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Comba

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 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by 18.6% to HK\$2,238 million
- Gross profit margin increased by 0.8% point to 32.5%
- Profit attributable to shareholders decreased by 35.4% to HK\$53 million
- Basic earnings per share: HK2.09 cents (2019: HK3.35 cents)
- Interim dividend of HK0.7 cent per share (2019: HK1 cent per share)
- Dividend payout ratio: 33.5% (2019: 29.9%)

RESULTS

The board (the “Board”) of directors (the “Director(s)”) 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 2020, together with the comparative figures for the same period in 2019. These interim condensed consolidated financial statements have not been audited, but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

| | Notes | For the six months ended 30 June | |
|---|-------|-------------------------------------|---|
| | | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Restated and unaudited) |
| REVENUE | 5 | 2,238,485 | 2,751,224 |
| Cost of sales | | <u>(1,511,875)</u> | <u>(1,878,873)</u> |
| Gross profit | | 726,610 | 872,351 |
| Other income and gains | 5 | 80,893 | 92,027 |
| Research and development expenses | | (174,204) | (208,816) |
| Selling and distribution expenses | | (194,143) | (279,763) |
| Administrative expenses | | (234,605) | (280,968) |
| Other expenses | | (123,293) | (77,579) |
| Finance costs | 7 | <u>(41,296)</u> | <u>(53,679)</u> |
| PROFIT BEFORE TAX | 6 | 39,962 | 63,573 |
| Income tax expense | 8 | <u>(39,139)</u> | <u>(24,535)</u> |
| PROFIT FOR THE PERIOD | | <u>823</u> | <u>39,038</u> |
| Attributable to: | | | |
| Owners of the parent | | 53,137 | 82,214 |
| Non-controlling interests | | <u>(52,314)</u> | <u>(43,176)</u> |
| | | <u>823</u> | <u>39,038</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 10 | | |
| Basic | | <u>HK2.09 cents</u> | <u>HK3.35 cents</u> |
| Diluted | | <u>HK2.04 cents</u> | <u>HK3.32 cents</u> |

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Restated and unaudited) |
| PROFIT FOR THE PERIOD | 823 | 39,038 |
| OTHER COMPREHENSIVE LOSS | | |
| Other comprehensive loss that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | <u>(127,523)</u> | <u>(52,548)</u> |
| Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods | <u>(127,523)</u> | <u>(52,548)</u> |
| OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX | <u>(127,523)</u> | <u>(52,548)</u> |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | <u>(126,700)</u> | <u>(13,510)</u> |
| Attributable to: | | |
| Owners of the parent | (70,356) | 34,376 |
| Non-controlling interests | <u>(56,344)</u> | <u>(47,886)</u> |
| | <u>(126,700)</u> | <u>(13,510)</u> |

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

| | | 30 June 2020 <i>HK\$'000</i> (Unaudited) | 31 December 2019 <i>HK\$'000</i> (Audited) |
|---|----|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 1,242,972 | 1,320,293 |
| Right-of-use assets | | 211,245 | 253,261 |
| Goodwill | | 253,077 | 253,077 |
| Deferred tax assets | | 181,653 | 204,064 |
| Intangible assets | | 877,099 | 859,853 |
| Equity investments designated at fair value through other comprehensive income | | 13,163 | 13,423 |
| Equity investments designated at fair value through profit or loss | | 27,992 | 28,473 |
| Restricted bank deposits | | 61,431 | 71,532 |
| | | 2,868,632 | 3,003,976 |
| TOTAL non-current assets | | | |
| CURRENT ASSETS | | | |
| Inventories | 11 | 1,425,775 | 1,191,244 |
| Trade receivables | 12 | 3,848,652 | 3,997,781 |
| Notes receivable | | 48,991 | 156,822 |
| Prepayments, other receivables and other assets | | 741,084 | 790,901 |
| Financial assets designated at fair value through profit or loss | | 1,560 | – |
| Restricted bank deposits | | 151,704 | 169,179 |
| Cash and cash equivalents | | 1,772,039 | 1,867,186 |
| | | 7,989,805 | 8,173,113 |
| TOTAL current assets | | | |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 13 | 3,762,170 | 4,026,068 |
| Other payables and accruals | | 694,535 | 1,092,456 |
| Interest-bearing bank borrowings | 14 | 542,845 | 115,086 |
| Tax payable | | 85,233 | 82,835 |
| Provision for product warranties | | 70,644 | 73,764 |
| | | 5,155,427 | 5,390,209 |
| TOTAL current liabilities | | | |
| NET CURRENT ASSETS | | 2,834,378 | 2,782,904 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,703,010 | 5,786,880 |

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION*30 June 2020*

| | | 30 June 2020 | 31 December 2019 |
|--|-------------|-------------------------|---------------------|
| | <i>Note</i> | HK\$'000 | <i>HK\$'000</i> |
| | | (Unaudited) | (Audited) |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | <i>14</i> | 920,600 | 1,643,039 |
| Lease liabilities | | 67,342 | 94,409 |
| Deferred tax liabilities | | 148,322 | 152,415 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 1,136,264 | 1,889,863 |
| | | <hr/> | <hr/> |
| Net assets | | 4,566,746 | 3,897,017 |
| | | <hr/> | <hr/> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | | 274,126 | 248,599 |
| Treasury shares | | (22,818) | (22,818) |
| Reserves | | 3,841,604 | 3,235,428 |
| | | <hr/> | <hr/> |
| | | 4,092,912 | 3,461,209 |
| | | <hr/> | <hr/> |
| Non-controlling interests | | 473,834 | 435,808 |
| | | <hr/> | <hr/> |
| Total equity | | 4,566,746 | 3,897,017 |
| | | <hr/> | <hr/> |

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 operator telecommunication services and their value added services.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 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 2019.

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 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

| | |
|---|--|
| Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| Amendments to HKFRS 16 | <i>Covid-19-Related Rent Concessions (early adopted)</i> |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (e) Voluntary change in accounting policies for amortization of deferred development expenses

The management of the Group reassessed the classification of the deferred expenditure amortization and considered that the amortization will be classified as research and development expenses, instead of cost of sales, to provide more relevant information about the effects on the amortization to the users of the financial statements. As such, the Company proposed a voluntary change in the accounting policy.

The main effects of retrospective adjustments caused by the above accounting policy change on financial statements are as follows:

| Consolidated statement of profit or loss and other comprehensive income | Before change in accounting policy for six months ended in 30 June 2020 HK\$'000 (Unaudited) | Reclassification on change in accounting policy HK\$'000 (Unaudited) | After change in accounting policy for six months ended in 30 June 2020 HK\$'000 (Unaudited) |
|--|--|--|---|
| Cost of sales | (1,540,102) | 28,227 | (1,511,875) |
| Research and development expenses | (145,977) | (28,227) | (174,204) |
| | <u>(1,686,079)</u> | <u>–</u> | <u>(1,686,079)</u> |
| Profit before tax | <u>39,962</u> | <u>–</u> | <u>39,962</u> |
| | | | |
| Consolidated statement of profit or loss and other comprehensive income | Before change in accounting policy for six months ended in 30 June 2019 HK\$'000 (Restated and unaudited) | Reclassification on change in accounting policy HK\$'000 (Restated and unaudited) | After change in accounting policy for six months ended in 30 June 2019 HK\$'000 (Restated and unaudited) |
| Cost of sales | (1,910,971) | 32,098 | (1,878,873) |
| Research and development expenses | (176,718) | (32,098) | (208,816) |
| | <u>(2,087,689)</u> | <u>–</u> | <u>(2,087,689)</u> |
| Profit before tax | <u>63,573</u> | <u>–</u> | <u>63,573</u> |

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 and services
- (b) Operator 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 2020 | Wireless telecommunications network system equipment and services HK\$'000 (Unaudited) | Operator telecommunication services HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|---------------------------|--|--|----------------------------------|
| Revenue | 2,161,726 | 76,759 | 2,238,485 |
| Profit/(loss) before tax | 135,987 | (96,025) | 39,962 |
| Segment assets | 9,821,676 | 1,917,637 | 11,739,313 |
| Elimination | | | (880,876) |
| Total assets | | | <u>10,858,437</u> |
| Segment liabilities | 6,135,711 | 1,036,856 | 7,172,567 |
| Elimination | | | (880,876) |
| Total liabilities | | | <u>6,291,691</u> |
| | | | |
| Period ended 30 June 2019 | Wireless telecommunications network system equipment and services HK\$'000 (Unaudited) | Operator telecommunication services HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
| 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 | | | <u>11,372,743</u> |
| Segment liabilities | 7,344,682 | 672,363 | 8,017,045 |
| Elimination | | | (526,416) |
| Total liabilities | | | <u>7,490,629</u> |

Geographical information

(a) Revenue from external customers

| | For the six months ended 30 June | |
|---------------------------------------|-------------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Mainland China | 1,570,127 | 2,031,144 |
| Other countries/areas in Asia Pacific | 328,064 | 354,018 |
| Americas | 190,988 | 193,968 |
| European Union | 129,931 | 118,638 |
| Middle East | 13,724 | 45,308 |
| Other countries | 5,651 | 8,148 |
| | <u>2,238,485</u> | <u>2,751,224</u> |

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

(b) Non-current assets

| | 30 June 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|----------------------------------|--|--|
| | Mainland China | 1,052,023 |
| Lao People's Democratic Republic | 1,783,820 | 1,889,404 |
| Other countries/regions | 32,789 | 41,827 |
| | <u>2,868,632</u> | <u>3,003,976</u> |

Information about major customers

Revenue of approximately HK\$509,935,000 (six months ended 30 June 2019: HK\$797,019,000), HK\$232,693,000 (six months ended 30 June 2019: HK\$266,997,000) and HK\$186,635,000 (six months ended 30 June 2019: HK\$455,551,000) was derived from 3 major customers, which accounted for 22.8% (six months ended 30 June 2019: 29.0%), 10.4% (six months ended 30 June 2019: 9.7%) and 8.3% (six months ended 30 June 2019: 16.6%) 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 | |
|---|---|---|
| | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) |
| Revenue | | |
| Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services | 2,156,093 | 2,656,856 |
| Maintenance services | 5,633 | 14,077 |
| Provision of operator telecommunication services | 76,759 | 80,291 |
| | <u>2,238,485</u> | <u>2,751,224</u> |

Revenue from contracts with customers

| | For the six months ended 30 June | |
|---|---|---|
| | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) |
| Type of customers | | |
| PRC state-owned telecommunication operator groups | 929,263 | 1,519,567 |
| Other customers | 1,309,222 | 1,231,657 |
| | <u>2,238,485</u> | <u>2,751,224</u> |

| | For the six months ended 30 June | |
|--------------------------------------|---|---|
| | 2020 <i>HK\$'000</i> (Unaudited) | 2019 <i>HK\$'000</i> (Unaudited) |
| Timing of revenue recognition | | |
| Goods transferred at a point in time | 2,156,093 | 2,656,856 |
| Services transferred over time | 82,392 | 94,368 |
| | <u>2,238,485</u> | <u>2,751,224</u> |

An analysis of other income and gains is as follows:

| | For the six months ended 30 June | |
|---|---|--------------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Other income and gains | | |
| Bank interest income | 9,072 | 6,001 |
| Exchange gain, net | – | 6,174 |
| Government subsidies [#] | 50,407 | 59,649 |
| VAT refunds [*] | 8,293 | 2,946 |
| Gain on equity investments designated at fair value through profit or loss | – | 4,607 |
| Gain on disposal of part of equity investment designated at fair value through profit or loss | – | 1,301 |
| Gain on disposal of items of property, plant and equipment | 3,215 | – |
| Gross rental income | 2,967 | 2,536 |
| Others | 6,939 | 8,813 |
| | 80,893 | 92,027 |

[#] 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 2019 and 2020, 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 13% in 2020 (16% before April 2019). 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 | |
|---|---|-----------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) |
| Cost of inventories sold and services provided | 1,487,417 | 1,782,756 |
| Depreciation of property, plant and equipment | 102,962 | 83,013 |
| Depreciation of right-of-use assets | 19,957 | 16,006 |
| Amortization of computer software, technology and operating license | 14,092 | 13,911 |
| Research and development expenses: | | |
| Deferred expenditure amortized** | 28,227 | 32,098 |
| Current period expenditure | 145,977 | 176,718 |
| | 174,204 | 208,816 |
| Employee benefit expense (including directors' remuneration): | | |
| Salaries and wages | 360,091 | 497,984 |
| Staff welfare expenses | 25,309 | 33,853 |
| Equity-settled share option expense | 15,083 | 12,149 |
| Pension scheme contributions (defined contribution scheme)# | 15,791 | 37,876 |
| | 416,274 | 581,862 |
| Exchange loss/(gain), net* | 15,476 | (6,174) |
| Provision for product warranties^ | 11,933 | 13,412 |
| Write-down of inventories to net realizable value^ | 5,720 | 79,497 |
| Impairment of trade receivables and notes receivable | 39,441 | 15,226 |
| Impairment of other receivables | 7,905 | 703 |
| (Gain)/loss on disposal of items of property, plant and equipment | (3,215) | 218 |
| Loss on fair value change of financial assets designated at fair value through profit or loss | 661 | – |
| Gain on equity investments designated at fair value through profit or loss | – | (4,607) |
| Gain on disposal of part of equity investment designated at fair value through profit or loss | – | (1,301) |

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

At 30 June 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2019: Nil).

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

** The amortization for deferred development expense was included in "Research and development expenses" in the consolidated statement of profit or loss. The amount being capitalized during the period is HK\$63,857,000.

7. FINANCE COSTS

| | For the six months ended 30 June | |
|--|-------------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Interest on bank borrowings | 39,739 | 48,269 |
| Interest on factored trade receivables | – | 3,148 |
| Interest on lease liabilities | 1,557 | 2,262 |
| | <hr/> | <hr/> |
| Total | 41,296 | 53,679 |

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2019: Nil). 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 | |
|---|-------------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Current – charge for the period | | |
| Hong Kong | – | – |
| Mainland China | 6,774 | 25,262 |
| Elsewhere | 6,956 | 3,525 |
| Current – under/(over) provision in prior periods | 10,926 | (6,453) |
| Deferred | 14,483 | 2,201 |
| | <hr/> | <hr/> |
| Total tax charge for the period | 39,139 | 24,535 |

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 2020 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 2020.

9. DIVIDENDS

| | For the six months ended 30 June | |
|--|-------------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Final declared and paid – HK1.2 cents (2018: Nil) per ordinary share | 32,895 | – |
| Interim – HK0.7 cent (six months ended 30 June 2019: HK1 cent) per ordinary share (<i>note</i>) | 19,189 | 24,792 |

Note:

On 20 August 2020, the board of directors declared an interim dividend of HK0.7 cent (six months ended 30 June 2019: HK1 cent) per ordinary share, amounting to a total of approximately HK\$19,189,000 (six months ended 30 June 2019: HK\$24,792,000).

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 2,536,938,000 (six months ended 30 June 2019: 2,452,931,000) 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 | |
|---|-------------------------------------|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Earnings Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations | 53,137 | 82,214 |

| | Number of shares | |
|---|---|--------------------|
| | For the six months ended 30 June | |
| | 2020 | 2019 |
| | (Unaudited) | (Unaudited) |
| Shares | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations | 2,536,938,000 | 2,452,931,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | 62,511,000 | 24,595,000 |
| | 2,599,449,000 | 2,477,526,000 |

11. INVENTORIES

| | 30 June | 31 December |
|---------------------|--------------------|------------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Raw materials | 285,834 | 231,927 |
| Project materials | 87,562 | 53,282 |
| Work in progress | 88,390 | 45,882 |
| Finished goods | 563,518 | 559,704 |
| Inventories on site | 400,471 | 300,449 |
| | 1,425,775 | 1,191,244 |

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. 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 2020 | 31 December 2019 |
|--------------------------|-------------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Within 3 months | 1,263,896 | 1,655,053 |
| 4 to 6 months | 346,874 | 463,194 |
| 7 to 12 months | 955,034 | 585,223 |
| More than 1 year | 1,749,558 | 1,763,873 |
| | 4,315,362 | 4,467,343 |
| Provision for impairment | (466,710) | (469,562) |
| | 3,848,652 | 3,997,781 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on groupings of various customer segments with similar loss patterns (i.e., geography, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| As at 30 June 2020 | Current | Past due | | | Total |
|-----------------------------------|-----------|---------------------|--------------|-----------------|-----------|
| | | Less than 1 year | 1-2 years | Over 2 years | |
| Expected credit loss rate | 1.71% | 2.72% | 17.21% | 50.42% | |
| Gross carrying amount (HK\$'000) | 2,586,950 | 735,370 | 296,187 | 696,855 | 4,315,362 |
| Expected credit losses (HK\$'000) | 44,362 | 20,025 | 50,979 | 351,344 | 466,710 |
| As at 31 December 2019 | Current | Past due | | | Total |
| | | Less than 1 year | 1-2 years | Over 2 years | |
| Expected credit loss rate | 1.51% | 2.24% | 14.78% | 51.00% | |
| Gross carrying amount (HK\$'000) | 2,738,974 | 709,106 | 297,023 | 722,240 | 4,467,343 |
| Expected credit losses (HK\$'000) | 41,458 | 15,849 | 43,895 | 368,360 | 469,562 |

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 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|------------------|--|--|
| Within 3 months | 1,859,496 | 2,251,938 |
| 4 to 6 months | 351,319 | 704,646 |
| 7 to 12 months | 797,998 | 503,754 |
| More than 1 year | 753,357 | 565,730 |
| | <u>3,762,170</u> | <u>4,026,068</u> |

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 2020 HK\$'000 (Unaudited) | 31 December 2019 HK\$'000 (Audited) |
|------------------------------------|--|--|
| Analyzed into: | | |
| Within 1 year or on demand | 542,845 | 115,086 |
| In the 2nd year | 920,600 | 885,986 |
| In the 3rd to 5th years, inclusive | – | 645,198 |
| Beyond 5 years | – | 111,855 |
| | <u>1,463,445</u> | <u>1,758,125</u> |

As at 30 June 2020, loans denominated in Hong Kong dollars and RMB amounted to HK\$1,373,500,000 (31 December 2019: HK\$1,389,000,000) and HK\$89,945,000 (31 December 2019: HK\$369,125,000), respectively.

The Company and five of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited, Comba Telecom Limited, Comba Telecom Systems Limited and Comba Telecom Technology (Guangzhou) 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 2020 bear interest at rates ranging from 1.5% to 3.6% (31 December 2019: from 3.5% to 5.5%) 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 4 September 2020. Shareholders whose names appear on the register of members of the Company on 4 September 2020 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 4 September 2020. Dividend warrants will be despatched to the shareholders of the Company (the "Shareholders") on 15 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Entering into 2020, the sudden outbreak of the coronavirus disease 2019 (the "COVID-19") had a certain impact on most of the industries in a short term. The global 5G construction has been delayed to a certain extent. However, the development of telecommunication network is an important condition for promoting overall social progress, the 5G construction will continue to forge ahead in the medium and long run, and will further stress that telecommunication is playing an important role in economic construction and all aspects of people's daily life.

Revenue

The Group reported the interim revenue of HK\$2,238,485,000 (2019: HK\$2,751,224,000) for the six months ended 30 June 2020 (the "Current Period"), representing a decrease of 18.6% compared to the six months ended 30 June 2019 (the "Prior Period"). The decrease in revenue was mainly due to the global outbreak of the COVID-19, and a certain delay in the construction of 5G networks.

By Customers

During the Current Period, affected by the COVID-19 outbreak in Mainland China in the first quarter, the major mobile operators in China focused on emergency communication network coverage and recovery in epidemic areas, and there was a certain delay in 5G network construction. With the improvement of the epidemic situation in Mainland China, 5G deployment is being carried out in an orderly manner. At the same time, the co-constructing and sharing deployment in the different network frequency spectrum and the different network modes is also expected to bring growth to the Group's business.

During the Current Period, revenue generated from China Mobile Communications Corporation and its subsidiaries decreased by 36.0% over the Prior Period to HK\$509,935,000 (2019: HK\$797,019,000), accounting for 22.8% of the Group's revenue in the Current Period, compared to 29.0% in the Prior Period.

Revenue generated from China United Telecommunications Corporation and its subsidiaries decreased by 59.0% over the Prior Period to HK\$186,635,000 (2019: HK\$455,551,000), accounting for 8.3% of the Group's revenue in the Current Period, compared to 16.6% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries decreased by 12.8% over the Prior Period to HK\$232,693,000 (2019: HK\$266,997,000), accounting for 10.4% of the Group's revenue in the Current Period, compared to 9.7% in the Prior Period.

During the Current Period, revenue generated from China Tower Corporation Limited ("China Tower") significantly increased by 63.4% over the Prior Period to HK\$173,281,000 (2019: HK\$106,029,000). Due to the increasing demand for the indoor coverage business by China Tower, the Group will strengthen its cooperation with China Tower group and continue to provide high-quality products and solutions that meet customer requirements.

During the Current Period, revenue from other customers decreased by 8.9% over the Prior Period to HK\$246,945,000 (2019: HK\$271,184,000) and represented 11.0% (2019: 9.9%) of the Group's revenue. Among these, revenue generated from Rail Transit Communication customers decreased by 17.6% over the Prior Period to HK\$78,244,000 (2019: HK\$94,977,000). The Group will also strengthen the related services of Rail Transit Communication wireless solutions to lay a foundation for the development of Rail Transit Communication business.

On the international front, during the Current Period, revenue generated from international customers and core equipment manufacturers increased by 4.9% over the Prior Period to HK\$812,237,000 (2019: HK\$774,153,000), accounting for 36.3% of the Group's revenue in the Current Period, compared to 28.1% in the Prior Period. The increase was mainly due to further development of the Group's existing customers by the continuous strengthened cooperation with international core equipment manufacturers and progress achieved to a certain extent, as well as due to the climbing demand for network construction in some regions (such as Europe and India). The Group will continue to further deepen the strategic cooperation with international leading operators and core equipment manufacturers to actively expand 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 4.4% over the Prior Period to HK\$76,759,000 (2019: HK\$80,291,000), accounting for 3.4% of the Group's revenue in the Current Period (2019: 2.9%). The decrease in revenue was mainly due to ETL's delay in acquiring new customers, affected by the COVID-19 epidemic, during the period. ETL will gradually strengthen online and offline sales capabilities and increase sales channels in the second half of the year. Revenue is expected to improve when the local epidemic status improves.

By Business

During the Current Period, revenue generated from the antennas and subsystems business decreased by 45.0% over the Prior Period to HK\$834,350,000 (2019: HK\$1,516,423,000), accounting for 37.3% (2019: 55.1%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to the global and domestic delay in partial demands affected by the COVID-19 outbreak as well as decrease in demands of direct procurement by domestic operators during the period.

During the Current Period, revenue generated from the network system business increased by 7.8% over the Prior Period to HK\$405,616,000 (2019: HK\$376,098,000), accounting for 18.1% (2019: 13.7%) of the Group's revenue in the Current Period. With the scale deployment of 5G construction, the large-scale commercial use of new digital indoor coverage, represented by small cells, will be gradually implemented. The network system market will enter a new phase.

During the Current Period, revenue from services increased by 11.6% over the Prior Period to HK\$724,470,000 (2019: HK\$649,249,000), accounting for 32.4% (2019: 23.6%) of the Group's revenue. The increase in revenue was mainly due to the optimization of the service team for undertaking a wider range of projects.

During the Current Period, revenue from other business (including wireless transmission and comprehensive solutions) increased by 52.7% over the Prior Period to HK\$197,290,000 (2019: HK\$129,163,000), accounting for 8.8% (2019: 4.7%) of the Group's revenue. Among which, revenue from the wireless transmission business largely increased by 248.2% to HK\$119,046,000 (2019: HK\$34,186,000), mainly due to the product upgrade and market expansion of microwave business. Revenue from Rail Transit Communication business dropped by 17.6% over the Prior Period to HK\$78,244,000 (2019: HK\$94,977,000) which was mainly because Rail Transit Communication business is affected by the domestic epidemic, to some extent.

Gross Profit

During the Current Period, the Group's gross profit decreased by 16.7% over the Prior Period to HK\$726,610,000 (2019: HK\$872,351,000). The Group's gross profit margin was 32.5% in the Current Period (2019: 31.7%), an increase of 0.8 percentage points compared to the Prior Period. The Group has been proactively optimizing production systems and developing new products so as to continue 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”) Expenses

During the Current Period, R&D expenses decreased by 16.6% over the Prior Period to HK\$174,204,000 (2019: HK\$208,816,000), accounting for 7.8% (2019: 7.6%) of the Group's revenue. In order to better master the industry-leading technology, the Group will maintain a certain level of R&D strength, build the competitiveness of existing products and accelerate the process of launch of 5G-related products.

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 4,600 patents as of the end of the Current Period (31 December 2019: approximately 4,400 patents).

Selling and Distribution (“S&D”) Expenses

During the Current Period, S&D expenses decreased by 30.6% over the Prior Period to HK\$194,143,000 (2019: HK\$279,763,000), accounting for 8.7% (2019: 10.2%) of the Group’s revenue. The decrease in S&D expenses was mainly due to further improvement of the Group’s internal management.

Administrative Expenses

During the Current Period, administrative expenses decreased by 16.5% over the Prior Period to HK\$234,605,000 (2019: HK\$280,968,000), accounting for 10.5% (2019:10.2%) 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 optimization of the organizational structure and human resources of the Group.

Finance Costs

During the Current Period, finance costs decreased by 23.1% over the Prior Period to HK\$41,296,000 (2019: HK\$53,679,000), accounting for 1.8% (2019: 2.0%) of the Group’s revenue. The decrease in finance costs was mainly due to decrease in the bank borrowings and the lower interest rate as a result of the decrease of the market interest rate during the period.

The management has constantly exercised prudence in managing credit risk and the level of bank borrowings and at the meantime, has devoted itself to improving cash flow level. To cope with the business growth, the management has closely monitored the latest developments of the financing market change of interest rate and financial polices in the market and has arranged the most appropriate financing for the Group, in order to improve the structure of its debts and thereby reduce its financing costs.

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 at 30 June 2020, the gross gearing ratio of the Group, defined as total interest-bearing bank borrowings divided by total assets, stood at a level of 13.5% compared with 15.7% as at 31 December 2019.

Other Expenses

During the Current Period, other expenses increased by 58.9% over the Prior Period to HK\$123,293,000 (2019: HK\$77,579,000), representing 5.5% (2019: 2.8%) of the Group’s revenue. The increase in other expenses was mainly due to the increase in the provision of trade and other account receivables of HK\$31,417,000 and the increase in depreciation of ETL’s equipment of HK\$14,758,000 during the period.

Operating Profit

During the Current Period, the operating profit of the Group decreased by 30.7% over the Prior Period to HK\$81,258,000 (2019: HK\$117,252,000). The decrease in operating profit was mainly due to the decrease in the Group's revenue during the Current Period.

Tax

During the Current Period, the Group's overall taxation charge of HK\$39,139,000 (2019: HK\$24,535,000) comprised an income tax expense of HK\$24,656,000 (2019: HK\$22,334,000) and a deferred tax charge of HK\$14,483,000 (2019: deferred tax charge of HK\$2,201,000). The increase in overall taxation charge was mainly due to higher tax obligation as a result of domestic business restructuring of the Group. The improvement of the management efficiency and long-term benefit by business restructuring will offset the tax expenses.

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

Net Profit

During the Current Period, with the decrease of revenue, profit attributable to owners of the parent of the Group was HK\$53,137,000 (2019: HK\$82,214,000), representing a decrease of 35.4% compared to the Prior Period.

Dividend

In view of the Group's operating results in the first half of 2020 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 2020 of HK0.7 cent per ordinary share (2019: HK1 cent). The total dividend payout ratio, on the basis of basic earnings per share, is 33.5% (2019: 29.9%).

Prospects

2020 marks the year for mass construction of 5G. Following the freezing of 5G R16 standards, 5G has officially entered into Generation 1.0. The global expectation of 5G has escalated to the height of a pathway to industrial revolution, and thus 5G has become the focus of global competition. The COVID-19 outbreak across the globe in the first half of the year has affected various industries in different countries to a certain extent and various countries were under emergency lockdown of varying degrees, which has greatly impacted the globalized economy. The overall network investment has declined significantly in some regions and the worldwide 5G construction has also experienced certain delays. However, 5G development will not be disrupted overall and continue to forge ahead.

Products and Solutions

Antenna and Subsystems

Leveraging its extensive experience in mobile network construction and its advanced technology in lightweight multi-system multi-mode shared antenna over the years, the Group has a long-established leading position in the base station antenna market and has been named as a “Global Tier 1 Base Station Antenna Supplier” for eight consecutive years by industry analyst firm EJM Wireless Research, as well as been ranked in top 2 of global shipments for seven consecutive years. The Group has been widely recognized by numerous domestic and overseas telecommunication network operators, equipment manufacturers and integrators, with its antenna business presence in more than 100 countries and regions globally.

Domestically, 4G network construction was completed last year. The AAU was the main product type in the early stage of 5G network construction. The direct purchase demand of operators dropped sharply and new demands mainly come from the partial re-building of antenna location spaces. However, with the 5G network co-built by China Mobile and China Broadcasting & Television on 700MHz and China Unicom and China Telecom on 2.1GHz, demands from operators will return. Internationally, in view of different stages of network status in various countries and mobile network construction promoted by mobile office and remote video communication, the demands for 4G and 5G antenna have maintained a sustained growth trend. In the 5G era, the demand for BSA antenna, AAS antenna and 4G/5G integrated convergent antenna will develop in a balanced manner. The Group has developed a variety of miniaturized and lightweight 5G Massive MIMO antenna, FDD ultra-multi-port multi-system shared antenna, FDD/TDD hybrid multi-system shared antenna and 4G/5G convergent antenna, as well as newly developed “A + P” tower top solution, matching the needs of customers in different application scenarios and promoting the construction of 5G networks.

During the period, despite of the global outbreak of COVID-19, the Group’s antenna production and supply were stable. Among them, the three major products of AAS, AFU and CWG supporting 5G AAU were delivered in bulk supply, with an increasing market share. New products such as 4G/5G convergent antenna were commercial used in Europe and Asia Pacific, increasing the global market share and revenue of traditional antenna.

Moreover, targeting “5G broad indoor coverage”, the Group also introduced market-leading innovative customized solutions of antenna for broad indoor coverage such as the new building coverage antenna addressing the demand of district and residential areas coverage, the 5G wall-mounted antenna addressing the demand of tunnel coverage, and the 3D beam forming antenna addressing the coverage demand from large venues, transportation hubs and others. These solutions have currently been shipped to certain regions. With the development of 5G indoor coverage, the importance of the new customized antennas will increase in the future.

Network Product System Solutions

The Group has been committed to R&D and technological innovation of indoor coverage of network products and also possessed leading technologies such as new digital indoor deployment solutions specially for design of indoor wireless network coverage .

In 5G construction, the daunting challenges of network capacity, the need to improve indoor efficiency, the difficulty of traditional indoor coverage to meet new demands, as well as the cost-effective network construction requirements, lead to new challenges for 5G empowering industry. Diversified network will be the trend of 5G-based network construction and the new digital indoor coverage network will play the role as same as the macro base station network in order to effectively optimize depth and capacity coverage of 5G network. The Group has also been actively engaged in 5G technology and R&D, standard formulation and industrial promotion as well as engaged in providing end-to-end 5G+ industry open platform solutions, with a view to constantly exploring broader application scenarios, seeking 5G's potential value in vertical industries as well as optimizing end-to-end products and solutions.

The first 5G open platform small cell for commercial use debuted by the Group in the industry , namely 5G Cloud Small Cell, integrates functions such as MEC and is able to provide end-to-end basic network solutions for vertical industries. The 5G Cloud Small Cell is currently being deployed and under commercial trial in more than ten provinces and cities such as Beijing, Guangdong and Zhejiang, including connection with existing core network of NSA and SA as well as compatible connection with IoT of existing 5G commercial terminals, both of which have met the requirements for commercial use. The Group has also achieved great milestones in the field of 5G+ industrial application. Following the inclusion in the first batch of “demonstration park for 5G+ industrial internet application” by the Department of Industry and Information Technology of Guangdong Province last year, the Group has currently deployed applications such as remote control, high precision indoor positioning, cloud-based machine vision and cloud-based AGV in smart factories based on 5G Cloud Small Cell + MEC.

The Group will constantly invest in R&D on integration of 5G indoor coverage with industrial internet innovation. Going forward, the Group will collaborate with industrial partners to facilitate the integration of 5G indoor coverage technology into various fields of vertical industries to explore competitive business models, with a view to creating a bright future of smart interconnection of 5G+ vertical industries.

MARKET EXPANSION

Operator Business in Mainland China

During the COVID-19 outbreak in Mainland China since the beginning of the year and following with the stringent control launched by China, the progress of 5G construction in Mainland China was delayed to some extent. In order to contain the pandemic and stimulate the economy, China timely promulgated various policies including the development of new infrastructures. Acting as the “engine” and “accelerator” of the new infrastructures, 5G has played a critical role. During the period, in response to the call for new infrastructures, the three major operators have pushed forward the implementation of 5G in an orderly manner, actively commenced efforts such as collaboration of “co-construction and sharing” for 5G and made some progress. Now, the number of 5G users has exceeded a hundred million in China.

Following the large-scale deployment of 5G mobile network by the three major operators intensively, the construction of 5G network has entered into a new phase. The width and depth of the network coverage were considered in the network construction. The 5G construction of low frequency spectrum was gradually commenced. For example, China Mobile and China Broadcasting Network Group have announced the joint investment, construction and shared use of 700MHz 5G wireless network, thereby further enhancing the 5G network’s coverage. Progress of 5G construction has laid a concrete foundation for the new infrastructures. As such, it has paved the way for further pushing forward the structural reform of the society and industries as well as improving the quality of life.

International Business

Through deeply exploring the customer demands, the Group’s international marketing platform proactively developed products catering for different regional markets so as to maintain the product competitiveness. Meanwhile, it continued to explore the international market actively and put in more resources for expanding target markets. Besides, it continued to maintain the close cooperation with global leading telecom operators and core equipment suppliers to provide advanced 5G application solutions for global customers, and thus consolidating the Group’s global market status constantly.

During the period, capitalizing on its advantages in both product and technology, the Group continued to maintain stable cooperation in 5G with international mobile operators in key areas and global leading telecom core equipment suppliers. Although the 5G construction in various countries has been impacted by COVID-19 to different extent, the Group has made certain progress in some regions. In addition, the Group maintained a close cooperation with telecom core equipment suppliers. Looking forward, the Group will actively develop strategic partnership with other telecom core equipment suppliers more extensively, with a view to fostering mutual benefits through cooperation.

In addition, the Group will continue to expand the OpenRAN ecosystem, develop strategic partnership to jointly conduct R&D of products, explore sales channels, and facilitate the commercial use of products, thereby making contributions to the growth of the OpenRAN industrial alliance continuously.

New Business

Three major application for 5G, namely enhanced mobile broadband, large-scale internet of things, and ultra-reliable and low latency communications, will bring revolutionary changes to every industry. Industry pioneers are actively exploring business possibilities of “5G+applications” in different industries as well as in all aspects of manufacturing. During the period, the Group continued to conduct more in-depth explorations in future 5G application scenarios such as smart manufacturing, and facilitate the effective integration of 5G technology and smart manufacturing such as smart workshop, flexible production line, smart machinery, etc., so that corporate managers can operate and manage the production flow more efficiently, and hence further improving industrial efficiency.

CONCLUSION

As affected by the outbreak of epidemic around the world in the first half of 2020, although 5G network construction has been delayed to a certain extent, it is still orderly in progress. The Group’s epidemic prevention work continued to be carried out in an orderly manner as a whole, with zero infections among all employees, ensuring the smooth operation of business.

The Group will continue to seize the opportunity of 5G construction, invest in 5G technological R&D, maintain the advancing edge of 5G products, and promote the sustainable development of the Group’s business. At the same time, sticking to the core value of “creating ideal values for customers”, the Group will boost operating efficiency and improve various operating indicators, with a view to striving to create value for customers.

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 2020, the Group had net current assets of HK\$2,834,378,000. Current assets comprised inventories of HK\$1,425,775,000, trade receivables of HK\$3,848,652,000, notes receivable of HK\$48,991,000, prepayments, other receivables and other assets of HK\$741,084,000, financial assets designated at fair value through profit or loss of HK\$1,560,000, restricted bank deposits of HK\$151,704,000 and cash and cash equivalents of HK\$1,772,039,000. Current liabilities comprised trade and bills payables of HK\$3,762,170,000, other payables and accruals of HK\$694,535,000, interest-bearing bank borrowings of HK\$542,845,000, tax payable of HK\$85,233,000 and provision for product warranties of HK\$70,644,000.

The average receivable turnover for the Current Period was 320 days compared to 285 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. 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 470 days compared to 419 days for the Prior Period. The average inventory turnover for the Current Period was 158 days compared to 128 days for the Prior Period.

As at 30 June 2020, 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 2020, the Group has not engaged in hedging activities for managing RMB exchange rate risk. The Group will also closely monitor the fluctuation of exchange rate in other currencies and will consider hedging such foreign currency should the need arise. As at 30 June 2020, the Group has outstanding non-deliverable foreign currency option contracts in respect of Indonesian Rupiah and Indian Rupee with notional amount of US\$3,000,000 and US\$5,000,000 respectively (31 December 2019: Nil).

The Group's gross gearing ratio, defined as total interest-bearing bank borrowings divided by total assets, was 13.5% as at 30 June 2020 (31 December 2019: 15.7%).

MATERIAL ACQUISITIONS AND DISPOSALS

During the Current Period, the Company adopted a share incentive scheme and shares of Comba Telecom Systems (China) Limited# (京信通信系統(中國)有限公司) ("Comba China", which was an indirect wholly-owned subsidiary of the Company) were awarded to the selected participants to recognize their contributions to the Group. The acquisitions of incentive shares of Comba China by G Partnerships and Non-G Partnerships under the aforesaid share incentive scheme constituted a deemed disposal (the "Deemed Disposal") of the Company under which the Company's equity interest in Comba China decreased by approximately 10.43% upon completion. Comba China remains as subsidiary of the Company after the completion of the Deemed Disposal.

Comba China currently focuses on R&D, manufacturing and sales for network system products, including macro cells, small cells, related extended & in-depth coverage solutions and OpenRAN products as well as providing network solutions for 5G vertical industry.

For details of the Deemed Disposal, please refer to the announcements of the Company dated 10 June 2020 and 24 June 2020.

Save as disclosed above, the Group has not conducted any material acquisitions and disposals of subsidiaries and associated companies during the Current Period.

USE OF PROCEEDS

On 28 April 2020, the top-up placing of a total of 282,000,000 ordinary shares of the Company at a placing price of HK\$3.05 per share was completed. On 8 May 2020, a total of 230,000,000 new shares of the Company were issued and allotted at the subscription price of HK\$3.05 per share.

The net proceeds from the issue and allotment of 230,000,000 new shares from the top-up placing are approximately HK\$686,235,000 (after deducting the related costs and expenses). As at 30 June 2020, the Company has utilized the net proceeds, details are set out as follow:

| Net proceeds raised <i>HK\$'000</i> | Intended use of the net proceeds | Actual use of the net proceeds | Amounts utilized as at 30 June 2020 <i>HK\$'000</i> |
|---|--|---------------------------------------|---|
| 686,235 | (a) R&D of 5G small cells and OpenRAN, 5G antenna development and filter, and development of 5G+ vertical applications | Used as intended | 28,630 |
| | (b) expansion of production capacity, focusing on the production of 5G small cells and antenna products | Used as intended | 20,690 |
| | | | <hr/> |
| | | | 49,320 |

As at 30 June 2020, approximately HK\$636,915,000 of the net proceeds has not been utilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs and is expected to utilize the residual amount of the net proceeds within three years.

RESTRICTED BANK DEPOSITS

Deposit balances of HK\$213,135,000 (31 December 2019: HK\$240,711,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had contingent liabilities of HK\$346,309,000 (31 December 2019: HK\$442,892,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 6,200 staffs, out of which 1,300 staffs from ETL (31 December 2019: 6,000 staffs, out of which 1,300 staffs from ETL). The total staff costs, excluding capitalized development cost, for the Current Period were HK\$416,274,000 (30 June 2019: HK\$581,862,000). 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, share award scheme and share incentive scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staffs in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements in such jurisdiction. The Group also provides training to the staffs 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

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, 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 interim condensed consolidated 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 interim condensed consolidated financial statements for the Current Period and has not given any disagreement.

PUBLICATION OF INTERIM REPORT

2020 Interim Report containing all information required by the Listing Rules will be despatched to the Shareholders and published on the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company (<http://www.comba-telecom.com>) in due course.

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

Hong Kong, 20 August 2020

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 and Ms. HUO Xinru; the following non-executive Director: Mr. WU Tielong; 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.