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 2018

FINANCIAL HIGHLIGHTS

- Revenue increase by 1.8% to HK$5.66 billion
- Gross profit: HK$1.46 billion
- Gross profit margin: 25.8%
- Loss attributable to shareholders: HK$0.17 billion
- Net cash flows from operating activities: HK$0.83 billion

RESULTS

The board (the "Board") of directors (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 2018, together with the comparative figures for the same period in 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
REVENUE	*3*	**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	*3*	**170,091**	123,027
Research and development costs	*4*	**(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	*5*	**(73,657)**	(47,861)
Share of losses of:			
A joint venture		**–**	(935)
An associate		**–**	(1,481)
(LOSS)/PROFIT BEFORE TAX	*4*	**(150,934)**	50,818
Income tax expense	*6*	**(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	*8*		
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		**1,128,259**	1,106,877
Prepaid land lease payments		**117,889**	126,935
Goodwill		**253,077**	253,077
Deferred tax assets		**102,013**	123,538
Intangible assets		**856,050**	848,418
Available-for-sale investments		**–**	19,247
Equity investments designated at fair value through profit or loss		**33,540**	–
Restricted bank deposits		**77,596**	99,221
Prepayments		**8,888**	–
Total non-current assets		**2,577,312**	2,577,313
CURRENT ASSETS			
Inventories	*9*	**1,306,831**	1,360,255
Trade receivables	*10*	**4,164,595**	4,522,757
Notes receivable		**118,950**	85,447
Prepayments, other receivables and other assets		**984,853**	886,365
Tax recoverable		**48,330**	48,693
Restricted bank deposits		**207,911**	234,769
Cash and cash equivalents		**1,893,859**	1,176,129
Total current assets		**8,725,329**	8,314,415
CURRENT LIABILITIES			
Trade and bills payables	*11*	**4,313,799**	3,682,536
Other payables and accruals		**960,834**	1,063,016
Interest-bearing bank borrowings	*12*	**1,624,499**	1,088,489
Provisions for product warranties		**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
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*12*	**375,557**	493,891
Deferred tax liabilities		**158,507**	162,468
Total non-current liabilities		**534,064**	656,359
Net assets		**3,805,614**	4,331,490

	2018 *HK$'000*	2017 *HK$'000*
Net assets	**3,805,614**	4,331,490
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**241,948**	246,958
Treasury shares	**(22,818)**	(22,818)
Reserves	**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

NOTES

31 December 2018

1.1 CORPORATE AND GROUP INFORMATION

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

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

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

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 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.

1.3 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.

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	
	Notes	Category	Amount	Reclassification	ECL	Other	Amount	Category
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
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	

	HKAS 39 measurement					HKFRS 9 measurement	
	Category	Amount	Reclassification	ECL	Other	Amount	Category
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
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	

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.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowances under HKFRS 9 at 1 January 2018
	HK$'000	*HK$'000*	*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)

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. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

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.

(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.

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.

1.4 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

2. 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**	**Telecommunication services**	**Total**
	HK$'000	***HK$'000***	***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

Year ended 31 December 2017	Wireless telecommunications network system equipment	Telecommunication services	Total
	HK$'000	*HK$'000*	*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	2017
	HK$'000	*HK$'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.

(b) ***Non-current assets***

	2018	2017
	HK$'000	*HK$'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.

3. 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	2017
	HK$'000	*HK$'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

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	2017
	HK$'000	*HK$'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.

4. (LOSS)/PROFIT BEFORE TAX

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

	Note	2018 HK$'000	2017 HK$'000
Cost of inventories sold and services provided		**4,018,740**	3,869,082
Depreciation		**167,688**	108,293
Recognition of prepaid land lease payments		**2,803**	2,948
Amortization of computer software and technology and operating licence		**28,204**	13,800
Research and development costs:			
Deferred expenditure amortized*		**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
Auditor's remuneration		**3,899**	3,646
Employee benefit expense (including directors' remuneration)^:			
Salaries and wages		**985,681**	888,658
Staff welfare expenses		**75,273**	71,627
Equity-settled share option expense		**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	*10*	**22,206**	26,053
Provision for product warranties		**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.

5. FINANCE COSTS

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

6. 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.

7. DIVIDENDS

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

8. (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	2017
	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	**(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

9. INVENTORIES

	2018	2017
	HK$'000	*HK$'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

10. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'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 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 credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize the credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	2018	2017
	HK$'000	*HK$'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	2017
	HK$'000	*HK$'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

11. 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	2017
	HK$'000	*HK$'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.

12. INTEREST-BEARING BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'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.

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.

13. 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.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") of the Company will be held at 11:00 a.m. on 28 May 2019 at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

For the purpose of determining shareholders' entitlements to attend and vote at the AGM, the register of members of the Company will be closed from 23 May 2019 to 28 May 2019 (both days inclusive), during which period no transfer of shares will be registered. The record date for determination of entitlements of the shareholders to attend and vote at the AGM will be on 28 May 2019. Shareholders whose names appear on the register of members of the Company on 28 May 2019 will be entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 22 May 2019. The Notice of AGM will be published on the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the website of the Company (http://www.comba-telecom.com) in due course.

BUSINESS AND FINANCIAL REVIEW

Revenue

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.

During the Current Year, revenue from other customers, mainly including China Tower Corporation Limited ("China Tower") and Rail Transit Communications 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 Communications 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 Communications wireless solutions, the management has full confidence in the revenue contribution by China Tower and Rail Transit Communications 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.

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 6 above.

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 increase in one-off operating restructuring and human resource optimization costs during the Current Year and 3) the increase in ETL related expenses and investment.

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" or "Directors") 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.

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 value for money 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 Communications Business

After years of exploration, the Group is currently committed to providing communications 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 communications projects in Chengdu, Nanning, Xiamen, Hangzhou and Wuhu, which further laid a solid foundation for the continuous development of the Group's rail transit communications 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.

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 12 above.

The Group's revenue and expenses, assets and liabilities are mainly denominated in RMB, HK$ and US$. In view of the anticipation of a period of volatility in RMB, the Group will closely monitor the fluctuations of the RMB exchange 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 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.

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 of Hong Kong Limited (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**	**Lowest**	**Aggregate amount paid (before expenses)**
		HK$	*HK$*	*HK$*
May 2018	50,752,000	1.53	1.14	71,410,000

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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board reviewed the daily governance of the Company from time to time in accordance with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considered that, during the Current Year, the Company has complied with all the Code Provisions.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), together with the management and the external auditors, have reviewed the accounting principles, standards and practices adopted by the Company, and discussed matters relating to auditing, risk management and internal control and financial reporting, including the review of the annual results for the Current Year. The Audit Committee has given its consent to the accounting principles, standards and practices adopted by the Company for the audited consolidated financial statements for the Current Year and has not given any disagreement.

PUBLICATION OF ANNUAL REPORT

2018 Annual Report containing all information required by the Listing Rules will be despatched to shareholders of the Company and published on the website of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the website of the Company (http://www.comba-telecom.com) in due course.

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

Hong Kong, 21 March 2019

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