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 2017

FINANCIAL HIGHLIGHTS

- Revenue decreased by 12.2% to HK$2,722 million
- Gross profit decreased by 17.6% to HK$770 million
- Gross profit margin decreased by 1.8% points to 28.3%
- Profit attributable to shareholders decreased by 16.3% to HK$94 million
- Basic earnings per share: HK3.85 cents (2016 (restated): HK4.60 cents)

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 2017, together with the comparative figures for the same period in 2016. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	5	**2,721,948**	3,098,952
Cost of sales		**(1,952,116)**	(2,164,939)
Gross profit		**769,832**	934,013
Other income and gains	5	**55,756**	83,198
Research and development costs		**(120,800)**	(127,454)
Selling and distribution expenses		**(260,075)**	(279,443)
Administrative expenses		**(246,210)**	(315,581)
Other expenses		**(22,652)**	(96,550)
Finance costs	7	**(23,116)**	(25,843)
Share of losses of:			
A joint venture		**(916)**	–
An associate		**(811)**	(1,390)
PROFIT BEFORE TAX	6	**151,008**	170,950
Income tax expense	8	**(57,191)**	(57,944)
PROFIT FOR THE PERIOD		**93,817**	113,006
Attributable to:			
Owners of the parent		**94,205**	112,508
Non-controlling interests		**(388)**	498
		93,817	113,006
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		**HK3.85 cents**	HK4.60 cents
			(Restated)
Diluted		**HK3.85 cents**	HK4.60 cents
			(Restated)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**93,817**	113,006
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**129,058**	(117,088)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**129,058**	(117,088)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**129,058**	(117,088)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**222,875**	(4,082)
Attributable to:		
Owners of the parent	**221,434**	(3,276)
Non-controlling interests	**1,441**	(806)
	222,875	(4,082)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**544,512**	537,970
Prepaid land lease payments		**123,403**	121,264
Goodwill		**28,571**	28,571
Deferred tax assets		**87,532**	109,409
Intangible assets		**215,235**	209,259
Investment in a joint venture		**10,702**	5,575
Investment in an associate		**–**	21,683
Available-for-sale investment		**7,241**	7,241
Prepayments		**418,354**	397,636
Restricted bank deposits		**31,124**	29,168
Total non-current assets		**1,466,674**	1,467,776
CURRENT ASSETS			
Inventories	*11*	**1,369,076**	1,357,700
Trade receivables	*12*	**4,484,085**	3,842,680
Notes receivable		**137,107**	46,919
Tax recoverable		**29,046**	–
Prepayments, deposits and other receivables		**800,198**	641,440
Restricted bank deposits		**298,684**	178,230
Cash and cash equivalents		**768,538**	1,420,214
Total current assets		**7,886,734**	7,487,183
CURRENT LIABILITIES			
Trade and bills payables	*13*	**3,192,422**	2,893,459
Other payables and accruals		**954,933**	1,105,620
Interest-bearing bank borrowings	*14*	**864,630**	693,660
Tax payable		**–**	11,159
Provisions for product warranties		**81,668**	70,571
Total current liabilities		**5,093,653**	4,774,469
NET CURRENT ASSETS		**2,793,081**	2,712,714
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,259,755**	4,180,490

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2017

	Note	**30 June 2017 (Unaudited)** *HK$'000*	31 December 2016 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*14*	**538,522**	673,152
Deferred tax liabilities		**13,794**	14,189
Total non-current liabilities		**552,316**	687,341
Net assets		**3,707,439**	3,493,149
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**246,144**	246,106
Treasury shares		**(22,818)**	(22,818)
Reserves		**3,427,210**	3,214,399
		3,650,536	3,437,687
Non-controlling interests		**56,903**	55,462
Total equity		**3,707,439**	3,493,149

NOTES

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The adoption of the new standards and interpretations has had no material effect on these interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) *Revenue from external customers*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Mainland China	**2,218,686**	2,559,983
Other countries/areas in Asia Pacific	**246,522**	177,013
Americas	**140,960**	195,967
European Union	**91,930**	143,195
Middle East	**22,394**	22,101
Other countries	**1,456**	693
	2,721,948	3,098,952

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

(b) *Non-current assets*

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

Information about major customers

Revenue of approximately HK$840,663,000 (six months ended 30 June 2016: HK$580,571,000), HK$670,341,000 (six months ended 30 June 2016: HK$818,165,000) and HK$406,022,000 (six months ended 30 June 2016: HK$941,879,000) was derived from 3 major customers, which accounted for 30.9% (six months ended 30 June 2016: 18.7%), 24.6% (six months ended 30 June 2016: 26.4%) and 14.9% (six months ended 30 June 2016: 30.4%) of the total revenue of the Group, respectively.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**2,688,155**	2,945,895
Maintenance services	**33,793**	153,057
	2,721,948	3,098,952
Other income and gains		
Exchange gain	**–**	63,028
Bank interest income	**4,510**	3,913
Government subsidies#	**22,766**	2,923
VAT refunds*	**11,451**	3,479
Gain on bargain purchase	**7,342**	–
Gain on disposal of items of property, plant and equipment	**458**	355
Gross rental income	**2,684**	2,116
Others	**6,545**	7,384
	55,756	83,198

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.

* Comba Software Technology (Guangzhou) Limited ("Comba Software"), being designated as a software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**1,855,415**	2,010,623
Depreciation	**31,341**	39,917
Recognition of prepaid land lease payments	**1,417**	1,435
Amortization of computer software and technology	**1,881**	1,704
Research and development costs:		
Deferred expenditure amortized^	**43,007**	37,371
Current period expenditure	**120,800**	127,454
	163,807	164,825
Minimum lease payments under operating leases	**23,207**	27,588
Employee benefit expense (including directors' remuneration):		
Salaries and wages	**380,156**	423,931
Staff welfare expenses	**34,757**	35,406
Equity-settled share option expense	**10,585**	4,019
Pension scheme contributions (defined contribution scheme)#	**42,603**	46,666
	468,101	510,022
Gain on bargain purchase	**(7,342)**	–
Loss on remeasurement of the previously held interest in an associate	**20,112**	–
Exchange loss/(gain), net*	**3,471**	(63,028)
Provision for product warranties^	**20,153**	19,394
Write-down of inventories to net realizable value^	**30,309**	92,655
Impairment of trade receivables	**–**	41,276
Loss on financial instrument at fair value through profit or loss, net	**–**	48,026
Gain on disposal of items of property, plant and equipment	**(458)**	(355)

^ 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 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (30 June 2016: Nil).

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

7. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**23,116**	25,843

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – charge for the period		
Hong Kong	**2,284**	5,322
Mainland China	**25,238**	29,150
Elsewhere	**5,257**	8,287
Deferred	**24,412**	15,185
Total tax charge for the period	**57,191**	57,944

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 Systems (China) Limited, Comba Software Technology (Guangzhou) Limited and Comba Telecom Systems (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the period ended 30 June 2017 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 2017.

9. DIVIDENDS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final – HK 0.8 cents (2015: HK 1.8 cents) per ordinary share	**19,692**	36,608
Interim – Nil (six months ended 30 June 2016: HK1.5 cents) per ordinary share	**–**	33,557

A final dividend of HK0.8 cents per ordinary share was declared in respect of the year ended 31 December 2016 (six months ended 30 June 2016: a final dividend of HK1.8 cents per ordinary share was declared and paid for the year ended 31 December 2015) to shareholders during the current period.

The Directors recommended that not to declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: HK1.5 cents).

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 2,444,616,000 (six months ended 30 June 2016 (restated): 2,444,221,000) in issue during the period, as adjusted to reflect bonus issue during the period from 1 July 2016 to 30 June 2017.

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.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2017 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	For the six months ended 30 June	
	2017	2016
	(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	**94,205**	112,508

	Number of shares For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculations	**2,444,616,000**	2,444,221,000

11. INVENTORIES

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Raw materials	**230,886**	185,317
Project materials	**172,190**	168,005
Work in progress	**59,903**	61,666
Finished goods	**417,401**	388,741
Inventories on site	**488,696**	553,971
	1,369,076	1,357,700

12. TRADE RECEIVABLES

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

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

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Within 3 months	**1,777,884**	1,412,098
4 to 6 months	**270,565**	298,888
7 to 12 months	**808,282**	631,684
More than 1 year	**1,774,053**	1,646,583
	4,630,784	3,989,253
Provision for impairment	**(146,699)**	(146,573)
	4,484,085	3,842,680

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

	30 June 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Neither past due nor impaired	**2,856,730**	2,342,668
Less than 1 year past due	**788,666**	712,726
1 to 2 years past due	**251,355**	295,102
More than 2 years past due	**587,334**	492,184
	4,484,085	3,842,680

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

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

13. TRADE AND BILLS PAYABLES

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

	30 June 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Within 3 months	**1,552,779**	1,458,277
4 to 6 months	**642,026**	641,136
7 to 12 months	**506,237**	372,124
More than 1 year	**491,380**	421,922
	3,192,422	2,893,459

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 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Analyzed into:		
Within 1 year	**864,630**	693,660
In the 2nd to 3rd years, inclusive	**538,522**	673,152
	1,403,152	1,366,812

As at 30 June 2017, loans denominated in Hong Kong dollars, United States dollars, RMB and EURO amounted to HK$1,060,000,000 (31 December 2016: HK$890,000,000), Nil (31 December 2016: HK$21,389,000), HK$343,152,000 (31 December 2016: HK$454,770,000) and Nil (31 December 2016: HK$653,000), respectively.

During the year ended 31 December 2016, the Group entered into 3-year term loan facility agreements (the "Facility Agreements") amounting to HK$730,857,000 with certain financial institutions.

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

As at 30 June 2017, the Group had utilized amounts of HK$673,152,000 of the Facility Agreements. As at 30 June 2017, the outstanding term loan balances amounted to HK$673,152,000, of which, HK$134,630,000 and HK$538,522,000 are repayable within 1 year and in the 2nd to 3rd years inclusive, respectively.

Bank loans as at 30 June 2017 bear interest at rates ranging from 1.6% to 4.5% (31 December 2016: from 1.3% to 4.5%) per annum.

15. EVENT AFTER THE REPORTING PERIOD

On 31 August 2016, the Group has entered into an agreement (the "Agreement") with the Government of the Lao People's Democratic Republic ("LAOGOV") for the acquisition of the 51% interest in ETL Public Company Ltd, a State-owned company incorporated under the Laws of Lao P.D.R. ETL Public Company Ltd is principally engaged in providing telecommunication services and their value added services. Pursuant to the Agreement, the proposed cash consideration for 51% interest in ETL Public Company Ltd was approximately US$91,800,000. On 11 July 2017, a side letter relating to the Agreement was entered into between LAOGOV and the Group whereas both parties acknowledged that, as of 18 July 2017, the Group became shareholders holding 51% shares of and delegated directors to ETL Public Company Ltd, accomplishing the acquisition.

On 23 June 2017, the Group entered into an agreement to acquire the rest of 48.86% interest in a joint venture, which is engaged in research and development and sale of telecommunications equipment and provision of related consultancy services. The purchase consideration for the acquisition was HK$20,718,000. The acquisition was made as part of the Group's strategy to expand its market share of telecommunications industry. On 13 July 2017, the Group obtained control over the joint venture which then became a subsidiary of the Group.

BUSINESS AND FINANCIAL REVIEW

In the first half of 2017, with a favorable recovery of the global economy, the Chinese economy was growing at a reasonable and stable pace. The increased coverage of the fourth generation of mobile telecommunications ("4G") network and the development of network traffic data applications led to a slower 4G growth with saturation of mobile phone users and decreased capital expenditure from operators. However, the rapid growth of the data traffic propelled re-farming and expansion of certain networks. As a result, operators intensified their investments in 4.5G network expansion and construction, as well as the fifth generation of mobile telecommunications ("5G") network and the Internet-of-things ("IoT").

Revenue

The Group reported revenue amounting to HK$2,721,948,000 (2016: HK$3,098,952,000) for the six months ended 30 June 2017 (the "Current Period"), representing a decline of 12.2% compared to the six months ended 30 June 2016 (the "Prior Period"). The decrease was mainly due to general transition of the PRC mobile network operators from 4G to 5G after basic completion of their 4G network build-out, and their exercising greater prudence in their investment schedule to secure a balance between their own performance and external investment.

By Customers

During the Current Period, revenue generated from China Mobile Communications Corporation and its subsidiaries (the "China Mobile Group") decreased by 18.1% over the Prior Period to HK$670,341,000 (2016: HK$818,165,000), accounting for 24.6% of the Group's revenue in the Current Period, compared to 26.4% in the Prior Period.

Revenue generated from China United Telecommunications Corporation and its subsidiaries (the "China Unicom Group") decreased by 56.9% over the Prior Period to HK$406,022,000 (2016: HK$941,879,000), accounting for 14.9% of the Group's revenue in the Current Period, compared to 30.4% in the Prior Period.

Revenue generated from China Telecommunications Corporation and its subsidiaries (the "China Telecom Group") increased by 44.8% over the Prior Period to HK$840,663,000 (2016: HK$580,571,000), accounting for 30.9% of the Group's revenue in the Current Period, compared to 18.7% in the Prior Period.

Revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and specialized government and enterprise network customers, increased by 8.5% over the Prior Period to HK$167,543,000 (2016: HK$154,454,000) and represented 6.2% (2016: 5.0%) of the Group's revenue in the Current Period. China Tower is a new customer of the Group and in view of the growing demand for wireless solutions for enterprise networks, the management expects the significance of the revenue contribution by China Tower and specialized network customers will be gradually increasing in the future.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 5.5% over the Prior Period to HK$637,379,000 (2016: HK$603,883,000), accounting for 23.4% of the Group's revenue in the Current Period, compared to 19.5% in the Prior Period.

By Businesses

During the Current Period, revenue generated from the antennas and subsystems business decreased by 17.1% over the Prior Period to HK$1,239,508,000 (2016: HK$1,495,337,000), accounting for 45.5% (2016: 48.3%) of the Group's revenue in the Current Period. The decrease in revenue was mainly due to declining overall market demand as 4G network build-outs were basically completed.

During the Current Period, revenue generated from the network system business (including wireless enhancement and wireless access) increased by 8.5% over the Prior Period to HK$643,789,000 (2016: HK$593,524,000), accounting for 23.7% (2016: 19.1%) of the Group's revenue in the Current Period. Among which, revenue generated from wireless enhancement business decreased by 6.6% over the Prior Period to HK$519,180,000 (2016: HK$555,959,000). However, revenue generated from wireless access business increased significantly by 231.7% over the Prior Period to HK$124,609,000 (2016: HK$37,565,000), especially the revenue from Small Cell products greatly increased by 264.0% over the Prior Period to HK$116,559,000 (2016: HK$32,022,000). In view of mobile network operators' increasing focus on densifying networks to manage rising mobile data traffic consumption, the management expects the scale of the network system business to be further expanded over the next few years.

During the Current Period, revenue from services decreased by 16.8% over the Prior Period to HK$740,802,000 (2016: HK$890,020,000), accounting for 27.2% (2016: 28.7%) of the Group's revenue.

During the Current Period, revenue from other business (including wireless transmission and specialized enterprise network) decreased by 18.5% over the Prior Period to HK$97,849,000 (2016: HK$120,071,000), accounting for 3.6% (2016: 3.9%) of the Group's revenue. Among which, revenue from wireless transmission decreased 25.4% due to the shrinking of the traditional microwave business, however, the business for the newly launched maritime satellite communications including Internet-of-Vessels and VSAT (Very Small Aperture Terminal) equipments is gradually progressing well. Meanwhile, revenue from specialized enterprise network increased significantly by 82.0% over the Prior Period to HK$13,941,000 (2016: HK$7,659,000) 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 decreased by 17.6% over the Prior Period to HK$769,832,000 (2016: HK$934,013,000). The Group's gross profit margin was 28.3% in the Current Period (2016: 30.1%), down by 1.8 percentage points compared to the Prior Period mainly due to decreased revenue resulting from more intensified market competition.

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

Research and Development ("R&D") Costs

During the Current Period, R&D costs slightly decreased by 5.2% over the Prior Period to HK$120,800,000 (2016: HK$127,454,000), accounting for 4.4% (2016: 4.1%) of the Group's revenue. To keep up with the rapid evolution of mobile networks, the Group has been making steady, continuous and long-term investments. Moreover, the Group has proactively developed 5G technology and applications to keep abreast of technological advances in the industry.

On top of its own R&D investments, the Group is looking for collaborations with other enterprises, and is striving to explore innovation to meet the needs of customers and expand new areas of business in order to create value for customers, while consolidating its existing market. Meanwhile, the trend of the Group creating new business models and revenue streams shows no signs of abating, and it is strengthening its R&D capabilities intending to drive more new revenue opportunities in the future.

As a result of its strong commitment to R&D, the Group has achieved significant accomplishments in creating its own solutions utilizing its own proprietary intellectual property and has applied for more than 2,500 patents as of the end of the Current Period (As of 31 December 2016: approximately 2,400 patents).

Selling and Distribution ("S&D") Expenses

During the Current Period, S&D expenses decreased by 6.9% over the Prior Period to HK$260,075,000 (2016: HK$279,443,000), accounting for 9.6% (2016: 9.0%) of the Group's revenue. The decrease in S&D expenses was mainly due to decreased revenue and implementation of the cost control plan by the Group to further enhance its operating efficiency.

Administrative Expenses

During the Current Period, administrative expenses decreased by 22.0% over the Prior Period to HK$246,210,000 (2016: HK$315,581,000), accounting for 9.0% (2016: 10.2%) of the Group's revenue. The decline in the administrative expenses fully reflected the results from the Group's continuous commitment to optimize its operating structure and human resources.

Finance Costs

During the Current Period, finance costs decreased by 10.6% over the Prior Period to HK$23,116,000 (2016: HK$25,843,000), accounting for 0.8% (2016: 0.8%) of the Group's revenue. The decrease in finance costs was mainly due to a decline of lower average bank borrowing rates.

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 intends to closely monitor the latest developments of the financing market and arrange 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 2017, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a healthy level of 15.0% compared to 15.3% as of 31 December 2016.

Operating Profit

During the Current Period, the operating profit of the Group decreased by 11.3% over the Prior Period to HK$175,851,000 (2016: HK$198,183,000). The decrease in the operating profit was mainly attributable to the decrease in gross profit during the Current Period. However, due to effective cost control measures actively implemented by the Group, the administrative expenses also substantially decreased and there was no negative impact from the impairment loss in trade receivables of overseas markets and the fair value loss of derivative financial assets compared to the Prior Period.

Tax

During the Current Period, the Group's overall taxation charge of HK$57,191,000 (2016: HK$57,944,000) comprised an income tax expense of HK$32,779,000 (2016: HK$42,759,000) and a deferred tax charge of HK$24,412,000 (2016: deferred tax charge of HK$15,185,000). The decrease in the overall taxation charge was mainly due to the decrease in operating profit of the Group.

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

Net Profit

During the Current Period, with the decline of administrative expenses, finance costs and other expenses, profit attributable to owners of the parent of the Group ("Net Profit") was HK$94,205,000 (2016: HK$112,508,000), representing a decrease of 16.3% compared to the Prior Period.

Dividend

In view of the Group's operating results in the first half of 2017 and taking into consideration its long-term future development and its flexibility of financial position, the Board does not recommend the payment of any interim dividend (2016: HK1.5 cents).

PROSPECTS

According to a global economic research report, Mainland China's GDP continued to record healthy growth in the first half of 2017, up 6.9% year-on-year. With basic completion of the 4G network build-out, operators are more prudent in their budgeting and capital expenditure. However, due to the development of 5G & IoT technologies, uninterrupted expansion of the mobile subscriber base and the increasing demand for data traffic, capacity expansion, blind area coverage and optimization will be implemented within specified networks by operators. As such, the Group remains cautiously optimistic about its prospects. Furthermore, the Group will closely monitor market changes and adjust strategies in a timely manner.

NETWORK BUSINESS FOR OPERATORS

1. Antenna and base station subsystems

The Group has a long-established leading position in the antenna market. According to the latest global market research report published by EJL Wireless Research, an industry analyst firm, Comba Telecom has been named as a global Tier 1 Supplier for five consecutive years since 2011. Meanwhile, the Group has a wide antenna products portfolio ranging from single-frequency to multi-frequency, single-system to multi-system covering all frequencies and standards, which can meet various requirements of different customers. Recognition of the Group's prowess is that it has won the first prize of the 2016 Science and Technology Awards in Guangdong Province for its "New Miniaturized Multi-system Shared Electricity Base Station Antenna System Product and Key Technology." This new antenna is smaller and lighter in weight, marking another milestone of the Group's technological evolution.

In the meantime, in order to protect their 4G investment, the operators have been trying to integrate the RRU into the antennas and use Massive MIMO antennas to effectively enhance the capacity and transmission rate of the network system so as to keep the transition from 4.5G to 5G. The use of the above-mentioned antennas will help upgrade the value of the antenna. The Group continues to allocate more resources to develop the latest technology, so as to further consolidate its leading-edge position in the industry by continuously providing more cost-effective products to its customers.

Looking ahead, despite the current early stage of 5G investment and construction, the operators are actively arranging the 5G network layout and setting the timetable for 5G commercial use. As the major antenna supplier, the Group will develop the antenna and base station subsystem business segment with diligence and care, and continue to advance its R&D and innovation by proactively consolidating resources so as to thoroughly prepare for 5G development, and extend its competitive advantages to 5G technology. The Group is confident that it can maintain a strong position in spite of the intensified market competition.

2. Network product system solutions

According to the three major applications for 5G, namely enhanced mobile broadband (eMBB), ultra-reliable and low latency communications (uRLLC) and massive machine type communications (mMTC), the mobile telecommunications network in the future will continue to bring in additional mobile data traffic. Present mobile networks have increasingly reached their capacity limits at hotspots, thus creating abundant opportunities in the areas of capacity expansion and construction of network access, which would make the enhancement of in-building coverage and access to high-capacity networks more important in a later period of network build-outs.

The technological innovation of the Group's wireless access products represented by its Small Cell series has been at the forefront of the industry. After years of R&D and technological innovation, the Group's Small Cell products which were jointly developed by the Group and a domestic well-known research institute have been put into commercial and trial use in a number of provinces in mainland China. The Small Cell solution effectively provides large data traffic access for areas with weak or non-existent coverage through hotspot coverage and in-depth coverage. The Group believes that the product and solution will be widely used in network build-out in the future, and provides a good network experience to end customers.

In the meantime, the Group has also launched several network product system solutions including a Small-Cell based Densified Networking, Innovative Indoor Coverage System, MDAS (Multi-Service Fiber Optic Distributed Access System) and DAS (Distributed Antenna System), among others.

In-building is a main scenario of mobile Internet applications, and the Group's network product system solutions will effectively meet the multi-business in-depth coverage requirements of communities and in-building scenarios. The Group will continue to proactively invest in 5G technology and application, and expand its technological advantages to 5G. We believe that this expansion will present new development opportunities for the Group.

SPECIALIZED ENTERPRISE NETWORK CONSTRUCTION AND INFORMATION SERVICE

Another developing sector in the telecommunications market is the specialized enterprise network. With the emergence of such new applications as IoT, cloud computing, big data and artificial intelligence, the demand for specialized network solutions has also increased in various industries and areas, including rail transit, power, airport, ocean and intelligent manufacturing, forming a huge market. With a determined focus, the Group intends to grasp the social and industry development trends to develop integrated information, communications and intelligent solutions, so as to enhance ICT application service capacity for specialized network customers.

The Group will continue to strengthen the railway communication business, explore the specialized railway communication market and strengthen promotion and implementation of new railway products, solutions and businesses.

In the meantime, the Group has commenced to engage in the maritime VSAT (Very Small Aperture Terminal) communication and internet-of-vessels businesses, to provide solutions to such marine industry customers as large cruise ships and fishing and cargo vessels.

Meanwhile, the demand for informatization services by specialized network customers is increasingly growing with greater personalized, customized, and agile requirements. The Group will also fully develop the integration of its information and communication technology (ICT) business and intelligent manufacturing business by integrating information and communication based on the requirements from the customers, so as to continuously improve its capabilities of providing ICT application services for enterprise customers. Moreover, the Group expects to grasp the opportunities in the areas of digital transformation, digital interconnect, industry interconnect and intelligent communication, among others.

Looking ahead, while strengthening the layout and construction of specialized enterprise network in different scenarios, the Group will develop various integrated solutions to meet different requirements of customers, and extend its success to more areas in a target-oriented manner, to provide convenient, tailor-made and secure services for a greater number of more specialized enterprise customers.

Operator Business in ETL, Lao P.D.R

While actively consolidating and developing its traditional businesses, the Group continued to explore new business growth opportunities. On 1 September, 2016, the Group announced that it had entered into the Joint Venture Agreement with the Lao Government to acquire a 51% interest in ETL Public Company Ltd ("ETL Company"). ETL Company is the sole state-owned telecom operator and also the third largest telecom operator in Lao P.D.R, it holds a full license of telecom operations and a nationwide mobile network, it also has important advantages in transmission network infrastructure, which would lay a solid foundation for the further development.

In early August this year, the Group announced that it had completed the acquisition of the 51% interest in ETL Company and established the joint venture ETL Company Limited ("ETL Limited") in cooperation with the government of Laos, and also formed new management team to assume the operation of ETL Limited. The newly established ETL Limited is the first Sino-Laotian joint venture telecom operator in Laos. With the Group's competitive advantages in network construction, operation management, technology products and services over the years, capitalizing on the Group's leading global communications network and information solutions as well as its network construction experience accumulated from the advances of mobile communications technology over the past two decades, the Group will accelerate its business penetration in the telecommunications market in Laos through light asset operation strategy to achieve appreciation of its business model.

Laos is strategically located in the PRC's "One Belt One Road" corridor, it has a population of 7 million and the economy grows fast. The social economy and telecommunications development are advancing by leaps and bounds with the support of China and its surrounding countries. The wide spectrum of customers of ETL Company spans from the government departments to leading industrial and commercial enterprises in Lao P.D.R. Meanwhile, the Group will be able to provide comprehensive network solutions, including 2G, 3G and 4G mobile networks for the newly established joint venture, the joint venture will be able to provide new market space for the Group's new products (such as microwave, satellite, Small Cell and etc.) as well.

The Group believes that, under the leadership of ETL Company Limited's new management team and with the support of the Government of Laos, the investment project will certainly help promote the development of telecommunications network construction in Laos and enhancement of the telecommunications network quality there, thus offering better services and experience to users. The substantial economic and social benefits brought by the project will also foster the livelihood and well-being of Laotian citizens.

International Business

The Group continues to actively expand its international market by exploring more business opportunities, so as to further enhance its market share. During the Current Period, the Group participated in the wireless network coverage project of the South Island Line (East) of the MTR in Hong Kong, and reached a cooperation agreement with an Australian telecommunications operator to provide wireless network enhancement projects throughout Australia and cooperated with a leading in-building wireless system supplier in Vietnam. These projects demonstrate the Group's advanced technology and extensive experience in wireless solutions across a wide geographical area.

In the meantime, the Group will also strengthen its strategic partnership with the leading global network providers and work closely with them to develop products that support 5G networks to satisfy the demand from customers generated by industrial transformation and upgrade. As 5G networks are coming, the Group believes that the strategic cooperation between enterprises will substantially enhance its competitiveness and will further strengthen its growth and position in the international market.

Organizational Reform Achieving Inclusive Excellence

In today's fast-moving environment, change is unavoidable, particularly in the mobile telecommunications industry. Organizations need to be innovative in their business and articulate new strategies to successfully grow with the times as well as to cope with the increasingly challenging environment. In addition to the new strategies, new products and technologies or new businesses mentioned above, talent is also the key in the winning formula enabling the organization to drive towards its strategic goals. To that end, the Group has been implementing a progressive structural transformation aiming to promote alignment among diverse business units and functional departments within its organization, thereby maximizing its overall effectiveness. In the meantime, the Group has made gradual enhancement across a wide spectrum of operating areas, such as project and quality management, policy enforcement, production enhancement, budget control and financial liquidity, among others so as to continuously drive greater business innovation while improving operational effectiveness and management excellence.

Conclusion

The number of users is substantially increasing after 4G has been fully put into commercial use, which accelerates the evolution of information infrastructure to higher-speed, fuller coverage and greater intelligence. The testing of 5G has entered into a new stage, and the IoT represents a new development pattern. Over the years, adhering to the principle of pragmatic innovation and with the overall business objective of "Exploring Opportunities, Creating Value, Reforming Mechanism, Enhancing Efficiency," the Group is committed to exploring the needs for innovation of its customers and expanding new customer areas in order to create value for customers.

The year marks the 20th anniversary of the Group since its establishment. 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, for its part, will develop towards a more open digital direction, continue to focus on enhancement of its management performance, while improving and optimizing operations, striving to build a brighter future for society through executing the strategies presented above.

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 2017, the Group had net current assets of HK$2,793,081,000. Current assets comprised inventories of HK$1,369,076,000, trade receivables of HK$4,484,085,000, notes receivable of HK$137,107,000, tax recoverable of HK$29,046,000, prepayments, deposits and other receivables of HK$800,198,000, restricted bank deposits of HK$298,684,000, and cash and cash equivalents of HK$768,538,000. Current liabilities comprised trade and bills payables of HK$3,192,422,000, other payables and accruals of HK$954,933,000, interest-bearing bank borrowings of HK$864,630,000 and provisions for product warranties of HK$81,668,000.

The average receivable turnover for the Current Period was 279 days compared to 247 days for the Prior Period. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain overseas customers which are granted with a longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. Those retention money are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Period was 284 days compared to 269 days for the Prior Period. The average inventory turnover for the Current Period was 127 days compared to 136 days for the Prior Period.

As at 30 June 2017, 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 3-year term loan facility agreements with certain financial institutions. Details 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 2017, 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 15.0% as at 30 June 2017 (31 December 2016: 15.3%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSIT

Deposit balances of HK$329,808,000 (31 December 2016: HK$207,398,000) represented the restricted deposits given to banks in respect of bills payable, performance bonds and letter of credit.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had contingent liabilities of HK$222,244,000 (31 December 2016: HK$209,426,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had approximately 7,000 staff (31 December 2016: 7,000 staff). The total staff costs, excluding capitalized development cost, for the Current Period were HK$468,101,000 (31 December 2016: HK$1,138,982,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise. The remuneration committee of the Company advised and recommended to the Board on the remuneration policy for all Directors and senior management 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 the corporate governance practices of the Company and considered that, during the Current Period, the Company has complied with all the Code Provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

2017 Interim Report containing all information required by the Listing Rules will be despatched to the shareholders of the Company 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, 23 August 2017

As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Mr. ZHENG Guo Bao, Mr. YEUNG Pui Sang, Simon and Mr. ZHANG Yuan Jian; and the following independent non-executive Directors: Mr. LAU Siu Ki, Kevin, Dr. LIN Jin Tong and Mr. QIAN Ting Shuo.