COMBA TELECOM SYSTEMS HOLDINGS LIMITED

京 信 通 信 系 統 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2342)

Final results announcement
for the year ended 31 December 2012

RESULTS

The board of directors (the "Board" or the "Directors") of Comba Telecom Systems Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012, together with the comparative figures for the same period in 2011.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
REVENUE	3	**6,332,867**	6,354,218
Cost of sales		**(4,716,988)**	(4,027,521)
Gross profit		**1,615,879**	2,326,697
Other income and gains	3	**68,854**	110,269
Research and development costs		**(376,766)**	(361,914)
Selling and distribution expenses		**(503,749)**	(437,088)
Administrative expenses		**(904,640)**	(830,714)
Other expenses		**(5,073)**	(1,331)
Finance costs	5	**(42,635)**	(29,403)
(LOSS)/PROFIT BEFORE TAX	4	**(148,130)**	776,516
Income tax expense	6	**(67,515)**	(121,772)
(LOSS)/PROFIT FOR THE YEAR		**(215,645)**	654,744
Attributable to:			
Owners of the parent		**(202,364)**	659,084
Non-controlling interests		**(13,281)**	(4,340)
		(215,645)	654,744
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(HK cents)*	8		
Basic		**(13.43)**	43.99
Diluted		**(13.43)**	42.95

Details of the dividends payable and proposed for the year are disclosed in note 7 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
(LOSS)/PROFIT FOR THE YEAR	**(215,645)**	654,744
OTHER COMPREHENSIVE (LOSS)/INCOME		
Gains on property revaluation	**—**	27,646
Reclassification adjustments for gain included in the consolidated income statement	**(2,363)**	—
Income tax effect	**355**	(4,004)
	(2,008)	23,642
Cash flow hedge:		
Effective portion of changes in fair value of hedging instrument arising during the year	**—**	2,275
Reclassification adjustments for gain included in the consolidated income statement	**—**	344
Loss of expiry of interest rate swap contract	**(404)**	—
Income tax effect	**(116)**	(250)
	(520)	2,369
Exchange differences on translation of foreign operations	**16,752**	139,075
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**14,224**	165,086
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(201,421)**	819,830
Attributable to:		
Owners of the parent	**(189,198)**	821,286
Non-controlling interests	**(12,223)**	(1,456)
	(201,421)	819,830

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**826,277**	828,546
Prepaid land lease payments		**30,807**	31,374
Goodwill		**28,571**	28,571
Long-term trade receivables	10	**134,695**	118,648
Deferred tax assets		**132,423**	136,309
Intangible assets		**30,257**	28,216
Restricted bank deposits		**7,650**	7,033
Total non-current assets		**1,190,680**	1,178,697
CURRENT ASSETS			
Inventories	9	**2,243,009**	2,421,044
Trade receivables	10	**4,452,866**	4,268,084
Notes receivable		**63,194**	68,472
Prepayments, deposits and other receivables		**580,957**	450,810
Restricted bank deposits		**24,367**	79,813
Cash and cash equivalents		**1,536,638**	1,114,412
Total current assets		**8,901,031**	8,402,635
CURRENT LIABILITIES			
Trade and bills payables	11	**3,281,193**	2,981,163
Other payables and accruals		**1,206,888**	1,186,559
Derivative financial instrument		**—**	698
Interest-bearing bank borrowings	12	**1,558,656**	719,272
Tax payable		**87,174**	119,001
Provisions for product warranties		**78,315**	69,232
Total current liabilities		**6,212,226**	5,075,925
NET CURRENT ASSETS		**2,688,805**	3,326,710
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,879,485**	4,505,407

	Notes	**2012**	2011
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	12	**—**	404,743
Deferred tax liabilities		**17,326**	17,840
Total non-current liabilities		**17,326**	422,583
Net assets		**3,862,159**	4,082,824
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**152,620**	152,620
Treasury shares		**(14,370)**	(9,661)
Reserves		**3,667,372**	3,764,271
Proposed dividend		**—**	106,834
		3,805,622	4,014,064
Non-controlling interests		**56,537**	68,760
Total equity		**3,862,159**	4,082,824

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1.1. CORPORATE 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") principally engaged in the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services.

1.2 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 a derivative financial instrument, 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 2012. 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 of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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.

1.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKFRS 7, the adoption of the revised HKFRSs has had no significant financial effect on the financial statements.

The principal effect of adopting the HKFRS 7 Amendments is as follows:

The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognized to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognized with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognized assets to enable users to evaluate the nature of, and risks associated with, such involvement. Details of the transfers of financial assets are included in note 13 to the financial statements.

1.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

2. OPERATING SEGMENT INFORMATION

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

Information about major customers

During the year, revenue of approximately HK$3,313,447,000 (2011: HK$3,582,584,000) and HK$1,390,107,000 (2011: HK$1,333,343,000) were derived from two major customers, which accounted for 52.3% (2011: 56.4%) and 22.0% (2011: 21.0%) of the total revenue of the Group respectively.

3. REVENUE, OTHER INCOME AND GAINS

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

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

	2012 ***HK$'000***	2011 *HK$'000*
Revenue		
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**6,010,771**	6,108,832
Maintenance services	**322,096**	245,386
	6,332,867	6,354,218
Other income and gains		
Bank interest income	**7,769**	9,364
Exchange gain, net	**—**	9,776
Government subsidy	**33,786**	7,741
VAT refunds*	**14,140**	25,411
Gain on bargain purchase	**—**	48,426
Others	**13,159**	9,551
	68,854	110,269

* During the years ended 31 December 2012 and 2011, Comba Software Technology (Guangzhou) Limited ("Comba Software") being designated as a software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by the Guangzhou State Tax Bureau (廣州市國家稅務局) and received by Comba Software.

4. (LOSS)/PROFIT BEFORE TAX

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	**4,482,997**	3,925,108
Depreciation	**127,030**	98,402
Recognition of prepaid land lease payments	**754**	563
Amortisation of intangible assets	**7,756**	5,109
Minimum lease payments under operating leases in respect of land and buildings	**104,568**	90,495
Auditors' remuneration	**2,853**	2,816
Employee benefit expense (including Directors' emoluments):		
Salaries and wages	**1,076,894**	842,693
Staff welfare expenses	**83,300**	72,600
Equity-settled share option expense	**38,495**	15,790
Awarded share expense	**53,793**	145,028
Pension scheme contributions#	**85,181**	73,025
	1,337,663	1,149,136
Exchange loss/(gain), net	**15,386**	(9,776)
Write-off of inventories	**146,284**	—
Write-down of inventories to net realisable value	**—**	27,254
Provisions for product warranties	**53,889**	45,401
Loss on disposal of items of property, plant and equipment	**207**	844
Gain on bargain purchase*	**—**	(48,426)
Bank interest income	**(7,769)**	(9,364)

At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

* Gain on bargain purchase is included in "Other income and gains" in the consolidated income statement.

5. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**42,635**	29,403

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

	2012	2011
	HK$'000	*HK$'000*
Current — charge for the year		
Hong Kong	**6,619**	—
Mainland China	**48,830**	118,890
Elsewhere	**7,412**	2,070
Deferred	**4,654**	812
Total tax charge for the year	**67,515**	121,772

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for the domestic-invested and foreign-invested enterprises, which results in an adjustment of income tax rate to 25%.

Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou") and Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), being foreign invested enterprises located in Guangzhou, the PRC, are eligible to enjoy the transitional arrangement under the New Corporate Income Tax Law. In addition, Comba Guangzhou and Comba Technology were designated as High-New Technology Enterprises by the Guangdong Science and Technology Department on 14 December 2009 and 16 December 2008 respectively. The qualification of Comba Technology being designated as a High-New Technology Enterprise was renewed on 23 August 2011. Being High-New Technology Enterprises, Comba Guangzhou and Comba Technology were entitled to the preferential tax rate of 15% for the year of 2012.

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Comba Telecom Systems (China) Limited ("Comba China"), another subsidiary of the Company established in the PRC, was entitled to an exemption from PRC corporate income tax for the two years commencing from 1 January 2008 to 31 December 2009 and thereafter was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2010 to 31 December 2012. Moreover, as Comba China was located in the Guangzhou Economic and Technology Development Zone, it is entitled to transitional income tax rates from 2008 to 2012. Therefore, the applicable income tax rates for Comba China in 2008, 2009, 2010, 2011 and 2012 were 0%, 0%, 11%, 12% and 12.5%, respectively.

7. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Interim — Nil (2011: HK5 cents) per ordinary share	**—**	75,743
Proposed final — Nil (2011: HK7 cents) per ordinary share	**—**	106,834
	—	182,577

The Directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2012.

8. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss/earnings per share 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 1,506,884,000 (2011: 1,498,279,000) in issue during the year.

The calculation of the diluted earnings per share for the year ended 31 December 2011 is based on the 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 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 potential dilutive ordinary shares arising from share options and awarded shares granted by the Company into ordinary shares.

The computation of the diluted loss per share for the year ended 31 December 2012 does not assume the conversion of the Company's outstanding share options as the exercise price is higher than the Company's share price. The effects of awarded shares have also been excluded from the computation of the diluted loss per share for the year ended 31 December 2012 as their effects would be anti-dilutive.

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

	2012	2011
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	**(202,364)**	659,084

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**1,506,884,000**	1,498,279,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	20,117,000
Awarded shares	**—**	16,262,000
	1,506,884,000	1,534,658,000

9. INVENTORIES

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**168,603**	210,640
Project materials	**122,008**	149,682
Work in progress	**168,700**	229,129
Finished goods	**429,797**	484,349
Inventories on site	**1,353,901**	1,347,244
	2,243,009	2,421,044

10. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES

	2012 *HK$'000*	2011 *HK$'000*
Trade receivables	**4,605,150**	4,404,188
Impairment	**(17,589)**	(17,456)
	4,587,561	4,386,732
Current portion	**(4,452,866)**	(4,268,084)
Long term portion	**134,695**	118,648

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness. The balance also include retention money of approximately 10% to 20% of the total contract sum of each project, and is generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two year warranty periods 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 minimise the credit risk. Overdue balances are reviewed regularly by senior management.

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

	2012 *HK$'000*	2011 *HK$'000*
Within 3 months	**1,928,491**	2,334,378
4 to 6 months	**723,420**	424,407
7 to 12 months	**823,579**	728,759
More than 1 year	**1,129,660**	916,644
	4,605,150	4,404,188
Provision for impairment	**(17,589)**	(17,456)
	4,587,561	4,386,732
Current portion	**(4,452,866)**	(4,268,084)
Long term portion	**134,695**	118,648

The movements in the provision for impairment of trade receivables are as follow:

	2012 *HK$'000*	2011 *HK$'000*
At 1 January	**17,456**	16,693
Exchanged realignment	**133**	763
	17,589	17,456

The impaired trade receivables relate to customers who have not settled the sales invoices when they fall due and it is expected that a portion of the receivables might not be recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2012 *HK$'000*	2011 *HK$'000*
Neither past due nor impaired	**4,167,781**	4,133,158
Less than 1 year past due	**213,497**	109,822
	4,381,278	4,242,980

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

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

11. TRADE AND BILLS PAYABLES

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

	2012 *HK$'000*	2011 *HK$'000*
Within 3 months	**1,474,001**	1,811,429
4 to 6 months	**678,770**	614,598
7 to 12 months	**759,928**	415,022
More than 1 year	**368,494**	140,114
	3,281,193	2,981,163

The trade payables are non-interest-bearing and are mainly settled for a period of three months and are extendable up to two years.

12. INTEREST-BEARING BANK BORROWINGS

	2012 *HK$'000*	2011 *HK$'000*
Analysed into:		
Within 1 year	**1,558,656**	719,272
In the second year	**—**	404,743
	1,558,656	1,124,015

All the bank loans at 31 December 2012 and 31 December 2011 were unsecured. Loans denominated in Hong Kong dollars amounted to Nil (2011: HK$314,530,000) and loans denominated in United States dollars amounted to HK$1,558,656,000 (2011: HK$809,485,000).

In addition to the short-term interest-bearing facilities, the Group entered into two three-year term loan facility agreements respectively, one of which amounted to US$130,000,000 on 5 July 2010 (the "Facility Agreement 2010"), and another of which amounted to US$210,000,000 on 26 June 2012 (the "Facility Agreement 2012") (collectively known as the "Facility Agreements"), with certain financial institutions (the "Lenders").

Under the Facility Agreements, there are specific performance obligations that Mr. Fok Tung Ling who is the controlling shareholder of the Company and Mr. Zhang Yue Jun who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the Facility Agreement 2012, both Mr. Fok Tung Ling and Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. At the date of approval of the audited consolidated financial statements, such obligations have been complied with.

The Company and three of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited and Comba Telecom Limited, were parties to the Facility Agreements who act as guarantors, to guarantee punctual performance of the obligations under the Facility Agreements which, inter alia include, the satisfaction of the financial covenants under the Facility Agreements.

As at 31 December 2012, the Group had fully repaid all outstanding indebtedness under the Facility Agreement 2010.

As at 31 December 2012, the Group had utilized US$171,000,000 (equivalent to HK$1,325,862,000) under the Facility Agreement 2012.

For the year ended 31 December 2012, two of the financial covenants under the Facility Agreement 2012 were not satisfied. According to the relevant accounting standard, the long term portion of the loans under the Facility Agreement 2012, which amounted to HK$795,517,000, was classified as a current liability as at 31 December 2012.

Prior to the date of this announcement, the Group had applied and the Lenders of the Facility Agreement 2012 had granted to the Group waivers from strict compliance with the said financial covenants. All other terms of the Facility Agreement 2012 will continue in full force and effect.

The bank loans bore interest at rates ranging from 1.2% to 3.6% (2011: from 1.1% to 3.3%) per annum.

13. 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$127,862,000 as at 31 December 2012. The net proceeds from the Bank amounted to HK$$112,026,000. 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$14,661,000. 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$113,201,000 and continued to recognize HK$14,661,000 on the consolidated statement of financial position.

14. EVENT AFTER THE REPORTING PERIOD

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

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of the Company's shareholders to attend and vote at the forthcoming annual general meeting (the "AGM"), the details of the record date and the closure of register of members are set out below:

For determining eligibility to attend and vote at the forthcoming AGM:

Latest time to lodge transfer documents for registration	4:30p.m. on Wednesday, 29 May 2013
Closure of register of members, no transfer of shares will be registered	Thursday, 30 May 2013 to Friday, 31 May 2013 (both days inclusive)
Record date	Friday, 31 May 2013

All transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Revenue

For the year ended 31 December 2012 (the "Current Year"), the Group reported stable revenue amounting to HK$6,332,867,000 (2011: HK$6,354,218,000) as compared to the year ended 31 December 2011 (the "Prior Year"). The continuously increasing number of mobile subscribers, the growing popularity of smart devices and expansion of data traffic drove the demand for wireless solutions but was offset by the CAPEX concerns of mobile operators.

By customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries ("China Mobile Group") decreased by 7.5% to HK$3,313,447,000 (2011: HK$3,582,584,000), accounting for 52.3% of the Group's revenue in the Current Year, compared to 56.4% in the Prior Year.

Revenue generated from China United Telecommunications Corporation and its subsidiaries ("China Unicom Group") increased by 4.3% to HK$1,390,107,000 (2011: HK$1,333,343,000) and accounted for 22.0% of the Group's revenue in the Current Year, compared to 21.0% in the Prior Year.

Revenue generated from China Telecom Corporation and its subsidiaries ("China Telecom Group") increased by 9.1% to HK$464,888,000 (2011: HK$426,195,000), accounting for 7.3% of the Group's revenue in the Current Year, compared to 6.7% in the Prior Year.

As a result of the ongoing investment in 3G mobile networks by mobile operators, the Group's 3G business increased by 32.6% to HK$2,711,000,000 (2011: HK$2,045,000,000) and accounted for 42.8% of the Group's revenue in the Current Year, compared to 32.2% in the Prior Year.

Through constant efforts in expanding the business in emerging markets and some Southeast Asian countries, revenue generated from international customers and core equipment manufacturers also increased significantly by 20.9% to HK$1,029,375,000 (2011: HK$851,238,000). This accounted for 16.3% of the Group's revenue in the Current Year, compared to 13.4% in the Prior Year.

By businesses

Driven by the ongoing replacement cycles of antennas and the continuous network build-outs by the mobile operators, revenue generated from antennas and subsystems business in the Current Year increased by 1.3% to HK$1,818,823,000 (2011: HK$1,795,136,000), accounting for 28.7% of the Group's revenue, compared to 28.2% in the Prior Year.

Many mobile operators expedited WLAN (WiFi) deployment to cope with the growth of data usage by mobile subscribers. Hence, revenue generated from the wireless access and transmission business in the Current Year increased by 2.1% to HK$505,884,000 (2011: HK$495,474,000) and accounted for 8.0% of the Group's revenue, compared to 7.8% in the Prior Year. The Indoor Broadband Wireless Access System ("IB-WAS") business started to provide modest contributions in the second half of the Current Year, and the Group is seeing the positive momentum continuing into 2013.

As a result of the postponement of certain investment activities and inspection processes conducted by PRC mobile operators, and the fact that revenue from some of the Group's projects was not recognized in the Current Year, revenue generated from wireless enhancement business in the Current Year decreased by 35.6% to HK$1,254,085,000 (2011: HK$1,948,091,000) and accounted for 19.8% of the Group's revenue, compared to 30.7% in the Prior Year.

Demand from services, including consultation, commissioning, network optimization, project management and after-sales maintenance services, has been trending upwards as a result of the increase of data traffic and growing complexity of network systems. Consequently, revenue from services increased by 30.2% to HK$2,754,075,000 (2011: HK$2,115,517,000) in the Current Year and accounted for 43.5% of the Group's revenue, compared to 33.3% in the Prior Year.

Gross profit

During the Current Year, gross profit decreased by 30.6% to HK$1,615,879,000 (2011: HK$2,326,697,000). The Group's gross profit margin was 25.5% in the Current Year compared to 36.6% in the Prior Year. The decrease in gross profit margin was mainly due to increase in the cost of sales caused by inflation, increasingly fierce competition in the telecommunications industry and the unrealized sales scalability of new products and new businesses. During the Current Year, inventories write-off of HK$146,284,000 (2011: Nil) was recorded.

To improve the gross margin, the Group will: 1) continue to adopt stringent cost control initiatives including optimizing the product design through advanced research and development ("R&D"), streamlining the manufacturing process, improving logistics management and optimizing the internal organization and functions of the Group. 2) Moreover, the Group will continue to expand its market coverage and broaden its revenue sources to achieve economies of scale. The Group will also continue to provide installation, network optimization, network enhancement and after-sales maintenance services to customers in order to achieve higher product sales. 3) Meanwhile, the Group will continue to focus on developing advanced and high value-added products for customers.

Research and development costs

"Innovation" is one of the core values of the Group through which it differentiates itself from its peers. As such, the increased investment in R&D is necessary to maintain the Group's competitive advantages and continuous investments were made in the development and expansion of the product portfolios of IB-WAS and 2G, 3G, WLAN and LTE mobile networks. During the Current Year, R&D costs and expenses increased slightly by 4.1% to HK$376,766,000 (2011: HK$361,914,000) during the Current Year, representing 5.9% (2011: 5.7%) of the Group's revenue.

With its strong commitment to R&D, the Group has achieved significant accomplishments in creating solutions with intellectual property rights and has applied for more than 1,300 patents as at the end of the Current Year (As at 31 December 2011: more than 940 patents).

Selling and distribution costs

During the Current Year, selling and distribution costs surged by 15.3% to HK$503,749,000 (2011: HK$437,088,000), representing 8.0% (2011: 6.9%) of the Group's revenue. The increase in selling and distribution costs was mainly due to the increases in sales staff salaries and continuous global expansion of the sales and service networks of the Group.

Administrative expenses

During the Current Year, administrative expenses increased by 8.9% to HK$904,640,000 (2011: HK$830,714,000), representing 14.3% (2011: 13.1%) of the Group's revenue. The higher administrative expenses was mainly due to increases in administration staff salaries and office expenses as a result of the enlarged support teams for global operations.

Awarded shares expenses

On 12 April 2011, the Board resolved to award 26,000,000 awarded shares to 365 selected persons under the share award scheme adopted on 25 March 2011, by way of issue and allotment of new 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. These awarded shares will be held in trust for the selected persons by the trustee appointed by the Company until the end of each vesting period. For these awarded shares, there were four vesting dates, which are 12 July 2011, 12 April 2012, 12 April 2013 and 12 April 2014. Upon each vesting date, those awarded shares will be transferred at no cost to the selected persons.

The fair value of the 26,000,000 awarded shares was approximately HK$226 million, measured at the closing market price of HK$9.32 per share as of the date of the grant and amortized over each of the vesting periods up to 12 April 2014. During the Current Year, the awarded shares expenses amounted to approximately HK$54 million. For the full years of 2013 and 2014, the awarded shares expenses are estimated at approximately HK$23 million and HK$4 million respectively.

Finance costs

During the Current Year, finance costs increased by 45.0% to HK$42,635,000 (2011: HK$29,403,000), representing 0.7% (2011: 0.5%) of the Group's revenue. The rise in finance costs was mainly due to increases in the interest rate and bank borrowings as a consequence of the expanding business activities.

The management has always been prudent in managing the credit risk and improving the cash flow in order to lower the bank borrowing level. To cope with the growth of the business, the management has closely monitored the latest developments of the financing market and arranged the most appropriate financing for the Group. In June 2012, the Group signed a US$210 million (approximately HK$1.63 billion) three-year term loan facility (the "Facility") with five financial institutions including Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Svenska Handelsbanken AB (publ), Hong Kong Branch, Hang Seng Bank Limited and Standard Chartered Bank (Hong Kong) Limited. The Facility served to further optimize the Group's capital structure and fuel the continued business development.

In addition, the management also utilized the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize the finance costs. As of 31 December 2012, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a manageable level of 15.4% compared to 11.7% as of 31 December 2011.

Operating loss

During the Current Year, the operating loss was HK$105,495,000 (2011: operating profit of HK$805,919,000) which were attributable to a number of reasons including: 1) the decrease in the Group's overall gross profit margin due to the increase in the cost of sales caused by inflation, the unrealized sales scalability of new products and new businesses and the increasingly fierce competition; 2) continuous global expansion of the sales and service networks of the Group resulted in the surge in operating costs; and 3) inventories write-off resulted in the decrease in the overall gross profit margin of the Group.

Tax

During the Current Year, the overall taxation charge of HK$67,515,000 (2011: HK$121,772,000) was composed of profits tax charge of HK$62,861,000 (2011: HK$120,960,000) and deferred tax charge of HK$4,654,000 (2011: deferred tax charge of HK$812,000). The decrease in overall taxation charge was mainly due to the net loss recorded during the Current Year.

Net loss

During the Current Year, loss attributable to shareholders ("Net Loss") was HK$202,364,000 (2011: net profit of HK$659,084,000). The record of Net Loss was mainly due to: 1) the decrease in the Group's overall gross profit margin and 2) the increase in the operating expenses during the Current Year.

Cost saving program

With an emphasis on profitability and liquidity, the Group has exercised a stringent control over cost and enhanced its operational efficiency proactively. The management of the Group has introduced different cost control measures by phases since the second half of the Current Year: 1) The management team has voluntarily taken the lead to reduce part of their remunerations, while the senior and middle-level employees have also undergone a salary reduction; 2) the Group's operations management team has taken adjustments and optimization procedures with regard to the staff hierarchy from the headquarter-level and each of the branch offices, established a simplified organizational structure and strictly controlled the scope of management; 3) the integration of job functions and streamlining of workflow have been carried out concurrently whilst the sharing of resources have been introduced, all of which are expected to enhance the synergistic effects among the business units, functional units and branch offices of the Group.

With the collaborative efforts of all employees of the Group, the cost control measures, after being implemented for several months, have shown their effectiveness gradually. Total number of staff members of the Group decreased from 11,200 in the interim period this year to 9,900 by the end of the Current Year. In addition, the ratios of the selling and distribution costs and administrative expenses to revenue recorded noticeable decreases in the second half of the Current Year. However, as the cost control measures have been launched for only a few months, the effects are expected to be fully revealed in 2013. As a result, the Group will maintain its vigilance and persistence, enhance the management and evaluate the progress and effectiveness of the measures, with a view to achieving various targeted performance indicators as soon as possible.

PROSPECTS

Economic environment

2012 was a year of pronounced economic uncertainty for many countries around the world resulting in a halt on the CAPEX plans by some mobile operators. The market believes that the headwinds may persist, and some structural issues of the global economy are expected to take a longer time to overcome. Nevertheless, the economic outlook of both China and the overseas markets is expected to be cautiously optimistic in 2013 resulting from a combination of a gradual recovery in the US economy and the easing of the European sovereign debt crises which in turn served as a backdrop for the recent turnaround in market sentiment. Moving into 2013, we see the global economy is on the mend, and there are some signs of improvements in both consumers' and enterprises' confidence. This confidence could play a significant role in driving economic growth during 2013.

Despite the slowdown for most of 2012, the PRC still managed to achieve a GDP growth of 7.8% to RMB51.93 trillion. In 2013, the environment for investment growth may benefit from favorable policies for private investments and strategies to bridge regional development gaps underpinned by growing disposable income per capita and accelerating urbanization. It is expected that the growth momentum in 2013 can be sustained.

Industry landscape

Following the gloomy economic sentiment in 2012, the telecom market is expected to revive in view of the solid demand from mobile phone users. According to the market's estimation, the aggregate global mobile subscription has increased by 6.7% year-on-year to approximately 6.4 billion by the end of 2012, of which total smartphone subscriptions accounted for 17%, representing a year-on-year growth of 35.8%. Notably, total monthly mobile data traffic surged dramatically 1.83 times to 1,100 petabytes as compared to 2011.

Likewise, the PRC is expected to build on its positive momentum in 2012. The total number of mobile subscribers in China has reached more than 1.1 billion and 3G subscribers have skyrocketed 183% to more than 232 million by the end of 2012. More importantly, there was a phenomenal uptake in data services which will drive the demand for wireless enhancement. Mobile internet has become an integral part of our everyday life, and mobile internet users surged 9.9% to 564 million during 2012. Given the improving economic environment, mobile operators' CAPEX outlay is expected to look brighter. As such, we are generally optimistic about the telecom industry environment.

Opportunities ahead

Data traffic and heterogeneous networks management are undeniably the major areas that every mobile operator has to put more efforts and investments in the future. Mobile operators must scale up their networks in terms of capacity, efficiency and intelligence to support the exponential growth of data traffic and realize equitable and balanced resource allocation, while maximizing their network value and enhancing network quality for subscriber retention and growth.

Furthermore, Long Term Evolution ("LTE") is the next generation of mobile communications technology which enables the fast transfer of huge amount of data in an efficient and cost-effective manner. By the end of 2012, more than 140 mobile operators have launched LTE commercial services around the world. It is expected that LTE will continue to gain worldwide traction driven by the surge in network traffic and subscriber uptake. Moreover, industry verticals will add further fire to the exponential growth, such as mobile banking, online entertainment, etc. The mobile operators, in particular those within the PRC, have also shown greater assertiveness in accelerating network upgrades, and their investment in high-tech and world-class telecommunications infrastructure have shown no sign of abating. Network upgrades include not only LTE deployment, but also maximization of existing networks' capacity and efficiency where wireless enhancement could represent one of the best solutions. This will open countless opportunities to most wireless equipment suppliers. As a market leader in wireless solutions, the Group is LTE-ready and is well-poised to seize the opportunities via our strategic and innovative products and solutions including

IB-WAS, Multi-Service Distributed Access System ("MDAS"), data capacity solutions, multi-operator and multi-band solutions etc., coupled with our uncompromising services to cater the needs of the customers.

In addition, mobile operators are facing issues about spectrum allocation and the cost involved in the network build-out in view of LTE rollouts. They are looking to leverage and re-use existing spectrum and also infrastructure as much as possible in order to optimize their return on investment which will eventually drive the demand for the Group's cost-effective spectrum refarming of both 3G and 4G and new equipment for heterogeneous networks.

Over the years, the Group has continuously devoted efforts to expanding its market presence overseas. It is encouraging that the Group successfully penetrated several new markets, and we see growing opportunities in certain overseas markets. For instance, global sporting events including Football World Cup, Summer Games, Winter Games and transportation network project around the world will drive the demand for wireless enhancement solutions. While maintaining its long-held leadership in the PRC, the Group will continue to deepen the business relationship with the existing overseas customers and to prudently extend its reach in potential high growth markets.

Wireless Access

IB-WAS

IB-WAS is one of the small cell solutions. The small cell market is experiencing unprecedented growth. Nowadays, a number of leading mobile operators are offering small cell services, and the interest of mobile operators in small cell continues to grow. By the end of 2012, the number of small cells put into commercial use worldwide has surpassed 6 million. In the era of data booming, data traffic management is crucial to every mobile operator. Small cells can be deployed in hotspot locations to carry data traffic effectively while facilitating network optimization and in-depth network coverage. This delivers a better end-user experience within the challenging economic environment faced by the mobile operators. High cost and limited availability of licensed spectrum make spatial reuse via small cell base stations an effective approach to achieve the additional capacity required.

Comparatively speaking, the small cell market is in its infancy within the PRC, and its enormous potential is yet to be realized. The Group has insightfully ridden on the mobile technology trend and successfully developed IB-WAS two years ago. This technological advance has fundamentally boosted the value proposition of the Group, and tremendous progress was made during 2012. Last August, the Group signed a memorandum of understanding with China Mobile Research Institute for a joint research project in nanocell technology. To date, certain mobile networks within various provinces in China have deployed the Group's IB-WAS for commercial use, while a number of other provinces and municipalities have also commenced trial runs. Additionally, the strong R&D and unmatched service capabilities will help drive the IB-WAS success moving forward. The Group will proactively accelerate the proliferation of the small cell product portfolio and drive the commercialization in the PRC to achieve greater economies of scale in 2013 and is confident that IB-WAS will be the next growth engine of the Group in the near future.

WLAN (WiFi)

In addition to IB-WAS, WiFi is another strategic product line which the Group expects to undergo positive growth in the near future. Worldwide WiFi hotspots are set to rise from 1.3 million in 2011 to 5.8 million by 2015, according to the market predictions. In fact, many mobile operators consider WiFi as an essential component for mobile connectivity and also a strategic tool for efficient data traffic management across the network while diversifying their revenue base. Equipped with a complete WiFi product portfolio including access point, access controller, wireless bridge, PoE switch, etc., the Group can provide cost-effective end-to-end WiFi solutions that fulfill the requirements of various application scenarios.

Furthermore, the Group always emphasizes that small cell and WiFi are complementary to rather than competitive with each other. Both technologies are essential for supporting the exponential growth of data traffic. The Group's IB-WAS can also support WiFi, enabling mobile operators to deploy high-capacity access points to provide both WiFi and cellular connections for various indoor scenarios, leveraging broadband backhaul. Thus, mobile operators can then deliver a better experience for all users across all devices riding on IB-WAS which converges the two technologies.

Wireless Enhancement

Experiencing an unanticipated setback due to the postponement of certain investment activities and inspection processes by the PRC mobile operators last year, the Group expects wireless enhancement will gradually recover in light of the continuous growth in mobile subscribers, data usage and urbanization. Wireless enhancement is an efficient and cost-effective tool enabling mobile operators to provide extensive coverage. This enables the mobile operators to deliver a better user experience which is their foremost mission under the pressure by the explosion of data traffic created by the popularity of smart devices. As a pioneer in the wireless enhancement market, the Group is dedicated to developing more new innovative products to cater to the evolving needs of customers. Since last year, the Group launched MDAS solutions which have been well-received by the market. With the advantage of high flexibility of deployment, the MDAS solution enables multi-mode, multi-system, high-speed data transmission and in-depth coverage in a cost-effective manner. North America, South America and Asia have taken the lead in applying such products into practical use. The Group intends to further push ahead with the launch of new series of MDAS products and solutions and expects to greatly increase sales scalability this year.

Globally, wireless enhancement is expected to achieve uninterrupted growth owing to the burgeoning demand for in-building systems ("IBS"), in particular active distributed antenna system solutions, in certain overseas markets. During 2012, the Group successfully secured wireless enhancement projects for Bangkok Metro Railway, Santiago Metro System in Chile, the venue hosting the CommunicAsia 2012 Exhibition and Conference in Singapore, SMART Tunnel in Malaysia, etc. Recently, the Group has also announced it is to supply wireless solutions for the 2014 Sochi Winter Games venues. All of these projects have not only signified the growing importance of IBS for network optimization, but also demonstrated the capability of the Group in handling some prestigious projects. Looking ahead in 2013, the Group will be more proactive in delivering more top notch IBS solutions and enhancing the long-term value already provided to our global customers.

Antennas and Subsystems

Despite intense competition, the Group continued to maintain its position as one of the top three suppliers of base station antennas worldwide as well as the leader in the PRC market and again achieved stable growth in the Current Year. The achievement was a testament to the high standard and reliability of the Group's products. Moving into 2013, the Group is confident that it can maintain its long-held leading position across the globe and aims to drive more sales via promoting the newly-launched antenna product series including multi-band antennas, co-siting solutions and miniaturized antennas, etc. With the increasing sophistication of mobile networks, these products and solutions are gaining traction in a number of overseas markets as they can help deliver greater performance efficiency to mobile networks.

In addition, the continued deployment of 4G networks around the globe, in particular within emerging markets and the forthcoming commercialization of LTE in the PRC in the foreseeable future is expected to bring enormous opportunities to the Group. Currently, the Group is supplying its 4G antennas and subsystems to many global mobile operators for their network build-outs. With the growing demand for 4G products, the Group expects to achieve greater economies of scale to enhance operating effectiveness.

Wireless Transmission

Digital Microwave Systems

The drive for anytime, anywhere online life style has demanded a network with ubiquitous coverage and high capacity solution. This requires a high density of wireless equipment to be deployed in major areas in order to fulfill the high capacity need in addition to deployment of solutions in metropolitan and rural areas in order to provide the ubiquitous coverage requirement. These deployments all require high speed IP backhaul and are triggering a growing demand of wireless transmission and satellite communication solutions. The Group has devoted itself in the global original design manufacturing ("ODM") market for years and has acquired a pivotal position in the global market of outdoor units ("ODU") products leveraging on its extensive technical experience and innovation in the radio frequency/microwave area. The Group is specialized in providing the customers with professional, good value for money and customized products covering all microwave bands. The Group has recently launched the latest generation of wireless transmission product portfolio including the NIX and the Full Outdoor System series of products. These products are tailored design to address the LTE and high capacity network requirement in the metropolitan areas and can support high capacity backhaul with multiple services to address the growing demand. They are also designed to be readily upgradable to meet the growing capacity need on LTE deployment in the future.

The wireless backhaul solutions of the Group are deployed by its diversified customers in various countries and verticals in both the fixed wireless and the wireless backhaul market segments. The new generation of solutions are going to allow the Group to offer its customers added value proposition and increase its market penetration.

In addition to the total solutions wireless backhaul market, the Group has also been actively promoting the ODU and subsystems products to the ODM market. The experience and continuous investment in R&D have allowed the Group to become one of the major players in this ODM market and the recently launched Trunking Radio solution allow the Group to offer a complete end-to-end long haul and short haul product portfolio for its customers.

Satellite emergency communication

With the drive of ubiquitous coverage and network offering in all areas, satellite communications is also becoming more important. This is compounded with the growing demand of satellite solutions for emergency communications and disaster relief. In recent years, the PRC's Central Government has placed an emphasis on development emergency communications in view of more natural disasters and large scale events.

As an expansion of its ODM business of microwave products, the Group has expanded into the satellite communications solutions. Leveraging on the economies of scale in microwave technology and products, the Group will be able to redefine the value of block up converter (BUC) products and deliver a brand new experience to its customers in the global satellite communications market and contribute to the Group's business revenue at the same time. Moreover, the Group is now offering various offerings including automatic tracking portable station and mobile satellite communications vehicle in addition to other satellite communications products to address the growing demand. These solutions are well aligned with the expanded product portfolio of the Group and allow the Group to offer complete end-to-end wireless solutions to the customers.

Services

Along with the complexity of network technologies, virtually all mobile operators nowadays attach more importance than ever before to quality service support with the aim to deliver a better user experience. As such, the Group continues to see a growing demand for all-round services in the wireless industry and expects an increasing contribution from the services segment in the future.

Specializing in the insights of value trends, value-based innovations and designs and value-added solutions, the Group's service team, comprising highly-skilled professionals, qualified engineers and industry experts with technical know-how, is dedicated to providing best in-class services and customized solutions for customers. Aiming at maximizing network potential, the services offered by the Group encompass network planning and design, network optimization, network upgrade, project deployment, system installation and after-sales maintenance, and more. This wide range of services enables mobile operators to deliver a better end-user experience while reducing costs.

Over the years, the Group has been investing in its global capabilities in delivering value-added services to customers worldwide. Currently, the Group has a service team of more than 5,000 professionals spanning across the PRC, several emerging markets and Southeast Asian countries. Leveraging a complete product portfolio and extensive experience, the Group's service team remains steadfast in its pursuit of excellence and commitment to exceed customers' expectations.

Conclusion

The behavior and demand of mobile phone users are undergoing accelerating changes, and the Group strongly believes that its long-term strategy, which is focused on value creation for customers, is the right one to cope with the stream of both challenges and opportunities.

During 2012, the Group continued its focus on product transformation to lay the groundwork needed to position itself for the next stage of growth and profitability. To address the dynamic and challenging market, the Group affirmed its commitment to R&D with a planned investment in small cells and other strategic products in order to drive innovation and sustainable differentiation. The Group is able to surpass many of its competitors by delivering unique value to customers, for which we have achieved exceptional customer satisfaction levels.

The Group is well-poised to address opportunities through the depth and breadth of its market-leading portfolio. From the financials standpoint, the Group will continue to strengthen its structure, streamline its processes, adopt stringent cost control measures and strive to maximize its operational efficiency. The Group maintains a clear vision of its long-term goal and has the utmost confidence in its leadership team and strategic roadmap to fuel its success over the long run.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cashflow generated internally and bank borrowings. As at 31 December 2012, the Group had net current assets of HK$2,688,805,000. Current assets comprised inventories of HK$2,243,009,000, trade receivables of HK$4,452,866,000, notes receivable of HK$63,194,000, prepayments, deposits and other receivables of HK$580,957,000, restricted bank deposits of HK$24,367,000, and cash and cash equivalents of HK$1,536,638,000. Current liabilities comprised trade and bills payables of HK$3,281,193,000, other payables and accruals of HK$1,206,888,000, interest-bearing bank borrowings of HK$1,558,656,000, tax payable of HK$87,174,000 and provisions for product warranties of HK$78,315,000.

The average receivable turnover for the Current Year was 259 days compared to 209 days for the Prior Year. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and is extendable up to two years depending on the customer's credit worthiness, except for those retention money generally receivable after final certification of products by customers, which would be performed six to twelve months after sale, or upon completion of the one to two years warranty periods granted to customers. The average payable turnover for the Current Year was 242 days compared to 233 days for the Prior Year. The average inventory turnover for the Current Year was 180 days compared to 188 days for the Prior Year.

As at 31 December 2012, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$") while the Group's bank borrowings were mainly denominated in US$. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into two three-year term loan facility agreements respectively, one of which amounted to US$130,000,000 on 5 July 2010 and another of which amounted to US$210,000,000 on 26 June 2012 (collectively known as the "Facility Agreements"), with certain financial institutions.

Under the Facility Agreements, there are specific performance obligations that Mr. Fok Tung Ling who is the controlling shareholder of the Company and Mr. Zhang Yue Jun who is the substantial shareholder of the Company, shall maintain beneficial ownership in aggregate, directly or indirectly, of at least 35% of the entire issued shares (of each class) of and equity interests in the Company free from any security. Pursuant to the facility agreement dated 26 June 2012, both Mr. Fok Tung Ling and Mr. Zhang Yue Jun shall also maintain the ability in leading the management in determining the directions of overall strategies and business development for the Group. At the date of approval of the audited consolidated financial statements, such obligations have been complied with.

Details of the Facility Agreements are set out in note 12 to the financial statements.

The interest rate swap contract, designated as hedges in respect of expected interest payments for the above-mentioned US$ floating rate loan under the facility agreement dated 5 July 2010, have been expired on 3 July 2012.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. As the Group's revenue is substantially denominated in RMB, the Board of the Company currently considers that the appreciation of RMB should have a mildly favorable impact on the Group's business.

The Group's gross gearing ratio, calculated as total interest-bearing debts (including bank borrowings and advances) over total assets, was 15.4% as at 31 December 2012 (31 December 2011: 11.7%).

MATERIAL ACQUISITIONS AND DISPOSALS

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

CHARGE ON ASSETS

As at 31 December 2012, there was no charge on the Group's assets (31 December 2011: Nil).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had contingent liabilities of HK$39,072,000 (31 December 2011: HK$93,776,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had approximately 9,900 staff. The total staff costs for the Current Year were HK$1,337,663,000. The Group offers competitive remuneration schemes to its employees based on industry practices, legal requirements, as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible staff based on the performance of such employees as well as the Group. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the PRC or elsewhere in accordance with relevant legal requirements. The Group also provides training to the staff to improve their skills and develop their respective expertise.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 22 May 2012, the Board of the Company resolved to budget a sum of up to HK$35,000,000 (the "Budgeted Sum") for the purchase of shares of the Company from the market under the share award scheme which adopted on 25 March 2011 (the "Scheme"). The trustee and/or the administrator of the Scheme applied approximately HK$5,021,000 out of the Budgeted Sum to purchase an aggregate of 1,402,000 shares at the prevailing market price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the period from 22 May 2012 to 7 June 2012 in accordance with the terms of the Scheme. Save as disclosed herein, neither the Company, nor any of its subsidiaries purchased, redeemed or sold on the Stock Exchange or otherwise any of the Company's listed securities during the Current Year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

During the Current Year, the Board of the Company reviewed daily governance of the Group in accordance with the code provisions (the "Code Provisions") as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, from 1 January 2012 to the date of this announcement, the Company regulated its operation and carried out appropriate governance in accordance with the Code Provisions. The Company has fully complied with the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities transactions of the Company by its Directors. Specific enquiries have been made to all Directors, and they have confirmed their compliance with the required standard as set out in the Model Code from 1 January 2012 to the date of this announcement.

AUDIT COMMITTEE

The Company has established the audit committee in accordance with the Listing Rules. The audit committee, together with the management, has reviewed the accounting principles, standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the annual results for the Current Year. The audit committee has given its consent to the accounting principles, standards and methods adopted by the Company for the audited consolidated financial statements for the Current Year.

PUBLICATION OF ANNUAL REPORT

A copy of annual report containing all information required by relevant paragraphs of Appendix 16 to the Listing Rules will be despatched to shareholders and published on the official website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company's website (http://www.comba-telecom.com) in due course.

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

Hong Kong, 22 March 2013

As at the date of this announcement, the Board comprises the following executive Directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, Mr. TONG Chak Wai, Wilson, Mr. WU Jiang Cheng, Mr. YAN Ji Ci, Mr. ZHENG Guo Bao, Mr. YEUNG Pui Sang, Simon and Mr. ZHANG Yuan Jian; and the following independent non-executive Directors: Mr. LIU Cai, Mr. LAU Siu Ki, Kevin, Mr. LIN Jin Tong and Mr. QIAN Ting Shuo.