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 2015

FINANCIAL HIGHLIGHTS

- Revenue increased by 10.6% to HK$3,345 million
- Gross profit increased by 14.3% to HK$974 million
- Gross profit margin increased by 0.9% points to 29.1%
- Profit attributable to shareholders: HK$109 million (2014: HK$72 million)
- Basic earnings per share: HK5.91 cents (2014 (restated): HK3.94 cents)
- Interim dividend of HK1.5 cents per share (2014: HK1.2 cents per share)
- 1 bonus share for every 10 ordinary shares held (2014: 1 bonus share for every 10 ordinary shares held)

RESULTS

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 2015, together with the comparative figures for the same period in 2014. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

		For the six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**3,345,331**	3,023,575
Cost of sales		**(2,371,827)**	(2,171,907)
Gross profit		**973,504**	851,668
Other income and gains	*5*	**15,864**	40,488
Research and development costs		**(114,513)**	(106,797)
Selling and distribution expenses		**(266,986)**	(246,340)
Administrative expenses		**(370,952)**	(381,056)
Other expenses		**(17,809)**	(22,664)
Finance costs	*7*	**(35,973)**	(24,721)
PROFIT BEFORE TAX	*6*	**183,135**	110,578
Income tax expense	*8*	**(72,589)**	(36,783)
PROFIT FOR THE PERIOD		**110,546**	73,795
Attributable to:			
Owners of the parent		**108,803**	72,305
Non-controlling interests		**1,743**	1,490
		110,546	73,795
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic		**HK5.91 cents**	HK3.94 cents
			(Restated)
Diluted		**HK5.90 cents**	HK3.93 cents
			(Restated)

Details of the dividends payable and proposed for the period are disclosed in note 9 below.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**110,546**	73,795
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(27,553)**	(87,691)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(27,553)**	(87,691)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(27,553)**	(87,691)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**82,993**	(13,896)
Attributable to:		
Owners of the parent	**81,219**	(14,022)
Non-controlling interests	**1,774**	126
	82,993	(13,896)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

	Notes	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**648,446**	681,624
Prepaid land lease payments		**52,441**	53,062
Goodwill		**28,571**	28,571
Long-term trade receivables	*12*	**3,545**	12,179
Deferred tax assets		**119,697**	141,786
Intangible assets		**214,449**	196,512
Restricted bank deposits		**13,559**	14,564
Long-term prepayment		**86,229**	–
Total non-current assets		**1,166,937**	1,128,298
CURRENT ASSETS			
Inventories	*11*	**1,984,995**	2,234,857
Trade receivables	*12*	**4,878,331**	4,381,627
Notes receivable		**137,508**	149,684
Prepayments, deposits and other receivables		**657,320**	622,919
Restricted bank deposits		**317,379**	344,551
Cash and cash equivalents		**918,682**	1,274,796
Total current assets		**8,894,215**	9,008,434
CURRENT LIABILITIES			
Trade and bills payables	*13*	**3,247,025**	3,422,870
Other payables and accruals		**1,207,454**	1,177,630
Interest-bearing bank borrowings	*14*	**691,905**	972,635
Tax payable		**1,066**	25,553
Provisions for product warranties		**93,047**	77,863
Total current liabilities		**5,240,497**	5,676,551
NET CURRENT ASSETS		**3,653,718**	3,331,883
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,820,655**	4,460,181

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

	Notes	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**969,193**	678,389
Deferred tax liabilities		**15,441**	15,837
Total non-current liabilities		**984,634**	694,226
Net assets		**3,836,021**	3,765,955
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**184,888**	167,882
Treasury shares		**(13,178)**	(13,114)
Reserves		**3,581,191**	3,533,198
Proposed dividend		**25,182**	21,825
		3,778,083	3,709,791
Non-controlling interests		**57,938**	56,164
Total equity		**3,836,021**	3,765,955

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2015 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 2014.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The adoption of the new standards and interpretations has had no material effect on these interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) *Revenue from external customers*

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Mainland China	**2,825,984**	2,498,064
Other countries/areas in Asia Pacific	**156,943**	131,995
Americas	**228,499**	284,399
European Union	**91,563**	86,857
Middle East	**26,373**	16,053
Other countries	**15,969**	6,207
	3,345,331	3,023,575

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

(b) *Non-current assets*

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

Information about major customers

Revenue of approximately HK$1,031,474,000 (six months ended 30 June 2014: HK$1,322,843,000), HK$806,571,000 (six months ended 30 June 2014: HK$371,813,000) and HK$787,244,000 (six months ended 30 June 2014: HK$596,452,000) was derived from 3 major customers, which accounted for 30.8% (six months ended 30 June 2014: 43.8%), 24.1% (six months ended 30 June 2014: 12.3%) and 23.5% (six months ended 30 June 2014: 19.7%) 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**3,145,093**	2,829,134
Maintenance services	**200,238**	194,441
	3,345,331	3,023,575
Other income and gains		
Bank interest income	**5,080**	6,701
Government subsidy	**1,275**	1,385
VAT refunds*	**4,824**	6,370
Gross rental income	**3,087**	1,808
Exchange gain	**–**	22,341
Others	**1,598**	1,883
	15,864	40,488

* 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.

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**2,222,545**	2,127,039
Depreciation	**52,198**	62,768
Recognition of prepaid land lease payments	**643**	597
Amortization of computer software and technology	**4,813**	6,768
Research and development costs:		
Deferred expenditure amortized	**33,601**	32,142
Current period expenditure	**114,513**	106,797
	148,114	138,939
Minimum lease payments under operating leases in respect of land and buildings	**36,125**	43,808
Employee benefit expense (including directors' remuneration):		
Salaries and wages	**454,281**	498,940
Staff welfare expenses	**30,068**	34,142
Equity-settled share option expense	**4,993**	3,626
Awarded share expense	**–**	4,649
Pension scheme contributions (defined contribution scheme)#	**42,364**	45,247
	531,706	586,604
Exchange loss/(gain), net	**54,798**	(22,341)
Provision for product warranties	**22,996**	21,089
Write-down of inventories to net realizable value	**85,388**	14,319
Impairment of trade receivables	**16,025**	17,876
Loss/(gain) on disposal of items of property, plant and equipment	**2,288**	(438)

At 30 June 2015, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2014: Nil).

7. FINANCE COSTS

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within 5 years	**35,973**	24,721

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – charge for the period		
Hong Kong	**91**	711
Mainland China	**44,294**	43,705
Elsewhere	**6,500**	511
Deferred	**21,704**	(8,144)
Total tax charge for the period	**72,589**	36,783

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

Comba Telecom Technology (Guangzhou) Limited and Comba Telecom Systems (China) Limited were entitled to the preferential tax rate of 15% for the period ended 30 June 2015 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 2015.

9. DIVIDEND

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim — HK1.5 cents (six months ended 30 June 2014: HK1.2 cents) per ordinary share	**25,182**	18,314

At the board meeting held on 20 August 2015, the Directors resolved to declare an interim dividend of HK1.5 cents per ordinary share for the six months ended 30 June 2015 (six months ended 30 June 2014: HK1.2 cents per ordinary share).

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,840,702,000 (six months ended 30 June 2014 (restated): 1,836,089,000) in issue during the period, as adjusted to reflect bonus issue during the period.

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

The effects of share options were excluded from the calculation of diluted earnings per share for the six months ended 30 June 2014 as their effects would be anti-dilutive.

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**108,803**	72,305

	Number of shares For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,840,702,000**	1,836,089,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,446,000**	–
Awarded shares	**–**	2,599,000
	1,843,148,000	1,838,688,000

11. INVENTORIES

	30 June 2015 (Unaudited) ***HK$'000***	31 December 2014 (Audited) *HK$'000*
Raw materials	**262,378**	314,338
Project materials	**230,291**	254,902
Work in progress	**72,740**	62,204
Finished goods	**508,498**	529,510
Inventories on site	**911,088**	1,073,903
	1,984,995	2,234,857

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

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 2015 (Unaudited) ***HK$'000***	31 December 2014 (Audited) *HK$'000*
Within 3 months	**1,930,593**	1,696,034
4 to 6 months	**352,283**	527,528
7 to 12 months	**1,036,726**	763,851
More than 1 year	**1,666,962**	1,506,590
	4,986,564	4,494,003
Provision for impairment	**(104,688)**	(100,197)
	4,881,876	4,393,806
Current portion	**(4,878,331)**	(4,381,627)
Long-term portion	**3,545**	12,179

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

	30 June 2015 (Unaudited) *HK$'000*	31 December 2014 (Audited) *HK$'000*
Neither past due nor impaired	**3,323,145**	2,999,593
Past due but not impaired	**1,543,725**	1,376,770
	4,866,870	4,376,363

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

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

13. TRADE AND BILLS PAYABLES

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

	30 June 2015 (Unaudited) *HK$'000*	31 December 2014 (Audited) *HK$'000*
Within 3 months	**1,677,815**	1,690,095
4 to 6 months	**779,215**	858,623
7 to 12 months	**528,509**	547,099
More than 1 year	**261,486**	327,053
	3,247,025	3,422,870

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

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2015 (Unaudited) *HK$'000*	31 December 2014 (Audited) *HK$'000*
Analyzed into:		
Within 1 year	**691,905**	972,635
In the 2nd to 3rd years, inclusive	**969,193**	678,389
	1,661,098	1,651,024

As at 30 June 2015, loans denominated in Hong Kong dollars ("HK$"), United States dollars ("US$") and Renminbi ("RMB") amounted to HK$377,200,000 (31 December 2014: HK$251,200,000), HK$1,125,185,000 (31 December 2014: HK$1,125,120,000) and HK$158,713,000 (31 December 2014: HK$274,704,000), respectively.

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

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

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

As at 30 June 2015, the Group had utilized the amount of US$125,000,000 (equivalent to HK$969,193,000) under the 2015 Facility Agreement which is repayable in the 2nd to 3rd years, inclusive. The term loan bears interest at the rate of 3.5% per annum.

As at 30 June 2015, certain short-term loans amounting to HK$155,992,000 (31 December 2014: HK$155,992,000) were guaranteed by a letter of credit which was pledged by the Group's time deposits amounting to HK$187,455,000 (31 December 2014: HK$187,366,000). The bank loans bear interest at the rate of 2.5% (31 December 2014: 2.5%) per annum.

Other short-term bank loans bear interest at rates ranging from 1.6% to 6.6% (31 December 2014: from 1.9% to 6.6%) per annum.

15. EVENT AFTER THE REPORTING PERIOD

On 20 August 2015, the Board proposed to increase the share capital of the Company by capitalizing the share premium of the Company and bonus shares will be allotted, issued and dispatched to the shareholders of the Company ("Shareholders") on the basis of 1 bonus share for every 10 existing ordinary shares held by the Shareholders whose names are shown on the register of members of the Company on 19 October 2015, being the record date for determination of entitlements to the bonus shares. Based on the total of 1,848,879,228 shares in issue as at 30 June 2015 and assuming no further shares will be issued or purchased before 19 October 2015, approximately 184,887,922 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$184,888,000 to approximately HK$203,377,000 upon completion of the bonus issue. The amount of approximately HK$18,489,000 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, Shareholders' approval at the forthcoming extraordinary general meeting of the Company and the grant of listing approval by The Stock Exchange of Hong Kong Limited on the bonus shares.

RECORD DATE FOR INTERIM DIVIDEND

The record date for determination of entitlements under the interim dividend will be on Monday, 7 September 2015. Shareholders whose names appear on the register of members of the Company on Monday, 7 September 2015 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 7 September 2015. The dividend warrants will be despatched to the Shareholders on Wednesday, 16 September 2015.

CLOSURE OF REGISTER OF MEMBERS FOR BONUS ISSUE

The Board proposed to increase the share capital of the Company by capitalizing the share premium of the Company and issuing bonus shares on the basis of 1 bonus share for every 10 existing ordinary shares held by the Shareholders.

For the purpose of determining Shareholders' entitlements under the bonus issue, the register of members of the Company will be closed from Friday, 16 October 2015 to Monday, 19 October 2015, 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 Monday, 19 October 2015. Shareholders whose names appear on the register of members of the Company on Monday, 19 October 2015 will be entitled to receive the bonus shares. In order to qualify for the bonus issue, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 15 October 2015. The bonus shares will be allotted, issued and despatched to the Shareholders on Wednesday, 28 October 2015. It is expected that a circular containing, amongst other things, the details of the bonus issue and notice convening the extraordinary general meeting will be despatched to the Shareholders on or before 16 September 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Notwithstanding the uncertainties in the global economy, the market landscape of the mobile telecommunications industry in Mainland China has remained largely unaffected. Against the backdrop of the favourable government policies to promote the innovative development of the mobile telecommunications industry, the kick-off of the 4G network investment cycle, and continuous network buildout by certain mobile network operators, Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") continued to register a growth in its interim results for the six months ended 30 June 2015 (the "Current Period").

Revenue

During the Current Period, the revenue of the Group was HK$3,345,331,000 (2014: HK$3,023,575,000), representing an increase of 10.6% over the revenue for the six months ended 30 June 2014 (the "Prior Period"). The increase of revenue was mainly attributable to the continuous 4G network buildout by mobile network operators and increased investment allocated to wireless enhancement in Mainland China.

During the Current Period, revenue from mobile broadband (including 3G and 4G) projects stayed at a stable level of HK$1,978,438,000 (2014: HK$1,950,001,000), in aggregate, accounting for 59.1% (2014: 64.5%) of the Group's revenue.

By customers

Revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") registered a drop of 22.0% to HK$1,031,474,000 (2014: HK$1,322,843,000), accounting for 30.8% of the Group's revenue in the Current Period, compared to 43.8% in the Prior Period.

Revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") increased substantially by 116.9% to HK$806,571,000 (2014: HK$371,813,000), accounting for 24.1% of the Group's revenue in the Current Period, compared to 12.3% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") increased satisfactory by 32.0% to HK$787,244,000 (2014: HK$596,452,000), accounting for 23.5% of the Group's revenue in the Current Period, compared to 19.7% in the Prior Period.

On the international front, revenue generated by international customers and core equipment manufacturers recorded a decrease of 12.9% to HK$596,331,000 (2014: HK$684,963,000), accounting for 17.8% (2014: 22.7%) of the Group's revenue in the Current Period. The decline was mainly due to the drop in the revenue generated by core equipment manufacturers and the sluggish economic growth in some emerging markets.

By businesses

Revenue generated from the antennas and subsystems business increased by 21.9% over the Prior Period to HK$1,652,770,000 (2014: HK$1,355,771,000), accounting for 49.4% (2014: 44.9%) of the Group's revenue in the Current Period. The increase in revenue was mainly due to a steadily growing product demand for continuous 4G network build-outs following the issuance of LTE FDD licenses in Mainland China earlier this year.

As a result of the kick-off of the 4G network investment cycle and increased investment in wireless enhancement in Mainland China, revenue generated from the wireless enhancement business in the Current Period has risen by 3.7% to HK$600,373,000 (2014: HK$578,901,000) over the Prior Period, accounting for 17.9% (2014: 19.1%) of the Group's revenue. In view of more project inspection to be carried out in the second half of the year, the management expects that the momentum can be sustained.

Revenue generated from the wireless access and transmission business in the Current Period decreased slightly by 2.5% over the Prior Period to HK$139,890,000 (2014: HK$143,452,000) and accounted for 4.2% (2014: 4.7%) of the Group's revenue. The decline in revenue of this business unit was mainly due to decreasing demand for Wi-Fi products by mobile network operators despite the progressive increase in revenue contribution from small cells and microwave products.

Revenue from services remained stable at HK$952,298,000 during the Current Period (2014: HK$945,451,000), accounting for 28.5% (2014: 31.3%) of the Group's revenue in the Current Period. The management expects that the revenue from services will increase as more wireless enhancement project inspections will be conducted in the second half.

Gross Profit

During the Current Period, the Group's gross profit increased by 14.3% over the Prior Period to HK$973,504,000 (2014: HK$851,668,000). Despite recording a write-off of HK$85,388,000 obsolete inventories during the Current Period, the gross profit margin increased slightly by 0.9 percentage point over the Prior Period to 29.1% in the Current Period (2014: 28.2%). The higher gross profit margin was mainly due to the adjustment of product mix and growing revenue contribution by some new high-end products.

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

Research and Development ("R&D") Costs

During the Current Year, R&D costs increased by 7.2% over the Prior Period to HK$114,513,000 (2014: HK$106,797,000), representing 3.4% (2014: 3.5%) of the Group's revenue but the Group managed to keep the percentage of R&D costs to revenue at a reasonable level and similar to the Prior Period. The increase in R&D costs was mainly due to increased investments in R&D as a result of the rapid evolution of mobile networks and the Group's strategy to keep abreast of technological advances in the industry so as to capture more new business opportunities amidst the gradual digitalization of the mobile telecommunications industry.

With its strong commitment to R&D, the Group has achieved significant accomplishments in creating its own solutions with proprietary intellectual property rights and has applied for more than 2,000 patents as at the end of the Current Period (As at 31 December 2014: approximately 1,900 patents).

Selling and Distribution ("S&D") Expenses

During the Current Year, S&D expenses increased by 8.4% over the Prior Period to HK$266,986,000 (2014: HK$246,340,000), representing 8.0% (2014: 8.1%) of the Group's revenue. The amount of S&D expenses rose due to the increase in the Group's total revenue but the percentage of S&D expenses to revenue remained at the same level indicating that the Group successfully enhanced operational efficiency to increase the economies of scale during the Current Period.

Administrative Expenses

During the Current Period, administrative expenses decreased by 2.7% over the Prior Period to HK$370,952,000 (2014: HK$381,056,000), representing 11.1% (2014: 12.6%) of the Group's revenue. The decline in both the amount and percentage of administrative expenses to the Group's revenue fully demonstrated the Group's continued efforts to optimize the operational structure and human resources as well as to control the fixed costs.

Finance Costs

During the Current Period, finance costs increased by 45.5% over the Prior Period to HK$35,973,000 (2014: HK$24,721,000), representing 1.1% (2014: 0.8%) of the Group's revenue. The increase in finance costs was mainly due to more bank borrowings resulting in higher bank borrowing costs.

The management has constantly exercised prudence in managing credit risk and the level of bank borrowings as well as improving cash flow. To cope with the growth of the business, the management has closely monitored the latest developments of the financing market and has arranged the most appropriate financing for the Group. Under these circumstances, the Group has entered into a three-year term loan facility agreement amounting to US$200,000,000 (equivalent to HK$1,550 million) on 15 June 2015 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 partial repayment of the existing loans and indebtedness of the Group, as well as for strengthening working capital, business expansion, and research and development.

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 2015, 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 16.3% as of 31 December 2014.

Operating Profit

During the Current Period, the operating profit of the Group rose significantly by 61.9% to HK$219,108,000 (2014: HK$135,299,000) even after deducting an exchange loss of HK$54,798,000. The increase in the operating profit was attributable to: 1) the growth in revenue from the PRC market as a result of the kick-off of 4G network investment cycle and increased investment in wireless enhancement; 2) the slight improvement in overall gross profit margin due to the optimization of product mix and the growing revenue contribution by some new and high-end products, and 3) greater economy of scale has been achieved as a result of effective cost control measures. While the contributions were partially offset by the foreign exchange loss, the Group still recorded a significant increase in operating profit during the Current Period.

Tax

During the Current Period, the Group's overall taxation charge of HK$72,589,000 (2014: HK$36,783,000) comprised income tax expense of HK$50,885,000 (2014: HK$44,927,000) and deferred tax charge of HK$21,704,000 (2014: deferred tax credit of HK$8,144,000). During the Current Period, the increase in the overall taxation charge was mainly due to the increase in operating profit and the recognition of the deferred tax charge as a result of decreasing inventories during the Current Period.

Details of a tax holiday and/or reduced tax rates enjoyed by major operating subsidiaries are set out in note 8 above.

Net Profit

During the Current Period, as a result of the growing total revenue of the Group and higher operating profit, profit attributable to owners of the parent ("Net Profit") was HK$108,803,000 (2014: HK$72,305,000), representing a substantial increase of 50.5% compared to the Prior Period.

Dividend and Bonus Issue

In view of the Group's operating results in the first half of 2015 and taking into consideration its long-term future development and the interests of shareholders, particularly those of minority shareholders, the Board proposes an interim dividend for 2015 of HK1.5 cents (2014: HK1.2 cents) per ordinary share. The total payout ratio, on the basis of basic earnings per share, is 25.4% (2014: 25.2% based on the number of shares issued as at 30 June 2014).

In addition to the distribution of dividends, the Board also proposes to distribute 1 bonus share for every 10 existing ordinary shares (2014: 1 bonus share for every 10 existing ordinary shares) held by shareholders whose names appear on the Company's share register on Monday, 19 October 2015.

PROSPECTS

The Group expects that continuous 4G network rollout and network optimization, increased mobile broadband subscription and, in particular, challenges brought by data deluge will continue to drive the revenue growth of and bring more opportunities to the Group.

Against the backdrop of a new wave of digital informatization revolution, mobile internet and Internet-of-Things are transforming sectors touching all aspects of life such as healthcare, education, transportation, catering, entertainment, shopping and more, enabling a range of new services and experiences for mobile subscribers. These new businesses are becoming embedded in every aspect of our day-to-day lives. They promise a revolutionary advance in the quality of life and enterprise productivity. Hence, greater network connectivity not only adds enormous value to the evolving digital economy, but also opens a wealth of untapped opportunities to enterprises. Moreover, the key enablers of such a connected living are the evolving mobile network capabilities and extensive network coverage, areas where the Group excels in.

New business development

Enterprise network

Enterprise network has penetrated into the personal and corporate level. With the rise of such emerging technologies as Internet-of-Things, cloud computing and big data, demand for enterprise network solutions increases in various industries and areas, such as transportation, energy and government affairs, etc, thereby generating a huge market. Users need a secure and reliable wireless communication network with more powerful interface capabilities to realize multimedia dispatching, real-time data processing and other integrated businesses, to address any emergencies anywhere in any time and to enhance the efficiency of daily operations. Leveraging on its wireless access technology accumulated over a long period of time, network management big data technology and especially the internet system integration capabilities, the Group will achieve a new business growth in respect of product research and development and integration services of enterprise network. Currently, the Group has made some progresses or allocated resources in smart city, smart resorts and intelligent logistics. The management believes that "Internet Plus" of the enterprise network will represent a new growth area for the Group.

Satellite Communications

In addition, the rapidly expanding satellite communications market will be another growth driver of the Group. Capitalizing on its satellite technologies, the Group provides satellite communications products and emergency communications solutions to the customers. The PRC government is now promoting the comprehensive applications of satellite communications and satellite navigation system as well as the integrated applications of satellite with other information technologies and services with the aim of driving independent innovation development, marketization and scale development of satellite applications, thereby fueling the innovative development of the social economy. As such, the management expects that the market demand for satellite communications products will gradually increase.

Internet-of-Things Communications

To explore new growth drivers and capture more opportunities in the era of big data, a wholly-owned subsidiary of the Group has entered into an agreement in June this year with two independent third parties to form a joint venture ("JV") in Beijing. The JV is to be principally engaged in nationwide indoor location-based service system ("LBS") business, including an indoor mobile internet positioning system and an indoor location-based big data and map system. The long-term goal of the JV is to become a leading global LBS solutions provider. In the near future, the JV targets to promote its LBS solutions to cover a number of large-scale shopping arcades in major PRC cities.

At this current stage, the Group expects the JV to provide a relatively small contribution. Nonetheless, Internet-of-Things is one of the major highlights under the "Internet Plus" strategy pursued by the PRC government while LBS is an application within the Internet-of-Things. The JV can help to accelerate the development of the Group's Internet-of-Things business, which will in turn help it to explore more associated new business growth drivers. The Group believes more investments from the PRC government or private sector will be directed towards the mobile internet sector in the coming years, further driving the demand for LBS solutions.

All in all, to adapt to a more challenging industry landscape, the Group is further refining its business strategies to build on a combination of achieving greater excellence in its core business while innovating on its businesses to explore new areas of growth with the aim of further advancement of its operation performance.

Innovating on core businesses

In respect to its core business, the Group has remained at the forefront and has an established leading position in the wireless enhancement market over the years which is expected to gain greater momentum during the 4G network investment cycle in Mainland China. Nowadays, mobile subscribers expect a better quality user experience and continuous service improvement. As such, the entire mobile ecosystem is always constantly innovating to harness more new ways of delivering a truly rewarding user experience via more and better high-performance network facilities, products and services.

The Group's wireless solutions cover a wide range of product offerings from wireless enhancement and base station antennas to wireless access and transmission. The Group's new generation of MDAS, DAS and Innovative Cell (iCell), which are designed to accommodate needs in the age of rapid evolution of mobile networks, enable a better user experience with faster data speed and in-depth network coverage. Recently, the Group has also secured a number of wireless solutions projects including Ministro Pistarini International Airport in Ezeiza and the Jorge Newbery Airport in Buenos Aires in Argentina. In addition, the Group has achieved yet another new milestone through successful expansion into the private network market by supplying the TETRA network for in-house and police communications at Macau's newest resort. In short, the Group will continue to achieve greater excellence in its business riding on its experience and expertise in the wireless market.

Moreover, the solid strength of the Group in the antenna market remains intact and it is expected that positive market sentiment is expected to continue in the second half of the year. In addition to the growing maturity of the TD-LTE network with the increasing numbers of mobile broadband subscribers, the network build-outs resulting from the issuance of FDD-LTE licenses to certain mobile network operators in Mainland China early this year should continue to drive a stable and constant demand for base station antennas.

Meanwhile, the Group's strategy to offer customers mid-to-high end products to further improve the profit margin and market share has begun to bear fruit. The Group was delighted to achieve a new technological breakthrough in the launch of a new generation of small form factor lightweight 4G LTE base station antennas a few months ago. This new generation of LTE antennas improves the total cost of ownership for mobile network operators. Several new orders have already been secured from both domestic and overseas customers.

Unmatched professional service experience is of equal importance to the customers as the Group's innovative products. As one of the most trusted partner of its customers, the nationwide sales and engineering team of the Group is committed to offering value-added solutions via monetizing the booming data traffic as well as unleashing the value within customers' networks.

The Group remains positive in its outlook towards the Mainland China market but expects the international market may encounter some hiccups due to the weakening currency and fragile economy in certain emerging markets resulting in a slower growth.

Conclusion

The unwavering high-quality, state-of-the-art and reliable equipment and services of the Group underpin its established leadership in the wireless market over the years. The mobile telecommunications industry right now is moving towards a more open digital operation. The transformational impact of digitization creates exciting business challenges and opportunities for enterprises. With our ongoing strategic initiatives, the Group is well-positioned to continue to create value for its customers as the market transforms and thus enabling sustainable business growth of the Group in the future.

Last but not the least, the Board would like to extend its heartfelt gratitude to all the staff for their dedicated effort and contributions. The Group also greatly appreciates the continuous support of its customers, suppliers, shareholders and business associates. The Group is steadfastly striving to achieve satisfactory results through its innovative solutions 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 2015, the Group had net current assets of HK$3,653,718,000. Current assets comprised inventories of HK$1,984,995,000, trade receivables of HK$4,878,331,000, notes receivable of HK$137,508,000, prepayments, deposits and other receivables of HK$657,320,000, restricted bank deposits of HK$317,379,000, and cash and cash equivalents of HK$918,682,000. Current liabilities comprised trade and bills payables of HK$3,247,025,000, other payables and accruals of HK$1,207,454,000, interest-bearing bank borrowings of HK$691,905,000, tax payable of HK$1,066,000 and provisions for product warranties of HK$93,047,000.

The average receivable turnover for the Current Period was 253 days compared to 293 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. Those retention money are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Period was 257 days compared to 323 days for the Prior Period. The average inventory turnover for the Current Period was 162 days compared to 200 days for the Prior Period.

As at 30 June 2015, the Group's cash and bank balances were mainly denominated in RMB, HK$ and US$ while the Group's bank borrowings were mainly denominated in RMB, HK$ and US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into two 3-year term loan facility agreements with certain financial institutions respectively, one with facility amount of US$125,000,000 entered into on 18 June 2014 (the "2014 Facility Agreement") and the other with facility amount of US$200,000,000 entered into on 15 June 2015 (the "2015 Facility Agreement", together with the 2014 Facility Agreement collectively known as the "Facility Agreements"). The loan balance under the 2014 Facility Agreement was fully repaid on 18 June 2015.

Under the 2015 Facility Agreement, there are specific performance obligations that Mr. Fok Tung Ling, who is the controlling shareholder of the Company, and Mr. Zhang Yue Jun, who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 30% of the shares (of each class) of, and equity interests in the Company free from any security and either of them shall maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. As at the date of approval of these unaudited condensed consolidated interim financial statements, the loan balance under the 2014 Facility Agreement was fully repaid and the above specific performance obligations under the 2015 Facility Agreement have been complied with.

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

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. 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) over total assets, was 16.5% as at 30 June 2015 (31 December 2014: 16.3%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSIT

Deposit balances of HK$330,938,000 (31 December 2014: HK$359,115,000) represented the restricted deposits given to banks in respect of bills payable, interest-bearing bank borrowings and performance bonds.

CONTINGENT LIABILITIES

As at 30 June 2015, the Group had contingent liabilities of HK$158,833,000 (31 December 2014: HK$127,648,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2015, the Group had approximately 7,800 staff. The total staff costs, excluding capitalized development cost, for the Current Period were HK$531,706,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option 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. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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 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 Directors are of the view that the Company has complied with the Code Provisions during the Current Period.

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 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.

AUDIT COMMITTEE

The audit committee, together with the management, has reviewed the accounting principles, standards and practices 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 practices adopted by the Company for the unaudited condensed consolidated interim financial statements for the Current Period and has not expressed any disagreement.

PUBLICATION OF INTERIM REPORT

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

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

Hong Kong, 20 August 2015

As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Dr. TONG Chak Wai, Wilson, 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, Dr. LIN Jin Tong and Mr. QIAN Ting Shuo.