Comba

京信通信系統控股有限公司

Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 2342

Persistent • Focus

繼往開來・凝心聚力

Innovation • Brilliant

創新發展・再創輝煌

2018

ANNUAL REPORT

年報

COMPANY PROFILE
公司概況

Established in 1997 and listed on the Main Board of the Hong Kong Stock Exchange in 2003, Comba Telecom Systems Holdings Limited (the "Company") is a global leading solutions and services provider of wireless and information communications systems with its own R&D facilities, manufacturing base, and sales and service teams. Leading through innovative technology, the Company offers a comprehensive suite of products and services including network system (wireless access & wireless enhancement), antenna and subsystems, rail transit communications and wireless transmission to its global customers.

The Company has established its R&D headquarters based in Guangzhou Science City, three research institutions in Nanjing, China, Washington City and California in the USA respectively and has applied over 3,700 Chinese and international patents. Our global manufacturing base located in Guangzhou Economic and Technological Development District, covers an area of approximately 80,000 square meters.

The Company has established more than 30 offices in China and more than 10 overseas offices worldwide, providing products and services in more than 80 countries and regions.

Additionally, the Company has been included into several indexes including MSCI China Small Cap Index, Hang Seng Composite Index (Information Technology Industry Index, MidCap & SmallCap Index and SmallCap Index), Hang Seng Global Composite Index, Hang Seng Internet & Information Technology Index, as well as Hang Seng Corporate Sustainability Benchmark Index.

京信通信系統控股有限公司(「本公司」)成立於1997年，於2003年在香港聯交所主板上市，是一家全球領先，集研發、生產、銷售及服務於一體的通信與信息解決方案和服務供應商。憑藉創新科技，本公司為全球客戶提供網絡系統(無線接入 & 無線優化)、天線及子系統、軌交通信、無線傳輸等多元化產品及服務。

本公司在中國廣州科學城設有總部研發基地，並在中國南京、美國華盛頓市及加利福尼亞州分別設有研究所，已申請國內外專利超過3,700項。在中國廣州經濟技術開發區，本公司建有全球生產基地，廠房面積約80,000平方米。

本公司在中國內地設有超過30多家分公司覆蓋整個中國市場，並在海外設有10餘個分支機構，於全球80多個國家和地區開展產品銷售和技術服務。

此外，本公司已獲納入多項指數，包括MSCI中國小型股指數、恒生綜合指數(資訊科技業指數、中小型股指數及小型股指數)、恒生環球綜合指數、恒生互聯網科技業指數及恒生可持續發展企業基準指數。

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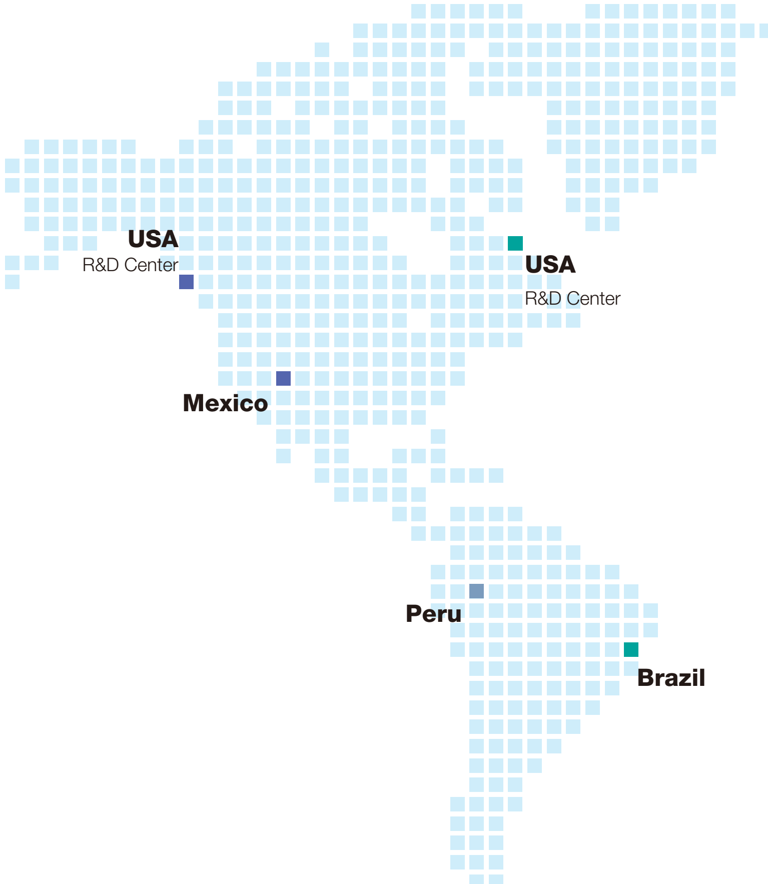
CORPORATE INFORMATION



BOARD OF DIRECTORS

Executive Directors

Fok Tung Ling *(Chairman)*
Zhang Yue Jun *(Vice Chairman)* (resigned as President with effect from 7 December 2018)
Xu Huijun *(President)* (appointed as Director with effect from 23 August 2018 and appointed as President with effect from 7 December 2018)
Chang Fei Fu (appointed with effect from 23 February 2018)
Bu Binlong (appointed with effect from 12 April 2018)
Wu Tielong (appointed with effect from 12 April 2018)
Huo Xinru (appointed with effect from 22 March 2019)
Zheng Guo Bao (resigned with effect from 23 March 2018)
Yeung Pui Sang, Simon (resigned with effect from 24 May 2018)
Zhang Yuan Jian (resigned with effect from 21 September 2018)

Independent Non-Executive Directors

Lau Siu Ki, Kevin
Lin Jin Tong
Ng Yi Kum (appointed with effect from 22 March 2019)
Qian Ting Shuo (resigned with effect from 15 January 2019)

COMPANY SECRETARY

Chan Siu Man

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin *(Chairman)*
Lin Jin Tong
Ng Yi Kum (appointed with effect from 22 March 2019)
Qian Ting Shuo (resigned with effect from 15 January 2019)

NOMINATION COMMITTEE

Lin Jin Tong *(Chairman)*
Lau Siu Ki, Kevin
Ng Yi Kum (appointed with effect from 22 March 2019)
Qian Ting Shuo (resigned with effect from 15 January 2019)

AUTHORIZED REPRESENTATIVES

Fok Tung Ling
Chang Fei Fu (appointed with effect from 23 February 2018)
Chan Siu Man (resigned with effect from 23 February 2018)

REGISTERED OFFICE

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

611 East Wing
No. 8 Science Park West Avenue
Hong Kong Science Park
Tai Po
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House-3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Level 10 HSBC Main Building
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Central Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
18th Floor The Center
99 Queen's Road Central
Central Hong Kong

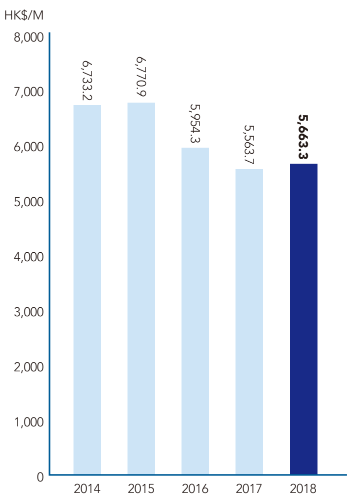
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road GETD District
Guangzhou PRC

Industrial and Commercial Bank of China Limited
GETD District Sub-branch
No. 2 Xiangxue Road
Kaichuang High Road North
Guangzhou Science City Luogang District
Guangzhou PRC

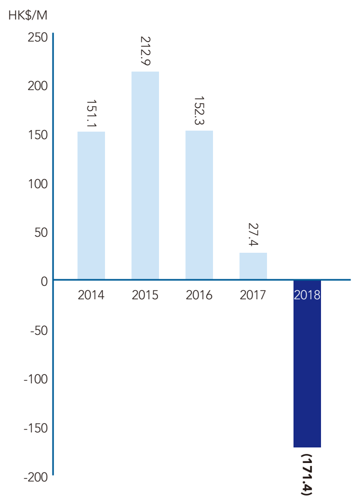
China Merchants Bank Co Ltd
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road 1st Floor
Southern Communication Plaza
Guangzhou PRC

FINANCIAL SUMMARY

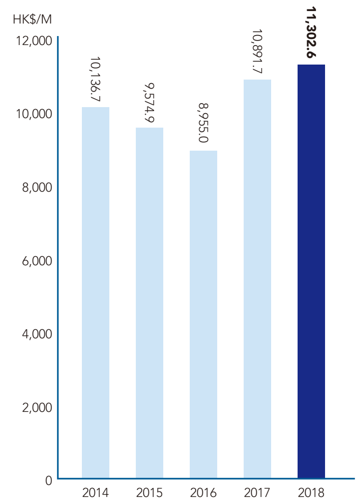
REVENUE



PROFIT/ (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

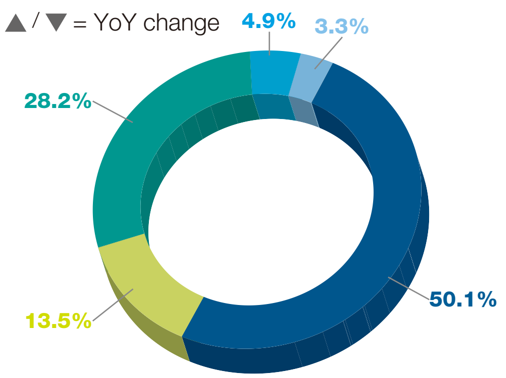


TOTAL ASSETS



REVENUE BREAKDOWN BY BUSINESSES

▲/▼ = YoY change



▲ 18.4% Antennas & Subsystems

▼ 23.8% Network System

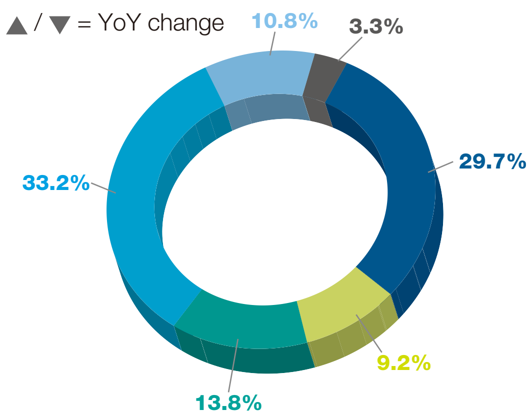
▼ 13.7% Services

▲ 26.7% Others

▲ 98.8% Operator (ETL) Business

REVENUE BREAKDOWN BY CUSTOMERS

▲/▼ = YoY change



▲ 1.2% China Mobile

▼ 36.6% China Unicom

▼ 39.2% China Telecom

▲ 42.6% International Customers & Core Equipment Manufacturers

▲ 60.4% Other Customers

▲ 98.8% ETL

FINANCIAL SUMMARY

For the year ended 31 December	**2018 HK$'000**	2017 HK$'000	Change
Revenue	**5,663,310**	5,563,725	99,585
Gross profit	**1,458,601**	1,474,897	(16,296)
Gross profit margin	**25.8%**	26.5%	(0.7)pp
Operating (loss)/profit	**(77,277)**	101,095	(178,372)
(Loss)/Profit attributable to owners of the parent	**(171,384)**	27,373	(198,757)
Net (loss)/profit margin	**(3.0%)**	0.5%	(3.5)pp
Basic (loss)/earnings per share (HK cents)	**(7.07)**	1.12	(8.19)
Net operating cash flows	**825,626**	322,253	156.2%

KEY FINANCIAL FIGURES

As at 31 December	**2018 HK$'000**	2017 HK$'000	Change
Total assets	**11,302,641**	10,891,728	3.8%
Net assets (before non-controlling interests)	**3,278,153**	3,766,311	(13.0%)
Net assets per share (HK dollars)	**1.35**	1.53	(11.8%)
Net cash/(debt)	**179,310**	(72,261)	251,571
Cash and bank balances and time deposits	**2,179,366**	1,510,119	44.3%
Inventory turnover days	**116**	121	(5) Days
A/R turnover days	**280**	274	6 Days
A/P turnover days	**347**	294	53 Days
Gross gearing ratio	**17.7%**	14.5%	3.2pp
Return on average equity	**(4.9%)**	0.8%	(5.7)pp

CORPORATE MILESTONE 2018

Deployed a full turnkey in-building wireless solution for "The Dubai Frame", a new architectural landmark in Dubai

Golden Prize of the 20th China Patent Award

Won the tender for the Communication Integrated General Contract project of Chengdu Metro Line 17 Phase I and Line 18 Phase I & II

Won the tender of 4G Picocell centralized procurement project (2018-2019) of China Mobile

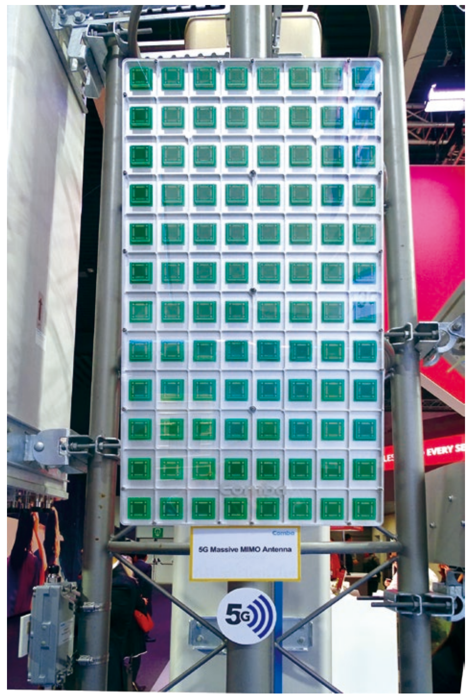
Won the tender of Multi-distributed Access System ("MDAS") centralized procurement project (2018 - 2019) of China Mobile

Provided the seamless wireless coverage for the underground extension of Bangkok Metro's Blue Line

CORPORATE MILESTONE 2018

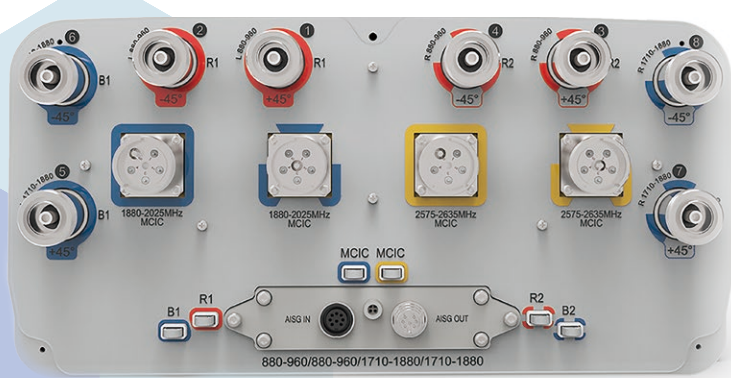
Launched a new type of 5G-oriented smart indoor coverage solutions

Launched ScanViS ID GateGuard, an all-in-one facial recognition and analytic solution



5G Massive MIMO antennas have been successfully deployed for trials globally

Provided a complete Wi-Fi Solution for the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link



Won the tender of “4+4+8+8” FDD+TDD integrated antenna with independent RET centralized procurement project (2018-2019) of China Mobile

CHAIRMAN'S STATEMENT

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I hereby present to the shareholders the annual report of the Company and its subsidiaries ("Comba Telecom" or the "Group") for the year ended 31 December 2018 (the "Current Year").

Over the past year, as the mobile telecommunication industry in Mainland China was affected by the slowdown of investment and construction of 4G, the capital expenditures from operators continued to decrease. In face of various adverse factors, the Group has actively explored business opportunities and put great efforts in expanding international market business. During the Current Year, the performance of international market business has been greatly improved, and the revenue from international customers and core equipment manufacturers increased by 42.6% as compared with the year ended 31 December 2017 (the "Prior Year"). The overall revenue of the Group during the Current Year was HK$5,663,310,000, representing a slight increase of 1.8%

as compared with the Prior Year. In view of the increase in research and development expenses on 5G and the related 4G investment expenses from the Group's non-wholly-owned subsidiary ETL Company Limited as well as the increase in one-off expenses resulting from operating restructuring and human resource optimization of the Group, the Group recorded net loss of HK$171,384,000 during the Current Year.

Notwithstanding hard operating environment, the Group continuously builds product competitiveness based on the concept of "customer-centered, market-oriented", and actively integrates resources, focuses on market demand in terms of different applications and scenarios to launch innovative products to create value for customers.

During the Current Year, with the constant evolution of 4G technology and the increasing demand from end customers for mobile communication traffic, the Group has undertaken various bench-marking wireless projects, including frequency spectrum re-farming and construction of NB-IoT, centralized purchasing project of LTE Picocell and centralized purchasing project of Multi-service Distributed Access System ("MDAS") for leading operators, as well as Rail Transit communication projects in many cities in Mainland China. It has also made encouraging business progress in international markets, including metro network coverage project in Bangkok, network coverage project for Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link, and network coverage project for Dubai Frame, a new landmark in Dubai. The Group has made great breakthrough in many countries and regions such as India, Middle East, Brazil, and Southeast Asia, successfully strengthening the Group's brand value in the international markets and expanding the Group's marketing channels in the international markets.

During the Current Year, the Group has also proactively carried out relevant research and development on the evolution and application of communication technology and won many awards. For instance, with respect to antennas products, the Group has won the "Golden Prize of China Patent Award" relying on "Cavity Microwave Devices" and the "First Prize of the Science and Technology Award of China Institute of Communications 2018" relying on "Key Techniques and Industrialization on Hybrid Multi-systems and Multi-antennas"; with respect to network system products, the Group has won the "Second Prize of the State Technological Invention Award" relying on "Collaborative Self-organization Techniques and Application on High-capacity Wireless Network in Hot Spots". Meanwhile, the Group has been selected as a Niche Player for the second time in "A Magic Quadrant for Small Cell Equipment", an annual research report from Gartner Inc. ("Gartner").

During the Current Year, with the continuous promotion of unlimited data plan in mainland China in the later stage of 4G construction, the growth of mobile user traffic continues to accelerate, which also brings new development opportunities to the Group. With cost-effective technology, products and solutions, the Group will help operators reduce costs and increase efficiency in network construction. Meanwhile, 4G construction in emerging markets is still in full swing. The Group will, as always, vigorously expand overseas markets, and at the same time, actively strengthen strategic cooperation with international mainstream equipment manufacturers.

CHAIRMAN'S STATEMENT

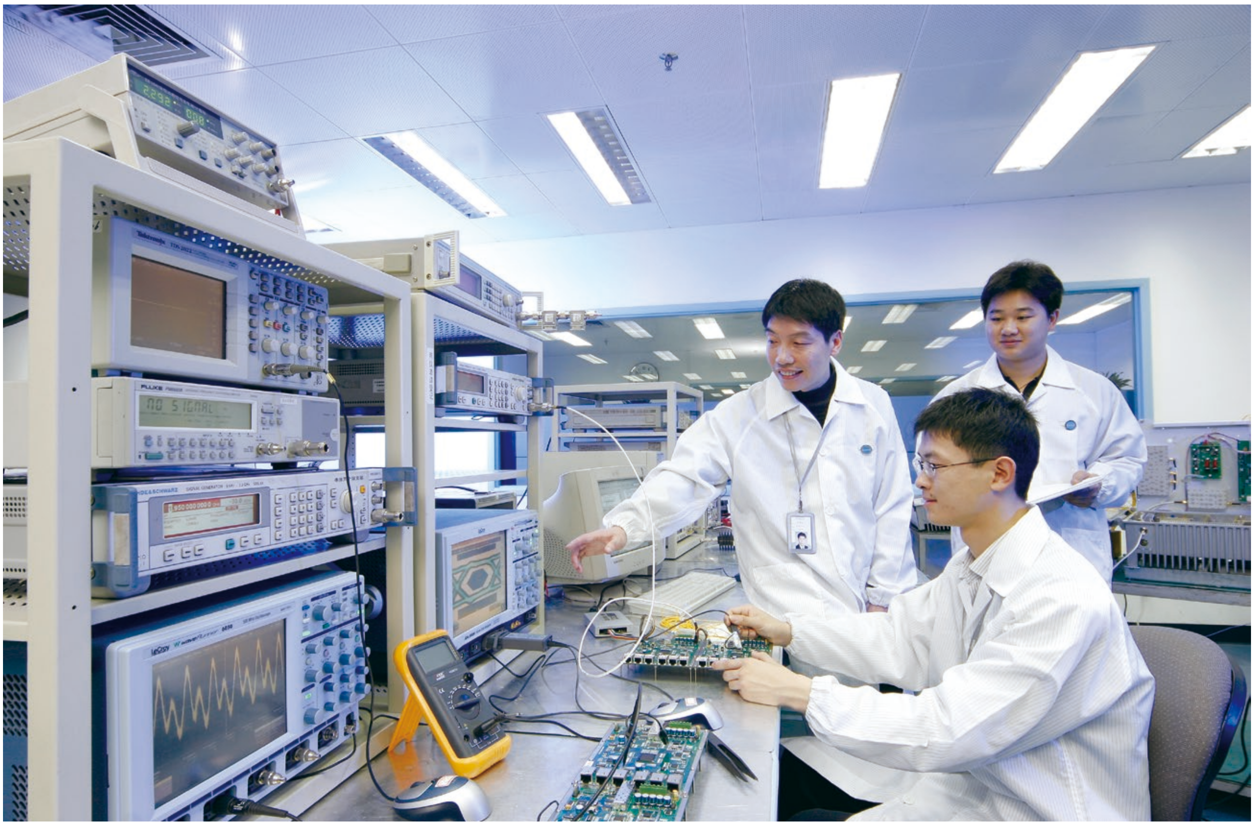
Meanwhile, with the gradual introduction of 5G standards and the issue of 5G frequency spectrum and provisional licenses in Mainland China, the year of 2019 will be a year for scale commercial trial of 5G in Mainland China. The capital expenditures from operators are expected to rebound in 2019. The Group also currently plays an important role in the trial of 5G networks in many major big cities worldwide.

Looking ahead to 2019, in face of complicated external environment and fierce challenges, the Group will continue to improve the various operating indicators in all respects through refinement management and optimize the reform in many aspects such as quality management, production automation and intelligence so as to enhance the competitiveness of the Group in all respects. Meanwhile, under the trend of constant evolution of 4G and gradual commercial use of 5G in small scale, the Group will focus on its customers and products and provide flexible and innovative technical products, solutions and services to telecommunication operators, core equipment suppliers, and rail transit communication customers so as to strengthen and enhance the operating efficiency of the Group to maximise the overall benefits.

"Following the past and opening a way for the future, the Group will put great efforts in innovation and development to recreate glory." Lastly, on behalf of the Board, I would also like to express my heartfelt thanks to the shareholders, clients and business partners for their continuing support and trust and to all of our staff for their dedicated efforts.

Fok Tung Ling
Chairman
Hong Kong
21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS AND FINANCIAL REVIEW

REVENUE

Comba Telecom Systems Holdings Limited (the "Company" or "Comba Telecom") and its subsidiaries (collectively referred to as the "Group") reported revenue amounting to HK$5,663,310,000 (2017: HK$5,563,725,000) for the year ended 31 December 2018 (the "Current Year"), representing a slight increase of 1.8% over the year ended 31 December 2017 (the "Prior Year"). Although the operators in mainland China reduced their capital expenditure, benefitted from its strong overseas expansion and intensifying strategic cooperation with international core equipment suppliers, the Group maintained stable revenue.

By Customers

Considering the 4G network coverage has been basically completed in mainland China, and in the context of "speed upgrade and tariff reduction", reducing investment continues to be the strategy of the three major operators in mainland China in the Current Year.

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") was HK$1,682,334,000 (2017: HK$1,662,626,000), representing a slight increase of 1.2% over the Prior Year, accounting for 29.7% of the Group's revenue in the Current Year, compared with 29.9% in the Prior Year.

During the Current Year, revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") decreased by 36.6% over the Prior Year to HK$520,166,000 (2017: HK$820,260,000), accounting for 9.2% of the Group's revenue in the Current Year, compared with 14.7% in the Prior Year.

During the Current Year, revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") decreased by 39.2% over the Prior Year to HK$783,323,000 (2017: HK$1,287,415,000), accounting for 13.8% of the Group's revenue in the Current Year, compared with 23.1% in the Prior Year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Current Year, revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and Rail Transit Communication customers, significantly increased by 60.4% to HK$611,754,000 (2017: HK$381,362,000) and represented 10.8% (2017: 6.9%) of the Group's revenue. Among these, revenue generated from China Tower increased by 26.0% over the Prior Year to HK$247,913,000 (2017: HK$196,763,000) and revenue generated from Rail Transit Communication customers significantly increased by 374.6% over the Prior Year to HK$152,436,000 (2017: HK$32,117,000). Due to increasing demand for the indoor coverage business by China Tower and growing demand for Rail Transit Communication wireless solutions, the management has full confidence in the revenue contribution by China Tower and Rail Transit Communication customers in the future.

On the international front, revenue generated from international customers and core equipment manufacturers increased by 42.6% in aggregate to HK$1,880,781,000 (2017: HK$1,319,037,000), accounting for 33.2% (2017: 23.7%) of the Group's revenue in the Current Year. Benefitting from the accelerated development of 4G infrastructures in overseas emerging markets, such as India, Brazil, the Southeast Asia and the Middle East, the Group's international business grew fast in the Current Year. Meanwhile, the fact that the Group also proactively strengthened its strategic cooperation with key international equipment suppliers also fueled the growth of its international business.

During the Current Year, revenue from ETL Company Limited ("ETL"), a middle and small-sized operator in Laos and a non-wholly-owned subsidiary of the Group, was HK$184,952,000, accounting for 3.3% of the Group's revenue in the Current Year. The Group has completed the acquisition of 51% equity interest of ETL at the end of July in the Prior Year. The revenue from ETL in the Prior Year was HK$93,025,000, accounting for 1.7% of the Group's revenue in the Prior Year. During the Current Year, the Group has been actively building the 4G network in Laos, which is expected to complete and commence operation as soon as practicable to improve the results performance of the Group.

By Businesses

During the Current Year, revenue from the antennas and subsystems business increased by 18.4% over the Prior Year to HK$2,837,888,000 (2017: HK$2,396,884,000), accounting for 50.1% (2017: 43.1%) of the Group's revenue in the Current Year. The increase in revenue was mainly attributable to the 4G network construction in overseas emerging markets and the frequency spectrum re-farming and NB-IoT projects of key domestic operators. Meanwhile, the Group has continued to develop new products and technologies and the management has full confidence in the stable operation and sustainable development of the antennas business.

During the Current Year, revenue from the network system business (including wireless enhancement and wireless access) decreased by 23.8% over the Prior Year to HK$765,370,000 (2017: HK$1,005,010,000), accounting for 13.5% (2017: 18.1%) of the Group's revenue. Among these, revenue generated from the wireless enhancement business decreased by 16.1% over the Prior Year to HK$599,233,000 (2017: HK$714,111,000) and revenue generated from the wireless access business decreased by 42.9% over the Prior Year to HK$166,137,000 (2017: HK$290,899,000). The decrease in revenue was mainly affected by the delay of some tender projects of key domestic operators. With the exponential growth of the demand for data traffic from mobile users, the management expects that the scale of the network system business, especially the wireless access business represented by the Small Cell products, will gradually expand.

During the Current Year, revenue from services declined 13.7% over the Prior Year to HK$1,594,593,000 (2017: HK$1,847,466,000), accounting for 28.2% (2017: 33.2%) of the Group's revenue. As more and more applications will be developed in terms of different scenarios and customized demands in the future, the management expects that relying on the Group's advantages and experience in telecommunications engineering and network optimization service over years, the services business will go back to the right track of growth gradually.

GROSS PROFIT

During the Current Year, the Group's gross profit slightly decreased by 1.1% over the Prior Year to HK$1,458,601,000 (2017: HK$1,474,897,000). The gross profit margin was 25.8% in the Current Year (2017: 26.5%), slightly down by 0.7 percentage points compared with the Prior Year. The gross profit margin for the Group's core products remained at a stable level, the slight decrease in gross profit margin during the Current Year was mainly because the service business unit undertook some construction projects with low gross profit but good cash flows. In order to strengthen the overall gross profit margin level, the Group will continue to optimize the product portfolio, improve production efficiency and enhance the cost control of the service engineering projects.

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Year, R&D costs increased by 6.6% over the Prior Year to HK$353,090,000 (2017: HK$331,328,000), representing 6.2% (2017: 6.0%) of the Group's revenue. As 5G enters into the homestretch of industrialization, major countries and regions in the world are accelerating their 5G development for commercial use. In order to be well positioned for the forthcoming 5G and keep abreast of leading technologies of the industry, the Group has considerably increased its R&D investments, continuously fostered innovation and enhanced the competitive edge of its existing products and expedited the launch and commercial use of the 5G products in order to capture business opportunities amidst the digitalization of the mobile telecommunications industry.

On top of its own R&D investments, the Group has also sought to expand its strategic collaboration with other enterprises. During the Current Year, the Group took the lead in exploring 5G digital indoor coverage solutions to accelerate the development of the 5G industry. Meanwhile, the Group is also applying to join the O-RAN alliance and facilitating its cooperation with the market-leading enterprises of Open RAN to prepare for the development of innovative 5G technologies and internet of things.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group was granted various research and patent awards during the Current Year, including but not limited to the "Golden Prize of China Patent Award", "First Prize of the Science and Technology Award of China Institute of Communications 2018" and "Second Prize of the State Technological Invention Award". Through its strong commitment to R&D, the Group has realized significant achievements in creating its own solutions to proprietary intellectual property and has applied for more than 3,700 patents as at the end of the Current Year (As at 31 December 2017: approximately 2,900 patents).

SELLING AND DISTRIBUTION ("S&D") EXPENSES

During the Current Year, S&D expenses increased by 15.0% over the Prior Year to HK$587,040,000 (2017: HK$510,499,000), representing 10.4% (2017: 9.2%) of the Group's revenue. Affected by the operating restructuring and human resource optimization of the Group, S&D expenses increased as compared with the Prior Year. The management expects such expenses to be improved to an optimal level in the future.

ADMINISTRATIVE EXPENSES

During the Current Year, administrative expenses increased by 7.9% over the Prior Year to HK$621,408,000 (2017: HK$575,677,000), representing 11.0% (2017: 10.3%) of the Group's revenue. The increase in administrative expenses was also mainly due to the increase of one-off expenses arising from the Group's efforts to optimize its operating structure and human resources.

FINANCE COSTS

During the Current Year, finance costs increased by 53.9% over the Prior Year to HK$73,657,000 (2017: HK$47,861,000), representing 1.3% (2017: 0.9%) of the Group's revenue. The increase in finance costs was mainly due to the increase in bank borrowings and higher interest rates thereon during the Current Year over the Prior Year.

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, development expansion and R&D, the management has closely monitored the latest developments of the financing market and has arranged the most appropriate financing for the Group.

In addition, the management has utilized the difference of interest and foreign exchange rate among different countries in order to minimize finance costs. As of 31 December 2018, gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a healthy level of 17.7% compared with 14.5% as of 31 December 2017.

OPERATING LOSS

During the Current Year, the operating loss of the Group was HK$77,277,000 (2017: operating profit of HK$101,095,000).

TAX

During the Current Year, the Group's overall taxation charge of HK$48,402,000 (2017: HK$29,185,000) comprised an income tax expense of HK$35,752,000 (2017: HK$38,745,000) and a deferred tax charge of HK$12,650,000 (2017: deferred tax credit of HK$9,560,000). The increase in the overall taxation charge was mainly due to an increase in the Group's deferred tax expenditure and overseas tax expenditure.

Details of reduced tax rates enjoyed by major operating subsidiaries are set out in Note 9 to the consolidated financial statements.

NET LOSS

During the Current Year, due to operating loss recorded by the Group, loss attributable to owners of the parent ("Net Loss") was HK$171,384,000 (2017: net profit of HK$27,373,000), mainly attributable to: 1) the increase in R&D costs to well prepare for the 5G network, 2) the one-off operating restructuring and human resource optimization costs and 3) the increase in ETL related expenses and investment during the Current Year.

During the Current Year, the net loss from ETL was HK$63,366,000 as compared to the net loss from ETL in the Prior Year of HK$20,086,000, the increase in the net loss was mainly due to the increased expenses of ETL to build the 4G network as soon as possible in the Current Year, and which was attributable to the consolidation of the full year financial results of ETL in the Current Year as compared to the consolidation of 5-month financial results in the Prior Year.

COST CONTROL PLAN

During the Current Year, the management of the Group has implemented various cost control measures, including 1) the organizational adjustment and restructuring conducted by the operating management team to the headquarter and branches of the Group; and 2) the personnel adjustment and optimization to the headquarter and branches of the Group, aiming to improve each operating indicator and boost operating efficiency through more refined management and strict cost control.

DIVIDEND

In view of the Group's operating results for the Current Year and its long-term future development and flexibility of its financial position, the board of directors (the "Board") does not recommend the payment of 2018 final dividend (2017: Nil).

PROSPECTS

2019 represents a year that the development of 5G accelerates. The 5G will be ushered into pre-commercial stage in Mainland China. Despite the decreasing construction of 4G macro stations in Mainland China, consumption of mobile telecommunications traffic is increasing, which will lead to greater demand on wireless network telecommunications. Meanwhile, the operators in Mainland China sustain to implement frequency spectrum re-farming and the construction of NB-IoT to pave a way for the evolving of 5G. Accordingly, the Group remains optimistic about the prospects for its business development and growth.

PRODUCTS AND SOLUTIONS

ANTENNA AND BASE STATION SUBSYSTEMS

The Group has a long-established leading position in the base station antenna market. Since 2009, the Group has been ranked among top 3 in terms of its shipments of base station antenna worldwide, and has been named as a "Global Tier 1 Base Station Antenna Supplier" for seven consecutive years since 2011 by EJL Wireless Research. In the meantime, the Group has been widely recognized by numerous domestic and overseas operators, equipment manufacturers and integrators in the field of telecommunication network for its strong R&D capability, advanced automatic production capacity and excellent production quality, contributing to the antenna business' presence in more than 100 countries and regions globally.

The Group is committed to maintaining its core competitiveness in antenna and base station subsystems. Strengthening its self-development capabilities and evolving in a direction of multi-frequency and miniaturization, the Group has launched many state-of-the-art antenna products: the 5G Massive MIMO antenna, ultra-multi-frequency antenna and TDD+FDD hybrid antenna. Meanwhile, the Group has officially launched the 5G-targeted medium-and-high frequency base station dielectric filter during the Current Year by virtue of its many years' R&D and proactive deployment, in order to achieve better alignment with the use of the 5G Massive MIMO antenna. As a key component of radio frequency units, the base station dielectric filter is expected to be a main solution to medium-and-high frequency base station antenna filter in the 5G era.

MANAGEMENT DISCUSSION AND ANALYSIS

NETWORK PRODUCT SYSTEM SOLUTIONS

The mobile Internet access traffic data for the Current Year increased significantly over the Prior Year, and the average monthly Dataflow of usage per user (DOU) continued to experience increase by folds. Accordingly, in-depth coverage of network shall be intensified to meet the demand for data traffic from mobile users. In addition, high cost-effective technologies, products and solutions will make greater contribution to cost reduction and enhanced efficiency in network construction by operators in the future, due to the fact that the major operators in Mainland China have waived the roaming charge and the ARPU declined.

The Group has been committed to the R&D and technology innovation of indoor coverage network products, and spares no efforts to explore innovative indoor solutions, so as to provide products and services with higher capacity, lower power consumption and better cost-effectiveness for operators. During the Current Year, the Group took the lead in launching a 5G digital indoor coverage solution, leading the development of 5G indoor coverage industry. In addition, the Group has also proactively participated in the OpenRAN ecosystem and established strategic cooperation with providers of main virtual BBU software to jointly expand markets through connection for the purpose of trial and implementation. Looking forward, the Group will continue to invest in the development and application of 5G indoor coverage technology and provide important support to 5G building and development.

MARKET EXPANSION

OPERATOR BUSINESS IN MAINLAND CHINA

During the Current Year, the three major operators in Mainland China have been improving the coverage quality of networks by focusing on the investment in the continuous expansion of 4G network coverage together with frequency spectrum re-farming and construction of NB-IoT and other projects. Driven by the policy of "Speed upgrade and tariff reduction", the operators have been under the pressure of controlling costs and reducing fees. The Group has been committed to the R&D and technology innovation of products and will provide operators with more cost-effective products and services by capturing the opportunity that operators in Mainland China have to control costs and reduce fees. The Group will deeply explore and expand the markets and strengthen profound cooperation with operators so as to constantly consolidate and improve the results of the Company.

During the Current Year, the China Mobile launched the procurement project of Picocell for 4G, marking the initial large-scale commercial use of the small cell products, which the Group has been putting intensified efforts into R&D and marketing over the past years. Meanwhile, the Group has achieved good performance in many projects of the three major operators, including their network expansion, coverage and optimization for 4G, frequency spectrum re-farming, and construction of NB-IoT.

RAIL TRANSIT COMMUNICATION BUSINESS

After years of exploration, the Group is currently committed to providing communication system integration and product supply services in the rail transit industry. During the Current Year, the Group successfully won the tender for a number of rail transit communication projects in Chengdu, Nanning, Xiamen, Hangzhou and Wuhu, which further laid a solid foundation for the continuous development of the Group's rail transit communication business. The Group will continue to actively expand its wireless communications services in various sectors including utilities and railways, with an aim to provide more scenario-based, broadband-integrated, intelligent and customized products and solutions in such industries.

INTERNATIONAL BUSINESS

Mobile telecommunications services witnessed imbalanced development between developed regions and less developed regions worldwide. During the Current Year, benefiting from the recovery of the emerging economies and proactive investment in construction and upgrade of 4G networks by developing countries such as India, Africa, and Asia-Pacific countries, the Group is actively seeking business opportunities for its international marketing platform and strengthening strategic cooperation with leading international equipment manufacturers. The global market position and competitiveness of the international business were significantly enhanced. In particular, the Group has made significant breakthroughs in such countries or regional markets as the Middle East, India, Brazil and Southeast Asia, boosting the international business to grow rapidly, which fully demonstrates that the Group's innovative capabilities and extensive experience in wireless solutions over years are gradually recognized by customers around the world.

The Group will continue to strive to strengthen technology research and development, develop the target markets and actively secure new partners. Meanwhile, the Group will also strengthen its strategic cooperation with the leading global telecoms operators and major equipment manufacturers to jointly develop 5G products, provide more solutions for promoting 5G applications, and enhance its influence and competitiveness in the international market.

ETL BUSINESS

Following announcement of the investment plan for building up ETL's 4G network at the end of the Prior Year, the Group actively planned and deployed during the Current Year through detailed analysis of ETL's network coverage and development of detailed wireless network plan. During the Current Year, ETL upgraded the existing 2G/3G network in Laos, expanded the capacity of optical fiber transmission network, actively deployed the backbone optical cable carrier network, core network and integrated billing operation system, and accelerated the construction of wireless access network in the capital of Laos and major cities in the South and North District. ETL will complete the construction of network covering Laos and the construction of various supporting systems as soon as possible, so as to provide full business services in Laos, including network 2G/3G/4G voice/data, home broadband and group specialized cables. The Group has high expectations for the business prospects and development of ETL.

NEW BUSINESS

In the future, as the deployment of 5G would be combined with its application in vertical industries to a greater extent, the construction of innovative infrastructures such as artificial intelligence, industrial Internet and Internet-of-things ("IoT") will serve as the direction of construction and deployment of 5G networks by operators. The Group also proactively made deployment in intelligent manufacturing, facial recognition and other areas with a view to capture the opportunities in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

CONCLUSION

2019 is the first year of 5G and also a year underpinned by opportunities as well as challenges. The Group will implement refined management, enhance operational quality, fully improve business indicators, concentrate on operating profits and reasonably allocate resources. Meanwhile, the Group will remain committed to the development of new 5G technologies and products, strive to create and expand competitive advantages, so as to create value for its shareholders and customers.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 31 December 2018, the Group had net current assets of HK$1,762,366,000. Current assets comprised inventories of HK$1,306,831,000, trade receivables of HK$4,164,595,000, notes receivable of HK$118,950,000, tax recoverable of HK$48,330,000, prepayments, other receivables and other assets of HK$984,853,000, restricted bank deposits of HK$207,911,000, and cash and cash equivalents of HK$1,893,859,000. Current liabilities comprised trade and bills payables of HK$4,313,799,000, other payables and accruals of HK$960,834,000, interest-bearing bank borrowings of HK$1,624,499,000 and provisions for product warranties of HK$63,831,000.

The average receivable turnover for the Current Year was 280 days compared to 274 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months, except for certain customers which are granted with longer credit term. Credit term is extendable up to over 1 year depending on the credit worthiness of customers. The balances also include retention money, which is for assurance that the product and service comply with agreed-upon specifications, of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the warranty periods of 1 to 2 years granted to customers. The average payable turnover for the Current Year was 347 days compared to 294 days for the Prior Year. The average inventory turnover for the Current Year was 116 days compared to 121 days for the Prior Year.

As at 31 December 2018, 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 few term loan facility agreements with certain financial institutions. Details of bank borrowings are set out in note 25 to the consolidated financial statements.

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 rates and give prudent consideration as to entering into any arrangement as and when appropriate for hedging corresponding risks. As at 31 December 2018, 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 17.7% as at 31 December 2018 (31 December 2017: 14.5%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

RESTRICTED BANK DEPOSITS

Deposit balances of HK$285,507,000 (31 December 2017: HK$333,990,000) represented the restricted deposits given to banks in respect of bills payable and performance bonds.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had contingent liabilities of HK$289,341,000 (31 December 2017: HK$302,276,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 6,700 staff, out of which 1,400 staff from ETL (31 December 2017: 7,900 staff, out of which 1,400 staff from ETL). The total staff costs, excluding capitalized development cost, for the Current Year were HK$1,161,962,000 (31 December 2017: HK$1,061,458,000). The Group offers competitive remuneration schemes to its employees based on industry practices, legal and regulatory requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, legal and regulatory requirements and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the Mainland China or elsewhere in accordance with relevant legal requirements in such jurisdictions. 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.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fok Tung Ling (霍東齡), aged 62, is one of the founders of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). He is the chairman (the "Chairman") of the board of directors (the "Board") and the authorized representative of the Company. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Fok is primarily responsible for leading the Board in determining the directions of the Group's overall strategies and business development. From 1982 to 1987, Mr. Fok worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from Beijing Institute of Posts and Telecommunications (北京郵電學院) (currently known as Beijing University of Posts and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing executive in China National Electronics Import & Export Corporation, South China Branch (中國電子進出口有限公司華南分公司) which was engaged in the import and export of electronic products. From 1991 to 1997, he was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 37 years of experience in wireless communications. He is the sole director and shareholder of Prime Choice Investments Limited, which is a substantial shareholder of the Company. Mr. Fok is the father of Ms. Huo Xinru.

Mr. Zhang Yue Jun (張躍軍), aged 60, is one of the founders of the Group. He is the vice chairman of the Board. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company and acted as the president of the Group until his resignation with effect from 7 December 2018. Mr. Zhang is mainly responsible for assisting the Chairman in performing the latter's duties and responsibilities, also taking the important role in monitoring the implementation of the Company's strategies. Mr. Zhang graduated from South China Institute of Technology (華南工學院) (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997, he was the deputy chief engineer of a joint venture company in Shenzhen and was mainly responsible for wireless telecommunications projects. Mr. Zhang has over 36 years of experience in wireless communications and he co-founded the Group in 1997. He is the sole director and shareholder of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Huijun (徐慧俊), aged 45, is an executive director of the Company and the president of the Group. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Xu is mainly responsible for the Group's overall operation, management, business development, research and development of new technologies and products and supply chain system. Mr. Xu graduated from Tsinghua University in 1998 with a master's degree in engineering and joined ZTE Corporation ("ZTE") in the same year. He had served as system engineer, project manager, deputy head and head of Beijing Research Centre of ZTE from 1998 to 2003. He was senior vice president of ZTE from 2004 to March 2016, having been in charge of the General Product Division, Engineering Services under the Sales System, Engineering Service Division and Wireless Product Division. He had been executive vice president and chief technology officer (CTO) of ZTE from April 2016 to July 2018, in full charge of the operation of system products and management of research and development. Mr. Xu has over 20 years of management experience in telecommunications industry. Mr. Xu joined the Group in August 2018.

Mr. Chang Fei Fu (張飛虎), aged 44, is an executive director of the Company and the group chief financial officer. He is also the authorized representative of the Company. Mr. Chang holds various positions in the subsidiaries of the Company, including acting as director, company secretary and chief financial officer and acted as supervisor in certain subsidiaries of the Company. He is mainly responsible for the overall financial management of the Group, as well as listed company related matters and investor relations duties. Mr. Chang has obtained a master degree in engineering economic systems from Stanford University, the USA and a bachelor degree in electrical engineering from the University of Michigan, the USA. He has over 21 years of experience in corporate finance, merger and acquisition, financial analysis, research, capital markets and asset management. Prior to joining the Group, Mr. Chang has worked in financial institutions and corporates in Hong Kong, China and Japan, including the Stock Exchange of Hong Kong, Bank of America Merrill Lynch (Hong Kong and Tokyo), Rockhampton Management (Tokyo), Barclays Capital (Hong Kong). During 2011, Mr. Chang joined China Mobile Games and Entertainment Group Limited ("CMGE") in the founding member team as an executive director and chief financial officer. He led CMGE to its listing on the United States NASDAQ Stock Exchange in September 2012, conducted a series of equity fund raisings including CMGE's initial public offering, as well as its privatization. Mr. Chang left CMGE in August 2015 after the company completed its privatization. Mr. Chang then joined 郵樂網 ule.com (an e-commerce platform jointly launched by TOM Group Limited and China Post) as a senior vice president in finance in September 2015. Mr. Chang joined the Group in 2016.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Bu Binlong (卜斌龍), aged 56, is an executive director of the Company. He is also senior vice president of the Group and chief scientist of antenna and subsystem business unit (ASBU) business lines, in charge of the ASBU, the network products business unit and the Research Institute of the Group. Mr. Bu graduated in 1985 from Northwest Telecommunication Engineering Institute (西北電訊工程學院) (currently known as Xidian University (西安電子科技大學)) and obtained a master's degree in electronic magnetic field and microwave technology from Xidian University (西安電子科技大學) in 2002. Mr. Bu has over 33 years of technical research experience in the domain of satellite antennas and mobile communications antennas. Mr. Bu was appointed as an adjunct professor of the key laboratory for antenna and electromagnetic compatibility of Xidian University (西安電子科技大學) in 2010, elected as the vice chairman of the Communication Antenna Special Committee of the Antenna Branch of Chinese Institute of Electronics (中國電子學會) in 2011, elected as the vice chairman of the Antenna System Industry Alliance (天線系統產業聯盟) of the PRC in 2017, and appointed as the vice chairman of the Antenna and Radio Frequency Technology Committee under China Institute of Communications (中國通信學會) in 2018. Mr. Bu joined the Group in 2003.

Mr. Wu Tielong (吳鐵龍), aged 55, is an executive director of the Company. He is also senior vice president and general manager of the marketing center of the Group and in charge of the private network communication business unit. Mr. Wu is responsible for the operation and management of the Group's sales platform in the PRC. Mr. Wu graduated from the Nanjing Institute of Communication Engineering (南京通信工程學院) in 1985 and obtained a bachelor's degree in communication engineering. He was an associate professor. Mr. Wu has over 15 years of experience in the operation and management in the market of communications. Mr. Wu joined the Group in 2003.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Huo Xinru (霍欣茹), aged 35, is an executive director of the Company. She is also senior vice president of the Group and president of Comba Telecom Systems International Limited. Ms. Huo also holds various positions in the subsidiaries of the Company, including acting as director and chief executive officer in certain subsidiaries of the Company. She is mainly responsible for the relevant management work delegated by the Group and the operation and management of Comba Telecom Systems International Limited. She graduated from Imperial College London (英國帝國理工學院) in 2007 majoring in electrical and electronic engineering, and obtained a bachelor's degree; graduated from Stanford University in the USA in 2009 majoring in (electrical engineering) digital signal processing, and obtained a master's degree. Ms. Huo has served successively such positions as software and application engineer, customer manager, and vice president of marketing in North America branch of the Group. She joined the Group in 2010. Ms. Huo is the daughter of Mr. Fok Tung Ling.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki, Kevin (劉紹基), aged 60, is an independent non-executive director of the Company. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Lau has over 35 years of experience in corporate governance, corporate finance, financial advisory and management, accounting and auditing. He is currently a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. He is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants (香港會計師公會). Mr. Lau was a member of the world council of ACCA from 2002 to 2011 and was the chairman of the Hong Kong Branch of ACCA for the year 2000/2001. He is also an independent non-executive director of five other companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") namely FIH Mobile Limited, Samson Holding Ltd., Embry Holdings Limited, Binhai Investment Company Limited and TCL Electronic Holdings Limited. In addition, he was an independent non-executive director of TCL Communication Technology Holdings Limited, a company listed on the main board of the Stock Exchange, until it was privatized on 30 September 2016 and an independent non-executive director of China Medical & HealthCare Group Limited, until his retirement on 6 December 2018. Mr. Lau was also an independent supervisor of the sixth session of the supervisory committee of Beijing Capital International Airport Co., Ltd., the shares of which are listed on the main board of the Stock Exchange, until his retirement on 28 June 2017. He is also the company secretary of Yeebo (International Holdings) Limited and Hung Fook Tong Group Holdings Limited, both companies listed on the main board of the Stock Exchange, and also Expert Systems Holdings Limited, a company listed on the growth enterprise market of the Stock Exchange. Mr. Lau joined the Group in 2003.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Lin Jin Tong (林金桐), aged 73, is an independent non-executive director of the Company. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. Dr. Lin is currently a professor of Beijing University of Posts and Telecommunications ("BUPT") (北京郵電大學). He graduated from Peking University (北京大學) majoring in Physics, and obtained a master's degree in engineering from BUPT. Dr. Lin further obtained a doctorate degree in Philosophy and an honorary doctorate degree in Science from University of Southampton, UK. He has worked as lecturer, professor, department head, vice president of BUPT and was also the president of BUPT from 1998 to 2007. Dr. Lin was also a member of the 10th Beijing Municipal Committee of the Chinese People's Political Consultative Conference from 2003 to 2008. He was a deputy director-general of China Institute of Communications and is currently a fellow member of The Institution of Engineering and Technology. Dr. Lin has long been engaged in optical communication engineering, including research and teaching in the aspects of highspeed optical communication system and broadband optical access network. Dr. Lin is currently a director of Jiangsu Zhongtian Technology Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange and an independent director of Tongding Interconnection Information Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange. He joined the Group in 2012.

Ms. Ng Yi Kum (伍綺琴), aged 61, is an independent non-executive director of the Company. She is also a member of each of the audit committee, remuneration committee and nomination committee of the Company. Ms. Ng is a qualified accountant and holds a Master of Business Administration degree from the Hong Kong University of Science and Technology. She is an associate of The Institute of Chartered Accountants in England and Wales, an associate of The Institute of Chartered Secretaries and Administrators, a fellow of the ACCA, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Ng is currently an executive director, the deputy chairman, the chief strategy officer and chief financial officer, the company secretary and a member of both the remuneration committee and the executive committee of Tse Sui Luen Jewellery (International) Limited ("Tse Sui Luen"), a company listed on the Stock Exchange. Ms. Ng joined Tse Sui Luen group in 2015 and is responsible for Tse Sui Luen group's finance and other administrative functions as well as for defining the corporate strategies of Tse Sui Luen group. Ms. Ng is also a director of certain subsidiaries of Tse Sui Luen. Prior to her joining in Hang Lung Properties Limited in 2003, Ms. Ng was employed by the Stock Exchange in a number of senior positions, latterly as senior vice president of the Listing Division. From September 2005 to November 2007, she was an executive director of Hang Lung Properties Limited, a company listed on the Stock Exchange. Ms. Ng then served as the chief financial officer of Country Garden Holdings Company Limited from January 2008 to April 2014, a company listed on the Stock Exchange. Ms. Ng is an independent non-executive director of China Power New Energy Development Company Limited and Tianjin Development Holdings Limited, both companies listed on the Stock Exchange. Ms. Ng served as an independent director of DS Healthcare Group, Inc. from 6 May 2016 until 16 May 2017, a company listed on the Nasdaq Capital Market in the United States until they were delisted on 23 December 2016. Ms. Ng served as an independent non-executive director of CMGE, a company listed by way of American Depositary Shares on the Nasdaq Global Market in the United States, from September 2012 to 10 August 2015. From 30 September 2008 to 31 July 2015, Ms. Ng served as an independent non-executive director of Hong Kong Resources Holdings Company Limited, a company listed on the Stock Exchange. Ms. Ng has also contributed her time to various public service appointments, including being a co-opted member of the audit committee of the Hospital Authority from December 2002 to November 2013. She joined the Group in 2019.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chen Sui Yang (陳遂陽), aged 55, senior vice president of the Group. Mr. Chen is mainly responsible for the operational management of the procurement center, group logistics center, public products delivery center and the intelligent manufacturing business unit of the Group. Mr. Chen was in charge of the research and development and operational management of the Group's wireless enhancement products. He graduated from the Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a bachelor's degree in antenna technology in 1985. He has also obtained an MBA degree in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 33 years of experience in technology research and operational management of wireless communications. He joined the Group in 1998.

Mr. Luo Rui Bo (駱瑞波), aged 44, vice president and general manager of the human resource center of the Group. Mr. Luo is responsible for the Group's human resource management. He graduated from Kunming University of Science and Technology (昆明理工大學) in 1998 and obtained a bachelor's degree in engineering, and obtained an MBA degree in Sun Yat-Sen University (中山大學) in 2009. Mr. Luo has over 21 years of experience in human resource management and operational management of large enterprises. He joined the Group in 2005.

Ms. Li Yu Wen (李宇雯), aged 48, vice president and general manager of the treasury management center of the Group. Ms. Li is responsible for the business operation and management of the Group's quality and process IT management center, and the daily management of the Group's treasury management center. She graduated from the Yunnan University (雲南大學) in 1992 and obtained a bachelor's degree in physics. She also obtained an EMBA degree from Tsinghua University School of Economics and Management (清華大學經濟管理學院) in 2006. Ms. Li has over 26 years of experience in the markets of communication, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Chen Jian Bin (陳劍斌), aged 45, vice president and general manager of the service business unit of the Group. Mr. Chen is responsible for the operation and management, business expansion, market operation, and platform construction of the Group's service business. He graduated from Beijing University of Posts and Telecommunications (北京郵電大學) and obtained a bachelor's degree in engineering in 1996. Mr. Chen has nearly 23 years of experience in operation and management in the market of communications. He joined the Group in 1998.

Mr. Li Xue Feng (李學鋒), aged 46, vice president and general manager of the audit and legal center of the Group. Mr. Li is responsible for the management of the audit, legal affairs, risk management and control and intellectual property rights of the Group. He is an individual member of the Chinese Institute of Certified Public Accountants, a Certified Internal Auditor, a CPA, a FCPA (國際註冊法務會計師), a CFA (國際舞弊審計師), and a PhD candidate in law. He graduated from Northeast Forestry University (東北林業大學) majoring in accounting with a bachelor's degree in economics, and obtained a master's degree in management from Royal Roads University, and obtained an EMBA degree from Lingnan College in Sun Yat-Sen University (中山大學嶺南學院). Mr. Li has many years of experience in finance, internal audit, legal affairs and intellectual property rights from domestic and international companies. He joined the Group in 2010.

Mr. Du Feng (杜峰), aged 53, vice president and supervisor of the general office of the Group. He is a national wireless engineer, and was a cadre at deputy regiment commander level before demobilization with rank of lieutenant-colonel. Mr. Du is fully responsible for the daily management of the Group's general office. He completed his undergraduate studies at the Second Artillery Engineering University (第二炮兵工程學院) in 1997, and graduated from Beijing University of Posts and Telecommunications (北京郵電大學) in 2017 with an EMBA degree. Mr. Du has 18 years of experience in army administration and technical management, and 18 years of experience in marketing and business unit operational management in communications industries. He joined the Group in 2004.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun Shan Qiu (孫善球), aged 39, general manager of the antenna and subsystem business unit and chief architect of antenna business line of the Group. He graduated from University of Electronic Science and Technology of China (電子科技大學) and obtained a bachelor's degree in electronic magnetic field and microwave technology in 2002 and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京郵電大學) in 2016. Mr. Sun has over 16 years of experience in the industry of base station antenna. In addition, he has a wide range of experience in the research and development, market and operation management. He was elected as the vice president of the Antenna System Industry Alliance in 2017. He was appointed as a professional member of the Antenna and Radio Frequency Technical Committee of China Institute of Communications (中國通信學會天線與射頻技術委員會) in 2018. He joined the Group in 2002.

Mr. Luo Man Jiang (羅漫江), aged 40, general manager of the network products business unit of the Group. Mr. Luo is responsible for the daily management and operation of network products business unit of the Group. He graduated from Xidian University (西安電子科技大學) and obtained a master's degree in circuits and systems in 2004. Mr. Luo has a wide range of experience in the technical research, product development and management of wireless communications. He joined the Group in 2004.

Mr. Yang Bo (楊波), aged 40, director of the research institute of the Group. Mr. Yang is responsible for the management of the research institute. He graduated from South China University of Technology (華南理工大學) in 2002 majoring in circuit and system, and obtained a master's degree in engineering from the university. Mr. Yang has over 17 years of experience in technical management and operational management of corporate strategy of large communications enterprises. He joined the Group in 2005.

Ms. Qiu Cai Xia (邱彩霞), aged 40, general manager of the specialized network communications business unit and deputy general manager of the marketing center of the Group. Ms. Qiu is responsible for the market operation and management of the Group's specialized network business. She graduated from People's Public Security University of China (中國人民公安大學) in 2001 and obtained a bachelor's degree in law, and obtained an EMBA degree from Beijing University of Posts and Telecommunications (北京郵電大學) in 2014. Ms. Qiu has a wide range of experience in the technical marketing and business development. She joined the Group in 2001.

Mr. He Wang Long (何望龍), aged 36, director of the accounting management department (PRC) of the finance center of the Group. Mr. He is responsible for the daily management of the accounting management department of the finance center of the Group in the PRC. He completed the undergraduate studies in Nanhua University (南華大學) in 2005, and obtained a bachelor's degree in management. Mr. He has 13 years of experience in accounting and financial management in communications industries. He joined the Group in 2006.

Mr. Zhang Jian Feng (張劍鋒), aged 43, director of the financial sharing department (PRC) of the finance center of the Group. Mr. Zhang is responsible for the daily management of the financial sharing department of the finance center. He completed the undergraduate studies in Central South University (中南大學) in 1999 and obtained a bachelor's degree in management, and obtained an EMBA degree from South China University of Technology (華南理工大學). Mr. Zhang has 20 years of experience in accounting and financial management in communications industries. He joined the Group in 2005.

Mr. Augustin Ping Chang (張平), aged 56, general manager of the Group's international branch in North America. Mr. Chang is responsible for business development & sales of In-Building Cellular & Public Safety Solutions in US & Canada. Prior to joining the Group, Mr. Chang was director of engineering at REMEC Inc. He also held various engineering management positions at Spectrian Inc. & Watkins-Johnson Company. Mr. Chang holds a master of science degree in electrical engineering from University of Illinois at Urbana-Champaign and a bachelor of science degree in electrical engineering from Carnegie – Mellon University. Mr. Chang has more than 31 years of experience in RF/microwave amplifier development, from ultra-broadband MMIC amplifier to high power linearized power amplifier for cellular base station. Mr. Chang has co-authored numerous papers in the fields of GaAs FET amplifiers, and holds a patent on high linearity multi-carrier RF amplifier. He joined the Group in 2005.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Johan Patrik Westfalk, aged 47, managing director of the Group's international branch in Caribbean & Latin America with headquarters in Sao Paulo, Brazil. Mr. Westfalk is responsible for all operations throughout the Latin American countries, including Brazil, Mexico as well as the Caribbean Islands. He holds a Master of Science degree in Engineering Physics from Chalmers University of Technology in Gothenburg, Sweden, specializing in electromagnetic fields and microwave antenna design and has also completed finance and accounting education at the Business School of Sao Paulo, Brazil. Mr. Westfalk has over 22 years of experience in the telecommunication industry and over 20 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Ms. Ma Jing (馬靜), aged 36, senior director of technical marketing solutions & general manager of enterprise business of the Group's international markets. Ms. Ma is responsible for overseeing the strategy and development of new solutions, business development of oversea Enterprise business as well as strategic technical marketing of total solutions and new solutions for the Group's oversea market. She graduated from Tsinghua University (清華大學) with a master degree in Information & Communications Engineering in 2007 and a bachelor's degree in Electrical Engineering & Automation in 2004. Ms. Ma has wide experience in product management, technical marketing and business development. She joined the Group in 2007.

Mr. Di Ying Jie (邸英傑), aged 57, chief technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's research and product development works concerning microwave RF passive accessories. He graduated from Xidian University (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in the theory and design and research of microwave RF accessories for many years. Mr. Di also has wide experience in product development. He is now a senior member of IEEE. He joined the Group in 2004.

Ms. Carol Ka Ye (葉卡), aged 52, vice president of Comba International. Ms. Ye is responsible for key account management, developing and expanding the business for global accounts, defining the strategies, business models and corresponding process for the Group's international operations. She graduated from National University of Singapore with the master degree of Electronic Engineering, and specialized in Microwave and Antenna design. Ms. Ye has more than 20 years of wide arrange of working experiences in product management, business development and network planning in Telecommunication and Wireless industry. She joined the Group in 2005.

Mr. Chan Siu Man, Barry (陳少文), aged 50, deputy financial controller of treasury management (overseas) of the Group, also the company secretary of the Company. Mr. Chan is responsible for treasury management and company secretarial functions of Hong Kong and overseas companies. He graduated from Hong Kong Polytechnic University with a bachelor of arts (honours) in accountancy in 1991 and obtained a master degree in business administration from University of Southern Queensland in 2000. He is also a full member of The Hong Kong Institute of Certified Public Accountants since 1996 and a fellow member of The Association of Chartered Certified Accountants since 2000. He has over 20 years of experience in accounting, treasury and financial management in various organizations. He joined the Group in 2015.

Mr. Chen Liang (陳亮), aged 44, general manager of procurement center of the Group. Mr. Chen is responsible for the daily management of the Group's procurement center. He graduated from Shanghai University (上海大學) in 1998, majoring in communications and information engineering, and obtained an EMBA degree in Beijing University of Posts and Telecommunications (北京郵電大學) in 2014. Mr. Chen has 21 years of experience in the technical research, product development and corporate management in the wireless communications area. He joined the Group in 1998.

Mr. Xu Chuan Min (徐傳民), aged 40, director of the public products delivery center of the Group. Mr. Xu is responsible for the production management of the Group's wireless enhancement, wireless access and wireless transmission related products and the introduction of new products. He completed the higher diploma studies in Shandong University (山東大學) in 2002, completed the undergraduate studies in Shandong University in 2008, graduated from Huazhong University of Science and Technology (華中科技大學) with MBA in 2013 and obtained an MBA degree. Mr. Xu has 16 years of experience in the production, operation and management in communications industries. He joined the Group in 2002.

CORPORATE GOVERNANCE REPORT

Comba Telecom Systems Holdings Limited (the "Company") is continuously committed to achieving high standards of corporate governance to ensure transparency and accountability. The Company believes that corporate governance is crucial to the development of the Company and its subsidiaries (collectively referred to as the "Group") and helps safeguard the interests of the Company's shareholders (the "Shareholders").

The board (the "Board") of directors (the "Director(s)") of the Company reviewed daily governance of the Company from time to time in accordance with the code provisions (the "Code Provision(s)") as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered that, from 1 January 2018 to the date of this annual report, save as disclosed herein, the Company has complied with all Code Provisions.

The key corporate governance principles and practices of the Company are summarized as follows:

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 from 1 January 2018 to the date of this annual report.

BOARD OF DIRECTORS

BOARD COMPOSITION

As at the date of this annual report, the Board comprises eight Directors, of whom six are executive Directors and two are independent non-executive Directors. Mr. Lau Siu Ki, Kevin, an independent non-executive Director, has the appropriate accounting qualification and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Following the appointment of Mr. Bu Binlong and Mr. Wu Tielong as executive Directors with effect from 12 April 2018, the Company had ten Directors which comprised seven executive Directors and three independent non-executive Directors. As a result, the number of independent non-executive Directors of the Board was below the minimum number as required under Rule 3.10A of the Listing Rules. Upon the resignation of Mr. Yeung Pui Sang, Simon as an executive Directors with effect from 24 May 2018, the Company had nine Directors which comprised six executive Directors and three independent non-executive Directors. As a result, the Company fulfilled the requirement under Rule 3.10A of the Listing Rules.

Following the appointment of Mr. Xu Huijun as an executive Director with effect from 23 August 2018, the Company had ten Directors which comprised seven executive Directors and three independent non-executive Directors. As a result, the number of independent non-executive Directors of the Board was below the minimum number as required under Rule 3.10A of the Listing Rules. Upon the resignation of Mr. Zhang Yuan Jian as an executive Director with effect from 21 September 2018, the Company had nine Directors which comprised six executive Directors and three independent non-executive Directors. As a result, the Company fulfilled the requirement under Rule 3.10A of the Listing Rules.

Following the resignation of Mr. Qian Ting Shuo as an independent non-executive Director and a member of each of the audit committee, remuneration committee and nomination committee of the Company with effect from 15 January 2019, the Company had eight Directors which comprised six executive Directors and two independent non-executive Directors. As a result, the number of independent non-executive Directors of the Board was below the minimum number as required under Rules 3.10(1) and 3.10A of the Listing Rules. In addition, the number of members of audit committee of the Company reduced to two which was below the minimum number as required under Rule 3.21 of the Listing Rules. The Company considers that the failure of meeting the abovementioned requirements of the Listing Rules is temporary in nature and is endeavoring to identify a suitable candidate to fill the abovementioned vacancy as soon as practicable and in any event within 3 months after failing to meet the requirements.

The composition of the Board represents a mixture of expertise specializing in management, wireless communications and telecommunications, research and development, accounts and finance.

Details of the composition of the Board, by category of Directors, including names of chairman, executive Directors, independent non-executive Directors and their respective experience and qualifications with specific responsibilities assigned to enhance the effectiveness of the Company, also their financial, business, family or other material/relevant relationships, if any, are set out in the section "Directors and Senior Management" of this annual report.

BOARD MEETINGS

For the year ended 31 December 2018 (the "Current Year"), there were 12 Board meetings and an annual general meeting held by the Company and attendance of each Director at the Board meetings and the general meeting (either in person or by telephone conference) is set out as follows:

Name of Directors	Number of Board meetings attended/ Total number of Board meetings held	Number of general meeting attended/ Total number of general meeting held
Executive Directors:		
Mr. Fok Tung Ling *(Chairman)*	12/12	1/1
Mr. Zhang Yue Jun *(Vice Chairman)* (Note 1)	12/12	1/1
Mr. Xu Huijun *(President)* (Note 2)	2/3	N/A
Mr. Chang Fei Fu (Note 3)	12/12	1/1
Mr. Bu Binlong (Note 4)	8/8	1/1
Mr. Wu Tielong (Note 4)	8/8	1/1
Mr. Zheng Guo Bao (Note 5)	3/3	N/A
Mr. Yeung Pui Sang, Simon (Note 6)	6/6	N/A
Mr. Zhang Yuan Jian (Note 7)	11/11	1/1
Independent non-executive Directors:		
Mr. Lau Siu Ki, Kevin	11/12	1/1
Dr. Lin Jin Tong	12/12	1/1
Mr. Qian Ting Shuo (Note 8)	12/12	1/1

Notes:

(1) Mr. Zhang Yue Jun resigned as president of the Group with effect from 7 December 2018.

(2) Mr. Xu Huijun was appointed as executive Director with effect from 23 August 2018 and as the president of the Group with effect from 7 December 2018. During the period from 23 August 2018 to 31 December 2018, three Board meetings were convened and held and no general meeting was held.

(3) Mr. Chang Fei Fu was appointed as executive Director with effect from 23 February 2018. During the period from 23 February 2018 to 31 December 2018, twelve Board meetings were convened and held.

(4) Mr. Bu Binlong and Mr. Wu Tielong were appointed as executive Directors with effect from 12 April 2018. During the period from 12 April 2018 to 31 December 2018, eight Board meetings were convened and held.

(5) Mr. Zheng Guo Bao resigned as executive Director with effect from 23 March 2018. During the period from 1 January 2018 to 22 March 2018, three Board meetings were convened and held and no general meeting was held.

(6) Mr. Yeung Pui Sang, Simon resigned as executive Director with effect from 24 May 2018. During the period from 1 January 2018 to 24 May 2018, six Board meetings were convened and held and no general meeting was held.

(7) Mr. Zhang Yuan Jian resigned as executive Director with effect from 21 September 2018. During the period from 1 January 2018 to 21 September 2018, eleven Board meetings were convened and held.

(8) Mr. Qian Ting Shuo resigned as independent non-executive Director with effect from 15 January 2019.

BOARD FUNCTIONS

The Board is responsible for, inter alia, formulating corporate strategies, approving overall business plans and overseeing the Group's financial performance, management and organization on behalf of the Shareholders.

The Board is also responsible for performing the corporate governance duties as set out in Code Provision D.3.1. During the Current Year, Board meetings held to, inter alia, review the Company's policies and practices on corporate governance; review and monitor the training and continuous professional development of Directors and senior management of the Group; review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and review and monitor the compliance with the Code Provisions and approve the disclosure in the corporate governance report as contained in the Company's 2017 annual report.

MANAGEMENT FUNCTIONS

In general, specific tasks that the Board delegates to the Group's management include the preparation of annual and interim consolidated financial statements for the Board's approval before public reporting; the implementation of strategies approved by the Board; the monitoring of operating budgets; the implementation of risk management and internal control procedures; and ensuring compliance with relevant statutory requirements and other rules and regulations.

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

During the Current Year, Mr. Fok Tung Ling, Mr. Zhang Yue Jun, Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Zhang Yuan Jian, Mr. Bu Binlong, Mr. Wu Tielong, Mr. Lau Siu Ki, Kevin, Dr. Lin Jin Tong and Mr. Qian Ting Shuo attended training session(s) organized by the Company and/or other professional institutions, and have provided records of the training they received to the Company.

Apart from the above, Mr. Xu Huijun, Mr. Chang Fei Fu, Mr. Bu Binlong and Mr. Wu Tielong were appointed as executive Directors during the Current Year. Each of them has received a comprehensive, formal and tailored induction on appointment to ensure that each of them has a proper understanding of the operations and business of the Company and are fully aware of their respective responsibilities in the Company.

COMPANY SECRETARY

Mr. Chan Siu Man, the company secretary of the Company (the "Company Secretary"), has taken not less than 15 hours of relevant professional training during the Current Year in compliance with Rule 3.29 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE

The role of chairman and chief executive of the Company are clearly segregated and performed by different Directors.

As at the date of this annual report, Mr. Fok Tung Ling is the chairman of the Board, Mr. Zhang Yue Jun is the vice chairman of the Board and Mr. Xu Huijun is the president of the Group (who was appointed as the president of the Group with effect from 7 December 2018 after the stepping down of Mr. Zhang Yue Jun from the same position with effect from 7 December 2018). The chairman is primarily responsible for leading the Board in determining the directions of the Group's overall strategies and business development while the president acting as chief executive is responsible for the Group's overall operation, management, business development, research and development of new technologies and products and supply chain system.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has entered into a letter of appointment with each of the independent non-executive Directors. Pursuant to such letters of appointment, each of them is appointed for a fixed term of not more than three years and is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company (the "Articles").

CORPORATE GOVERNANCE REPORT

The chairman held a meeting with all independent non-executive Directors without the presence of any executive Directors during the Current Year.

REMUNERATION COMMITTEE

As at the date of this annual report, remuneration committee of the Company (the "Remuneration Committee") comprises two independent non-executive Directors, being Mr. Lau Siu Ki, Kevin and Dr. Lin Jin Tong. The chairman of the Remuneration Committee is Mr. Lau Siu Ki, Kevin. The terms of reference of the Remuneration Committee are available on the respective websites of the Stock Exchange and the Company.

The main duties and responsibilities of the Remuneration Committee are to advise the Board on the remuneration policy for all Directors and senior management of the Group; to review and recommend to the Board on the remuneration packages and any compensation arrangements made to the Directors and senior management of the Group; and to review the terms of service contracts of Directors.

During the Current Year, there were five Remuneration Committee meetings held to, inter alia, discuss the remuneration packages of all Directors and senior management of the Group and the grant of share options to Directors and senior management of the Group and recommend to the Board. The remuneration of the Directors are subject to the Shareholders' approval at general meeting of the Company, other emoluments, including share options and awarded shares, are reviewed and recommended by the Remuneration Committee to the Board with reference to Directors' duties, responsibilities and performance within the Group, the Group's remuneration policy and the prevailing market conditions. Details of the remuneration payable to the Directors are set out in note 8 to the consolidated financial statements.

The remuneration, including sales commissions, equity-settled share option expense and awarded share expense, of the senior management of the Group by band for the Current Year is set out as follows:

Remuneration bands (HK$)	Number of person(s)
Nil to 1,000,000	3
1,000,001 to 2,000,000	9
2,000,001 to 3,000,000	6
3,000,001 to 4,000,000	2

Details of the attendance at the Remuneration Committee meetings held during the Current Year are set out as follows:

Members of Remuneration Committee	Number of meetings attended/ Total number of meetings held
Mr. Lau Siu Ki, Kevin	4/5
Dr. Lin Jin Tong	5/5
Mr. Qian Ting Shuo (Note)	5/5

Note:

Mr. Qian Ting Shuo resigned as a member of Remuneration Committee with effect from 15 January 2019.

NOMINATION COMMITTEE

As at the date of this annual report, nomination committee of the Company (the "Nomination Committee") comprises two independent non-executive Directors, being Dr. Lin Jin Tong and Mr. Lau Siu Ki, Kevin. The chairman of the Nomination Committee is Dr. Lin Jin Tong. The terms of reference of the Nomination Committee are available on the respective websites of the Stock Exchange and the Company.

The main duties and responsibilities of the Nomination Committee are to formulate nomination policy for the consideration of the Board and to implement the Board's approved nomination policy (the "Nomination Policy").

The key nomination criteria and principles of the Nomination Policy are as follows:

(i) review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, professional experience, skills and knowledge) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy with due regard to the board diversity policy (the "Board Diversity Policy") of Company;

(ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; and

(iii) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

During the Current Year, there were five Nomination Committee meetings held to, inter alia, discuss the resignation and appointment of executive Directors, the changes of authorized representative of the Company and president of the Group and recommend to the Board; review the structure, size and composition of the Board; assess the independence of the independent non-executive Directors and review the implementation and effectiveness of the Board Diversity Policy.

SUMMARY OF BOARD DIVERSITY POLICY

The Board Diversity Policy aims to set out the approach to achieve diversity on the Board. The Company recognizes the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All appointments of the Board will be based on meritocracy with due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

ASSESSMENT OF INDEPENDENCE

The Company received annual written confirmations of independence, having regard to the independence guidelines under Rule 3.13 of the Listing Rules, from each independent non-executive Director. Consideration was given to the independence of Mr. Lau Siu Ki, Kevin, who has been serving on the Board for more than nine years. After review and assessment, the Nomination Committee affirmed that all of the independent non-executive Directors continued to demonstrate strong independence in judgement and were free from any business or other relationships which could interfere with their ability to discharge their duties effectively, and they therefore all remained independent.

Details of the attendance at the Nomination Committee meetings held during the Current Year are set out as follows:

Members of Nomination Committee	Number of meetings attended/ Total number of meetings held
Dr. Lin Jin Tong	5/5
Mr. Lau Siu Ki, Kevin	5/5
Mr. Qian Ting Shuo (Note)	5/5

Note:

Mr. Qian Ting Shuo resigned as a member of the Nomination Committee with effect from 15 January 2019.

AUDIT COMMITTEE

As at the date of this annual report, audit committee of the Company (the "Audit Committee") comprises two independent non-executive Directors, being Mr. Lau Siu Ki, Kevin and Dr. Lin Jin Tong. The chairman of the Audit Committee is Mr. Lau Siu Ki, Kevin. The terms of reference of the Audit Committee are available on the respective websites of the Stock Exchange and the Company.

The main duties and responsibilities of the Audit Committee are to review the completeness, accuracy and fairness of the Group's consolidated financial statements, the Company's financial reporting system, risk management and internal control systems, the scope and nature of the external audit and matters concerning the engagement of external auditor.

During the Current Year, there were two Audit Committee meetings held to, inter alia, review the Group's consolidated financial statements such as interim results and annual results, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, risk management and internal control systems, the effectiveness of risk management and internal audit function and related issues.

Details of the attendance at the Audit Committee meetings held during the Current Year are set out as follows:

Members of Audit Committee	Number of meetings attended/ Total number of meetings held
Mr. Lau Siu Ki, Kevin	2/2
Dr. Lin Jin Tong	2/2
Mr. Qian Ting Shuo (Note)	2/2

Note:

Mr. Qian Ting Shuo resigned as a member of the Audit Committee with effect from 15 January 2019.

AUDITOR'S REMUNERATION

The Company's external auditor for the Current Year is Ernst & Young. The Audit Committee is mandated to ensure continuing auditor's objectivity and safeguarding independence of the auditor. The Audit Committee considered and approved the engagement of Ernst & Young as the auditor of the Company for the Current Year and the corresponding audit fees estimation. Such recommendation relating to the appointment of Ernst & Young was agreed and accepted by the Board.

During the Current Year, the fees paid to the auditor for audit services amounted to HK$3,899,000; and non-audit services of tax review and other professional services amounted to HK$115,000 and HK$878,000 respectively.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Company and ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function and the responsibility of the preparation of the consolidated financial statements of the Group.

As at the date of this annual report, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

A statement from the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the section "Independent Auditor's Report" on pages 65 to 69 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group's risk management and internal control systems, which are comprised of the Board and its audit committee, the management, the legal department, the internal audit department, the finance department and external auditor, are designed to ensure the effectiveness of operating activities, the safety of assets as well as the reliability of operating information and financial report, and cover all aspects of the operation and management of the Company.

The Board is accountable for designing, implementing and overseeing the risk management and internal control systems, and reviewing and overseeing the effectiveness of such systems and procedures annually to ensure such systems and procedures can protect the Group from making significant mistakes in a reasonable manner.

The management submits significant events to the Board and the Audit Committee through regular reports, meetings and other working mechanisms, assists the Board to identify, access and manage, among others, the finance, operation and compliance risk of the Group, and ensure the effectiveness of the risk management and internal control systems.

The Group identifies significant business risks through regular review and takes proper steps to control and mitigate such risks to ensure it maintains sound risk management and internal control systems in compliance with the Code Provisions. Meanwhile, the Group's risk management is fully integrated into daily operations. The Group has clear system and reasonable segregation of duties in place for each aspect of business, and continues to optimize procedures and reinforce management in a systematic manner for more efficient business operations and proper and timely information communication so that risks can be effectively monitored and business and operating activities can be improved.

CORPORATE GOVERNANCE REPORT

During the Current Year, the Group accessed the significant risks exposed to it and reviewed the effectiveness of the Group's risk management and internal control systems. Such review covers all significant scopes of control, including finance, operation, laws and regulations control and risk management function. The review accesses the Group's risk management and internal control systems for all primary businesses and operating procedures in respect of control environment, risk management, control activities, information and communication and control procedures.

During the Current Year, the Group continued to enhance the risk management procedures, initiated the development of a comprehensive risk management system and promoted the integration of risk management awareness and daily business decisions in a full manner, in addition to a change of mechanism to better adapt to the new environment and constantly improve the Group's capability in risk prevention and opportunity identification.

During the Current Year, the Group specified the procedure of processing and publishing inside information and internal controls as required under the Listing Rules and the Securities and Futures Ordinance, the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission and the Policy on Disclosure of Inside Information issued by the Group. During the Current Year, neither the Group nor any relevant person had involved in any regulatory measure enforced or penalty imposed by regulatory authority for suspected insider dealing.

During the Current Year, the legal department identified new risks exposure in response to changes in the Group's operating environment and optimized the risk management and control systems; the internal audit department conducted internal audit proactively in key business areas and significant risk control scopes and submitted reports and advices to the management and the Audit Committee; the finance department kept overseeing the Group's finance risks; and the external auditor submitted its management proposal.

The Audit Committee reviewed the reports submitted by the risk management and internal audit departments and reported findings semi-annually to the Board on such reviews. For the Current Year, the Board has reviewed the effectiveness of the Group's risk management and internal control systems and is satisfied that the Group's risk management and internal control systems are effective and adequate.

SHAREHOLDERS' RIGHTS

PROCEDURES BY WHICH SHAREHOLDERS MAY CONVENE AN EXTRAORDINARY GENERAL MEETING

The Board may whenever it thinks fit call extraordinary general meeting. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The above procedures are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the Listing Rules (as amended from time to time).

PROCEDURES FOR PUTTING FORWARD ENQUIRIES TO THE BOARD

Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

The Company Secretary
Comba Telecom Systems Holdings Limited
611 East Wing
No. 8 Science Park West Avenue
Hong Kong Science Park
Tai Po Hong Kong
Email: investorrelations@comba-telecom.com
Tel No.: (852) 2636 6861
Fax No.: (852) 2637 0966

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT A GENERAL MEETING

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) as at the date of this annual report. However, pursuant to the Articles (as amended from time to time), Shareholders who wish to put forward proposals at general meetings may achieve so by convening an extraordinary general meeting following the procedures set out in the section "Procedures by which Shareholders May Convene An Extraordinary General Meeting" above.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for Shareholders to propose a person for election as a Director are available and accessible on the website of the Company.

CHANGE IN THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY

During the Current Year, there has not been any change in the Company's constitutional documents.

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Group always endeavors to improve transparency and accountability to its Shareholders in the best possible way. The senior management of the Group participates in various investor relations activities including investor meetings, investor conferences and post-results road shows from time to time. These provide the investment community with an opportunity to understand the business of the Group better. After reporting its interim and annual results, the Group holds press conference and investor presentation/conference call where the financial performance, business review and prospect of the Group are presented. This also sets an open communication platform for the Group's senior management to address any questions that the investment community and the media may have. Web-cast presentation is then sent to Shareholders and investors around the world to ensure information is disseminated on a fair and timely basis. The Group issues press releases and announcements where appropriate to provide updated information about the Group's business development in a timely manner. The Group also updates its website regularly to ensure information about its latest development disseminated promptly.

During the Current Year, the Group's senior management attended over about 200 investor meetings, including participation in 28 investor conferences and 58 post-results road shows, and 9 plant visits were arranged. This provided the investment community with an opportunity to understand the business of the Group better. As a result of various investor relations activities undertaken, as at the end of the Current Year, 6 securities companies provided research coverage on the Group.

Key Investor Relations Events in 2018:

Date		Event
January	:	Annual Investment Strategy Conferences (organized by Guosen Securities, Citic Securities and Essence International respectively)
March	:	2017 Annual Results Announcement (Press Conference and Investor Presentation) and Post-results road shows in Hong Kong (arranged by various brokerage firms)
April	:	Post-results road shows in Hong Kong and Mainland China
	:	Plant Visits for investors, fund managers and analysts (organized by Essence International and Soochow Securities)
May	:	2018 Annual General Meeting
	:	China Summit 2018-China in a New World (organized by JP Morgan)
	:	Greater China Conference (organized by Macquarie)
	:	Regional Tech Conference (organized by Citi)
	:	Interim Investment Strategy Conferences (organized by Citic Securities, Haitong Securities and Huachuang Securities respectively)
June	:	Interim Investment Strategy Conferences (organized by Guosen Securities and Essence International respectively)
July	:	Interim Investment Strategy Conferences (organized by China Merchants Securities)
August	:	2018 Interim Results Announcement (Press Conference and Investor Presentation) and Post-results road-shows in Hong Kong (arranged by various brokerage firms)

Date		Event
September	:	Autumn Investment Strategy Conferences (organized by Citic Securities and Essence Securities respectively)
	:	Plant Visits for investors, fund managers and analysts (organized by Citic Securities, Guosen Securities, Haitong Securities, China Merchants Securities, Tianfeng Securities and etc.)
	:	Non-deal road shows in Beijing (arranged by Citic Securities) and in Shanghai (arranged by Guosen Securities)
October	:	Group Meetings for investors, fund managers and analysts (organized by GF Securities)
November	:	Plant Visits for investors, fund managers and analysts (organized by Orient Securities, HSBC Qianhai Securities, First Shanghai Securities, DBSv Securities and etc.)
	:	5G Corporate Day Conferences (co-organized by China Securities International, eFusion Capital and Zhixin Caijing) & HK/China Smartphone & 5G Corporate Day (organized by CGS-CIMB)
	:	Annual Investment Strategy Conferences (organized by Citic Securities and Huachuang Securities respectively)
December	:	Annual Investment Strategy Conferences (organized by China Merchants Securities, China Securities International, Haitong Securities, Guosen Securities and etc. respectively)

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
21 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. SUMMARY AND SCOPE OF REPORT

This report is compiled under the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recognize "Connecting the World to Promote the Progress of Human Civilization" as corporate vision and "Achieving Innovation and Development in the Information Communications Technology Areas to Provide Customers with Excellent Communications and Information Solutions and Services" as corporate mission. Considering its customers, employees, shareholders and the government as the basic elements to achieve business core values, the Group is devoted to creating ideal values for customers, co-developing high level of life quality as well as leading the way and giving back to society. The Group adheres to the long-held core culture of "Pursuing Perfection and Harmony" and are committed to integrating sustainable development and social responsibility into its corporate culture. It is encouraging that its efforts are well recognized.

This report is designed to convey the Group's influence, policies and corresponding measures on environmental, social and governance aspects to relevant individuals in various sectors of the community.

This report covers the performance indicators related to environment from 1 January 2018 to 31 December 2018, mainly from Comba Telecom's headquarter and research and development (the "R&D") base in Guangzhou Science City, the manufacturing base in Guangzhou Development Zone, head office in Hong Kong and the main sales offices at home and abroad as their profit contributions to the Group are fairly representative and important.

II. COMMUNICATIONS WITH STAKEHOLDERS AND IMPORTANCE ASSESSMENT

The Group attaches great importance to communication with all parties of the stakeholders by learning their varying expectations of the Group's environmental, social, governance and other aspects through a variety of different channels, as well as by representing in this report its efforts put in issues that are of concern to stakeholders, in a bid to enhance the Group's transparency and stakeholders' confidence in its promotion of sustainable development.

Key Stakeholders	Main Communication Channels	Main Contents Covered
Shareholders/ Investors	General meeting, results presentation, non-deal roadshow Institutional investigation conferences Regular report, press announcement Telephone, email, website, the Company's platform of Wechat	Operating results and financial performance Situation and progress of the Company's products/ technology/R&D/business Future development prospect and strategy Corporate governance and social responsibility Protection of investors' benefits
Customers	Daily business dealings Progress meeting Technology exchange meeting Customer exchange forums	Quality of product and service Level of technology Customer feedbacks Potential demand from customers
Employees	Training programs Intranet and the platform of Wechat of the Company Employee engagement surveys Staff meetings Employees' group activities Regular performance assessment	Development strategy and deployment of the Company Efficiency and effectiveness of all processes through R&D, manufacturing, sales to services Staff reasonable proposals, occupational health and safety Development of and reward to staff
Suppliers	On-site inspection and evaluation Daily business dealings Progress meeting Annual evaluation of suppliers	Corporate reputation and recognition Scale of enterprise and delivery capability Successful experiences of peers Requirements of environmental and social responsibility
Regulatory authorities	Communication document Government hotline Face-to-face meeting	Integrity management, legality and compliance Joint development of economy, environment and the society Amendments to government policies Promulgation of preferential policies
Communities	Community activities Public welfare activities	Active participation of enterprises Contribution to the community Sustainable development of enterprises

III. ENVIRONMENTAL PROTECTION AND RESOURCE UTILIZATION

The Group has been committed to achieving the sustainable development goal of environmental protection and energy saving. By implementing the ISO Environmental and Quality Management System to manage the environment in a systematic manner, the Group strives to deliver the development strategy of balancing environment, society and economy. The Group has adopted the management concept of life cycle in all the business activities worldwide to minimize adverse effect on environment while producing and offering services, perform its compliance obligations and enhance environmental performance, thus contributing to the better prevention of environment pollution and the sustainable development of society.

(I) EMISSIONS

To implement relevant laws and regulations such as Environmental Protection Law (《環境保護法》), the Law on the Prevention and Control of Air Pollution (《大氣污染防治法》), the Law on the Prevention and Control of Water Pollution (《水污染防治法》), the Group sets a goal of environmental management to achieve pollution reduction and emission control and strictly monitor waste discharge during the course of production by setting up ISO14001 Environmental Management System and carrying out environmental control procedures as well as environmental monitoring and measurement control procedures pursuant to the working guideline of "standardizing the works of environmental management, taking precaution as the main task, fulfilling regulation requirement, satisfying the standards of emission to make sure that its under control and continuing to save energy and reduce consumption", with the aim to ensure the management and control of pollution at source. The Group is legally subject to some environmental protection taxes for discharge of household wastewater.

During production process of the Group, there is no emission of industrial exhaust gas, except for little air contaminant discharged by its administrative cars and standby generating sets. All the toxic waste generated by the Group, comprising batteries, bulbs, coolant oil, etc., will be conducted professional recovery and processing by qualified waste recovery and processing companies. There was an increase in hazardous wastes in 2018 as compared with that of the last year mainly attributable to the replace of waste and used bulbs; however, there was a decrease in both batteries and coolant oil. Non-hazardous waste, which mainly includes domestic waste generating from daily office works and canteen of the Company and building debris of construction in progress, is conducted waste disposal by outsourcing service companies. Indirect emissions from external production of electricity and employees' business trips are the major source of the Group's greenhouse gas emission. In 2018, the equivalent amount of carbon dioxide (CO_2) emission for sales revenue per ten thousand was 0.060 tonnes. The emission density of greenhouse gas saw an increase as compared with that of 2017, mainly due to higher income in 2018 over last year. In 2018, the Group has been able to effectively reduce the emission of SO_2 by continuously optimizing solutions for using administrative cars, standardizing management system of business trip at home and abroad and consolidating frequency and route of the Company's shuttle buses for many times. The Group has carried out regular supervision over and assessment of the service quality of the outsourcing service companies, enhanced the degree of informationization of its documents and reduced paper consumption while printing, thus effectively controlling emission of pollution.

Emissions		Unit	2018	2017	Comparison
Air contaminant	NOx	tonne	0.528	0.530	0.38%↓
	SOx	tonne	0.003	0.005	40.00%↓
	PM	tonne	0.032	0.032	–
Waste	Household wastewater	tonne	118,279	122,293	3.28%↓
	Non-hazardous wastes	tonne	300	307	2.47%↓
	Hazardous wastes	tonne	11	8	37.50%↑
Greenhouse gas emission		tonne of equivalent amount of CO_2	34,425	24,327	41.51%↑
Annual sales revenue in total		ten thousand HK$	566,331	556,373	1.79%↑
Emission density of greenhouse gas		tonne/ten thousand HK$	0.060	0.044	39.02%↑

(II) RESOURCE UTILIZATION

In 2018, manufacturing base in Guangzhou Development Zone was certified by the Green Manufacturing System (綠色製造體系). The Group takes a careful consideration of environment factors throughout the life cycle of its products and services, to provide its products with the characteristics of energy and natural resource saving and non-pollution in each procedure of research and development, production, sale, transportation, utilization and abandonment, effectively manages the water consumption and waste water treatment of the company to reduce environment pollution, and actively promotes the concept of water conservation to save water resources, reduce the utilization of hazardous and noxious substances in each procedure, proactively seeks, develops and uses new environmental technologies and materials and encourages recycling of all materials, while for resource and energy consumption, the Group promotes active application of energy-efficient products, equipment and techniques to reduce energy consumption.

During the year, total amount of the municipal water witnessed an increase over the last year, with the increase mainly coming from branches overseas due to significant increase in sales income incurred by branches overseas as compared with previous years, while domestic water consumption declined as compared with that of previous years mainly due to the fact that the Group effectively avoided waste of water resources by replacing old water pipes in the manufacturing base and replacing bottled water with filtered drinking water in the headquarters in Guangzhou Science City in 2017. In addition, in the manufacturing base, the Group also replaced bottled water with filtered drinking water to improve the utilization of water resources in 2018. The increase in sales revenue also led to a rise in consumption of packing material, but a drop in the usage of packing accessories and packing materials in terms of product package to the greatest extent. Additionally, more trees were planted in the headquarters in Guangzhou Science City.

Type of energy	2018 Total amount	2018 Unit	2018 Density Unit/ ten thousand HK$	2017 Total amount	2017 Unit	2017 Density Unit/ ten thousand HK$
Electricity	25,829,747	kWh	45.60	24,055,904	kWh	43.24
Municipal water	351,873	cubic meter	0.62	173,304	cubic meter	0.31
Liquefied petroleum gas	2	tonne	0.0033%	2	tonne	0.0004%

Type of Packing material	Unit	Consumption in 2018	Consumption in 2017	Comparison
Paper boxes and paperboards	tonne	2,630	2,571	2.27%↑
Wooden boxes	tonne	660	452	45.93%↑
Packing accessories	tonne	693	722	4.03%↓
Straps	tonne	194	167	16.05%↑
Other packing materials	tonne	406	441	7.95%↓
Total packing materials	tonne	4,583	4,353	5.27%↑
Consumption of packing materials per ten thousand HK$ sales revenue	tonne/ten thousand HK$	0.008	0.008	–

(III) ENVIRONMENT AND NATURAL RESOURCES

The Group is proactive in enhancing staff awareness of and responsibility towards environmental protections. All the employees in each of its branches worldwide are required to comply with local laws and regulations in respect of environment, safety and health. In the absence of local laws and regulations, they are encouraged to provide assistance in solving environmental issues as possible as they can under relevant standards of the Group.

The Group has set up scientific goals in environment and energy consumption, and continuously evaluates, improves and consolidates the synergy among the Group's operating activities, products and the environment. In addition, the Group communicates environmental information with stakeholders in a timely manner. Furthermore, the Group also focus on environmental factors in selecting and managing suppliers and outsourcers.

The Group has reduced its negative impact on the environment and natural resources by pursuing high-quality products as well as reducing repair rate of products and reported damage rate of machines. The Group has implemented flexible layout and upgraded its intelligent manufacturing equipment in its production workshops during the reporting period. All pieces of equipment have been connected to optimize the intelligent deployment in the life circle of products so as to improve operation efficiency of products, reduce the repair rate in the market, and increase the useful life of machines.

IV. EMPLOYMENT AND LABOUR PRACTICES

(I) EMPLOYMENT

The Group has actively optimized the employment structure and standardized labour management in accordance with national laws and regulations. It also strictly regulates the employment system including recruitment, resignation, promotion, staff salary and benefits, etc., and resolutely eliminates the employment of child labour and forced labour.

The Group considers its employees as an important resource, attach much importance to safeguarding their interests, offer competitive remuneration packages and pay the relevant insurance. The Group established corporate annuity mechanism and its employees are entitled to national statutory holidays. Overtime is voluntary and employees are compensated for overtime in accordance with local laws. Employees are also given an appropriate number of leaves depending on their entitlement under their respective employment contracts with the Group and in accordance with the relevant laws and regulations.

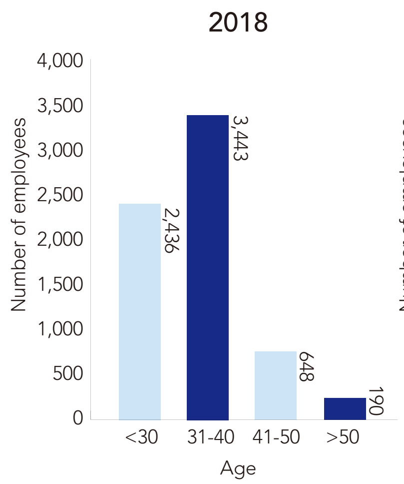
As at 31 December 2018, the Group had 6,717 staff. The Group is committed to ensuring equal employment opportunities and protecting the rights of female employees. For employment policy, the Group eliminates gender discrimination and provide female employees with maternity leave according to local laws. Its employees are located primarily in the PRC with certain located in the other districts such as Europe and Southeast Asia.

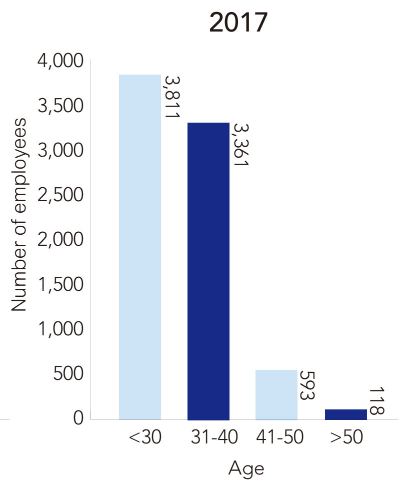
The Group continues to optimize its investment for its employees. In 2018, the Group provided fitness room to its employees and engaged professional yoga teacher and table tennis coach to give technique instruction to its employees weekly; established Comba I love stations and engaged professional career psychologists to provide all employees and their family members with free psychological consulting services. In addition, the Group optimized the deployment of its staff and put forward the exploration of the incentive mechanism for new business cultivation and the mid-and-long-term incentive mechanism. Furthermore, the Group adjusted the remuneration and benefit proposal for its long-term overseas expatriate staff to enhance its competitive level of remuneration.

During the reporting period, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to employment.

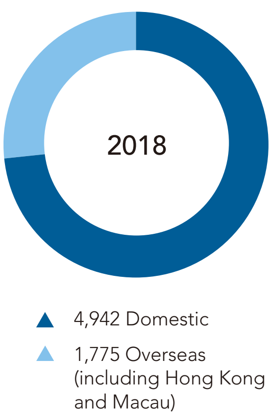
Total number of employees

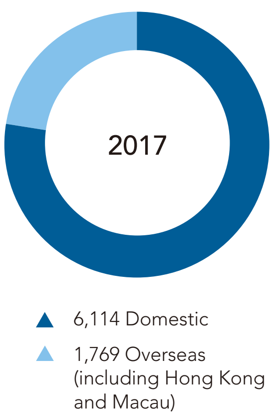
By age



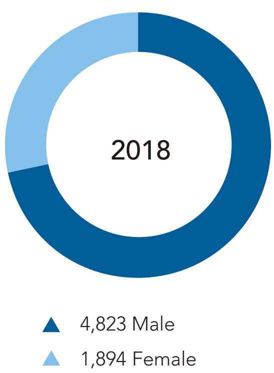


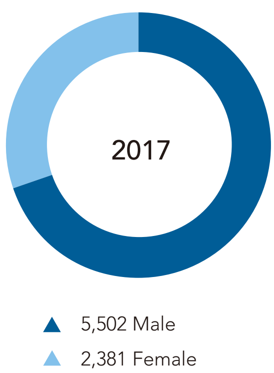
By geographic location



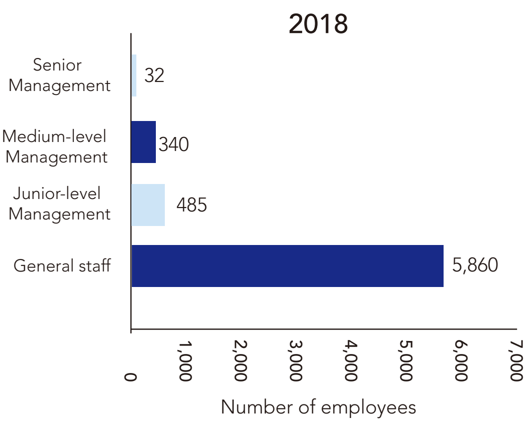


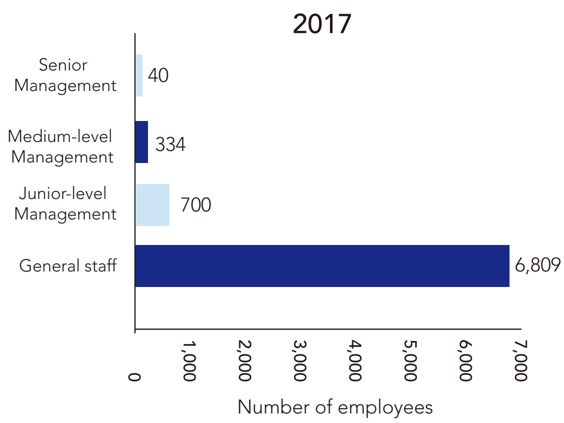
By gender





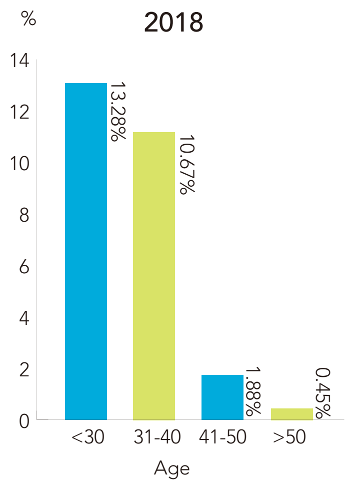
By position

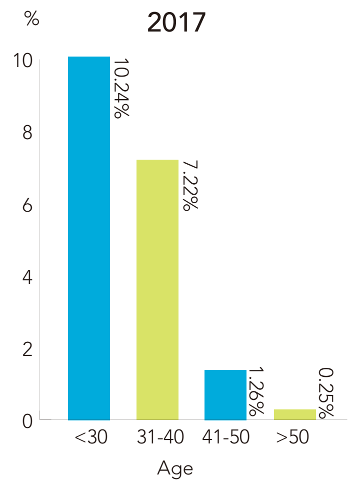




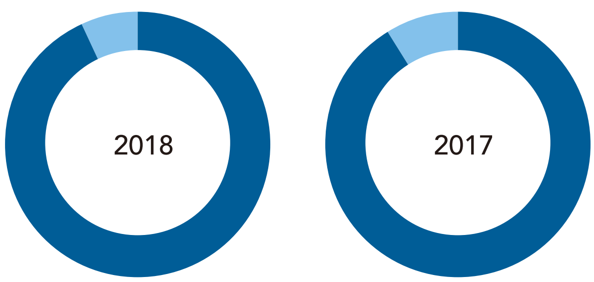
Turnover rate of employees

By age



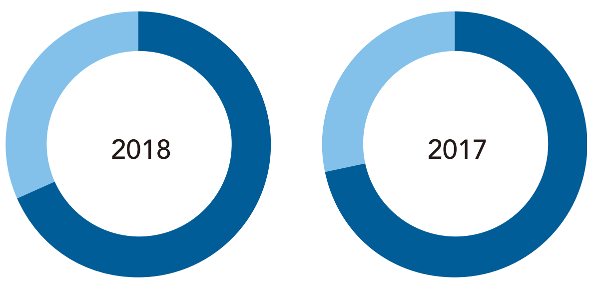


By geographic location



- 2018: ▲ 24.46% Domestic; ▲ 1.82% Overseas (including Hong Kong and Macau)
- 2017: ▲ 17.33% Domestic; ▲ 1.64% Overseas (including Hong Kong and Macau)

By gender



- 2018: ▲ 17.96% Male; ▲ 8.32% Female
- 2017: ▲ 13.63% Male; ▲ 5.34% Female

(II) HEALTH AND SAFETY

In order to protect environmental and personal health and safety, pursue social benefits and ensure social interests, the Group has established the OHSAS18001 Occupational Health and Safety System and SA8000 Social Responsibility System so as to protect employees' health and safety. Such systems are operated in combination with quality management system to deliver its Group's commitment to the community and its employees.

There were no employees died because of their work in the Group in 2018 and the lost days caused by work-related injury were 276 days, representing a decrease as compared with 2017.

The Group has set up the “Safety First, Prevention Dominance and Comprehensive Governance” guidelines and paid close attention to work safety.

1. Establishing safety management policies and procedures: The Group has established safety management policies such as the Management Procedure of Safety and Environmental Protection for Construction Project (《建設專案安全和環境保護管理程序》), the Fire Control and Safety Management Regulations (《消防安全管理規定》), the Safety Production Responsibility System (《安全生產責任制》), the Labour Protection Standards of Production Position (《生產崗位勞動保護標準》), the Transportation Safety Management Regulations (《運輸安全管理規定》), etc.. At the same time, it has regulated various safety management policies and safe operating procedures of all levels. Pursuant to which, the person in charge is required to sign the Safety Production Responsibility Paper (《安全生產責任書》), and all the division principals are directly responsible for safety performance of their respective areas.

2. Continuing to put efforts to improve environmental safety: The Group creates a fine and safe working environment for its employees, provide them with comfortable accommodation, formulate the staff holiday system and the periodical medical check system, offer job skills training and establish a labour union. Besides, the Group also attach much value to staff care, health and safety as well as boosting their sense of belonging. With a lot of funds invested, apparatuses and equipment devoted, the Group keeps improving working environment and protects the personal safety and health of its employees with special positions equipped with corresponding appliances for labour protection. Also, its employees’ safety awareness and self-defense capability can get strengthened through safety training.

3. Carrying out activities such as drills and inspections: A safety manual for production operation is formulated for staff compliance. The Group carries out fire drills every year to further enhance its employees’ emergency response capability. Also, a fire emergency team, which is responsible for urgent evacuation of personnel in emergency, is established to protect its employees’ life and property security. The Group has established special safety inspection system which covers a variety of measures, including daily safety check, seasonal safety check, and safety check before and after holiday, etc.. With the abovementioned efforts, the Group was repeatedly awarded as “Advanced Enterprise in Production Safety (安全生產先進單位)” and “Enterprise with Qualified Work Safety Standardizations (安全生產標準化達標企業)” in Guangzhou City.

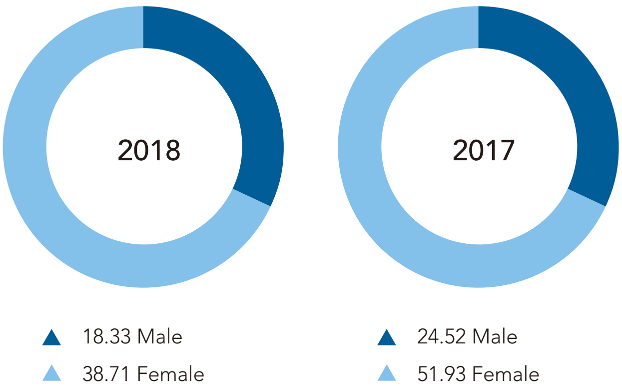
During the reporting period, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to health and safety.

(III) DEVELOPMENT AND TRAINING

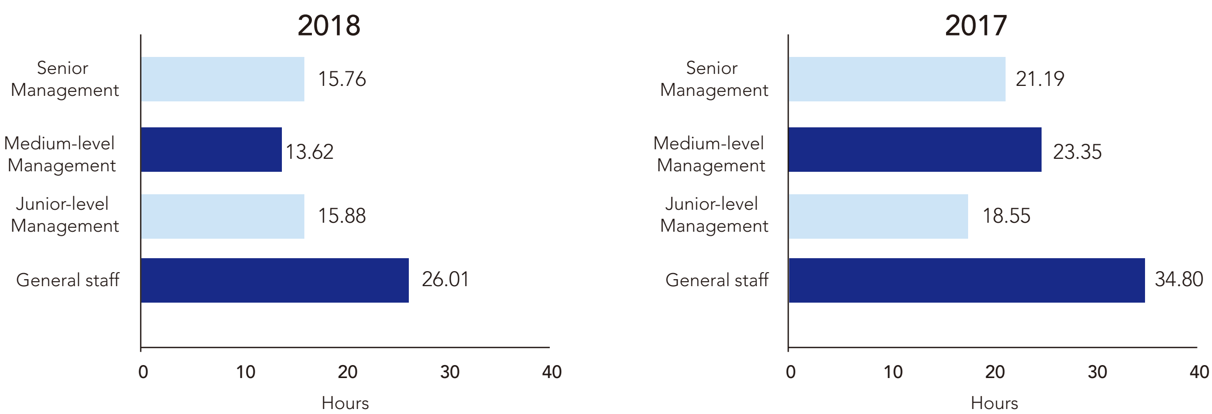
The Group is committed to the career development of its employees and offer dual promotion paths for them, namely “promotion for management functions” and “promotion for technical expertise”. The Group implements a system that links its employees’ remuneration and promotion to their work experience, capabilities and performance, which incentivizes their proactivity. All employees of the Group must accept training every year and the percentage of its employees trained is 100%.

Average hours of each employee completing its training

By gender



By position



The Group has been focusing on the cultivation of talents. On such basis, the Group advocates the talent concept of "promote the outstanding among flourishing talents" and establish an effective and systematic talent training system, which is designed to enhance its employees' knowledge, capability and skills. In view of the Group's demand for talents arising from its development goals, the Group ensures effective implementation of training from the five aspects of training regulation system, training program system, training instructor system, training material system and training operation system.

1. **Orientation Training for New Employees**
   In order to help its new employees to be suitable for their posts as soon as possible, the Group offer well-established orientation trainings for them, which cover trainings on corporate culture, rules and regulations, organization management, quality control system, process and IT know-how and the application of office software, information security, product and professional knowledge, rotation in production system, internship on the marketing and construction sites, occupational health and safety, site visit, team outward bound and other aspects.

2. Professionalizing Training Camp for Undergraduates

For the purpose of facilitating the undergraduates recruited from university to successfully transform from a student to an employee, the Group has specially organized the professionalizing training camp for undergraduates. It is targeted to deepen their perception of professionalization and their understanding about the Group by way of military training, team outward bond, group discussion, completing task and challenge, in-class teaching, group activities, etc..

3. Leadership Enhancement Training for Management

Management serves as the core strength in the operation and management of a corporate. Therefore, the Group continuously organizes a series of management trainings for all its management in a bid to adoptively enhance its management level and operation capacity. The structured programs and their matching intensive trainings not only strengthen the leadership and management skills of its management team, but also cultivate their international perspective and create the cultural atmosphere to keep on learning, which is conform with the demand for its future development. Meanwhile, such trainings also boost its management's self-management skills, promote their career development in a more systematic way and better motivate and retain high-profile managers.

The College of Comba Leader Management (京信幹部管理學院) which was established in 2016 has initiated its systematic cultivation of management. It focuses on the combination of training and practice to comprehensively enhance the leaders' management capability through mechanisms including in-class training, action learning and instructor coaching. The College of Comba Leader Management continued to deepen its development in 2018, forming its learning, growth and development system for leaders based on qualification of appointment of leaders, its instructor team based on senior-, medium-, and junior level management and external practice instructors, its system for assessing effectiveness of training and cultivation based on a four-level assessment model, and its appointment accreditation system based on four aspects including occupational ethics and basic conditions, necessary knowledge, performance of responsibility, and capability.

4. Construction of the Internal Lecturers Team

The Group regularly organizes skills upgrading trainings and certification works for its internal lecturers in order to build up the team of internal lecturers, improve their teaching skills, broaden their horizons and promote the accumulation and inheritance of its enterprise culture. In addition, the Group invites industry experts to provide its internal lecturers with full set guidance on curriculum development, teaching and presentation. Furthermore, the Group builds its branded lecturer team and deliver a series of excellent courses through after-class practices and getting certification and approval of internal lecturers.

5. Comba Colorful Classes

The Group specially sets up the "Comba Colorful Classes (京彩課堂)", an online and offline learning platform, for all its staff, to create an active and strong atmosphere of trainings and satisfy their diversified demands for training. The "Comba Colorful Classes" are featured as its internal lecturers' branded courses, combined with the introduction of external general courses. Also, it integrates training into life and pays close attention to its employees' concerns. It also dedicates to offer financial knowledge to all the staff of the Company while enhancing its financial employees' professional level through "Durian Classes", a learning platform focusing on financial expertise.

6. E-Learning Platform

In order to further improve the efficiency of training and diversify the forms of training, the Group established E-Learning as an online learning platform in 2018, which breaks the limitation of traditional training for departments and employees and ensures the consistency and efficiency of learning information and through which, the employees may always use their fragmented spare time to study in a systematic manner. Meanwhile, it facilitates the development and improvement of the Group's training system and creates the Group as a study-type organization.

(IV) LABOUR STANDARDS

The Group strictly implements relevant national and local laws and regulations on labour, pursuant to which, the Group undertakes to maintain and respect its employees' interest. The Group establish and maintain a non-child labour system that expressly prohibits the employment of child labour and a non-discrimination policy to make sure that all its employees are not discriminated during recruitment and actual works (such as promotion, receiving awards, gaining training opportunities, dismissal) due to reasons including race, skin color, age, gender, ethnicity and disability, and are treated equally. Additionally, the Group also develop and maintain an effective grievance and complaint procedures to protect its employees' human rights and labour interests.

In accordance with labour laws and regulations in relevant countries and areas, its employees are remunerated accordingly and provided with paid leaves, such as minimum wage, overtime compensation, mandated benefits, annual leave, marriage and funeral leave, maternity leave, etc. and compensations to employees left or retired are paid according to both national regulations and company related policies.

The Group respects and protects its employees' right of freedom, including freedom to be employed, freedom to resign, freedom to work overtime and freedom of action, the Group also respects and protects their rights to freedom of association and collective bargaining.

V. OPERATION MANAGEMENT

(I) SUPPLY CHAIN MANAGEMENT

The Group has regulated the management of key processes of supply chain such as the placing of purchase order, the entering of contracts, product acceptance and the settlement by formulating proven purchase management system and establishing supplier acceptance, performance appraisal and exit mechanisms. During the year, the number of the suppliers from overseas regions has increased as compared with that of the last year due to the introduction of a batch of new suppliers as a result of the growth of overseas businesses.

Locations of suppliers	2018	2017	Comparison
First-tier cities in the PRC	281	247	14%↑
Other cities in the PRC	244	248	2%↓
Overseas (including Hong Kong and Macau)	543	451	20%↑
Total	1,068	946	13%↑

The Group implements comprehensive certification of its suppliers newly introduced, which includes certification of sustainable development system. The Group regards sustainable development as one of the basic conditions and requirements in introducing suppliers, so as to assess suppliers' capability and level to comply with laws and regulations and sustainable development agreements. Suppliers are required to carry out business based on the fact that they have complied with applicable laws and regulations and met the requirements under sustainable development. The Group has entered into Agreement of Corporate Social Responsibility (《企業社會責任協定》) with material suppliers to constraint their code of conduct on integrity and law abiding, human rights, labour standards, health and safety, environment, prohibited commercial transactions, which is a necessity to carry out supplier certification, audit and performance assessment. During the year, more than 400 suppliers have signed the agreement.

The results of supplier performance assessment are utilized to supplier management to promote their sustained improvement. Suppliers are carried out annual comprehensive assessment based on various factors such as their amount of business, daily assessment, quality performance, RoHS risk, environment, safety, etc.. Over 70 suppliers have been selected to carry out on-site audit in 2018. Supplier with excellent performance is entitled to increased purchase percentage on the same conditions and provided with priority of business cooperation. Supplier with poor grade in performance assessment is provided with respective training and coaching, so as to drive supplier to regard corporate social responsibility as a requirement of product during production, and integrate it into business decision making and daily operation, thus establishing effective management system.

The Group attaches great importance to the issue of conflict minerals and publicly states that it will not purchase and support to use conflict minerals. All its suppliers are required not to purchase conflict minerals and their sub-suppliers are also so required. The Group identifies the material lists and supplier lists relating to conflict minerals in accordance with OECD Guidelines for Due Diligence of Conflict Minerals (《OECD衝突礦物盡職調查指南》) and adopts conflict mineral questionnaire (CMRT Form) of Global Conflict Free Sourcing Initiative (全球無衝突採購倡議) (CFSI) to carry out due diligence and analysis on 90% of its suppliers.

(II) PRODUCT RESPONSIBILITY

By adhering to its corporate value and core culture, persistently seeking higher working quality and constantly promoting changes and innovation, the Group is committed to building its brand reputation featured with "excellent" and "value-for-money" products.

The Group has established an ISO9000 international quality management system and a TL9000 quality management system in telecommunication industry that have gained international accreditation, as well as an automatic product testing and reliability measurement system to secure its product quality and provide the customers with safe and reliable products and services. The specialty team of quality improvement solves key quality issues from its customers' feedbacks and its production.

The Group has established the RoHS (Restriction of Hazardous Substances in electrical and electronic equipment) management system, a product hazardous and noxious substances control system. Pursuant to which, operational processes and regulations are developed to cover the whole life cycle of the products, including the process of product research & development and design, purchase and supplier management, production and manufacturing procedure control, transportation and storage, product recovery, etc.. All of its products produced have met the requirements under the Measures on Pollution Control of Electronic Information Products of China, while all the products sold to the European Union have met the requirements under RoHS of the European Union.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has established a proven after-sale service system, continued upgrading the CRM customer relations management platform and established multi-dimension customer communication, complaint and feedback channels based on its WeChat public account, the 400 hotline, its website, and customer satisfaction survey. All the complaints and feedbacks will be handled by classification and grading in accordance with process specifications to ensure customer satisfaction. During the reporting period, there was no circumstance of recovery of its products incurred due to the safety and health. When facing customer complaints, the Group has rapidly carried out cause investigation and analysis and formed a cross-department specialty team to improve and continuously track such issues.

The Group has implemented the procedures to manage intellectual properties, patents, trademarks, advertisements and publicity, in order that such relevant risks are reduced and intellectual properties of others are respected. At the same time, the Group has set up a confidentiality management policy for strict protection of business secret of the company and customers. Through several systems such as VI Standards on Management and Utilization, Group Management Measures on External News and Publicity and Management Measures on Wechat Public Account, the Group strengthens its management of corporate brand image and sensitive information.

The Group has always insisted on independent innovation and attached great importance to possession of core technologies and in-house intellectual properties. The Group has taken “combination of attack and defense, innovation, appropriate layout and creation of values” as its development strategy of intellectual properties and stipulated several systems such as Management Measures on Intellectual Properties, Standards of Patent Management, and Management Regulations of Business Secrets and Award Measures on Group Intellectual Properties to regulate the utilization and protection of intellectual properties.

The Group has applied for patents since 2002. The application for patents has increased on an annual basis. As of the end of 2018, the Group has applied for over 3,700 patents in total at home and abroad and been granted over 2,000 patents, of which more than 2,200 patents have been applied for with respect of invention and more than 900 patents have been granted. The Group has received sufficient recognition from outside with respect of its achievement of intellectual properties. It was awarded the Golden Prize of the 20th China Patent Award held in 2018, Award of Excellence of the 5th Guangdong Patent Award, Outstanding Intellectual Property Enterprise of Guangdong Province and 2018 Outstanding Intellectual Property Exporter. It was also certified as a workstation of intellectual property service in Guangzhou Development Zone. It was enlisted among the Top 100 Innovating Enterprises of China Mainland. Three subsidiaries under the Group has received the certification of National Standardized Management of Intellectual Property.

The Group regards quality as its life. Hence, the Group has sets up the largest microwave laboratory nationwide and an automatic measurement and testing system that adopts domestically and internationally advanced measuring instruments and measuring process. The Group has built up a robust quality control team to take charge of incoming inspection, production process inspection and delivery inspection, so as to make sure all its outgoing products meet its customers', corporate and national or international relevant standards and requirements. All its domestic products have conformed with and passed the "3C" certifications, namely the National Safety Certification (國家安全認證) (CCEE), the Imported Products Safety and Quality Licensing System (進口安全質量許可制度) (CCIB) and the Electro Magnetic Compatibility Certification in China (中國電磁相容認證) (EMC), while all its overseas products have conformed with and passed the certificate of American Underwriters Laboratories (美國保險商試驗所) (UL).

The Group is committed to ensuring the security of product throughout its whole life cycle. Using the principle of life cycle analysis, the Group strives to make sure that every process in life cycle is taking into consideration, which includes manufacturing, transportation, installation, utilization, after-sale service and recovery. Domestically, the Group develop free or compensated recovery mechanism in every province. Internationally, the Group enters into cooperation with local enterprises qualified for recovery processing by entrusting them with the recovery processing of its products.

During the reporting period, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to product responsibility.

(III) ANTI-CORRUPTION

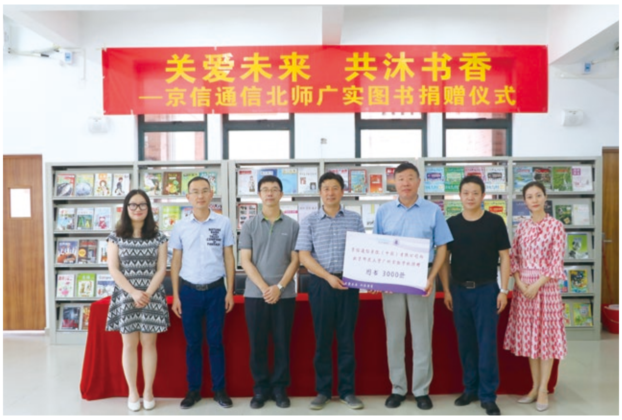
In strict compliance with national laws and regulations and the Group's internal policies, the Group requires its employees abstaining from such misconducts as offering or accepting bribery, corruption, blackmail, fraud and money laundering in any circumstance. Any suspected criminal offence will be promptly whistle-blew and reported to judicial authorities, and the Group will actively cooperate with the judicial authorities for investigation. During the reporting period, the Group did not have any concluded corruption litigations against the Company or its employees.

To effectively carry forward the integrity campaign, the Group continues to improve its internal audit rules and regulations and the internal control system with an aim at strengthened internal supervision, risk management and anti-corruption management. The Group joined China Enterprise Anti-Fraud Alliance to regularly communicate with other members to learn advanced external experience. To reduce operation risks, an internal audit department is in place to exercise monitoring over the issues of the Group including financial incomes and expenses, budgets, final accounts, asset quality, operating performance and other economic activities. In addition to relevant requirements in respect of anti-corruption in the Employee Manual, the Group has also developed various policies such as Anti-corruption Policy (《反舞弊制度》), Code of Conduct and Management Code on the Group's Managers (《集團經理人行為準則及管理守則》), Accountability System of Marketing Platform Operation (《市場營銷平臺經營問責制》), Purchasing Accountability System (《採購問責制度》), Regulation on Integrity of Purchasing Staff (《採購業務人員廉潔從業規定》) and Accountability Management System of Key Responsible Incidents (《關鍵責任事件問責管理制度》), to encourage all employees to participate in supervision by giving feedbacks and reporting any internal operational defects or irregularities of the Group through multiple channels including telephone, email and Wechat, thus prohibiting any forms of illegal operation activities such as bribery, fraud and corruption. The Group addresses the identified issues in a timely manner according to the laws and regulations to ensure the implementation of the relevant systems.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VI. COMMUNITY INVESTMENT

Whilst accelerating its own development in a healthy and rapid manner, the Group is devoted to supporting social charity and proactively fulfills its social responsibilities and obligations. It has devoted many human and financial resources to public benefits activities, poverty alleviation, donations for school, staff care, the conveyance of condolence to the injured and disabled and other aspects. In 2018, the Group made a total donation of HK$713,000 in social charity, poverty alleviation, the provision of financial assistance to poor students, social activities, etc..



Leveraging on its technical expertise, the Group has actively participated in emergency communications relief in major disasters and resumed communications in a timely manner to support rescue and relief efforts. During the year, the Group joined in the emergency communications relief in the typhoon “Mangosteen (山竹)” in Guangdong, the emergency communications relief during the flood in Sichuan and communication protection of Zhejiang Provincial Games, etc..

With continuous commitment to innovation and development to provide customers with excellent communications and information solutions and services, the Group was well recognized by winning a number of awards, including being a member of Guangzhou Investment Associate of One Belt, One Road, a Top 100 Innovating Enterprise of China Mainland, the second prize of the State Technological Invention Award 2018, the Golden Prize of the 20th China Patent Award and the first prize of the Science and Technology Award of China Institute of Communications 2018.

The Group organized and participated in various series of cultural and sports activities. It participated in badminton game, table tennis game, chess game and Tuo La Ji (a type of Chinese poker) game and also the "swim across the Pearl River", walking activity, fellowship activity, Yoga activity, table tennis training, badminton communication game, chess and poker communication game, badminton game for high-level talents and badminton game for the party committee of Nanfang Rencai (南方人才) in Huangpu, Guangzhou. Besides, it organized its employees to participate in large-scale international contests, including Hangzhou Marathon, Guangzhou Marathon and Huangpu Marathon, to support the development of cultural and sports activities of the enterprise and community.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
21 March 2019

REPORT OF THE DIRECTORS

The directors (the "Director(s)") of Comba Telecom Systems Holdings Limited (the "Company") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 (the "Current Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Current Year.

BUSINESS REVIEW

Business review of the Group for the Current Year and discussion on the Group's future business development and the principal risks and uncertainties facing the Group are set out in the Management Discussion and Analysis on pages 11 to 19 of this annual report. An analysis of the Group's performance during the Current Year using financial key performance indicators is set out in the 5 Year Financial Summary on page 162 of this annual report.

The Group is committed to support sustainability of the environment and endeavours to comply with laws and regulations regarding environmental protection and to adopt measures to achieve efficient use of resources, energy saving and waste reduction. A further discussion of the Group's environmental policies and performance is included in the Environmental, Social and Governance Report in this annual report.

The Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group. The Company is subject to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Codes on Takeovers and Mergers and Share Buy-backs, the Cayman Islands Companies Law, the Hong Kong Companies Ordinance, the Securities and Futures Ordinance ("SFO") and/or the rules and regulations of the jurisdiction(s) where the shares of the Company are listed and traded. The Environmental, Social and Governance Report in this annual report also contains brief description of relevant laws and regulations that have significant impact on the operations of the Group.

The Group is committed to establishing a close and caring relationship with our employees, providing quality services to our customers and enhancing cooperation with our business partners.

OPERATING SEGMENT INFORMATION

An analysis of the Group's revenue for the Current Year by the business and location of customers is set out in note 4 to the consolidated financial statements.

RESULTS

The Group's results for the year ended 31 December 2018 and the state of affairs of the Group as at 31 December 2018 are set out in the consolidated financial statements on pages 70 to 161 of this annual report.

DIVIDENDS

In view of the Group's operating results for the Current Year and taking into consideration of its long-term future development and its flexibility of financial position, the Directors do not recommend to declare and pay a final dividend (2017: Nil) in respect of the Current Year to the shareholders of the Company.

A dividend policy (the "Dividend Policy") was adopted by the board of Directors (the "Board") on 31 December 2018. Pursuant to the Dividend Policy, the Company may consider to declare and pay dividends to the shareholders of the Company, provided that the Company is profitable and without affecting the normal operations of the Group. When deciding whether to propose a dividend and determining the dividend amount, the Board shall take into account, amongst other things, the financial performance and condition, liquidity position, working capital requirements and future expansion plans of the Group, and any other factors which the Board deems relevant. The payment of dividend is also subject to any requirements of the Cayman Islands Companies Law and the Memorandum and Articles of Association (the "Articles") of the Company.

The Board will continue to review the Dividend Policy from time to time. There is no assurance that dividends will be paid in any particular amount for any given period.

5 YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 162 of this annual report. This summary does not form part of the audited consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the Current Year amounted to HK$430,000.

SHARE CAPITAL, SHARE OPTIONS AND AWARDED SHARES

Details of movements in the Company's share capital, share options and awarded shares during the Current Year are set out in notes 27 and 28 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Current Year, the Company repurchased a total of 50,752,000 shares on the Stock Exchange for an aggregate amount of HK$71,410,000 before expenses. The repurchased shares were subsequently cancelled. The Board considered that the repurchases were effected for the benefit of the Company and its shareholders as a whole to enhance the earnings per share of the Company and create value for the shareholders of the Company. Details of the share repurchases during the Current Year are as follows:

		Purchase price per share		
Month	Number of shares repurchased	Highest HK$	Lowest HK$	Aggregate amount paid (before expenses) HK$
May 2018	50,752,000	1.53	1.14	71,410,000

REPORT OF THE DIRECTORS

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the Cayman Islands Companies Law, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the Cayman Islands Companies Law, amounted to HK$368,170,000. In addition, the Company's share premium account in the amount of HK$598,797,000 may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the Current Year, sales to the Group's five largest customers accounted for approximately 63% of the total sales for the year and sales to the largest customer included therein accounted for approximately 29.7% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

As at 31 December 2018, none of the Directors or any of their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers.

DIRECTORS

The Directors during the Current Year and up to the date of this annual report were as follows:

EXECUTIVE DIRECTORS

Mr. Fok Tung Ling ("Mr. Fok") *(Chairman)*
Mr. Zhang Yue Jun *(Vice Chairman)*
(resigned as President with effect from 7 December 2018)
Mr. Xu Huijun ("Mr. Xu") *(President)*
(appointed as Director with effect from 23 August 2018 and appointed as President with effect from 7 December 2018)
Mr. Chang Fei Fu
(appointed with effect from 23 February 2018)
Mr. Bu Binlong ("Mr. Bu")
(appointed with effect from 12 April 2018)
Mr. Wu Tielong ("Mr. Wu")
(appointed with effect from 12 April 2018)
Mr. Zheng Guo Bao ("Mr. Zheng")
(resigned with effect from 23 March 2018)
Mr. Yeung Pui Sang, Simon
(resigned with effect from 24 May 2018)
Mr. Zhang Yuan Jian
(resigned with effect from 21 September 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Siu Ki, Kevin ("Mr. Lau")
Dr. Lin Jin Tong ("Dr. Lin")
Mr. Qian Ting Shuo ("Mr. Qian")
(resigned with effect from 15 January 2019)

In accordance with article 86(3) of the Articles, Mr. Xu will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company (the "AGM"). In accordance with articles 87(1) and 87(2) of the Articles, Mr. Fok, Mr. Zhang Yue Jun and Mr. Lau will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

The Company has received annual confirmation of independence from each of Mr. Lau, Dr. Lin and Mr. Qian for the Current Year and considers them to be independent as each of them fulfils the requirements as set out in Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 20 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company that is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION POLICIES

Details of the remuneration policies are set out in the section "Employees and Remuneration Policies" on page 19 of this annual report.

PERMITTED INDEMNITY PROVISION

The Articles provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his functions.

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the Current Year. The Company has maintained Directors' liability insurance which provides appropriate cover for the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the Loan Agreement, the WTAP Agreement and the WTAP-Components Agreement in which Mr. Zheng has interest (as disclosed in the section "Connected Transactions" below), no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, was a party, and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of the business of the Group were entered into or subsisted during the Current Year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest				
Name of Directors	Notes	**Directly beneficially owned**	**Through spouse**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital (Approximately)**
Mr. Fok	(a)	24,864,339	–	780,095,129	804,959,468	33.27
Mr. Zhang Yue Jun	(b)	–	–	248,225,410	248,225,410	10.25
Mr. Xu		5,000,000	–	–	5,000,000	0.20
Mr. Bu		668,284	–	–	668,284	0.02
Mr. Wu		242,049	–	–	242,049	0.01

Long positions in share options of the Company:

Name of Directors	**Number of share options directly beneficially owned**
Mr. Fok	805,253
Mr. Zhang Yue Jun	805,253
Mr. Xu	5,000,000
Mr. Chang Fei Fu	5,300,000
Mr. Bu	6,388,408
Mr. Wu	4,094,204
Mr. Lau	471,049
Dr. Lin	471,049
Mr. Qian (resigned with effect from 15 January 2019)	471,049

Notes:

(a) These shares are beneficially owned by Prime Choice Investments Limited. By virtue of 100% shareholding of Prime Choice Investments Limited, Mr. Fok is deemed or taken to be interested in 780,095,129 shares owned by Prime Choice Investments Limited under the SFO.

(b) These shares are beneficially owned by Wise Logic Investments Limited. By virtue of 100% shareholding in Wise Logic Investments Limited, Mr. Zhang Yue Jun is deemed or taken to be interested in 248,225,410 shares owned by Wise Logic Investments Limited under the SFO.

Save as aforesaid and save for Mr. Zheng beneficially holding 32% equity interest in WaveLab Holdings Limited ("WaveLab Holdings"), an indirect non wholly-owned subsidiary of the Company, as at 31 December 2018, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive of the Company are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Details of the share option scheme and share award scheme of the Company are set out in note 28 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme and share award scheme in note 28 to the consolidated financial statements, at no time during the Current Year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any Director, the chief executive of the Company or their respective spouses or children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Current Year, none of the Directors have any interest in business which competes or may compete, directly or indirectly, with the business of the Group, or have or may have any other conflicts of interest with the Group.

PENSION SCHEMES

Details of the pension schemes of the Group are set out in notes 2.4 and 6 to the consolidated financial statements, respectively under "Other Employee Benefits" on page 111 and "Employee benefit expense" on page 119 of this annual report, respectively.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the following substantial shareholders of the Company (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange as follows:

Long positions:

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares and share options held**	**Percentage of the Company's issued share capital (Approximately)**
Prime Choice Investments Limited		Beneficial owner	780,095,129	32.24
Madam Chen Jing Na	(a)	Interest of spouse	805,764,721	33.30
Wise Logic Investments Limited		Beneficial owner	248,225,410	10.25
Madam Cai Hui Ni	(b)	Interest of spouse	249,030,663	10.29

Notes:

(a) Madam Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in 804,959,468 shares and 805,253 share options in which Mr. Fok is interested or deemed to be interested for the purpose of the SFO.

(b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in 248,225,410 shares and 805,253 share options in which Mr. Zhang Yue Jun is interested or deemed to be interested for the purpose of the SFO.

There are duplications of interests in the issued share capital of the Company in respect of:

(i) 780,095,129 shares between Prime Choice Investments Limited and Madam Chen Jing Na; and

(ii) 248,225,410 shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into during the Current Year are set out in note 34 to the consolidated financial statements. These related party transactions in respect of compensation of key management personnel of the Group constituted connected transactions as defined in Chapter 14A of the Listing Rules but are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

During the Current Year, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

CONNECTED TRANSACTION

On 22 December 2016, Cascade Technology Limited ("Cascade Technology"), an indirect wholly-owned subsidiary of the Company, entered into with WaveLab Holdings a loan agreement (the "Loan Agreement") pursuant to which Cascade Technology agreed to lend a loan in principal amount of up to HK$39,000,000 to WaveLab Holdings at the rate of LIBOR at the date of actual drawing plus 3% per annum during the period from 1 January 2017 to 31 December 2019.

The purpose of the loan is used for the working capital of WaveLab Holdings and its subsidiaries. Cascade Technology may, at any time upon giving notice in writing, demand immediate repayment of all or part of the outstanding loan and payment of any other amount (including interest) accrued thereon.

As Mr. Zheng, an executive Director up to 22 March 2018 and a shareholder of the Company, is also a substantial shareholder of WaveLab Holdings, WaveLab Holdings is considered to be a connected person of the Company under the Listing Rules and all the transactions contemplated thereunder constitute connected transactions for the Company under the Listing Rules.

For details, please refer to the announcement of the Company dated 22 December 2016.

CONTINUING CONNECTED TRANSACTIONS

On 22 December 2016, Comba Telecom Systems Investments Limited ("Comba Systems BVI"), a direct wholly-owned subsidiary of the Company, entered into with WaveLab Holdings: (i) an agreement (the "WTAP Agreement") for the sale of wireless transmission and access products (including but not limited to digital microwave outdoor units, radio frequency units, block up convertors and such other products) used in connection with microwave transmission (the "WTAPs") and provision of the relevant maintenance services for the WTAPs from WaveLab Holdings and/or its subsidiaries to Comba Systems BVI and/or its subsidiaries (excluding WaveLab Holdings and its subsidiaries) (the "WTAP Transaction"); and (ii) an agreement (the "WTAP-Components Agreement") for the sale of the necessary components (including but not limited to diplexers and such other components) used in the manufacture of WTAPs and the provision of related services by Comba Systems BVI and/or its subsidiaries (excluding WaveLab Holdings and its subsidiaries) to WaveLab Holdings and/or its subsidiaries (the "WTAP-Components Transaction"), each of which is for a term from 1 January 2017 to 31 December 2019 and is subject to the early termination provisions incidental therein.

By virtue of the relationship between Mr. Zheng and WaveLab Holdings as disclosed above, WaveLab Holdings is considered to be a connected person of the Company under the Listing Rules and all the transactions contemplated thereunder constitute continuing connected transactions for the Company under the Listing Rules.

As set out in the announcement of the Company dated 22 December 2016, the annual caps for the WTAP Transaction and the WTAP-Components Transaction for the year ended 31 December 2018 were HK$147,000,000 and HK$5,500,000, respectively. The total consideration for the WTAP Transaction and the WTAP-Components Transaction during the Current Year amounted to HK$49,848,000 and HK$1,102,000, respectively which are within the annual caps of HK$147,000,000 and HK$5,500,000, respectively.

For details, please refer to the announcement of the Company dated 22 December 2016.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, there is sufficient public float of more than 25% of the Company's total issued share capital as required under the Listing Rules as at 31 December 2018 and the date of this annual report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 39 to the consolidated financial statements.

AUDITOR

Ernst & Young will retire at the forthcoming AGM and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
21 March 2019

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Comba Telecom Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 161, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Inventories provision	
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. Since the technology develops rapidly in the telecommunications industry, the Group's inventories are subject to significant risk of obsolescence and significant management's judgements and estimates were involved in determining the provisions against obsolete and slow-moving inventories. We focused on this area because balances of inventories were significant to the Group (12% of total assets) and inventories provision was made based on subjective estimates and was influenced by assumptions concerning future consumption. The Group's disclosures about accounting judgements and estimates relating to and the recognition of inventories provision are included in notes 3 and 6 to the consolidated financial statements.	We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the estimated sales by taking into account the accuracy of previous estimations, the historic evidence supporting underlying assumptions and current market conditions. We also tested on a sample basis the accuracy of the inventories ageing report. For the net realizable value of obsolete and slow-moving inventories identified, we have checked a sample of recent sales invoices for the value.
Impairment of trade receivables	
Trade receivables comprises 37% of total assets in the statement of financial position. The Group adopted HKFRS 9 *Financial Instruments*, which is effective from 1 January 2018. As a result, a forward-looking expected loss impairment model was applied by the Group. This involves judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money. Due to the significance of trade receivables and the related estimation uncertainty, this is considered a key audit matter. Details of the impairment of trade receivables are disclosed in notes 3 and 20 to the consolidated financial statements.	We evaluated management's assessment on impairment of trade receivables by checking, on a sample basis, the ageing analysis and settlements made subsequent to the year-end date. For long-aged receivables, we have assessed the Group's provision by considering historical payment patterns, available information concerning the creditworthiness of the customers and any correspondence with customers on expected settlement dates which we sample tested the settlements for proper execution of such repayment schedules. For balances where a provision for impairment was recognized, we understood the rationale behind management's judgement, considering historical patterns of trading and settlement, current economic conditions and forward-looking information as well as recent communications with the counterparties.

Key audit matter	How our audit addressed the key audit matter
Goodwill and intangible assets impairment review As at 31 December 2018, the Group recorded goodwill and intangible assets of HK$253 million and HK$570 million, respectively, as a result of previous acquisitions. Under HKFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 14 to the consolidated financial statements. The accounting policies, significant accounting judgements and estimates and disclosures for goodwill are included in notes 2.4, 3 and 14 to the consolidated financial statements.	We examined the forecasted cash flows of respective cash generating units which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also focused on the adequacy of the Group's disclosures of goodwill.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong
21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**5,663,310**	5,563,725
Cost of sales		**(4,204,709)**	(4,088,828)
Gross profit		**1,458,601**	1,474,897
Other income and gains	5	**170,091**	123,027
Research and development costs	6	**(353,090)**	(331,328)
Selling and distribution expenses		**(587,040)**	(510,499)
Administrative expenses		**(621,408)**	(575,677)
Other expenses		**(144,431)**	(79,325)
Finance costs	7	**(73,657)**	(47,861)
Share of losses of:			
A joint venture		**–**	(935)
An associate		**–**	(1,481)
(LOSS)/PROFIT BEFORE TAX	6	**(150,934)**	50,818
Income tax expense	9	**(48,402)**	(29,185)
(LOSS)/PROFIT FOR THE YEAR		**(199,336)**	21,633
Attributable to:			
Owners of the parent		**(171,384)**	27,373
Non-controlling interests		**(27,952)**	(5,740)
		(199,336)	21,633
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic/diluted		**HK(7.07) cents**	HK1.12 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
(LOSS)/PROFIT FOR THE YEAR	**(199,336)**	21,633
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(248,037)**	288,054
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(248,037)**	288,054
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(248,037)**	288,054
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(447,373)**	309,687
Attributable to:		
Owners of the parent	**(409,655)**	320,012
Non-controlling interests	**(37,718)**	(10,325)
	(447,373)	309,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**1,128,259**	1,106,877
Prepaid land lease payments	13	**117,889**	126,935
Goodwill	14	**253,077**	253,077
Deferred tax assets	15	**102,013**	123,538
Intangible assets	16	**856,050**	848,418
Available-for-sale investments	17	**–**	19,247
Equity investments designated at fair value through profit or loss	17	**33,540**	–
Restricted bank deposits	22	**77,596**	99,221
Prepayments	18	**8,888**	–
Total non-current assets		**2,577,312**	2,577,313
CURRENT ASSETS			
Inventories	19	**1,306,831**	1,360,255
Trade receivables	20	**4,164,595**	4,522,757
Notes receivable	21	**118,950**	85,447
Prepayments, other receivables and other assets	18	**984,853**	886,365
Tax recoverable		**48,330**	48,693
Restricted bank deposits	22	**207,911**	234,769
Cash and cash equivalents	22	**1,893,859**	1,176,129
Total current assets		**8,725,329**	8,314,415
CURRENT LIABILITIES			
Trade and bills payables	23	**4,313,799**	3,682,536
Other payables and accruals	24	**960,834**	1,063,016
Interest-bearing bank borrowings	25	**1,624,499**	1,088,489
Provision for product warranties	26	**63,831**	69,838
Total current liabilities		**6,962,963**	5,903,879
NET CURRENT ASSETS		**1,762,366**	2,410,536
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,339,678**	4,987,849

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**375,557**	493,891
Deferred tax liabilities	15	**158,507**	162,468
Total non-current liabilities		**534,064**	656,359
Net assets		**3,805,614**	4,331,490
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	**241,948**	246,958
Treasury shares	27	**(22,818)**	(22,818)
Reserves	29	**3,059,023**	3,542,171
		3,278,153	3,766,311
Non-controlling interests		**527,461**	565,179
Total equity		**3,805,614**	4,331,490

Fok Tung Ling
Director

Chang Fei Fu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 27)	Treasury shares HK$'000 (note 27)	Share premium account HK$'000 (note 27)	Share-based compensation reserve HK$'000 (note 28)	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017		246,106	(22,818)	650,071	30,553	45,827	57,755	157,525	(19,180)	2,291,848	3,437,687	55,462	3,493,149
Profit for the year		–	–	–	–	–	–	–	–	27,373	27,373	(5,740)	21,633
Other comprehensive income for the year:													
Exchange differences related to foreign operations		–	–	–	–	–	–	–	292,639	–	292,639	(4,585)	288,054
Total comprehensive income for the year		–	–	–	–	–	–	–	292,639	27,373	320,012	(10,325)	309,687
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	520,042	520,042
Share option scheme													
– value of services	28(a)	–	–	–	17,093	–	–	–	–	–	17,093	–	17,093
– exercise of share options	27(a)	852	–	13,960	(3,601)	–	–	–	–	–	11,211	–	11,211
– adjustment arising from lapse of share options		–	–	–	26	–	–	–	–	(26)	–	–	–
Transfer to/from retained profits		–	–	–	–	–	(3,609)	17,520	–	(13,911)	–	–	–
Final 2016 dividend declared		–	–	–	–	–	–	–	–	(19,692)	(19,692)	–	(19,692)
At 31 December 2017		246,958	(22,818)	664,031	44,071	45,827	54,146	175,045	273,459	2,285,592	3,766,311	565,179	4,331,490

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to owners of the parent												
		Issued capital HK$'000 (note 27)	Treasury shares HK$'000 (note 27)	Share premium account HK$'000 (note 27)	Share-based compensation reserve HK$'000 (note 28)	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Fair value reserve of equity instruments at FVOCI HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		246,958	(22,818)	664,031*	44,071*	45,827*	54,146*	175,045*	273,459*	-*	2,285,592*	3,766,311	565,179	4,331,490
Effect of adoption of HKFRS 9		-	-	-	-	-	-	-	-	(7,240)	(16,412)	(23,652)	-	(23,652)
At 1 January 2018 (restated)		246,958	(22,818)	664,031	44,071	45,827	54,146	175,045	273,459	(7,240)	2,269,180	3,742,659	565,179	4,307,838
Loss for the year		-	-	-	-	-	-	-	-	-	(171,384)	(171,384)	(27,952)	(199,336)
Other comprehensive loss for the year:														
Exchange differences related to foreign operations		-	-	-	-	-	-	-	(238,271)	-	-	(238,271)	(9,766)	(248,037)
Total comprehensive loss for the year		-	-	-	-	-	-	-	(238,271)	-	(171,384)	(409,655)	(37,718)	(447,373)
Share option scheme														
– value of services	28(a)	-	-	-	15,366	-	-	-	-	-	-	15,366	-	15,366
– exercise of share options	27(b)	65	-	1,101	(315)	-	-	-	-	-	-	851	-	851
– adjustment arising from lapse of share options		-	-	-	(412)	-	-	-	-	-	412	-	-	-
Repurchase of shares	27(c)	(5,075)	-	(66,335)	-	(347)	-	-	-	-	-	(71,757)	-	(71,757)
Transfer to/from retained profits		-	-	-	-	-	(7,512)	14,059	-	-	(5,858)	689	-	689
At 31 December 2018		241,948	(22,818)	598,797*	58,710*	45,480*	46,634*	189,104*	35,188*	(7,240)*	2,092,350*	3,278,153	527,461	3,805,614

* These reserve accounts comprise the consolidated reserves of HK$3,059,023,000 (2017: HK$3,542,171,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(150,934)**	50,818
Adjustments for:			
Interest income	5	**(8,703)**	(11,691)
Finance costs	7	**73,657**	47,861
Share of losses of a joint venture and an associate		**–**	2,416
Depreciation	6	**167,688**	108,293
Recognition of prepaid land lease payments	6	**2,803**	2,948
Amortization of intangible assets	16	**113,603**	111,720
Equity-settled share option expense	6	**15,366**	17,093
Gain on disposal of an associate	5	**–**	(16,321)
(Gain)/loss on disposal of items of property, plant and equipment	6	**(8,985)**	1,011
Net gain on equity investments designated at fair value through profit or loss		**(20,321)**	–
		184,174	314,148
(Increase)/decrease in inventories		**(17,498)**	132,398
Decrease/(increase) in trade receivables		**112,150**	(389,272)
Increase in notes receivable		**(37,958)**	(34,977)
(Increase)/decrease in prepayments, other receivables and other assets		**(151,192)**	15,424
Increase in trade and bills payables		**823,265**	547,340
Decrease in other payables and accruals		**(46,758)**	(157,534)
Decrease in provisions for product warranties		**(2,466)**	(5,833)
Cash generated from operations		**863,717**	421,694
Mainland China profits tax paid		**(28,915)**	(85,452)
Overseas profits taxes paid		**(9,176)**	(13,989)
Net cash flows from operating activities		**825,626**	322,253
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**8,703**	11,691
Purchases of items of property, plant and equipment		**(250,614)**	(114,634)
Addition of intangible assets	16	**(138,192)**	(160,121)
Proceeds from disposal of items of property, plant and equipment		**24,364**	101
Purchase of an equity investment at fair value through profit or loss/ an available-for-sale investment		**(2,610)**	(11,843)
Acquisition of subsidiaries, net of cash acquired		**–**	(307,151)
Decrease/(increase) in restricted bank deposits		**31,070**	(110,897)
Net cash flows used in investing activities		**(327,279)**	(692,854)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,669,302**	1,597,183
Repayment of bank loans		**(1,235,385)**	(1,529,303)
Proceeds from exercise of share options	27(b)	**851**	11,211
Interest and other finance costs paid		**(73,657)**	(47,861)
Dividends paid		**–**	(19,692)
Repurchase of shares		**(71,757)**	–
Net cash flows from financing activities		**289,354**	11,538
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**787,701**	(359,063)
Cash and cash equivalents at beginning of year		**1,176,129**	1,420,214
Effect of foreign exchange rate changes, net		**(69,971)**	114,978
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,893,859**	1,176,129
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**1,893,606**	1,174,614
Non-pledged time deposits with original maturity of less than three months when acquired	22	**253**	1,515
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,893,859**	1,176,129

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Comba Telecom Systems Holdings Limited (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 year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacture and sale of wireless telecommunications network system equipment, the provision of related engineering services and the provision of telecommunication services and their value added services.

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100	–	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100	Investment holding and trading of wireless telecommunications network system equipment
Comba Telecom Systems (Guangzhou) Limited 京信通信系統(廣州)有限公司*	PRC/Mainland China	HK$260,000,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術(廣州)有限公司*	PRC/Mainland China	HK$299,000,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems (China) Limited 京信通信系統(中國)有限公司*	PRC/Mainland China	US$46,665,000	–	100	Manufacture and sale of wireless telecommunications network system equipment and provision of related engineering services
Comba Software Technology (Guangzhou) Limited 京信軟件科技(廣州)有限公司*	PRC/Mainland China	HK$11,000,000	–	100	Provision of software technology services
Guangzhou TPcom Wireless Ltd. 廣州泰普無線通信設備有限公司*	PRC/Mainland China	RMB1,000,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US$1,000	–	55	Investment holding
WaveLab, Inc.	Commonwealth of Virginia/ United States of America	US$400,000	–	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	Commonwealth of Virginia/ United States of America	US$500,000	–	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	–	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備(廣州)有限公司*	PRC/Mainland China	US$3,400,000	–	55	Manufacture and sale of digital microwave system equipment

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
WaveLab Limited 波達有限公司	Hong Kong	HK$1	–	55	Trading of digital microwave equipment
Comba Telecom Systems International Limited	British Virgin Islands	US$1	–	100	Investment holding
Comba Telecom Limited	Hong Kong	HK$2	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of technical support and repairing services
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG$1,000,002	–	100	Provision of marketing services and trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Co., Ltd.	Thailand	THB5,000,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom Systems AB	Sweden	SEK100,000	–	100	Provision of marketing services
Noblefield International Limited	British Virgin Islands	US$1	–	100	Investment holding
Comba Telecom Inc.	State of Delaware/ United States of America	US$1	–	100	Research and development and trading of wireless telecommunications network system equipment

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL188,695,129	–	100	Production and assembling and trading of wireless telecommunications network system equipment
Comba Telecom India Private Limited	India	INR500,000	–	100	Trading of wireless telecommunications network system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US$100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom & Sistemas de México, S.A. de C.V.	Mexico	MXN50,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	–	100	Provision of general and engineering services
Comba Telecom, S.L.U.	Spain	EUR100,000	–	100	Trading of wireless telecommunications network system equipment

1. CORPORATE AND GROUP INFORMATION (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Technologies Sdn. Bhd.	Malaysia	RM2	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecomunicaciones del Peru S.A.C.	Peru	PEN100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Jiafu Investments Limited 迦福投資有限公司	British Virgin Islands	US$100	–	100	Investment holding
Jiafu Holdings Limited 迦福控股有限公司	Hong Kong	HK$10,000	–	100	Investment holding
ETL Company Limited	Lao People's Democratic Republic	LAK 637,763,000,000	–	51	Provision of telecommunication and their value-added services

Note:

* These are wholly-foreign-owned enterprises under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the annual 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 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

    The Group has recognized the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

CLASSIFICATION AND MEASUREMENT

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
	Note	Category	Amount HK$'000	Reclassification HK$'000	ECL HK$'000	Other HK$'000	Amount HK$'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	7,240	–	(7,240)	–	FVOCI[1]
From: Available-for-sale investments	(i)		–	7,240	–	–	–	
Available-for-sale investments		AFS[2]	19,247	(19,247)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)		–	(7,240)	–	–	–	
To: Financial assets at fair value through profit or loss	(ii)		–	(12,007)	–	–	–	
Trade receivables	(iii)	L&R[3]	4,522,757	–	(10,203)	–	4,512,554	AC[4]
Notes receivable		L&R	85,447	–	–	–	85,447	AC
Financial assets included in prepayments, other receivables and other assets		L&R	426,163	–	(6,347)	–	419,816	AC
Financial assets at fair value through profit or loss		N/A	–	12,007	–	138	12,145	FVPL[5]
From: Available-for-sale investments	(ii)		–	12,007	–	–	–	
Restricted bank deposits		L&R	333,990	–	–	–	333,990	AC
Cash and cash equivalents		L&R	1,176,129	–	–	–	1,176,129	AC
			6,563,733	–	(16,550)	(7,102)	6,540,081	
Financial liabilities								
Trade and bills payables		AC	3,682,536	–	–	–	3,682,536	AC
Financial liabilities included in other payables and accruals		AC	732,502	–	–	–	732,502	AC
Interest-bearing bank borrowings		AC	1,582,380	–	–	–	1,582,380	AC
			5,997,418	–	–	–	5,997,418	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

CLASSIFICATION AND MEASUREMENT (continued)

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortized cost
5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The gross carrying amounts of the trade receivables under the column "HKAS 39 measurement – Amount" represent the amounts before the measurement of ECLs.

IMPAIRMENT

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 18 and 20 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 HK$'000	Re-measurement HK$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK$'000
Trade receivables	(421,163)	(10,203)	(431,366)
Financial assets included in prepayments, other receivables and other assets	–	(6,347)	(6,347)
	(421,163)	(16,550)	(437,713)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

IMPACT ON RESERVES AND RETAINED PROFITS

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits HK$'000
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	(7,240)
Balance as at 1 January 2018 under HKFRS 9	(7,240)
Retained profits	
Balance as at 31 December 2017 under HKAS 39	2,285,592
Recognition of expected credit losses for trade receivables under HKFRS 9	(10,203)
Recognition of expected credit losses for financial assets included in prepayments, other receivables and other assets under HKFRS 9	(6,347)
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	138
Balance as at 1 January 2018 under HKFRS 9	2,269,180

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers.

Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

(i) Sales of goods and related installation and provision of telecommunication services

All customer contracts in force throughout the financial periods have been reviewed and assessed and it was determined that the application of HKFRS 15 had no significant impact on the recognition and measurement of revenue.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognized consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$100,297,000 from customers in advance to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$127,370,000 was reclassified from customers in advance to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products and the provision of construction and management services.

Apart from the above, the application of HKFRS 15 has had no significant impact on the financial position and/or financial performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
HKFRS 16	*Leases*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognize the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$94,912,000 and lease liabilities of HK$94,912,000 will be recognized at 1 January 2019.

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. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

The Group's share of the post-acquisition results and other comprehensive income of the associate and the joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investment in the associate or joint venture, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate or joint venture is included as part of the Group's investment in an associate or a joint venture.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	4.5%
Plant and machinery	9%–20%
Furniture, fixtures and office equipment	10%–30%
Motor vehicles	18%–20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Computer software and technology

The purchased computer software and technology are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 3 to 10 years.

Golf club membership

Golf club membership with an indefinite useful live is tested for impairment annually. Such intangible asset is not amortized. The useful life is reviewed at the end of each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Operating licence

Operating licence is stated at cost less any impairment loss and is amortized on the straight-line basis over its estimated useful lives of 25 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortized using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognized as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognized in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018)

The Group recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due, except for certain customers which are granted with a longer credit term. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of profit or loss, is removed from other comprehensive income and recognized in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss – is removed from other comprehensive income and recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or as payables, as appropriate.

All financial liabilities are recognized initially at fair value net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (continued)

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

DERECOGNITION OF FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

TREASURY SHARES

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognized directly in equity at cost. No gain or loss is recognized in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

PROVISIONS

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT GRANTS

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods that the costs, which it is intended to compensate, are expensed.

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods and related installation

Revenue from the sale of goods and related installation is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods and related installation.

(b) Telecommunication services

Revenue is measured at the transaction price which is the amount of consideration to which the Group entitled in exchange for transferring promised services to the customer. For offerings which included the provision of multiple performance obligations, such as telecommunications services (such as voice and data services), telecommunication related products (such as handsets), customer point rewards and/or other promotional goods/services, the Group allocates the transaction price received/receivable from customers to each performance obligation based on the relative stand-alone selling prices.

Revenue for each performance obligation is then recognized when the Group satisfies the performance obligation by transferring the promised services to a customer. Revenue is recognized when the customer obtains the control of the telecommunications services over the time of provision of the services. Revenue from the sale of telecommunication related products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018) (continued)

(c) Technical support and maintenance services

Revenue from the technical support and maintenance services is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

REVENUE RECOGNITION (APPLICABLE BEFORE 1 JANUARY 2018)

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and related installation, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) maintenance service income, when the underlying services have been rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) provision of telecommunication services income, when the underlying services have been rendered.

CONTRACT ASSETS (APPLICABLE FROM 1 JANUARY 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONTRACT LIABILITIES (APPLICABLE FROM 1 JANUARY 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

SHARE-BASED PAYMENTS

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENTS (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding equity-settled awards is reflected as additional share dilution in the computation of earnings per share.

OTHER EMPLOYEE BENEFITS

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint venture and the associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from its earnings of 2008 or thereafter, shall be subject to withholding taxes at an applicable rate of 5% or 10%. The directors had assessed whether it is probable for the Group's PRC subsidiaries to distribute dividends out of their profits earned after 1 January 2008. For details, refer to note 15 to the financial statements.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was HK$253,077,000 (2017: HK$253,077,000). Further details are given in note 14.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates and time value. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories at the end of each reporting period and makes provisions against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use based on sales forecasts. Such sales forecasts are prepared based on agreements or orders on hand and estimated sales in the foreseeable future based on historical experiences with its customers and current market conditions of telecommunications industry. Management estimates the net realizable value for those obsolete and slow-moving inventories based primarily on the latest invoice prices and current market conditions. The estimation is reassessed at the end of each reporting period. The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognized in the periods in which such estimates have been changed. The carrying amount of inventories at 31 December 2018 was HK$1,306,831,000 (2017: HK$1,360,255,000). For details, please refer to note 19 to the financial statements. During the year ended 31 December 2018, a write-down of inventories of HK$69,535,000 (2017: HK$86,040,000) was recognized in the consolidated statement of profit or loss. For details, please refer to note 6 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 17 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was HK$33,540,000 (2017: HK$19,247,000). Further details are included in note 17 to the financial statements.

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2018, the best estimate of the carrying amount of capitalized development costs was HK$301,586,000 (2017: HK$265,739,000). For details, please refer to note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Provision for product warranties

In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the Group will consider factors such as, (a) whether the warranty is required by law, (b) the length of the warranty coverage period and (c) the nature of the tasks that the Group promises to perform. The Group's warranties are accounted for according to note 2.4 to the financial statements. The Group generally provides 1 to 2 years warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties were not discounted as the effect of discounting was not material.

4. OPERATING SEGMENT INFORMATION

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

(a) Wireless telecommunications network system equipment

(b) Telecommunication services

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

Year ended 31 December 2018	Wireless telecommunications network system equipment HK$'000	Telecommunication services HK$'000	Total HK$'000
Revenue	5,478,358	184,952	5,663,310
Loss before tax	(80,174)	(70,760)	(150,934)
Segment assets	9,985,439	1,577,244	11,562,683
Elimination			(260,042)
Total assets			11,302,641
Segment liabilities	7,344,865	412,204	7,757,069
Elimination			(260,042)
Total liabilities			7,497,027

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Wireless telecommunications network system equipment HK$'000	Telecommunication services HK$'000	Total HK$'000
Revenue	5,470,700	93,025	5,563,725
Profit/(loss) before tax	73,985	(23,167)	50,818
Segment assets	9,625,966	1,552,850	11,178,816
Elimination			(287,088)
Total assets			10,891,728
Segment liabilities	6,535,933	311,393	6,847,326
Elimination			(287,088)
Total liabilities			6,560,238

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Mainland China	**3,722,043**	4,376,466
Other countries/areas in Asia Pacific	**1,192,201**	645,581
Americas	**441,583**	315,260
European Union	**232,705**	170,007
Middle East	**58,456**	49,856
Other countries	**16,322**	6,555
	5,663,310	5,563,725

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

4. OPERATING SEGMENT INFORMATION (continued)

GEOGRAPHICAL INFORMATION (continued)

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Mainland China	**1,112,091**	1,268,606
Lao People's Democratic Republic	**1,432,947**	1,271,836
Other countries/regions	**32,274**	36,871
	2,577,312	2,577,313

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue of approximately HK$1,682,334,000 (2017: HK$1,662,626,000), HK$783,323,000 (2017: HK$1,287,415,000) and HK$520,166,000 (2017: HK$820,260,000) was derived from 3 major customers, which accounted for 29.7% (2017: 29.9%), 13.8% (2017: 23.1%) and 9.2% (2017: 14.7%) 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 year, 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:

	2018 HK$'000	2017 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and provision of related installation services	**5,395,836**	5,383,189
Maintenance services	**82,522**	87,511
Provision of telecommunication services	**184,952**	93,025
	5,663,310	5,563,725

5. REVENUE, OTHER INCOME AND GAINS (continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS

	2018 HKD'000
Type of customers	
PRC state-owned telecommunication operator groups	**2,985,823**
Other customers	**2,677,487**
Total revenue from contracts with customers	**5,663,310**

	2018 HKD'000
Timing of revenue recognition	
Goods transferred at a point in time	**5,395,836**
Services transferred over time	**267,474**
Total revenue from contracts with customers	**5,663,310**

An analysis of other income and gains is as follows:

	2018 HK$'000	2017 HK$'000
Other income and gains		
Bank interest income	**8,703**	11,691
Exchange gain, net	**12,752**	–
Government subsidies#	**83,759**	55,692
VAT refunds*	**13,893**	22,664
Gain on disposal of an associate	**–**	16,321
Gain on disposal of items of property, plant and equipment	**8,985**	–
Gross rental income	**15,348**	6,623
Gain on equity investments designated at fair value through profit or loss	**20,321**	–
Others	**6,330**	10,036
	170,091	123,027

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 years ended 31 December 2017 and 2018, 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% (16% from May 2018). Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold and services provided		**4,018,740**	3,869,082
Depreciation	12	**167,688**	108,293
Recognition of prepaid land lease payments	13	**2,803**	2,948
Amortization of computer software and technology and operating licence	16	**28,204**	13,800
Research and development costs:			
Deferred expenditure amortized*	16	**85,399**	97,920
Current year expenditure		**353,090**	331,328
		438,489	429,248
Minimum lease payments under operating leases		**63,464**	53,671
Auditors' remuneration		**3,899**	3,646
Employee benefit expense (including directors' remuneration, note 8)^:			
Salaries and wages		**985,681**	888,658
Staff welfare expenses		**75,273**	71,627
Equity-settled share option expense	28(a)	**15,366**	17,093
Pension scheme contributions (defined contribution schemes)#		**85,642**	84,080
		1,161,962	1,061,458
Net gain on equity investments designated at fair value through profit or loss		**(20,321)**	–
Exchange (gain)/loss, net##		**(12,752)**	22,694
Write-down of inventories to net realizable value		**69,535**	86,040
Impairment of trade receivables	20	**22,206**	26,053
Provision for product warranties	26	**24,402**	29,494
(Gain)/loss on disposal of items of property, plant and equipment		**(8,985)**	1,011

* The amortization of deferred development costs for the year was included in "Cost of sales" in the consolidated statement of profit or loss.

^ Staff costs capitalized into deferred development costs amounting to HK$109,634,000 (2017: HK$129,277,000) have not been included in the employee benefit expense.

At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

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

7. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**69,993**	47,861
Finance costs on factored trade receivables	**3,664**	–
	73,657	47,861

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK$'000	2017 HK$'000
Fees	**682**	815
Other emoluments:		
Salaries, allowances and benefits in kind	**12,620**	10,666
Performance related bonuses	**15,435**	12,620
Equity-settled share option expense	**2,587**	1,609
Pension scheme contributions	**230**	230
	30,872	25,125
	31,554	25,940

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES (continued)

(a) EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

2018	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,128	2,641	10	18	4,797
Mr. Zhang Yue Jun	–	1,819	3,516	10	71	5,416
Mr. Xu Huijun (appointed on 23 Aug 2018)	–	1,238	–	441	22	1,701
Mr. Chang Fei Fu (appointed on 23 Feb 2018)	–	2,945	1,069	593	15	4,622
Mr. Bu Binlong (appointed on 12 Apr 2018)	–	1,029	2,767	413	59	4,268
Mr. Wu Tielong (appointed on 12 Apr 2018)	–	860	1,696	304	9	2,869
Mr. Zheng Guo Bao (resigned on 23 Mar 2018)	22	462	–	–	14	498
Mr. Yeung Pui Sang, Simon (resigned on 24 May 2018)	–	1,169	783	249	7	2,208
Mr. Zhang Yuan Jian (resigned on 21 Sep 2018)	–	970	2,963	450	15	4,398
	22	12,620	15,435	2,470	230	30,777
Independent non-executive directors:						
Mr. Lau Siu Ki, Kevin	220	–	–	39	–	259
Dr. Lin Jin Tong	220	–	–	39	–	259
Mr.Qian Ting Shuo (resigned on 15 Jan 2019)	220	–	–	39	–	259
	660	–	–	117	–	777
	682	12,620	15,435	2,587	230	31,554

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES (continued)

(a) EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

2017	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Mr. Fok Tung Ling	–	2,068	3,289	37	18	5,412
Mr. Zhang Yue Jun	–	1,861	4,044	37	76	6,018
Mr. Zheng Guo Bao	100	2,526	–	–	76	2,702
Mr. Yeung Pui Sang, Simon	–	3,097	2,915	717	18	6,747
Mr. Zhang Yuan Jian	–	1,114	2,372	717	42	4,245
	100	10,666	12,620	1,508	230	25,124
Independent non-executive directors:						
Mr. Liu Cai (resigned on 31 Mar 2017)	55	–	–	17	–	72
Mr. Lau Siu Ki, Kevin	220	–	–	28	–	248
Dr. Lin Jin Tong	220	–	–	28	–	248
Mr.Qian Ting Shuo	220	–	–	28	–	248
	715	–	–	101	–	816
	815	10,666	12,620	1,609	230	25,940

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) 5 HIGHEST PAID EMPLOYEES

The 5 highest paid employees during the year included 5 directors (2017: 3 directors), details of whose remuneration are set out in note 8(a) above.

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	2018	2017
	HK$'000	HK$'000
Current – Hong Kong		
Charged for the year	**2,000**	1,064
(Overprovision)/underprovision in prior years	**(167)**	1,121
Current – Mainland China		
Charged for the year	**15,702**	21,984
Current – Elsewhere	**18,217**	14,576
Deferred	**12,650**	(9,560)
Total tax charge for the year	**48,402**	29,185

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 year.

Comba Telecom Technology (Guangzhou) Limited, Comba Telecom Systems (China) Limited and Comba Software Technology (Guangzhou) Limited were entitled to the preferential tax rate of 15% for the year ended 31 December 2018 based on the designation as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology which remained effective for the year ended 31 December 2018.

9. INCOME TAX (continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled (i.e., the Mainland China) to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2018		2017	
	HK$'000	**%**	HK$'000	%
(Loss)/profit before tax	**(150,934)**		50,818	
Tax at the applicable tax rate	**2,414**	**(1.60)**	19,104	37.59
Effect on opening deferred tax of increase in rate	**(1,158)**	**0.77**	–	–
Adjustments in respect of current tax of previous years	**(1,348)**	**0.89**	1,121	2.21
Income not subject to tax	**(7,994)**	**5.30**	(746)	(1.47)
Expenses not deductible for tax	**38,209**	**(25.32)**	23,704	46.64
Additional deductible research and development expenses	**(49,448)**	**32.76**	(31,264)	(61.52)
Tax losses utilized from previous years	**–**	**–**	(7,293)	(14.35)
Tax losses not recognized	**67,727**	**(44.87)**	24,559	48.33
Tax charge at the Group's effective rate	**48,402**	**(32.07)**	29,185	57.43

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$368,164,000 (2017: HK$133,259,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognized deferred tax assets at 31 December 2018.

10. DIVIDENDS

The Directors did not recommend to declare a final dividend for 2018 (2017: Nil).

11. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,423,261,000 (2017: 2,448,729,000) in issue during the year.

The calculation of the diluted (loss)/earnings per share amounts is based on the (loss)/profit for the year 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 year, 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 loss per share amounts presented for the year ended 31 December 2018 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2018 **HK$'000**	2017 HK$'000
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	**(171,384)**	27,373

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted (loss)/earnings per share calculations	**2,423,261,000**	2,448,729,000

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost or valuation	693,521	2,494,170	321,897	65,019	–	3,574,607
Accumulated depreciation	(175,358)	(1,982,765)	(259,579)	(50,028)	–	(2,467,730)
Net carrying amount	518,163	511,405	62,318	14,991	–	1,106,877
At 1 January 2018, net of accumulated depreciation	518,163	511,405	62,318	14,991	–	1,106,877
Additions	7,023	27,303	8,751	4,172	194,477	241,726
Disposals	(3,319)	(9,932)	(1,657)	(471)	–	(15,379)
Depreciation provided during the year	(33,247)	(107,204)	(22,498)	(4,739)	–	(167,688)
Exchange realignment	(17,377)	(17,235)	(2,449)	(216)	–	(37,277)
At 31 December 2018, net of accumulated depreciation	471,243	404,337	44,465	13,737	194,477	1,128,259
At 31 December 2018:						
Cost or valuation	667,949	2,426,079	305,200	64,152	194,477	3,657,857
Accumulated depreciation	(196,706)	(2,021,742)	(260,735)	(50,415)	–	(2,529,598)
Net carrying amount	471,243	404,337	44,465	13,737	194,477	1,128,259

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2017					
At 31 December 2016 and 1 January 2017:					
Cost or valuation	462,807	581,877	196,327	36,205	1,277,216
Accumulated depreciation	(84,293)	(464,571)	(160,685)	(29,697)	(739,246)
Net carrying amount	378,514	117,306	35,642	6,508	537,970
At 1 January 2017, net of accumulated depreciation	378,514	117,306	35,642	6,508	537,970
Additions	18,413	70,006	23,435	2,780	114,634
Acquisition of subsidiaries	138,236	386,516	19,057	7,859	551,668
Disposals	–	(411)	(656)	(45)	(1,112)
Depreciation provided during the year	(26,581)	(62,109)	(16,623)	(2,980)	(108,293)
Exchange realignment	9,581	97	1,463	869	12,010
At 31 December 2017, net of accumulated depreciation	518,163	511,405	62,318	14,991	1,106,877
At 31 December 2017:					
Cost or valuation	693,521	2,494,170	321,897	65,019	3,574,607
Accumulated depreciation	(175,358)	(1,982,765)	(259,579)	(50,028)	(2,467,730)
Net carrying amount	518,163	511,405	62,318	14,991	1,106,877

For the year ended 31 December 2018, no revaluation of buildings was performed as there were no significant movements in the fair value of the buildings.

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31 December 2018

13. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**129,867**	124,002
Recognized during the year	**(2,803)**	(2,948)
Exchange realignment	**(6,386)**	8,813
Carrying amount at 31 December	**120,678**	129,867
Current portion included in prepayments, other receivables and other assets	**(2,789)**	(2,932)
Non-current portion	**117,889**	126,935

14. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost and net carrying amount	**253,077**	253,077

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

(a) Wireless telecommunications equipment CGU; and

(b) Provision of telecommunication services and their value added services CGU.

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least a 5-year period approved by management. The discount rate applied to the cash flow projections is approximately from 15% to 19% (2017: 15% to 19%), and cash flows beyond the 5-year period were extrapolated using a growth rate of 2.0% to 3.0% (2017: 2.0% to 3.0%), which was represented by expected long term CPI growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rate reflects specific risks relating to the cash-generating unit.

15. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

DEFERRED TAX ASSETS

	Unrealized profit HK$'000	Accruals HK$'000	Products warranty HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2017	39,182	54,982	15,245	–	109,409
Deferred tax (charged)/credited to the statement of profit or loss during the year	(10,529)	(10,840)	(904)	27,957	5,684
Exchange realignment	2,460	3,714	1,117	1,154	8,445
At 31 December 2017	31,113	47,856	15,458	29,111	123,538
Deferred tax (charged)/credited to the statement of profit or loss during the year	(2,467)	(17,206)	3,914	–	(15,759)
Exchange realignment	(1,486)	(1,798)	(964)	(1,518)	(5,766)
At 31 December 2018	27,160	28,852	18,408	27,593	102,013

NOTES TO FINANCIAL STATEMENTS

31 December 2018

15. DEFERRED TAX (continued)

DEFERRED TAX LIABILITIES

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Fair value adjustments for equity investments designated at fair value HK$'000	Total HK$'000
At 1 January 2017	10,141	4,048	–	14,189
Deferred tax credited to the statement of profit or loss during the year	(632)	(3,244)	–	(3,876)
Acquisition of subsidiaries	–	152,155	–	152,155
At 31 December 2017	**9,509**	**152,959**	**–**	**162,468**
Deferred tax charged/(credited) to the statement of profit or loss during the year	**(632)**	**(7,557)**	**5,080**	**(3,109)**
Deferred tax credited to equity statement during the year	**(689)**	**–**	**(163)**	**(852)**
At 31 December 2018	**8,188**	**145,402**	**4,917**	**158,507**

At 31 December 2018, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totalled approximately HK$2,252,429,000 at 31 December 2018 (2017: HK$2,268,788,000).

16. INTANGIBLE ASSETS

	Operating licence HK$'000	Computer software and technology HK$'000	Golf club membership HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December 2018					
Cost at 1 January 2018, net of accumulated amortization	**559,816**	**21,749**	**1,114**	**265,739**	**848,418**
Additions	**–**	**992**	**–**	**137,200**	**138,192**
Amortization provided during the year	**(23,322)**	**(4,882)**	**–**	**(85,399)**	**(113,603)**
Exchange realignment	**–**	**(1,003)**	**–**	**(15,954)**	**(16,957)**
At 31 December 2018	**536,494**	**16,856**	**1,114**	**301,586**	**856,050**
At 31 December 2018:					
Cost	**569,533**	**41,474**	**1,114**	**701,753**	**1,313,874**
Accumulated amortization	**(33,039)**	**(24,618)**	**–**	**(400,167)**	**(457,824)**
Net carrying amount	**536,494**	**16,856**	**1,114**	**301,586**	**856,050**

	Operating licence HK$'000	Computer software and technology HK$'000	Golf club membership HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December 2017					
Cost at 1 January 2017, net of accumulated amortization	–	19,063	1,114	189,082	209,259
Additions	–	2,324	–	157,797	160,121
Acquisition of subsidiaries	569,533	457	–	–	569,990
Amortization provided during the year	(9,717)	(4,083)	–	(97,920)	(111,720)
Exchange realignment	–	3,988	–	16,780	20,768
At 31 December 2017	559,816	21,749	1,114	265,739	848,418
At 31 December 2017:					
Cost	569,533	83,159	1,114	564,553	1,218,359
Accumulated amortization	(9,717)	(61,410)	–	(298,814)	(369,941)
Net carrying amount	559,816	21,749	1,114	265,739	848,418

NOTES TO FINANCIAL STATEMENTS

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17. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	2018 HK$'000	2017 HK$'000
Equity investments designated at fair value through profit or loss		
Unlisted equity investments, at fair value	**33,540**	–
Available-for-sale investments		
Unlisted equity investments, at cost	**–**	19,247

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Non-current assets		
Prepayments	**8,888**	–
Current assets		
Prepayments	**556,144**	460,202
Deposits	**179,379**	171,965
Other receivables	**257,242**	254,198
	992,765	886,365
Impairment allowance	**(7,912)**	–
	984,853	886,365

The Group's prepayments under non-current assets as at 31 December 2018 were mainly related to the prepayment for properties.

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 31 December 2018, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2018 ranged from 0.10% to 10.00%.

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**250,696**	283,378
Project materials	**66,959**	92,956
Work in progress	**52,188**	93,350
Finished goods	**506,048**	473,768
Inventories on site	**430,940**	416,803
	1,306,831	1,360,255

20. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**4,601,190**	4,943,920
Impairment	**(436,595)**	(421,163)
	4,164,595	4,522,757

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

20. TRADE RECEIVABLES (continued)

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:

	2018 HK$'000	2017 HK$'000
Within 3 months	**1,759,833**	1,916,966
4 to 6 months	**437,993**	293,207
7 to 12 months	**550,142**	802,015
More than 1 year	**1,853,222**	1,931,732
	4,601,190	4,943,920
Provision for impairment	**(436,595)**	(421,163)
	4,164,595	4,522,757

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	**421,163**	405,355
Effect of adoption of HKFRS 9	**10,203**	–
At beginning of year (restated)	**431,366**	405,355
Impairment losses	**22,206**	26,053
Amount written off as uncollectible	**(10,708)**	(10,585)
Exchange realignment	**(6,269)**	340
At end of year	**436,595**	421,163

IMPAIRMENT UNDER HKFRS 9 FOR THE YEAR ENDED 31 DECEMBER 2018

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.

20. TRADE RECEIVABLES (continued)

IMPAIRMENT UNDER HKFRS 9 FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

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

As at 31 December 2018	Current	Past due Less than 1 year	1-2 years	Over 2 years	Total
Expected credit loss rate	0.27%	0.78%	3.16%	46.09%	
Gross carrying amount (HK$'000)	2,747,968	745,451	203,280	904,491	4,601,190
Expected credit loss (HK$'000)	7,504	5,792	6,421	416,878	436,595

IMPAIRMENT UNDER HKAS 39 FOR THE YEAR ENDED 31 DECEMBER 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$162,381,000 with a carrying amount before provision of HK$192,031,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in default in payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	821,136
Less than 1 year past due	62,448
1 to 2 years past due	38,317
More than 2 years past due	111,273
	1,033,174

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

21. NOTES RECEIVABLE

At 31 December 2017 and 2018, none of the notes receivable were endorsed.

All notes receivable of the Group would mature within 6 months.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**1,893,606**	1,174,614
Time deposits	**285,760**	335,505
	2,179,366	1,510,119
Less:		
Restricted bank deposits for bills payable	**(51,820)**	(86,220)
Restricted bank deposits for performance bonds	**(233,687)**	(247,770)
Cash and cash equivalents	**1,893,859**	1,176,129

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,318,824,000 (2017: HK$901,779,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

23. 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:

	2018 HK$'000	2017 HK$'000
Within 3 months	**2,180,906**	1,913,780
4 to 6 months	**865,447**	564,563
7 to 12 months	**571,499**	599,709
More than 1 year	**695,947**	604,484
	4,313,799	3,682,536

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

24. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Accruals	**154,076**	271,553
Receipt in advance	**–**	100,297
Contract liabilities	**127,370**	–
Other payables	**679,388**	691,166
	960,834	1,063,016

Other payables are non-interest-bearing and have an average term of 1 year.

25. INTEREST-BEARING BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Analyzed into:		
Within 1 year or on demand	**1,624,499**	1,088,489
In the 2nd year	**11,381**	453,891
In the 3rd to 5th years, inclusive	**136,566**	40,000
Beyond 5 years	**227,610**	–
	2,000,056	1,582,380

As at 31 December 2018, loans denominated in Hong Kong dollars, RMB, and EURO amounted to HK$1,410,400,000 (2017: HK$1,239,228,000), HK$589,560,000 (2017: HK$343,152,000) and HK$96,000 (2017: Nil), respectively.

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values (note 37).

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

Bank loans as at 31 December 2018 bear interest at rates ranging from 1.1% to 5.4% (2017: from 2.1% to 5.0%) per annum.

26. PROVISION FOR PRODUCT WARRANTIES

	2018 HK$'000	2017 HK$'000
At 1 January	**69,838**	70,571
Additional provision	**24,402**	29,494
Amounts utilized during the year	**(26,868)**	(35,327)
Exchange realignment	**(3,541)**	5,100
At 31 December	**63,831**	69,838

The Group generally provides warranties of 1 to 2 years to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision for product warranties were not discounted as the effect of discounting was not material.

27. SHARE CAPITAL

Shares	2018 HK$'000	2017 HK$'000
Authorized:		
5,000,000,000 (2017: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
2,419,474,860 (2017: 2,469,580,860) ordinary shares of HK$0.10 each	**241,948**	246,958

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017		2,461,058,124	246,106	(22,818)	650,071	873,359
Share option scheme						
– exercise of share options	(a)	8,522,736	852	–	13,960	14,812
At 31 December 2017 and 1 January 2018		**2,469,580,860**	**246,958**	**(22,818)**	**664,031**	**888,171**
Share option scheme						
– exercise of share options	(b)	**646,000**	**65**	**–**	**1,101**	**1,166**
Cancellation of repurchased shares	(c)	**(50,752,000)**	**(5,075)**	**–**	**(66,335)**	**(71,410)**
At 31 December 2018		**2,419,474,860**	**241,948**	**(22,818)**	**598,797**	**817,927**

As at 31 December 2018, the total number of issued ordinary shares of the Company was 2,419,474,860 (2017: 2,469,580,860) shares which included 16,637,136 (2017: 16,637,136) shares held under a share award scheme (the "Share Award Scheme") adopted by the Company on 25 March 2011 (note 28(b)).

Notes:

(a) During the year ended 31 December 2017, the subscription rights attaching to 5,206,486 share options and 3,316,250 share options were exercised at the adjusted exercise prices of HK$1.354 per share and HK$1.255 per share respectively, resulting in the issue of 8,522,736 shares of HK$0.10 each for a total cash consideration, before expenses of approximately HK$11,211,000.

(b) During the year ended 31 December 2018, the subscription rights attaching to 404,000 share options and 242,000 share options were exercised at the adjusted exercise prices of HK$1.354 per share and HK$1.255 per share respectively, resulting in the issue of 646,000 shares of HK$0.10 each for a total cash consideration, before expenses of approximately HK$851,000.

(c) During the year ended 31 December 2018, the Company repurchased a total of 50,752,000 shares on the Stock Exchange for an aggregate amount of approximately HK$71,410,000 before expenses ranging from HK$1.140 to HK$1.530 per share. The repurchased shares were subsequently cancelled.

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) SHARE OPTION SCHEME

The Company operates a share option scheme adopted on 3 June 2013 (the "2013 Scheme") which, unless otherwise cancelled or amended in accordance with the terms therein, will remain in force for ten years from that date.

The purposes of the 2013 Scheme are to provide incentives and rewards to eligible persons who contribute to the success of the Group's operations. Eligible persons of the 2013 Scheme include directors (including independent non-executive directors), employees, holders of any securities, business or joint venture partners, contractors, agents or representatives of, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors of, or customers, licencees, wholesalers, retailers, traders or distributors of goods or services of members of the Group, the Company's controlling shareholders or companies controlled by the Company's controlling shareholders.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme, the Share Award Scheme (note 28(b)) and any other incentive or share option schemes of the Company shall not exceed 30% of the shares of the Company in issue at any time. The maximum number of shares already issued and to be issued upon exercise of share options granted to each eligible person under the 2013 Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding share options) in any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted under the 2013 Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted under the 2013 Scheme and any other share option schemes of the Company (including share options exercised, cancelled and outstanding) to a substantial shareholder of the Company or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant of the share options) in excess of HK$5 million, in any 12-month period up to and including the date of such grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the 2013 Scheme may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted under the 2013 Scheme is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of offer of the share options.

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) SHARE OPTION SCHEME (continued)

The exercise price of the share options granted under the 2013 Scheme is determinable by the directors of the Company, but shall not be less than the highest of: (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer of the share options; and (iii) the average closing prices of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the date of offer of the share options.

Share options granted under the 2013 Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings of the Company.

The following number of share options were outstanding under the 2013 Scheme during the year:

	2018		2017	
	Weighted average exercise price of each share option HK$	Number of share options	Weighted average exercise price of each share option HK$	Number of share options
At 1 January	1.294	119,585,162	1.296	131,934,337
Exercised during the year	1.317	(646,000)	1.315	(8,522,736)
Lapsed during the year	1.290	(4,725,708)	1.310	(3,826,439)
Granted during the year	1.182	55,000,000	–	–
At 31 December	1.258	169,213,454	1.294	119,585,162

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) SHARE OPTION SCHEME (continued)

Movements in the number of the Company's share options under the 2013 Scheme during the year are as follows:

		Number of share options								
Name or category of participant	At 1 January 2018	Granted during the year	Adjusted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Executive directors										
Mr. Fok Tung Ling	805,253	–	–	–	–	–	805,253	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
Mr. Zhang Yue Jun	805,253	–	–	–	–	–	805,253	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
Mr. Xu Huijun (appointed on 23 August 2018)	–	5,000,000	–	–	–	–	5,000,000	28 Aug 18	28 Aug 19–27 Aug 23	1.300
Mr. Chang Fei Fu (appointed on 23 February 2018)	3,300,000	–	–	–	–	–	3,300,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	–	2,000,000	–	–	–	–	2,000,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	3,300,000	2,000,000	–	–	–	–	5,300,000			
Mr. Bu Binlong (appointed on 12 April 2018)	1,288,408	–	–	–	–	–	1,288,408	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	3,300,000	–	–	–	–	–	3,300,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	–	1,800,000	–	–	–	–	1,800,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	4,588,408	1,800,000	–	–	–	–	6,388,408			
Mr. Wu Tielong (appointed on 12 April 2018)	644,204	–	–	–	–	–	644,204	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	1,650,000	–	–	–	–	–	1,650,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	–	1,800,000	–	–	–	–	1,800,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	2,294,204	1,800,000	–	–	–	–	4,094,204			
Mr. Yeung Pui Sang, Simon (resigned on 24 May 2018)	2,415,762	–	–	–	–	–	2,415,762	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	3,300,000	–	–	–	–	–	3,300,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	–	2,000,000	–	–	–	–	2,000,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	5,715,762	2,000,000	–	–	–	–	7,715,762			
Mr. Zhang Yuan Jian (resigned on 21 September 2018)	2,415,762	–	–	–	–	–	2,415,762	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	3,300,000	–	–	–	–	–	3,300,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	–	2,000,000	–	–	–	–	2,000,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	5,715,762	2,000,000	–	–	–	–	7,715,762			

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) SHARE OPTION SCHEME (continued)

Movements in the number of the Company's share options under the 2013 Scheme during the year are as follows:

		Number of share options								
Name or category of participant	At 1 January 2018	Granted during the year	Adjusted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share
Independent non-executive directors										
Mr. Lau Siu Ki, Kevin	161,049	–	–	–	–	–	161,049	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	110,000	–	–	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	-	200,000	–	–	–	–	200,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	271,049	200,000	–	–	–	–	471,049			
Dr. Lin Jin Tong	161,049	–	–	–	–	–	161,049	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	110,000	–	–	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	-	200,000	–	–	–	–	200,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	271,049	200,000	–	–	–	–	471,049			
Mr. Qian Ting Shuo (resigned on 15 January 2019)	161,049	–	–	–	–	–	161,049	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	110,000	–	–	–	–	–	110,000	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	-	200,000	–	–	–	–	200,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	271,049	200,000	–	–	–	–	471,049			
Other employees in aggregate	38,760,623	–	–	(404,000)	–	(1,679,208)	36,677,415	11 Apr 14	11 Apr 15–10 Apr 19	1.354#
	56,786,750	–	–	(242,000)	–	(3,046,500)	53,498,250	26 Aug 16	26 Aug 17–25 Aug 21	1.255^
	-	39,800,000	–	–	–	–	39,800,000	10 Apr 18	10 Apr 19–9 Apr 23	1.170
	95,547,373	39,800,000	–	(646,000)	–	(4,725,708)	129,975,665			
	119,585,162	55,000,000	–	(646,000)	–	(4,725,708)	169,213,454			

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

The exercise price of each share option was adjusted as a result of the bonus issue of shares pursuant to the annual general meeting and the extraordinary general meeting held on 27 May 2016 (the "May 2016 Bonus Issue") and 11 October 2016 (the "Oct 2016 Bonus Issue") respectively.

^ The exercise price of each share option was adjusted as a result of the Oct 2016 Bonus Issue.

50,000,000 share options were granted on 10 April 2018 with an exercise price of HK$1.170 under the 2013 Scheme during the current year. The closing price of the Company's shares immediately before the date on which the options were granted is HK$1.100.

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the current year was approximately HK$18,716,000 (HK$0.37 each), of which the Group recognized a share option expense of approximately HK$6,504,000 during the current year.

The fair value of equity-settled share options granted during the current year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	–
Expected volatility (%)	42.25
Risk-free interest rate (%)	2.44
Expected life of the share options (years)	1.2-2.2
Weighted average share price (HK$ per share)	1.076

The expected life of the share options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

5,000,000 share options were granted on 28 August 2018 with an exercise price of HK$1.300 under the 2013 Scheme during the current year. The closing price of the Company's shares immediately before the date on which the options were granted is HK$1.310.

The fair value of the share options granted during the current year was approximately HK$2,526,000 (HK$0.51 each), of which the Group recognized a share option expense of approximately HK$441,000 during the current year.

The fair value of equity-settled share options granted during the current year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	–
Expected volatility (%)	43.90
Risk-free interest rate (%)	2.72
Expected life of the share options (years)	2.2
Weighted average share price (HK$ per share)	1.180

The expected life of the share options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding under the 2013 Scheme as at the end of the reporting period are as follows:

31 December 2018 Number of share options	**Exercise price of share options HK$**	**Exercise period**
45,535,204#	**1.354#**	**11 April 2015 to 10 April 2019**
68,678,250^	**1.255^**	**26 August 2017 to 25 August 2021**
50,000,000	**1.170**	**10 April 2019 to 9 April 2023**
5,000,000	**1.300**	**28 August 2019 to 27 August 2023**
169,213,454		

31 December 2017 Number of share options	Exercise price of share options HK$	Exercise period
47,618,412#	1.354#	11 April 2015 to 10 April 2019
71,966,750^	1.255^	26 August 2017 to 25 August 2021
119,585,162		

\# The exercise price of each share option and the number of share options were adjusted as a result of the May 2016 Bonus Issue and the Oct 2016 Bonus Issue.

^ The exercise price of each share option and the number of share options were adjusted as a result of the Oct 2016 Bonus Issue.

The expense recognized in the consolidated statement of profit or loss for employee services received during the year is approximately HK$15,366,000 (2017: HK$17,093,000).

At the end of the reporting period, the Company had 169,213,454 share options outstanding under the 2013 Scheme, of which 78,303,954 were vested and 90,909,500 were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 169,213,454 additional ordinary shares of the Company and additional share capital of HK$16,921,000 and share premium of HK$195,925,000 (before issue expenses).

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) SHARE OPTION SCHEME (continued)

At the date of approval of these financial statements, the Company had 120,297,921 share options outstanding under the 2013 Scheme, which represented approximately 4.97% of the Company's shares in issue as at that date.

According to the scheme limit of the 2013 Scheme as refreshed at the annual general meeting held on 28 May 2018, the Company may further grant 246,516,486 share options (being 10% of the total number of issued shares of the Company as at 28 May 2018). Since 5,000,000 share options were granted on 28 August 2018, the total number of unissued share options under the scheme limit became 241,516,486, representing approximately 9.98% of the Company's shares in issue as at 31 December 2018.

(b) SHARE AWARD SCHEME

The Company adopted the Share Award Scheme on 25 March 2011 (the "Adoption Date"). The purposes and objectives of the Share Award Scheme are to recognize the contributions made by certain employees and persons to the Group (the "Selected Persons") and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Unless it is early terminated by the board of directors of the Company (the "Board") in accordance with the terms therein, the Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date.

Pursuant to the Share Award Scheme, (i) awarded shares (the "Awarded Shares") will be acquired by the trustee and/or the administrator of the Share Award Scheme (the "Trustee/Administrator") at the cost of the Company at the prevailing market price and be held in trust for the Selected Persons until the end of each vesting period; or (ii) new Awarded Shares may be allotted and issued to the Trustee/Administrator under general mandates granted or to be granted by the shareholders at general meetings from time to time and be held in trust for the Selected Persons until the end of each vesting period.

The Board shall not make any further award of the Awarded Shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company as at the Adoption Date (or the refreshed or amended limit as approved by the shareholders). The maximum number of shares which may be awarded to a Selected Person under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date (or the refreshed or amended limit as approved by the shareholders). The aforesaid limit may be refreshed or amended by approval of the shareholders in a general meeting. Nevertheless, the total number of the Awarded Shares which may be issued under the Share Award Scheme and the exercise of all options to be granted under other incentive and option schemes of the Company (including the 2013 Scheme) as so refreshed shall not exceed 10% of the shares in issue as at the date of approval of the refreshed limit. Awarded Shares or share options previously granted under the Share Award Scheme or the 2013 Scheme (including those vested, outstanding, cancelled and lapsed) will not be counted for the purpose of calculating the limit as refreshed. The Company will not issue any Awarded Shares under the Share Award Scheme which would result in the total number of the Awarded Shares together with shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme or any other incentive or share option schemes of the Company representing in aggregate over 30% of the shares in issue as at the date of such grant.

28. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(b) SHARE AWARD SCHEME (continued)

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010.

Movements in the number of treasury shares held for the Share Award Scheme for the years ended 31 December 2017 and 2018 are as follows:

	Treasury shares held for the Share Award Scheme
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**16,637,136**

No Awarded Shares held for Selected Persons were outstanding as at 31 December 2018.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 74 and 75 of the financial statements.

Pursuant to the relevant laws and regulations of the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to the statutory reserve which is restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities were as follows:

2018	**Interest-bearing bank borrowings HK$'000**
At 1 January 2018	**1,582,380**
Changes from financing cash flows	**433,917**
Foreign exchange movement	**(16,241)**
At 31 December 2018	**2,000,056**

2017	Interest-bearing bank borrowings HK$'000
At 1 January 2017	1,366,812
Changes from financing cash flows	67,880
Foreign exchange movement	3,688
Increase arising from acquisition of subsidiaries	144,000
At 31 December 2017	1,582,380

31. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2018 HK$'000	2017 HK$'000
Guarantees given to banks in respect of performance bonds*	**289,341**	302,276

* Part of performance bonds are secured by the pledge of certain of the Group's time deposits amounting to HK$233,687,000 (2017: HK$247,770,000).

32. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 4 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**3,867**	4,675
In the 2nd to 5th years, inclusive	**9,414**	3,188
After 5 years	**5,518**	–
	18,799	7,863

(b) AS LESSEE

The Group leases certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 9 years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**40,115**	44,061
In the 2nd to 5th years, inclusive	**54,861**	66,946
After 5 years	**24,950**	33,639
	119,926	144,646

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Plant and machinery	**22,632**	1,564

34. RELATED PARTY TRANSACTIONS

(a) The Group had no significant transactions with related parties during the year and had no significant outstanding balances with related parties as at the end of the reporting period.

(b) Compensation of key management personnel of the Group:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**28,737**	24,101
Equity-settled share option expense	**2,587**	1,609
Pension scheme contributions	**230**	230
Total compensation paid to key management personnel	**31,554**	25,940

The related party transactions in respect of directors' remuneration mentioned above were connected transactions as defined in Chapter 14A of the Listing Rules but exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details of directors' remuneration are included in note 8 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018 Financial assets	Financial assets at amortized cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	–	33,540	33,540
Trade receivables	4,164,595	–	4,164,595
Notes receivable	118,950	–	118,950
Financial assets included in prepayments, other receivables and other assets	436,621	–	436,621
Restricted bank deposits	285,507	–	285,507
Cash and cash equivalents	1,893,859	–	1,893,859
	6,899,532	33,540	6,933,072

Financial liabilities	Financial liabilities at amortized cost HK$'000	Total HK$'000
Trade and bills payables	4,313,799	4,313,799
Financial liabilities included in other payables and accruals	721,529	721,529
Interest-bearing bank borrowings	2,000,056	2,000,056
	7,035,384	7,035,384

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2017 Financial assets	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	19,247	19,247
Trade receivables	4,522,757	–	4,522,757
Notes receivable	85,447	–	85,447
Financial assets included in prepayments, other receivables and other assets	426,163	–	426,163
Restricted bank deposits	333,990	–	333,990
Cash and cash equivalents	1,176,129	–	1,176,129
	6,544,486	19,247	6,563,733

Financial liabilities	Financial liabilities at amortized cost HK$'000	Total HK$'000
Trade and bills payables	3,682,536	3,682,536
Financial liabilities included in other payables and accruals	732,502	732,502
Interest-bearing bank borrowings	1,582,380	1,582,380
	5,997,418	5,997,418

36. TRANSFERRED FINANCIAL ASSETS

FINANCIAL ASSETS THAT ARE NOT DERECOGNIZED IN THEIR ENTIRETY

The Group entered into a trade receivables factoring arrangement (the "Arrangement") and transferred certain trade receivables (the "Factored Trade Receivables") to a bank (the "Bank") with outstanding carrying amounts in aggregate of HK$243,443,000 as at 31 December 2018. Subsequent to the transfer, in accordance with the terms of the Arrangement, the Group was entitled to receive further payments, at an agreed proportion of the settled Factored Trade Receivables, up to a maximum of HK$48,689,000. Except for the rights associated with the further receipts above, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties.

In the opinion of the directors, the Group transferred substantially all risks and rewards, including credit risks and late payment risks, of a fully proportional share of the Factored Trade Receivables, and as such, derecognized the trade receivables at an amount of HK$194,754,000 and continued to recognize HK$48,689,000 on the statement of financial position.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of restricted bank deposits, trade receivables, notes receivable, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of restricted bank deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2018 was assessed to be insignificant.

As at 31 December 2017 and 2018, the carrying amount of the Group's financial assets and financial liabilities approximate to their fair values.

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK$'000	Significant observable inputs (level 2) HK$'000	Significant unobservable inputs (level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	–	33,540	–	33,540

The fair value of the unlisted financial assets at fair value through profit or loss is based on a recent market transaction.

The Group did not have any financial assets measured at fair value as at 31 December 2017.

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 2018.

During the year, there were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both the financial assets and financial liabilities.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarized below:

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligation with floating rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
2018			
Hong Kong dollars	**50**	**–**	**–**
RMB	**50**	**(1,878)**	**–**
Hong Kong dollars	**(50)**	**–**	**–**
RMB	**(50)**	**1,878**	**–**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2017			
Hong Kong dollars	50	(1,440)	–
RMB	50	(1,029)	–
Hong Kong dollars	(50)	1,440	–
RMB	(50)	1,029	–

* Excluding retained profits

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 15.2% (2017: 9.0%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 92.6% (2017: 90.6%) of costs were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar ("US$") and the UAE Dirham ("AED") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in US$/AED rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2018			
If Hong Kong dollar weakens against US$	5	44,510	–
If Hong Kong dollar strengthens against US$	(5)	(44,510)	–
If Brazil dollar weakens against US$	5	(14,738)	–
If Brazil dollar strengthens against US$	(5)	14,738	–
If RMB weakens against US$	5	21,460	–
If RMB strengthens against US$	(5)	(21,460)	–
If Hong Kong dollar weakens against AED	5	2,241	–
If Hong Kong dollar strengthens against AED	(5)	(2,241)	–

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK (continued)

	Increase/ (decrease) in US$/AED rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2017			
If Hong Kong dollar weakens against US$	5	70,397	–
If Hong Kong dollar strengthens against US$	(5)	(70,397)	–
If Brazil dollar weakens against US$	5	(33,711)	–
If Brazil dollar strengthens against US$	(5)	33,711	–
If RMB weakens against US$	5	9,674	–
If RMB strengthens against US$	(5)	(9,674)	–
If Hong Kong dollar weakens against AED	5	(13,025)	–
If Hong Kong dollar strengthens against AED	(5)	13,025	–

* Excluding retained profits

CREDIT RISK

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables*	–	–	–	4,164,595	4,164,595
Financial assets included in prepayments, other receivables and other assets – Normal**	436,621	–	–	–	436,621
Restricted bank deposits	285,507	–	–	–	285,507
Cash and cash equivalents	1,893,859	–	–	–	1,893,859
	2,615,987	–	–	4,164,595	6,780,582

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

The credit risk of the Group's other financial assets, which comprise cash at banks and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group has certain concentrations of credit risk as 35% (2017: 35%) and 74% (2017: 78%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in note 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, banking facilities have been put in place for contingency purposes. The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2018				
	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	1,212,496	446,030	224,332	239,884	2,122,742
Trade and bills payables	–	4,313,799	–	–	4,313,799
Financial liabilities included in other payables and accruals	–	721,529	–	–	721,529
	1,212,496	5,481,358	224,332	239,884	7,158,070

	2017			
	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	809,228	307,113	509,158	1,625,499
Trade and bills payables	–	3,682,536	–	3,682,536
Financial liabilities included in other payables and accruals	–	732,502	–	732,502
	809,228	4,722,151	509,158	6,040,537

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2018.

Capital is the total equity of the Group. The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the total assets. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Interest-bearing bank borrowings	**2,000,056**	1,582,380
Total assets	**11,302,641**	10,891,728
Gearing ratio	**17.7%**	14.5%

39. EVENTS 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.

40. COMPARATIVE AMOUNTS

During the year, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSET		
Investments in subsidiaries	**734,921**	735,587
CURRENT ASSETS		
Other receivables	**290**	290
Due from subsidiaries	**1,146,840**	1,146,200
Cash and cash equivalents	**3,144**	2,868
Total current assets	**1,150,274**	1,149,358
CURRENT LIABILITIES		
Due to a subsidiary	**539,606**	463,161
Other payables and accruals	**75,974**	76,123
Total current liabilities	**615,580**	539,284
NET CURRENT ASSETS	**534,694**	610,074
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,269,615**	1,345,661
NON-CURRENT LIABILITY		
Financial guarantee contracts	**24,393**	40,426
Net assets	**1,245,222**	1,305,235
EQUITY		
Issued capital	**241,948**	246,958
Treasury shares	**(22,818)**	(22,818)
Reserves (note)	**1,026,092**	1,081,095
Total equity	**1,245,222**	1,305,235

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Contributed surplus* HK$'000	Share-based compensation reserve** HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2016	650,071	373,108	30,553	762	22,676	1,077,170
Loss and total comprehensive loss for the year	–	–	–	–	(3,835)	(3,835)
Share option scheme						
– value of services	–	–	17,093	–	–	17,093
– exercise of share options	13,960	–	(3,601)	–	–	10,359
– adjustment arising from lapse of share options	–	–	26	–	(26)	–
Final 2016 dividend declared	–	–	–	–	(19,692)	(19,692)
At 31 December 2017 and 1 January 2018	664,031	373,108	44,071	762	(877)	1,081,095
Loss and total comprehensive loss for the year	–	–	–	–	(4,473)	(4,473)
Share option scheme						
– value of services	–	–	15,366	–	–	15,366
– exercise of share options	1,101	–	(315)	–	–	786
– adjustment arising from lapse of share options	–	–	(412)	–	412	–
Repurchase of shares	(66,335)	–	–	(347)	–	(66,682)
At 31 December 2018	598,797	373,108	58,710	415	(4,938)	1,026,092

* The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganization before the listing of the Company on the main board of the Stock Exchange, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus under certain circumstances.

** The share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 21 March 2019.

5 YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last 5 financial years, as extracted from the published audited financial statements is set out below:

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**5,663,310**	5,563,725	5,954,328	6,770,894	6,733,214
Cost of sales	**(4,204,709)**	(4,088,828)	(4,225,937)	(4,856,404)	(4,973,204)
Gross profit	**1,458,601**	1,474,897	1,728,391	1,914,490	1,760,010
Other income and gains	**170,091**	123,027	173,689	49,908	60,903
Research and development costs	**(353,090)**	(331,328)	(227,608)	(230,916)	(192,986)
Selling and distribution expenses	**(587,040)**	(510,499)	(544,071)	(472,976)	(509,477)
Administrative expenses	**(621,408)**	(575,677)	(709,647)	(836,216)	(789,727)
Other expenses	**(144,431)**	(79,325)	(119,126)	(27,750)	(65,524)
Finance costs	**(73,657)**	(47,861)	(47,040)	(67,722)	(61,147)
Share of losses of:					
A joint venture	**–**	(935)	(139)	–	–
An associate	**–**	(1,481)	(2,332)	(127)	–
(LOSS)/PROFIT BEFORE TAX	**(150,934)**	50,818	252,117	328,691	202,052
Income tax expense	**(48,402)**	(29,185)	(99,726)	(109,755)	(47,532)
(LOSS)/PROFIT FOR THE YEAR	**(199,336)**	21,633	152,391	218,936	154,520
Attributable to:					
Owners of the parent	**(171,384)**	27,373	152,257	212,876	151,061
Non-controlling interests	**(27,952)**	(5,740)	134	6,060	3,459
	(199,336)	21,633	152,391	218,936	154,520
TOTAL ASSETS	**11,302,641**	10,891,728	8,954,959	9,574,875	10,136,732
TOTAL LIABILITIES	**(7,497,027)**	(6,560,238)	(5,461,810)	(5,863,088)	(6,370,777)
NON-CONTROLLING INTERESTS	**(527,461)**	(565,179)	(55,462)	(59,256)	(56,164)
	3,278,153	3,766,311	3,437,687	3,652,531	3,709,791

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