooth migration solution from 2G/3G to LTE with an unrivalled cost/performance ratio.

Looking ahead, the Group will solidify its leading position by offering more innovative products and technologies which support 4G, 3G and 2G multi-standard and multi-network deployment along network migration.

## Wireless transmission

*Digital Microwave Systems*

The Group's end-to-end wireless backhaul solutions enable faster delivery and higher efficiency of microwave links with flexible networking. The solutions have been deployed in a wide range of applications including 2G, 3G and 4G mobile backhaul segments and support a smooth transition to all-IP networks for increased capacity. The Packet Transmission Network ("PTN") solutions, which the Group launched last year, received positive feedback from clients. The PTN enables both voice and data transmission over IP backhaul with high capacity and throughput. Thus, the PTN is an optimal solution for data-intensive 3G and 4G networks and is expected to become more widely adopted by mobile operators in view of the forthcoming 4G network deployments. The Group is pushing full speed ahead to promote these new products and solutions in both the PRC and international markets.

*Satellite emergency communications*

Aligned with the complete end-to-end wireless solutions of the Group, satellite communications solutions play a key role in providing reliable and emergency communications networks during natural disasters and large-scale events. When Ya'an City in Sichuan Province was hit by a 7.0 magnitude earthquake in April 2013, the Group swiftly set up an earthquake disaster relief and response team to help restore mobile networks to support on-site disaster relief. Moving forward, the Group expects more opportunities will emerge in view of stronger emphasis placed by the PRC government on the development of emergency communications. At the same time, the Group intends to drive further technology advances through innovation in order to launch more new innovative products to the market.

### Services

The Group has an unwavering commitment to maintain its competitive edge and provide best-in-class services to customers while consistently earning their trust. Adhering to the philosophy of value creation with our commitment to R&D, the Group brings together the technologies, skills and expertise required for the increasingly sophisticated heterogeneous networks to address evolving market dynamics and radical changes in user behavior. Currently, the Group's services team comprises more than 5,000 seasoned professionals spanning across the PRC and several international markets, such as South America, southeast Asia, etc. They are dedicated to provide customized services to address clients' specific requirements.

Looking ahead, the Group is strengthening its product portfolio and services capabilities aimed at offering more value-added services to improve its value proposition to customers.

### Rail communication

To seize the immense market opportunities associated with extensive rail transportation development under the PRC government's plan in recent years, the Group is unveiling several solutions focusing on telecommunications projects for rail transportation. The management identifies this new business unit as a new growth driver in the future and more cross-product synergies are expected to be created.

### Conclusion

The global telecommunications industry is now experiencing steady growth. In China, modern industrialization, informationization and urbanization are also stimulating demand which presents enormous opportunities to the Group.

Over the years, by adhering to the industry trend and catering to the customers' demands, the Group has adopted innovative marketing strategy, production technology, solutions and management practices and has therefore progressively established its leading position in the market both at home and abroad. At present, the Group's development has reached a key turning point and its products are undergoing transformation to capture the opportunities available in the era of data. Although the Group has encountered challenges in the transformation process, through its years of technology development and experience, the management is fully confident it is moving in the right direction of product transformation and believes the efforts and resources it has devoted will soon reap rewards.

On the other hand, the management will stay prudent in maintaining a healthy financial position of the Group via strengthening its organizational structure, streamlining its production processes, adopting stringent cost control measures and striving to maximize its operational efficiency.

This year marks the 10th listing anniversary of the Group and the Board of the Company would like to take this opportunity 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 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 2013, the Group had net current assets of HK$2,549,437,000. Current assets comprised inventories of HK$2,297,369,000, trade receivables of HK$4,521,490,000, notes receivable of HK$12,691,000, prepayments, deposits and other receivables of HK$667,887,000, restricted bank deposits of HK$21,843,000, and cash and cash equivalents of HK$864,170,000. Current liabilities comprised trade and bills payables of HK$3,138,311,000, other payables and accruals of HK$974,044,000, interest-bearing bank borrowings of HK$1,585,882,000, tax payable of HK$61,122,000 and provisions for product warranties of HK$76,654,000.

The average receivable turnover for the Current Period was 388 days compared to 315 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness, except for those retention money generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The average payable turnover for the Current Period was 364 days compared to 288 days for the Prior Period. The average inventory turnover for the Current Period was 257 days compared to 239 days for the Prior Period.

As at 30 June 2013, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in US$ and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a three-year term loan facility agreement amounted to US$210,000,000 on 26 June 2012 (the "Facility Agreement") with certain financial institutions.

Under the 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 entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the 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.

Details of the Facility Agreement 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 of the Company currently considers that the appreciation of RMB should have a mildly favorable impact on the Group's business.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 16.5% as at 30 June 2013 (31 December 2012: 15.4%).

## 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 2013, there was no charge on the Group's assets (31 December 2012: Nil).

## CONTINGENT LIABILITIES

As at 30 June 2013, the Group had contingent liabilities of HK$52,236,000 (31 December 2012: HK$39,072,000), which mainly included guarantees given to banks in respect of performance bonds.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the Group had approximately 9,800 staff. The total staff costs, excluding capitalised R&D staff cost, for the Current Period were HK$474,118,000. 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, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Period.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Current Period, the Board of the Company reviewed daily governance of the Group in accordance with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 fully complied with the Code Provisions.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## AUDIT COMMITTEE

The Company has established the audit committee in accordance with the Listing Rules. The audit committee, together with the management, has reviewed the accounting principles, standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited accounts for the Current Period. The audit committee has given its consent to the accounting principles, standards and methods adopted by the Company for the unaudited condensed consolidated interim financial statements for the Current Period.

## PUBLICATION OF INTERIM REPORT

A copy of interim report containing all information required by relevant paragraphs of Appendix 16 to the Listing Rules will be despatched to shareholders and published on the official website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company's website (http://www.comba-telecom.com) in due course.

By order of the Board
**Comba Telecom Systems Holdings Limited**
**Fok Tung Ling**
*Chairman*

Hong Kong, 23 August 2013

*As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Mr. TONG Chak Wai, Wilson, Mr. WU Jiang Cheng, Mr. YAN Ji Ci, Mr. ZHENG Guo Bao, Mr. YEUNG Pui Sang, Simon and Mr. ZHANG Yuan Jian; and the following independent non-executive Directors: Mr. LIU Cai, Mr. LAU Siu Ki, Kevin, Mr. LIN Jin Tong and Mr. QIAN Ting Shuo.*