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 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by 10.3% to HK$2,751 million
- Gross profit margin increased by 0.3% points to 30.5%
- Profit attributable to shareholders increased by 291.0% to HK$82 million
- Basic earnings per share: HK3.35 cents (2018: HK0.86 cents)
- Interim dividend of HK1 cent per share (2018: Nil)
- Dividend payout ratio: 29.9% (2018: Nil)

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 2019, together with the comparative figures for the same period in 2018. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**2,751,224**	2,493,733
Cost of sales		**(1,910,971)**	(1,739,741)
Gross profit		**840,253**	753,992
Other income and gains	*5*	**92,027**	66,560
Research and development costs		**(176,718)**	(141,820)
Selling and distribution expenses		**(279,763)**	(254,031)
Administrative expenses		**(280,968)**	(305,565)
Other expenses		**(77,579)**	(65,865)
Finance costs	*7*	**(53,679)**	(29,299)
PROFIT BEFORE TAX	*6*	**63,573**	23,972
Income tax expense	*8*	**(24,535)**	(16,417)
PROFIT FOR THE PERIOD		**39,038**	7,555
Attributable to:			
Owners of the parent		**82,214**	21,028
Non-controlling interests		**(43,176)**	(13,473)
		39,038	7,555
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic		**HK3.35 cents**	HK0.86 cents
Diluted		**HK3.32 cents**	HK0.86 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**39,038**	7,555
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(52,548)**	(77,760)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(52,548)**	(77,760)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(52,548)**	(77,760)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(13,510)**	(70,205)
Attributable to:		
Owners of the parent	**34,376**	(52,555)
Non-controlling interests	**(47,886)**	(17,650)
	(13,510)	(70,205)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019

	Notes	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,175,305**	1,128,259
Right-of-use assets		**211,055**	–
Prepaid land lease payments		**–**	117,889
Goodwill		**253,077**	253,077
Deferred tax assets		**97,217**	102,013
Intangible assets		**843,667**	856,050
Equity instruments designated at fair value through profit or loss		**27,384**	33,540
Restricted bank deposits		**85,741**	77,596
Prepayments		**–**	8,888
Total non-current assets		**2,693,446**	2,577,312
CURRENT ASSETS			
Inventories	*11*	**1,332,223**	1,306,831
Trade receivables	*12*	**4,427,565**	4,164,595
Notes receivable		**82,778**	118,950
Prepayments, other receivables and other assets		**1,123,261**	984,853
Tax recoverable		**46,416**	48,330
Restricted bank deposits		**169,083**	207,911
Cash and cash equivalents		**1,497,971**	1,893,859
Total current assets		**8,679,297**	8,725,329
CURRENT LIABILITIES			
Trade and bills payables	*13*	**4,319,624**	4,313,799
Other payables and accruals		**996,080**	960,834
Interest-bearing bank borrowings	*14*	**56,737**	1,624,499
Provision for product warranties		**71,586**	63,831
Total current liabilities		**5,444,027**	6,962,963
NET CURRENT ASSETS		**3,235,270**	1,762,366
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,928,716**	4,339,678

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019

	Note	**30 June 2019 (Unaudited)** *HK$'000*	31 December 2018 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**1,827,668**	375,557
Lease liabilities		**63,043**	–
Deferred tax liabilities		**155,891**	158,507
Total non-current liabilities		**2,046,602**	534,064
Net assets		**3,882,114**	3,805,614
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**247,817**	241,948
Treasury shares		**(22,818)**	(22,818)
Reserves		**3,177,540**	3,059,023
		3,402,539	3,278,153
Non-controlling interests		**479,575**	527,461
Total equity		**3,882,114**	3,805,614

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, the provision of related engineering services and the provision of telecommunication services and their value added services.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated 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 2018.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRS is described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied as no adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of prepaid land lease payment, property, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for one elective exemption for leases of short-term leases (elected by class of underlying asset). The Group has elected not to recognize right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and lease liabilities.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

• Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

• Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) (Unaudited) *HK$'000*
Assets	
Increase in right-of-use assets	**215,589**
Decrease in prepaid land lease payments	**(117,889)**
Decrease in other receivables	**(2,788)**
Increase in total assets	**94,912**
Liabilities	
Increase in other payables and accruals	**23,750**
Increase in lease liabilities	**71,162**
Increase in total liabilities	**94,912**

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	(Unaudited) *HK$'000*
Operating lease commitments as at 31 December 2018	**119,926**
Weighted average incremental borrowing rate as at 1 January 2019	**4.64%**
Discounted operating lease commitments as at 1 January 2019	**109,347**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	**(14,435)**
Lease liabilities as at 1 January 2019	**94,912**

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Amounts recognized in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'other payables' and 'lease liabilities') and the movement during the period are as follow:

	Right-of-use assets				
	Prepaid land lease payments (Unaudited) *HK$'000*	**Buildings (Unaudited)** *HK$'000*	**Others (Unaudited)** *HK$'000*	**Sub-total (Unaudited)** *HK$'000*	**Lease liabilities (Unaudited)** *HK$'000*
As at 1 January 2019	117,889	96,130	1,570	215,589	94,912
Additions	–	10,817	793	11,610	9,703
Depreciation charge	(1,401)	(14,107)	(498)	(16,006)	–
Interest expense	–	–	–	–	2,262
Payments	–	–	–	–	(15,857)
Exchange realignment	(61)	(40)	(37)	(138)	(88)
As at 30 June 2019	116,427	92,800	1,828	211,055	90,932

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

(a) Wireless telecommunications network system equipment

(b) Telecommunication services

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before tax.

Period ended 30 June 2019	**Wireless telecommunications network system equipment (Unaudited)** *HK$'000*	**Telecommunication services (Unaudited)** *HK$'000*	**Total (Unaudited)** *HK$'000*
Revenue	**2,670,933**	**80,291**	**2,751,224**
Profit/(loss) before tax	**147,619**	**(84,046)**	**63,573**
Segment assets	**10,151,683**	**1,747,476**	**11,899,159**
Elimination			**(526,416)**
Total assets			**11,372,743**
Segment liabilities	**7,344,682**	**672,363**	**8,017,045**
Elimination			**(526,416)**
Total liabilities			**7,490,629**

Period ended 30 June 2018	Wireless telecommunications network system equipment (Unaudited) *HK$'000*	Telecommunication services (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Revenue	2,393,289	100,444	2,493,733
Profit/(loss) before tax	50,818	(26,846)	23,972
Segment assets	9,770,003	1,525,315	11,295,318
Elimination			(295,963)
Total assets			10,999,355
Segment liabilities	6,807,318	313,816	7,121,134
Elimination			(295,963)
Total liabilities			6,825,171

Geographical information

(a) *Revenue from external customers*

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Mainland China	**2,031,144**	1,501,195
Other countries/areas in Asia Pacific	**354,018**	654,977
Americas	**193,968**	207,054
European Union	**118,638**	87,091
Middle East	**45,308**	40,092
Other countries	**8,148**	3,324
	2,751,224	2,493,733

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

(b) *Non-current assets*

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Mainland China	**1,039,497**	1,112,091
Lao People's Democratic Republic	**1,617,492**	1,432,947
Other countries/regions	**36,457**	32,274
	2,693,446	2,577,312

Information about major customers

Revenue of approximately HK$797,019,000 (six months ended 30 June 2018: HK$681,214,000), HK$455,551,000 (six months ended 30 June 2018: HK$208,891,000) and HK$266,997,000 (six months ended 30 June 2018: HK$392,901,000) was derived from 3 major customers, which accounted for 29.0% (six months ended 30 June 2018: 27.3%), 16.6% (six months ended 30 June 2018: 8.4%) and 9.7% (six months ended 30 June 2018: 15.8%) 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 is as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**2,656,856**	2,348,238
Maintenance services	**14,077**	45,051
Provision of telecommunication services	**80,291**	100,444
	2,751,224	2,493,733

Revenue from contracts with customers

	For the six months ended 30 June 2019
	(Unaudited)
	HK$'000
Type of customers	
PRC state-owned telecommunication operator groups	**1,519,567**
Other customers	**1,231,657**
Total revenue from contracts with customers	**2,751,224**

	For the six months ended 30 June 2019
	(Unaudited)
	HK$'000
Timing of revenue recognition	
Goods transferred at a point in time	**2,656,856**
Services transferred over time	**94,368**
Total revenue from contracts with customers	**2,751,224**

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Other income and gains		
Bank interest income	**6,001**	4,891
Exchange gain, net	**6,174**	–
Government subsidies#	**59,649**	25,239
VAT refunds*	**2,946**	3,666
Gain on equity instruments designated at fair value through profit or loss	**4,607**	20,661
Gain on disposal of part of equity investment designated at fair value though profit or loss	**1,301**	–
Gain on disposal of items of property, plant and equipment	**–**	75
Gross rental income	**2,536**	9,338
Others	**8,813**	2,690
	92,027	66,560

\# The government subsidies represent various cash payments and subsidies provided by the government authorities to the Group as encouragement to its technological innovation, intellectual property and investment of research and development. There are no unfulfilled conditions or contingencies relating to these subsidies.

* During the periods ended 30 June 2018 and 2019, 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 16% in 2019 (17% before May 2018). 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**1,782,756**	1,682,183
Depreciation of property, plant and equipment	**83,013**	88,160
Depreciation of right-of-use assets/recognition of prepaid land lease payments	**16,006**	1,455
Amortization of computer software, technology and operating license	**13,911**	17,718
Research and development costs:		
Deferred expenditure amortized^	**32,098**	42,561
Current period expenditure	**176,718**	141,820
	208,816	184,381
Employee benefit expense (including directors' remuneration):		
Salaries and wages	**497,984**	440,390
Staff welfare expenses	**33,853**	40,846
Equity-settled share option expense	**12,149**	7,592
Pension scheme contributions (defined contribution scheme)#	**37,876**	43,812
	581,862	532,640
Exchange (gain)/loss, net*	**(6,174)**	14,138
Provision for product warranties^	**13,412**	10,058
Write-down of inventories to net realizable value^	**79,497**	1,431
Impairment of trade receivables	**15,226**	3,912
Impairment of other receivables	**703**	230
Loss/(gain) on disposal of items of property, plant and equipment	**218**	(75)
Gain on equity instruments designated at fair value through profit or loss	**(4,607)**	(20,661)
Gain on disposal of part of equity investment designated at fair value though profit or loss	**(1,301)**	–

^ 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 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2018: Nil).

* Net exchange gain and net exchange loss are included in "Other income and gains" and "Administrative expenses" in the condensed consolidated statement of profit or loss, respectively.

7. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings	**48,269**	29,290
Interest on factored trade receivables	**3,148**	9
Interest on lease liabilities	**2,262**	–
Total	**53,679**	29,299

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – charge for the period		
Hong Kong	**–**	693
Mainland China	**25,262**	3,801
Elsewhere	**3,525**	15,622
Current – overprovision in prior periods	**(6,453)**	–
Deferred	**2,201**	(3,699)
Total tax charge for the period	**24,535**	16,417

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, Comba Telecom Systems (China) Limited and Comba Software were entitled to the preferential tax rate of 15% for the period ended 30 June 2019 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 2019.

9. DIVIDENDS

On 15 August 2019, the board of directors declared an interim dividend of HK1 cent (six months ended 30 June 2018: Nil) per ordinary share, amounting to a total of approximately HK$24,782,000.

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 2,452,931,000 (six months ended 30 June 2018: 2,452,934,000) in 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 calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2019	2018
	(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	**82,214**	21,028

	Number of shares For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	**2,452,931,000**	2,452,934,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**24,595,000**	–
	2,477,526,000	2,452,934,000

11. INVENTORIES

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Raw materials	**230,828**	250,696
Project materials	**182,276**	66,959
Work in progress	**70,806**	52,188
Finished goods	**425,291**	506,048
Inventories on site	**423,022**	430,940
	1,332,223	1,306,831

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 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, which is for assurance that the product and services comply with agreed-upon specifications, 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. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Within 3 months	**1,581,625**	1,759,833
4 to 6 months	**466,953**	437,993
7 to 12 months	**1,026,062**	550,142
More than 1 year	**1,805,001**	1,853,222
	4,879,641	4,601,190
Provision for impairment	**(452,076)**	(436,595)
	4,427,565	4,164,595

13. TRADE AND BILLS PAYABLES

An ageing 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 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Within 3 months	**2,423,687**	2,180,906
4 to 6 months	**662,937**	865,447
7 to 12 months	**579,797**	571,499
More than 1 year	**653,203**	695,947
	4,319,624	4,313,799

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

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Analyzed into:		
Within 1 year or on demand	**56,737**	1,624,499
In the 2nd year	**448,774**	11,381
In the 3rd to 5th years, inclusive	**1,208,278**	136,566
Beyond 5 years	**170,616**	227,610
	1,884,405	2,000,056

As at 30 June 2019, loans denominated in Hong Kong dollars, RMB and EURO amounted to HK$1,504,500,000 (31 December 2018: HK$1,410,400,000), HK$379,905,000 (31 December 2018: HK$589,560,000) and Nil (31 December 2018: HK$96,000), respectively.

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 bank loans acting as guarantors, to guarantee punctual performance of the obligations under the loan facilities.

Bank loans as at 30 June 2019 bear interest at rates ranging from 2.3% to 5.4% (31 December 2018: from 1.1% to 5.4%) per annum.

15. EVENT AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the date of approval of the financial statements.

RECORD DATE FOR INTERIM DIVIDEND

The record date for determination of entitlements under the interim dividend will be on 30 August 2019. Shareholders whose names appear on the register of members of the Company on 30 August 2019 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfer documents 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 30 August 2019. Dividend warrants will be despatched to the shareholders of the Company (the "Shareholders") on 10 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

In the first half of 2019, with the continuous increase in the number of global mobile users and the rapid growth in demand for the mobile internet access traffic data, the telecommunication operators continued to strengthen 4G network's deep coverage and quality optimization to meet the demands of mobile users. Meanwhile, the official issuance of the 5G commercial license in Mainland China marked that China has officially entered the first year of the 5G era. Leveraging on the advantages of broad bandwidth, high speed, and low latency, 5G will thoroughly change the industry landscape and drive telecommunication operators to gradually increase capital expenditures to propel further rapid development of the communication industry.

Revenue

The Group reported the interim revenue of HK$2,751,224,000 (2018: HK$2,493,733,000) for the six months ended 30 June 2019 (the "Current Period"), representing an increase of 10.3% compared to the six months ended 30 June 2018 (the "Prior Period"). The increase in revenue was mainly benefited from the growth in Mainland China mobile network operators' capital expenditure in 4G network construction, which resulted from the continuous enhancement of the 4G network's capacity expansion and optimization.

By Customers

To strengthen the coverage of the 4G network, the main mobile operators in Mainland China continued to enhance the frequency spectrum re-farming and the construction of projects such as NB-IoT during the Current Period. Meanwhile, in order to better prepare for the large-scale commercial use of 5G, the demands for the co-constructing and sharing deployment in the different network frequency spectra and the network modes also made a contribution to the growth of the business of the Group.

During the Current Period, revenue generated from China Mobile Communications Corporation and its subsidiaries increased by 17.0% over the Prior Period to HK$797,019,000 (2018: HK$681,214,000), accounting for 29.0% of the Group's revenue in the Current Period, compared to 27.3% in the Prior Period.

Revenue generated from China United Telecommunications Corporation and its subsidiaries significantly increased by 118.1% over the Prior Period to HK$455,551,000 (2018: HK$208,891,000), accounting for 16.6% of the Group's revenue in the Current Period, compared to 8.4% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries decreased by 32.0% over the Prior Period to HK$266,997,000 (2018: HK$392,901,000), accounting for 9.7% of the Group's revenue in the Current Period, compared to 15.8% in the Prior Period.

During the Current Period, revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and Rail Transit Communication customers, increased by 128.7% over the Prior Period to HK$377,213,000 (2018: HK$164,965,000) and represented 13.7% (2018: 6.6%) of the Group's revenue. Among these, revenue generated from China Tower increased by 33.4% over the Prior Period to HK$106,029,000 (2018: HK$79,486,000) and revenue generated from Rail Transit Communication customers significantly increased by 384.5% over the prior year to HK$94,977,000 (2018: HK$19,604,000). Due to increasing demand for the indoor coverage business by China Tower and growing demand for Rail Transit Communication wireless solutions, the management has great confidence in the revenue contribution by China Tower and Rail Transit Communication customers in the future.

On the international front, during the Current Period, revenue generated from international customers and core equipment manufacturers decreased by 18.1% over the Prior Period to HK$774,153,000 (2018: HK$945,318,000), accounting for 28.1% of the Group's revenue in the Current Period, compared to 37.9% in the Prior Period. The decrease was mainly due to the slowing demands for the construction of the 4G network in certain regions (such as India market). However, the Group continued to further deepen the strategic cooperation with international leading operators and core equipment manufacturers. During the Current Period, the great breakthroughs have been made in certain important regions and the management has confidence in the future prospect of the international market.

During the Current Period, revenue from ETL Company Limited ("ETL"), a middle and small-sized telecom operator in Laos and non-wholly-owned subsidiary of the Group, decreased by 20.1% over the Prior Period to HK$80,291,000 (2018: HK$100,444,000), accounting for 2.9% of the Group's revenue in the Current Period (2018: 4.0%). The decrease in revenue was mainly affected by the transformation and upgrade of networks in certain regions. During the Current Period, the Group has completed the building of the local 4G network and the corresponding supporting construction in Laos and is in the process of active preparation for its pre-commercial use.

By Businesses

During the Current Period, revenue generated from the antennas and subsystems business increased by 13.9% over the Prior Period to HK$1,516,423,000 (2018: HK$1,331,931,000), accounting for 55.1% (2018: 53.4%) of the Group's revenue in the Current Period. The increase in revenue was mainly due to the increasing demands for capacity expansion of the 4G network and the small-scale commercial use of 5G in domestic market.

During the Current Period, revenue generated from the network system (including wireless enhancement and wireless access) business decreased by 8.4% over the Prior Period to HK$376,098,000 (2018: HK$410,720,000), accounting for 13.7% (2018: 16.5%) of the Group's revenue in the Current Period. Among which, revenue generated from the wireless enhancement business decreased by 12.4% over the Prior Period to HK$300,135,000 (2018: HK$342,811,000). With the increasing demands for mobile data traffic, the traditional indoor coverage will gradually develop into the new digital indoor coverage, and revenue generated from the wireless access business increased by 11.9% over the Prior Period to HK$75,963,000 (2018: HK$67,909,000). With the implementation of large-scale commercial use of wireless access products represented by small cells, the management believes that revenue generated from the wireless access business will gradually increase.

During the Current Period, revenue from services increased by 12.9% over the Prior Period to HK$649,249,000 (2018: HK$575,028,000), accounting for 23.6% (2018: 23.1%) of the Group's revenue. The increase in revenue was mainly due to the increase in the number of construction projects in the domestic indoor coverage business.

During the Current Period, revenue from other business (including wireless transmission and specialized enterprise network) increased by 70.8% over the Prior Period to HK$129,163,000 (2018: HK$75,610,000), accounting for 4.7% (2018: 3.0%) of the Group's revenue. Among which, revenue from the wireless transmission business decreased by 39.0%, mainly due to the shrinking of the traditional microwave business. Meanwhile, revenue from Rail Transit Communication business increased significantly by 384.5% over the prior year to HK$94,977,000 (2018: HK$19,604,000) which was mainly due to the further expansion and development of the Company's railway communications business.

Gross Profit

During the Current Period, the Group's gross profit increased by 11.4% over the Prior Period to HK$840,253,000 (2018: HK$753,992,000). The Group's gross profit margin was 30.5% in the Current Period (2018: 30.2%), an increase of 0.3 percentage points compared to the Prior Period. Despite of the maturity of 4G products, the Group has proactively developed new products and optimized production systems so as to improve gross profit margin of its products.

The Group will continue to launch new products and solutions, enhance the level of automated and intelligent production to further improve competitiveness and gross profit margin.

Research and Development ("R&D") Costs

In order to better embrace 5G and master the industry-leading technology, the Group actively increased R&D investment, continuously propelled innovation and built the competitiveness of existing products and accelerated the process of launch and commercialization of 5G new products. During the Current Period, R&D costs increased by 24.6% over the Prior Period to HK$176,718,000 (2018: HK$141,820,000), accounting for 6.4% (2018: 5.7%) of the Group's revenue.

Through its strong commitment to R&D, the Group has realized significant achievements in creating its own solutions with proprietary intellectual property and has applied for more than 3,800 patents as at the end of the Current Period (As at 31 December 2018: approximately 3,700 patents).

Selling and Distribution ("S&D") Expenses

During the Current Period, S&D expenses increased by 10.1% over the Prior Period to HK$279,763,000 (2018: HK$254,031,000), accounting for 10.2% (2018: 10.2%) of the Group's revenue. The increase in S&D expenses was mainly due to the increase in sales revenue of the Group.

Administrative Expenses

During the Current Period, administrative expenses decreased by 8.0% over the Prior Period to HK$280,968,000 (2018: HK$305,565,000), accounting for 10.2% (2018: 12.3%) of the Group's revenue. The decrease in administrative expenses was mainly benefited from the improved operating efficiency of the company as a result of optimizing the organization structure and human resources during the prior year.

Finance Costs

During the Current Period, finance costs increased by 83.2% over the Prior Period to HK$53,679,000 (2018: HK$29,299,000), accounting for 2.0% (2018: 1.2%) of the Group's revenue. The increase in finance costs was mainly due to the conversion of most of short-term loans to 3-Year syndicated loan in the first quarter of 2019 and higher interest rates on bank borrowings.

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 growth, the management has closely monitored the latest developments of the financing market and has arranged the most appropriate financing for the Group.

In addition, the management has utilized the advantages of interest and foreign exchange rate differentiation among different countries in order to minimize finance costs. As of 30 June 2019, the gross gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, stood at a level of 16.6% compared with 17.7% as at 31 December 2018.

Operating Profit

During the Current Period, the operating profit of the Group increased by 120.1% over the Prior Period to HK$117,252,000 (2018: HK$53,271,000). The increase in operating profit was mainly benefited from the increase in the Group's revenue during the Current Period.

Tax

During the Current Period, the Group's overall taxation charge of HK$24,535,000 (2018: HK$16,417,000) comprised an income tax expense of HK$22,334,000 (2018: HK$20,116,000) and a deferred tax charge of HK$2,201,000 (2018: deferred tax credit of HK$3,699,000). The increase in overall taxation charge was mainly due to the increase in operating profit of the Group.

Details of preferential tax rates enjoyed by major operating subsidiaries are set out in note 8 above.

Net Profit

During the Current Period, with the increase of revenue, profit attributable to owners of the parent of the Group ("Net Profit") was HK$82,214,000 (2018: HK$21,028,000), representing an increase of 291.0% compared to the Prior Period.

Dividend

In view of the Group's operating results in the first half of 2019 and taking into consideration its long-term future development and the interests of the Shareholders, particularly those of minority Shareholders, the Board proposes an interim dividend for 2019 of HK1 cent per ordinary share (2018: Nil). The total dividend payout ratio, on the basis of basic earnings per share, is 29.9% (2018: N/A).

Prospects

As the national economic development power transformation booster, the mobile telecommunication technology is expected to drive technological innovation and industrial upgrade continuously. Currently, the global operators are deploying 5G networks in a proactive manner. During the Current Period, the Ministry of Industry and Information Technology of the People's Republic of China (MIIT) has officially granted 5G licenses to the major operators in China on 6 June, symbolizing that Mainland China is officially entering the 5G commercialization era, and the mass commercial use of 5G is expected to commence in 2020. Therefore, the Group is optimistic about the prospect of the business development.

Products and Solutions

Antenna and Base Station Subsystems

The Group has a long-established leading position in the base station antenna market. Leveraging its extensive experience in network construction with the evolvement of mobile telecommunication technologies for over 20 years and its cutting-edge technology in miniaturized multi-system multi-mode shared antenna, the Group has been named as a "Global Tier 1 Base Station Antenna Supplier" for eight consecutive years since 2011 by EJL Wireless Research, an industry analyst firm, and ranked among top 3 in terms of its shipments of base station antenna worldwide since 2009. With its global presence, the Group has also been widely recognized by domestic and overseas operators, given its competitive core technology R&D capability and advanced automatic production capacity, enabling it to provide customized products and solutions with higher cost performance to its global customers.

To maintain its core competitiveness in base station antenna, the Group proactively strengthens its in-house R&D. For better cooperation with operators on 5G deployment, during the Current Period, the Group continued to launch various integrated multi-frequency and multi-mode antennas, including "4488" and "4+6" which targeted to different operators in order to meet all non-5G antenna needs and release valuable location spaces for 5G development. Meanwhile, with the progress of 5G network construction throughout the world, the demand for 5G antenna products is increasingly growing. In view of the demands from customers, the Group has made great efforts in the R&D of various 5G antennas for the frequencies under 6 Gigahertz (sub6G) and realized the supply in large quantities.

In addition, as a key component of the base station radio frequency units, the base station filter is developing toward a smaller and lighter one, driven by the 5G Massive MIMO antenna. The dielectric filter is expected to be a main solution to the base station antenna filter in the 5G era. After years of R&D and deployment, the Group has made outstanding breakthrough in the 5G medium-and-high frequency base station dielectric filter, based on which, the Group's competitive advantages in 5G Massive MIMO antenna will be significantly enhanced, further promoting the market share of 5G Massive MIMO antenna and thus expanding the scale of the Group's revenue.

Network Product System Solutions

During the Current Period, the growing mobile user base and rapidly increasing average monthly dataflow of usage per user (DOU) presented a significant challenge to the operators for network construction. Over years, the Group has been committed to the R&D and technology innovation of indoor coverage network products and launched the small cell products, which not only effectively satisfy the medium-to-small in-depth indoor coverage requirements, but also enables the telecommunication operators to reduce construction costs.

Meanwhile, with the upcoming 5G commercial use and in view of the poor signal coverage due to 5G high frequency range, the traditional indoor coverage network products cannot meet the new requirements. Therefore, during the Current Period, in association with China Mobile Research Institute and Intel, the Group demonstrated 5G Cloud Small Cell, the world's first 5G open small cell for commercial use in the industry ever, at the Mobile World Congress Shanghai (MWCS) to propel the development of 5G industry. Considering the difference between 4G and 5G, signaling coverage is transforming to capacity coverage. Characterized by high flexibility, high cost performance and easy to deployment, 5G Cloud Small Cell will become an important solution to the indoor coverage in the 5G era and provide strong support to a number of new businesses and new applications of 5G.

In the 5G era, various hot spots or industrial applications will be emerged continuously as the introduction of various new business patterns. 5G will not only meet the"human needs" in depth, but also the "connection of things". 5G will bring the comprehensive reconstruction of network architecture. The Group is also seeking for collaboration with other manufacturers to launch more flexible and reliable open indoor solutions to more applications of indoor vertical industries, thereby integrating with more industry applications to constitute a new environment of 5G and provide opportunity to the Group for its business expansion in the 5G era.

MARKET EXPANSION

Operator Business in Mainland China

During the Current Period, the later 4G stage network expansion and blind area coverage remained a key investment priority of the three major operators in Mainland China. Driven by the policy of "speed upgrade and tariff reduction" and the user package of "unlimited mobile data", in order to further improve user experience, the operators have been committed to improving the depth and width of 4G network coverage, as well as the quality of mobile network service to ensure user stickiness.

Meanwhile, with the approach of 5G commercial development, the three major telecom operators in Mainland China have been laying out 5G plans for preparation of industrial structure reform and upgrade. Accompanied by the launch of "5G+" plans, 5G networking in SA (Standalone), NSA (Non-standalone) modes, 5G commercial use scenarios and the formal issuance of 5G commercial license, the Group expects the capital expenditure on wireless networks by the major mainland operators to return to growth gradually.

During the Current Period, capturing the opportunity from cost control and expense reduction by operators in Mainland China, the Group proactively strengthened its deep cooperation with operators and provided them with all-around comprehensive solutions. In order to respond to the explosive growth of mobile data traffic, the Group followed the pace of operators tightly, not only providing customized products and solutions in the base station antennas, but also providing all-round business support for the operators in R&D, manufacturing and execution on the projects by taking advantage of the Group's advanced technologies over the past years in indoor coverage products and solutions. In addition, in order to fully prepare for 5G, the Group has been working with the operators and advancing the lab tests and field tests on each 5G indoor coverage strategic projects towards 5G development.

Rail Transit Communication Business

Along with the increasing investment efforts in urban public transportation, among other infrastructure construction, in each big city of Mainland China, progress of the rail transit construction has also been accelerated, boosting the development of the rail transit communication business. The Group has been committed to providing communication system integration and product supply services for the rail transit industry. During the Current Period, the Group has proactively expanding the rail transit communication business and won the tenders for a number of rail transit communication projects in Kunming, Hangzhou, Beijing, Nanning, and Guiyang, which further laid a solid foundation for the continuous development of the Group's rail transit communication business. Looking forward, the Group will continue to provide more scenario-based and customized products and solutions to its customers.

International Business

During the Current Period, the Group's international marketing platform focused on market expansion by exploring customer demands. Capitalizing on its comprehensive advantages in both product and technology, the Group achieved significant breakthrough in some developed markets and realized stable growth in some regional markets. Meanwhile, the Group continued to put more efforts in technology R&D and developed target markets and has made various impressive achievements, which included but not limited to a high-density wireless solution to the major large-scale venues in Brazil, the deployment of indoor wireless network for YAS Mal, the largest shopping center of an international operator in Abu Dhabi and the launch of 4G and 5G Open vRAN solution in collaboration with Parallel Wireless, Inc., a global leading network solution supplier, enabling global mobile network operators to realize best cost performance.

In addition, the Group has made breakthroughs in the cooperation with leading international mobile operators, and has also made remarkable progress in the cooperation with telecom core equipment suppliers in the field of 5G. Looking to the future, the Group will continue to cooperate with global leading telecommunication operators and core equipment suppliers in a strategic manner and jointly develop 5G products so as to provide more solutions to 5G application and improve the market position and competitive edge of the Group in the world.

ETL Business

During the Current Period, pursuant to its ETL network construction plan, the Group continued to deploy wireless network and related supporting system in the capital and major cities in the South and North District of Laos, following the completion of construction of the backbone optical cable carrier network, core network and integrated billing operation system at the end of last year, so as to provide full businesses and services in Laos, including network 2G/3G/4G voice, data, home broadband and group specialized cables.

New Business

Globally, 5G is entering a crucial period for commercial use. It will be a brand-new network connecting everything and give birth to a brand-new business pattern. 5G technologies will release its value in various industries, including agriculture, manufacturing, transportation, education and healthcare. The Group also proactively explores new industry-oriented businesses in, among others, intelligent manufacturing and facial recognition during the Current Period. The success of providing fast and secure face recognition access control solutions to the Mobile World Congress fully demonstrates that the Group is actively incubating new business opportunities outside its core business.

CONCLUSION

During the Current Period, against the backdrop of a mixed external environment and the pressure of a downward economy, the business environment of the communications industry showed both opportunities and challenges. As a major development trend of the new generation of information and communication technology, 5G will be further integrated into each industry vertically and horizontally to fuel the transformation and development of future economy. Sticking to the core value of "creating ideal values for customers", the Group will be determined to expand market and capture business opportunities, develop 5G new products and technologies and facilitate deep inter-sector cooperation in a bid to capture the initial 5G opportunities and promote the Group's business to scale new heights.

Last but not least, the Board would like to take this opportunity to express its heartfelt thanks to all staff for their efforts and contributions to the Group. We also wish to thank our customers, suppliers, Shareholders and business partners for their continuous support. The Group will make full use of its technology, product and market advantages, develop clearly new strategies, enhance operational efficiency and concentrate on operating profits to maximize its enterprise value.

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 2019, the Group had net current assets of HK$3,235,270,000. Current assets comprised inventories of HK$1,332,223,000, trade receivables of HK$4,427,565,000, notes receivable of HK$82,778,000, tax recoverable of HK$46,416,000, prepayments, other receivables and other assets of HK$1,123,261,000, restricted bank deposits of HK$169,083,000 and cash and cash equivalents of HK$1,497,971,000. Current liabilities comprised trade and bills payables of HK$4,319,624,000, other payables and accruals of HK$996,080,000, interest-bearing bank borrowings of HK$56,737,000 and provision for product warranties of HK$71,586,000.

The average receivable turnover for the Current Period was 285 days compared to 331 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 customers which are granted with longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. The balances also include retention money, which is for assurance that the product and service comply with agreed-upon specifications, 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 average payable turnover for the Current Period was 412 days compared to 386 days for the Prior Period. The average inventory turnover for the Current Period was 126 days compared to 156 days for the Prior Period.

As at 30 June 2019, 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 and HK$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a 3-year term loan facility agreement with certain financial institutions with the principal amount of HK$980,000,000 on 30 January 2019 which was further increased to HK$1,458,000,000 by way of accession. Details of bank borrowings are set out in note 14 above.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. In view of 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 2019, the Group has not engaged in hedging activities for managing RMB exchange rate risk.

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 16.6% as at 30 June 2019 (31 December 2018: 17.7%).

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 DEPOSITS

Deposit balances of HK$254,824,000 (31 December 2018: HK$285,507,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had contingent liabilities of HK$300,247,000 (31 December 2018: HK$289,341,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had approximately 6,500 staff, out of which 1,400 staff from ETL (31 December 2018: 6,700 staff, out of which 1,400 staff from ETL). The total staff costs, excluding capitalized development cost, for the Current Period were HK$581,862,000 (31 December 2018: HK$1,161,962,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal and regulatory 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, legal and regulatory requirements 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 Mainland China or elsewhere in accordance with relevant legal requirements in such jurisdiction. 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 of the Group.

An employees incentive scheme is adopted by a subsidiary of the Company for the purpose of recognizing the contributions of its certain employees and persons.

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 Company from time to time in accordance with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code contained in Appendix 14 of 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 has complied with all Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its Directors. Specific enquiries have been made to all Directors, and they have confirmed that they have complied with the required standard as set out in the Model Code and its code of conduct regarding directors' securities transactions 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 condensed consolidated interim financial statements 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

2019 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, 15 August 2019

As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Mr. XU Huijun, Mr. CHANG Fei Fu, Mr. BU Binlong, Mr. WU Tielong and Ms. HUO Xinru; and the following independent non-executive Directors: Mr. LAU Siu Ki, Kevin, Dr. LIN Jin Tong, Ms. NG Yi Kum and Ms. LEUNG Hoi Wai.