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 2016

FINANCIAL HIGHLIGHTS

- Revenue decreased by 7.4% to HK$3,099 million
- Gross profit margin increased by 1.0% point to 30.1%
- Profit attributable to shareholders: HK$113 million (2015: HK$109 million)
- Net profit margin increased by 0.3% point to 3.6%
- Basic earnings per share: HK5.06 cents (2015 (restated): HK4.89 cents)
- Interim dividend of HK1.5 cents per share (2015: HK1.5 cents per share based on the number of shares issued as at 30 June 2015)
- Dividend payout ratio: 29.6% (2015: 25.4% based on the number of shares issued as at 30 June 2015)
- 1 bonus share for every 10 ordinary shares held (2015: 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 2016, together with the comparative figures for the same period in 2015. 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 2016

		For the six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**3,098,952**	3,345,331
Cost of sales		**(2,164,939)**	(2,371,827)
Gross profit		**934,013**	973,504
Other income and gains	*5*	**83,198**	15,864
Research and development costs		**(127,454)**	(114,513)
Selling and distribution expenses		**(279,443)**	(266,986)
Administrative expenses		**(315,581)**	(370,952)
Other expenses		**(96,550)**	(17,809)
Finance costs	*7*	**(25,843)**	(35,973)
Share of loss of an associate		**(1,390)**	–
PROFIT BEFORE TAX	*6*	**170,950**	183,135
Income tax expense	*8*	**(57,944)**	(72,589)
PROFIT FOR THE PERIOD		**113,006**	110,546
Attributable to:			
Owners of the parent		**112,508**	108,803
Non-controlling interests		**498**	1,743
		113,006	110,546
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic		**HK5.06 cents**	HK4.89 cents (Restated)
Diluted		**HK5.06 cents**	HK4.88 cents (Restated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**113,006**	110,546
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(117,088)**	(27,553)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(117,088)**	(27,553)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(117,088)**	(27,553)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(4,082)**	82,993
Attributable to:		
Owners of the parent	**(3,276)**	81,219
Non-controlling interests	**(806)**	1,774
	(4,082)	82,993

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2016

	Notes	**30 June 2016 (Unaudited) *HK$'000***	31 December 2015 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**575,265**	607,950
Prepaid land lease payments		**127,857**	132,054
Goodwill		**28,571**	28,571
Deferred tax assets		**121,870**	140,256
Intangible assets		**198,702**	211,838
Investment in an associate		**22,541**	23,903
Restricted bank deposits		**37,145**	22,009
Available-for-sale investment		**8,518**	–
Total non-current assets		**1,120,469**	1,166,581
CURRENT ASSETS			
Inventories	*11*	**1,505,616**	1,731,068
Trade receivables	*12*	**4,425,251**	3,967,602
Notes receivable		**100,847**	96,376
Prepayments, deposits and other receivables		**679,251**	616,596
Restricted bank deposits		**227,984**	249,292
Cash and cash equivalents		**1,012,057**	1,747,360
Total current assets		**7,951,006**	8,408,294
CURRENT LIABILITIES			
Trade and bills payables	*13*	**3,112,918**	3,257,652
Other payables and accruals		**1,020,371**	1,067,397
Derivative financial instrument		**49,494**	1,501
Interest-bearing bank borrowings	*14*	**826,021**	595,478
Tax payable		**12,009**	65,331
Provisions for product warranties		**89,587**	85,394
Total current liabilities		**5,110,400**	5,072,753
NET CURRENT ASSETS		**2,840,606**	3,335,541
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,961,075**	4,502,122

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2016

	Notes	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	**271,374**	775,354
Deferred tax liabilities		**14,585**	14,981
Total non-current liabilities		**285,959**	790,335
Net assets		**3,675,116**	3,711,787
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**223,714**	203,377
Treasury shares		**(22,667)**	(22,530)
Reserves		**3,415,619**	3,471,684
		3,616,666	3,652,531
Non-controlling interests		**58,450**	59,256
Total equity		**3,675,116**	3,711,787

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 2016 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 2015.

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Mainland China	**2,559,983**	2,825,984
Other countries/areas in Asia Pacific	**177,013**	156,943
Americas	**195,967**	228,499
European Union	**143,195**	91,563
Middle East	**22,101**	26,373
Other countries	**693**	15,969
	3,098,952	3,345,331

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$941,879,000 (six months ended 30 June 2015: HK$806,571,000), HK$818,165,000 (six months ended 30 June 2015: HK$1,031,474,000) and HK$580,571,000 (six months ended 30 June 2015: HK$787,244,000) was derived from 3 major customers, which accounted for 30.4% (six months ended 30 June 2015: 24.1%), 26.4% (six months ended 30 June 2015: 30.8%) and 18.7% (six months ended 30 June 2015: 23.5%) of the total revenue of the Group, respectively.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold and services rendered during the period, net of value-added tax (the "VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**2,945,895**	3,145,093
Maintenance services	**153,057**	200,238
	3,098,952	3,345,331
Other income and gains		
Exchange gain	**63,028**	–
Bank interest income	**3,913**	5,080
Government subsidy	**2,923**	1,275
VAT refunds*	**3,479**	4,824
Gross rental income	**2,116**	3,087
Others	**7,739**	1,598
	83,198	15,864

* 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**2,010,623**	2,222,545
Depreciation	**39,917**	52,198
Recognition of prepaid land lease payments	**1,435**	643
Amortization of computer software and technology	**1,704**	4,813
Research and development costs:		
Deferred expenditure amortized^	**37,371**	33,601
Current period expenditure	**127,454**	114,513
	164,825	148,114
Minimum lease payments under operating leases	**27,588**	36,125
Employee benefit expense (including directors' remuneration):		
Salaries and wages	**423,931**	454,281
Staff welfare expenses	**35,406**	30,068
Equity-settled share option expense	**4,019**	4,993
Pension scheme contributions (defined contribution scheme)#	**46,666**	42,364
	510,022	531,706
Exchange (gain)/loss, net*	**(63,028)**	54,798
Provision for product warranties^	**19,394**	22,996
Write-down of inventories to net realizable value^	**92,655**	85,388
Impairment of trade receivables**	**41,276**	16,025
Loss on fair value change of the derivative financial instrument**	**48,026**	–
(Gain)/loss on disposal of items of property, plant and equipment	**(355)**	2,288

^ The amortization of deferred development costs, provision for product warranties and write-down of inventories to net realizable value for the period were included in "Cost of sales" in the condensed consolidated statement of profit or loss.

At 30 June 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2015: Nil).

* Exchange gain for the period and exchange loss for the last period were included in "Other income and gains" and "Administrative expenses" in the condensed consolidated statement of profit or loss, respectively.

** Impairment of trade receivables and loss on fair value change of the derivative financial instrument for the period were included in "Other expenses" in the condensed consolidated statement of profit or loss.

7. FINANCE COSTS

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**25,843**	35,973

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – charge for the period		
Hong Kong	**5,322**	91
Mainland China	**29,150**	44,294
Elsewhere	**8,287**	6,500
Deferred	**15,185**	21,704
Total tax charge for the period	**57,944**	72,589

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 (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the period ended 30 June 2016 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 2016.

9. DIVIDEND

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend paid	**36,608**	21,852
Interim dividend declared – HK1.5 cents (six months ended 30 June 2015: HK1.5 cents) per ordinary share	**33,557**	25,182

A final dividend of HK1.8 cents per ordinary share was paid in respect of the year ended 31 December 2015 (six months ended 30 June 2015: a final dividend of HK1.3 cents per ordinary share was paid for the year ended 31 December 2014) to shareholders during the current period.

The Directors determined that an interim dividend of HK1.5 cents (six months ended 30 June 2015: HK1.5 cents) per ordinary share should be paid to the shareholders of the Company whose names appear on the register of members on 5 September 2016.

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,222,019,000 (six months ended 30 June 2015 (restated): 2,227,249,000) 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 2016 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**112,508**	108,803

	Number of shares For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,222,019,000**	2,227,249,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	2,960,000
	2,222,019,000	2,230,209,000

11. INVENTORIES

	30 June 2016 (Unaudited) *HK$'000*	31 December 2015 (Audited) *HK$'000*
Raw materials	**187,863**	216,484
Project materials	**188,648**	195,187
Work in progress	**72,905**	76,030
Finished goods	**467,441**	429,772
Inventories on site	**588,759**	813,595
	1,505,616	1,731,068

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable to over 1 year depending on the credit worthiness of customers. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize the credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances.

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 2016 (Unaudited) *HK$'000*	31 December 2015 (Audited) *HK$'000*
Within 3 months	**1,807,641**	1,517,274
4 to 6 months	**347,478**	398,619
7 to 12 months	**821,476**	708,671
More than 1 year	**1,595,153**	1,436,353
	4,571,748	4,060,917
Provision for impairment	**(146,497)**	(93,315)
	4,425,251	3,967,602

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

	30 June 2016 (Unaudited) *HK$'000*	31 December 2015 (Audited) *HK$'000*
Neither past due nor impaired	**2,976,594**	2,624,563
Past due but not impaired	**1,448,657**	1,318,771
	4,425,251	3,943,334

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 2016 (Unaudited) *HK$'000*	31 December 2015 (Audited) *HK$'000*
Within 3 months	**1,608,345**	1,774,133
4 to 6 months	**661,917**	583,917
7 to 12 months	**495,541**	582,978
More than 1 year	**347,115**	316,624
	3,112,918	3,257,652

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 2016 (Unaudited) *HK$'000*	31 December 2015 (Audited) *HK$'000*
Analyzed into:		
Within 1 year	**826,021**	595,478
In the 2nd to 3rd years, inclusive	**271,374**	775,354
	1,097,395	1,370,832

As at 30 June 2016, loans denominated in Hong Kong dollars, United States dollars and Renminbi amounted to HK$240,000,000 (31 December 2015: Nil), HK$659,051,000 (31 December 2015: HK$969,192,000) and HK$198,344,000 (31 December 2015: HK$401,640,000), 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 2016, the Group had utilized the amount of US$85,000,000 (equivalent to HK$659,051,000) under the 2015 Facility Agreement. As at 30 June 2016, the outstanding term loan balance amounted to HK$659,051,000, of which, HK$387,677,000 and HK$271,374,000 are repayable within 1 year and in the 2nd to 3rd years inclusive, respectively. The term loan bears interest at 3.8% per annum.

Other short-term bank loans are guaranteed by companies within the Group and bear interest at rates ranging from 1.6% to 4.6% (31 December 2015: from 4.4% to 4.6%) per annum.

15. EVENT AFTER THE REPORTING PERIOD

On 19 August 2016, 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 despatched to the 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 18 October 2016, being the record date for determination of entitlements to the bonus issue. Based on the total of 2,237,143,810 shares in issue as at 30 June 2016 and assuming no further shares will be issued or purchased before 18 October 2016, approximately 223,714,381 bonus shares will be issued by the Company. The share capital of the Company will increase from HK$223,714,000 to approximately HK$246,085,000 upon completion of the bonus issue. The amount of approximately HK$22,371,000 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, the grant of listing approval of the bonus shares and compliance with the relevant legal procedures and requirement (if any) under the applicable laws of the Cayman Islands and the articles of association of the Company.

RECORD DATE FOR INTERIM DIVIDEND

The record date for determination of entitlements under the interim dividend will be on 5 September 2016. Shareholders whose names appear on the register of members of the Company on 5 September 2016 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 5 September 2016. Dividend warrants will be despatched to the shareholders of the Company on 14 September 2016.

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 of the Company.

For the purpose of determining shareholders' entitlements under the bonus issue, the register of members of the Company will be closed from 17 October 2016 to 18 October 2016, 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 18 October 2016. Shareholders whose names appear on the register of members of the Company on 18 October 2016 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 14 October 2016. Bonus shares will be allotted, issued and despatched to the shareholders of the Company on 26 October 2016 subject to the shareholders' approval at the forthcoming extraordinary general meeting. 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 of the Company on or about 14 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

A deceleration in macro-economic environment has been affecting the global economy by and large, yet, Mainland China continues to be a key source of growth and stability for the global economy. Rapid 4G migration and growing demands for data and capacity continue to drive the telecom industry growth forward, nonetheless, the overall investment intensity has been hampered by the tightened capital spending by most global mobile network operators.

Revenue

In light of the above-mentioned factors, Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has registered a decline of 7.4% to HK$3,098,952,000 (2015: HK$3,345,331,000) in its interim revenue for the six months ended 30 June 2016 (the "Current Period") compared to the six months ended 30 June 2015 (the "Prior Period").

During the Current Period, revenue from 4G projects surged by 24.8% to HK$1,342,755,000 (2015: HK$1,075,717,000), in aggregate, accounting for 43.3% (2015: 32.2%) of the Group's revenue.

By Customers

During the Current Period, the overall Mainland China market experienced a decrease of 9.2% to HK$2,495,069,000 (2015: HK$2,749,000,000) in its interim revenue. In view of the distinctive business strategies adopted by PRC mobile network operators as well as their differing investment levels and focuses, the respective revenue contributions and year-on-year growth rates by such major customers of the Group also varied.

Revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") registered a drop of 20.7% to HK$818,165,000 (2015: HK$1,031,474,000), accounting for 26.4% of the Group's revenue in the Current Period, compared to 30.8% 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 by 16.8% to HK$941,879,000 (2015: HK$806,571,000), accounting for 30.4% of the Group's revenue in the Current Period, compared to 24.1% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") decreased by 26.3% to HK$580,571,000 (2015: HK$787,244,000), accounting for 18.7% of the Group's revenue in the Current Period, compared to 23.5% in the Prior Period.

Revenue from other customers, including mainly China Tower Corporation Limited ("China Tower"), increased by 24.9% to HK$154,454,000 (2015: HK$123,711,000) and represented 5.0% (2015: 3.8%) of the Group's revenue in the Current Period. China Tower is a new customer of the Group and the management expects the significance of the revenue contribution by China Tower will be gradually increasing in the future.

On the international front, revenue generated by international customers and core equipment manufacturers increased by 1.3% to HK$603,883,000 (2015: HK$596,331,000), accounting for 19.5% (2015: 17.8%) of the Group's revenue in the Current Period. During the Current Period, the revenue contributed by the international customers increased, but it was mostly offset by the decline in the revenue generated by core equipment manufacturers.

By Businesses

Revenue generated from the antennas and subsystems business decreased by 9.5% over the Prior Period to HK$1,495,337,000 (2015: HK$1,652,770,000), accounting for 48.3% (2015: 49.4%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to a slowdown in product demand.

Revenue generated from the wireless enhancement business in the Current Period decreased by 7.4% to HK$555,959,000 (2015: HK$600,373,000) over the Prior Period, accounting for 17.9% (2015: 17.9%) of the Group's revenue. In view of mobile network operators' increasing focus on densifying networks to manage rising mobile data traffic consumption, and due to the positive impacts driven by mobile network enhancement phase, the management expects that this business unit will improve in the second half of 2016.

Revenue generated from the wireless access and transmission business in the Current Period increased by 7.2% over the Prior Period to HK$149,977,000 (2015: HK$139,890,000) and accounted for 4.8% (2015: 4.2%) of the Group's revenue. The major source of such increase in revenue was Small Cell and microwave businesses. The management expects the scales of Small Cell business will further expand through the year.

Revenue from services dropped mildly by 5.7% to HK$897,679,000 during the Current Period (2015: HK$952,298,000), accounting for 29.0% (2015: 28.5%) of the Group's revenue. The management expects that the revenue from services will continue to be stable through the year.

Gross Profit

During the Current Period, the Group's gross profit decreased by 4.1% over the Prior Period to HK$934,013,000 (2015: HK$973,504,000) due to decreased revenue. However, the gross profit margin increased by 1 percentage point over the Prior Period to 30.1% (2015: 29.1%) in the Current Period despite recording a write-off of HK$92,655,000 for obsolete inventories during the Current Period, equivalent to 3 percentage points of the gross profit margin. The improvement in gross profit margin was mainly due to higher efficiency via optimizing operation and manufacturing processes coupled with growing revenue contribution from some 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 Period, R&D costs increased by 11.3% over the Prior Period to HK$127,454,000 (2015: HK$114,513,000), representing 4.1% (2015: 3.4%) of the Group's revenue. The increase in R&D costs was mainly due to a greater investment 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.

On top of its own R&D investments, the Group is looking for some collaborations in exploring more innovation breakthroughs. During the Current Period, the Group announced that it would collaborate with the Hong Kong Applied Science and Technology Research Institute (ASTRI) to jointly establish the ASTRI-Comba Joint Research and Development Laboratory, focusing on Smart City and Smart Home technologies. As the trend for enterprises to create new business models and revenue streams through the Internet-of-things ("IoT") shows no signs of slowing down, the Group is strengthening its R&D capabilities intending to drive more new revenue opportunities.

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 2,200 patents as at the end of the Current Period (As at 31 December 2015: approximately 2,100 patents).

Selling and Distribution ("S&D") Expenses

During the Current Period, S&D expenses increased by 4.7% over the Prior Period to HK$279,443,000 (2015: HK$266,986,000), representing 9.0% (2015: 8.0%) of the Group's revenue, as a result of more marketing activities.

Administrative Expenses

During the Current Period, administrative expenses decreased by 14.9% over the Prior Period to HK$315,581,000 (2015: HK$370,952,000), representing 10.2% (2015: 11.1%) of the Group's revenue. The decline in the administrative expenses during the Current Period over the Prior Period was mainly due to an absence of substantial exchange loss impact as compared to the Prior Period.

Finance Costs

During the Current Period, finance costs decreased by 28.2% over the Prior Period to HK$25,843,000 (2015: HK$35,973,000), representing 0.8% (2015: 1.1%) of the Group's revenue. With the improvement in liquidity and a net cash position of HK$179,791,000 (2015: net debt position of HK$411,478,000) of the Group, bank borrowings of the Group have decreased significantly by 33.9% over the Prior Period, resulting in a decrease in 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 business development, the management has closely monitored the latest developments of the financing market and has arranged the most appropriate financing for the Group.

As of 30 June 2016, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a healthy level of 12.1% compared to 14.3% as of 31 December 2015.

Operating Profit

During the Current Period, the operating profit of the Group decreased by 9.6% to HK$198,183,000 (2015: HK$219,108,000). The decrease in the operating profit was mainly attributable to the decrease in overall gross profit resulting from the decreased revenue and accrual of an impairment loss in trade receivables of certain overseas markets during the Current Period at HK$41,276,000 (2015: HK$16,025,000).

Tax

During the Current Period, the Group's overall taxation charge of HK$57,944,000 (2015: HK$72,589,000) comprised income tax expense of HK$42,759,000 (2015: HK$50,885,000) and deferred tax charge of HK$15,185,000 (2015: deferred tax charge of HK$21,704,000). During the Current Period, the decrease in the overall taxation charge was mainly due to decrease of the assessable profits recorded in certain subsidiaries.

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 reduced finance costs and taxation charge, profit attributable to owners of the parent ("Net Profit") of the Group was HK$112,508,000, up 3.4% as compared to Prior Period (2015: HK$108,803,000).

Dividend and Bonus Issue

In view of the Group's operating results in the first half of 2016 and taking into consideration its long-term future development and the interests of shareholders of the Company (the "Shareholders"), particularly those of minority Shareholders, the Board proposes an interim dividend for 2016 of HK1.5 cents (2015: HK1.5 cents) per ordinary share. The total payout ratio, on the basis of basic earnings per share, is 29.6% (2015: 25.4% based on the number of shares issued as at 30 June 2015).

In addition to the distribution of dividends, the Board also proposes to distribute 1 bonus share for every 10 existing ordinary shares (2015: 1 bonus share for every 10 existing ordinary shares) held by Shareholders whose names appear on the Company's share register on Tuesday, 18 October 2016.

PROSPECTS

As the growing list of concerns for the global economy becomes increasingly palpable, the Group expects the uncertain environment will likely persist through the year and thus it will remain prudent in driving the business forward. In contrast to the slow and sporadic recovery of the advanced economies, Mainland China's growth remained constant with a satisfactory GDP growth of 6.7% year-on-year for the first half of 2016. Additionally, a particularly evident trend is that more companies are attempting to capitalize on IoT initiatives to achieve a strategic competitive advantage, thus driving sustained capital expenditure and upgrading networks to support a higher volume of mobile data traffic and continued 4G migration.

NEW MARKET LANDSCAPE

To meet different customers' needs, the Group is committed to achieving innovation and development in the telecommunications and information service areas so as to provide customers with excellent communications and information service solutions. The Group will expand its business into three areas. The first area is the public networks of mobile network operators. In the area of public networks, with the expanding mobile data traffic brought by mobile internet, mobile networks have increasingly reached their capacity limits at hotspots, thus driving abundant opportunities in the areas of capacity expansion and construction of network access.

The second one is the enterprise network construction and information service. Construction of enterprise informatization and in pursuit of wireless access, big data and cloud platform unfold a broader prospect for the development of the Group.

Thirdly, given that thing-to-thing and thing-to-human information interaction become the increasing concerns of the society following the settlement of human-to-human communication through information services, the Group is ready to focus on the area of IoT.

PUBLIC NETWORK BUSINESS FOR OPERATORS

1. ANTENNA AND BASE STATION SUBSYSTEMS

As a leading global provider of wireless solutions, Comba Telecom continues to develop and enhance a variety of antenna technologies, in order to lead the development of antenna solutions to address the difficulties in capacity and coverage expansion during network rollout.

The Group is engaged in the development of diversified and multi-mode multi-freqency 4G products, enabling the mobile network operators to enhance the overall cell capacity, extend the coverage of wireless transmission as well as limit signal interference and reduce construction costs. Meanwhile, the Group has further expanded its antenna portfolio and has recently launched a new generation of ultra-wideband compact 4G antennas with even lighter weight and smaller form factor, marking another milestone of the Group's technological evolution. The new series of antennas have been deployed in several cities across Mainland China, providing a rapid fix for the issue of weak coverage in high wireless traffic areas, while enabling scalability and further improvement in antenna solutions for the global 4G network.

At the same time, as a pioneer in RF technology, the Group has made active preparation for the kick-off of the 5G era by investing in R&D efforts. The Group's 5G R&D works with a major focus on the technology of active array antennas achieved a breakthrough. This effectively drives the Group's product innovation for future antenna products.

Having said that, as massive 4G network build-outs have gradually accomplished while 5G era is yet to come, the Group expects market demand for base station antennas may reach a plateau of slow growth or even experience a slight decline through the year.

2. IN-BUILDING DISTRIBUTION SYSTEM SOLUTIONS

In-building and Community Coverage

Enhancement of in-building coverage and access to high-capacity network is increasingly important in later period of network build-outs, since the data and data traffic consumption of mobile internet mostly occurs in buildings. In view of the market imperative for in-building wireless coverage and to align with the strategy to diversify the revenue stream, the Group's in-building distribution system solution offerings have been proliferating to encompass MDAS (Multi-Service Fiber Optic Distributed Access System) and DAS (Distributed Antenna System) solutions, intensive Small Cell deployment solutions and wireless broadband solutions, among others. The wireless experts of the Group assess customers' needs and requirements, survey the site and then design and implement a solution that leverages in-depth expertise and best practices to guarantee improved coverage in difficult indoor environments and high capacity of hotspots.

In addition, with the increasing emergence of small community, a variety types of communication products are required to satisfy different business needs of the subscribers, who expect for stable and high-speed wireless networks in indoor environment. The new generation of enhancement equipment such as MDAS is multifunctional supporting wireless multi-operators and multi-frequency bands, enabling access via Ethernet and optical fiber, integrating with remote power supply and compression algorithm systems, etc.. The Group offers an intensive new coverage solution for residence community by capitalizing on MDAS products. As referred to in the solution, being imported into the access unit, 2G, 3G and LTE signals are delivered to the extension unit through optical fiber, and then transmitted to various types of coverage units via optical fiber/network cable, so as to meet the multi-service intensive coverage requirements in various residence community scenarios. The all-IP access of Small Cell can lead to fast realization of regional coverage and capacity access.

In the overseas market, the Group has been commissioned by a major regional mobile network operator in Argentina where it has delivered a high quality wireless solution to the nation's busiest international airport, which handles an annual traffic volume of more than 10.8 million people. Being at the leading edge of network technology, the Group's high quality reliable wireless solutions have a strong impact on end-user experience and customer satisfaction. With the increasing demand for seamless wireless solutions, the Group expects in-building wireless solutions will continue to be an essential element of the network.

Capacity Access and Coverage

Currently, there are more than three billion smartphone subscriptions across the globe and the majority of cellular data sessions originate inside a building. The management believes that wireless enhancement has gradually become the focal point for value creation following an aggressive 4G network build-out. However, the Group will adjust its strategy to focus more on the commercial side to undertake more high-end customized wireless solution projects with better margins instead of pursuing on a large scale volume business.

Thanks to increasing take-up of smartphones and tablets, wireless subscribers are using more network resources than ever before and that volume of consumption continues to rise. With so many smartphone users looking to do anything from playing online games and tweeting an update to sharing a photo or video of their experiences via social media, it is vital that mobile network operators have a robust network in place via adding more capacity to their networks to continue handling the heavy traffic while providing the network speeds, compatibility and inter-connectivity that those users have come to expect.

Small Cell technology is one of the major next generation of mobile networks. It is clear that there is growing appetite among mobile network operators to adopt Small Cell technology. Against the backdrop, the mobile network operators are exploring more new services and solutions that can be enabled through Small Cell deployment. Together with the fast penetration of 4G networks in Mainland China, the Group expects the demand for wireless access products will be strong throughout the year.

Through swift technological evolution and huge marketing efforts accumulated in the previous years, Small Cell is rapidly gaining traction. The Group's Small Cell is now widely utilized for commercial purposes in more than 20 provinces across Mainland China. Moreover, the Group has recently won tenders to supply NanoCell of China Mobile. In fact, Comba Telecom has long been at the forefront of Small Cell technology in Mainland China. Building on its expertise in Small Cell technology, strength in R&D and diversity in wireless solutions, Comba Telecom intends to continue its efforts in enhancing wireless coverage and capacity access for mobile network operators as well as in driving industry development.

ENTERPRISE NETWORK CONSTRUCTION AND INFORMATION SERVICE

Regional communication resolutions have emerged as another viable approach to enterprise network construction to improve connectivity in a cost-effective manner. Many local governments in Mainland China are vigorously pushing smart city construction striving to enhance the level of smart services in transportation, public security, medical care and environmental protection. Growing investments in smart city projects should spur the further demand for wireless connectivity solutions. For instance, the Group has successfully deployed wireless solutions for public transportation in certain Chinese cities with the application of vehicle wireless equipment, 4G data backhaul, big data analytics, cloud service platform, etc. As such, the Group expects that the demand for customized solutions will continue to accelerate. Likewise in overseas markets, commercial wireless solutions could be deployed to empower employees to work more efficiently. The Group has won the tender for a turnkey wireless broadband network project that connects the 10,300 chain stores of an Indonesian retailer, Alfamart, to a private central network, replacing the leased network they had been using. The Group is to provide a series of 5GHz Wi-Fi base stations, customer premise equipment (CPE) and wireless backhaul which forms the core of a customized secure network to handle inter-store communications and financial transactions. Bundled with other wireless equipment, the Group believes the commercial wireless business could be ramped up in the near future.

IoT

The rapid growth of the IoT is fueling the need for more comprehensive wireless solutions which benefit IoT implementation and applications including ubiquitous coverage, managed quality of service and seamless interoperability. Driven by emerging applications and business models, the number of connected devices, such as automobiles and consumer electronics, continues to rise. In the long run, all things are becoming smarter and connected to the internet, enabling greater communication and new data-driven services based on increased analytics capabilities. Most of the current wireless networks may not be sophisticated enough to enable developers to prepare themselves for comprehensive IoT applications. As a leading player in wireless solutions, the Group believes that the scale of business opportunities and growth potential derived from IoT could now only begin to be imagined.

In alignment with the development of IoT by mobile network operators and building on the existing sizable GSM access deployment, the Group will develop an IoT system enabling long distance access and large number of user access for the NB-IoT, allowing a sustainable opportunity for the development of the Group's access system.

In the area of enterprise network, the Group will render information services concerning railway and internet-of-vessels. Such businesses involving IoT, big data analysis and cloud platform will expand the scope of business for the development of the Group.

Conclusion

As networks evolve to manage the increasing challenges, the Group continues to deeply explore the needs of mobile network operators and further develops the market of mobile network operators by leveraging its expertise and capabilities in the specific fields. Meanwhile, the Group devotes its efforts to develop enterprise network customers, deeply explores customers' needs for values, connects to network resources opened by mobile network operators, and innovatively develops solutions and information services of enterprise networks and IoT to create ideal values for customers. Though the economy still faces strong headwinds, the Group, motivated by its passion for innovation, intends to pursue the goals of strengthening the existing core business areas and to continue to build strengths in key capabilities to underpin both the new and existing business areas.

Last but not 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. Comba Telecom always strives to be better in all areas, from R&D, customer services and product innovation to management and operational excellence in order to achieve satisfactory results.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 30 June 2016, the Group had net current assets of HK$2,840,606,000. Current assets comprised inventories of HK$1,505,616,000, trade receivables of HK$4,425,251,000, notes receivable of HK$100,847,000, prepayments, deposits and other receivables of HK$679,251,000, restricted bank deposits of HK$227,984,000, and cash and cash equivalents of HK$1,012,057,000. Current liabilities comprised trade and bills payables of HK$3,112,918,000, other payables and accruals of HK$1,020,371,000, derivative financial instrument of HK$49,494,000, interest-bearing bank borrowings of HK$826,021,000, tax payable of HK$12,009,000 and provisions for product warranties of HK$89,587,000.

The average receivable turnover for the Current Period was 247 days compared to 253 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 269 days compared to 257 days for the Prior Period. The average inventory turnover for the Current Period was 136 days compared to 162 days for the Prior Period.

As at 30 June 2016, 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 a 3-year term loan facility agreement with certain financial institutions with facility amount of US$200,000,000 entered into on 15 June 2015 (the "2015 Facility Agreement").

Under the 2015 Facility Agreement, there are specific performance obligations that Mr. Fok Tung Ling, who is the controlling Shareholder, and Mr. Zhang Yue Jun, who is the substantial Shareholder, 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 this announcement, the above specific performance obligations under the 2015 Facility Agreement have been complied with.

Details of the 2015 Facility Agreement are set out in note 14 to this announcement.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. In view of the devaluation of the RMB in 2016 and the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 30 June 2016, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings) over total assets, was 12.1% as at 30 June 2016 (31 December 2015: 14.3%).

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$265,129,000 (31 December 2015: HK$271,301,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had contingent liabilities of HK$214,976,000 (31 December 2015: HK$177,277,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had approximately 7,900 staff. The total staff costs, excluding capitalized development cost, for the Current Period were HK$510,022,000 (30 June 2015: 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 scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the People's Republic of China or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management.

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 the governance practices of the Company and considered that, during the Current Period, the Company has complied with all the Code Provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 during the Current Period.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), together with the management, have reviewed the accounting principles, standards and practices adopted by the Company, and discussed matters relating to auditing, risk management and internal control and financial reporting, including the review of 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 given any disagreement.

PUBLICATION OF INTERIM REPORT

2016 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, 19 August 2016

As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, 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.