Comba

京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited

股份編號 Stock Code : 2342

2012

Annual Report
年報

Company Profile 公司概況

Established in 1997 and listed on the Main Board of the Hong Kong Stock Exchange in 2003, Comba Telecom Systems Holdings Limited (the "Company") is a leading supplier of mobile communications equipment with R&D facilities, manufacturing base and sales and service teams. Leading through innovative technology, the Company offers a comprehensive suite of products including wireless access, wireless enhancement, antennas and subsystems and wireless transmission, etc. The Company also provides complete turnkey solutions and services to its global customers.

The Company has established its R&D headquarters based in Guangzhou Science City, three research institutions in Nanjing in China, Washington City and California in the USA respectively with more than 1,300 Chinese and international patents applied. Our global manufacturing base, located in Guangzhou, covers an area of over 56,000 square meters.

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

Since December 2003, the Company has been a constituent of the MSCI China Small Cap Index. In September 2009, the Company was named "Asia's 200 Best Under A Billion" by Forbes. In March 2010, the Company was included into the Hang Seng Composite Index Series (under the Information Technology category) and Hang Seng Composite Small Cap Index.

京信通信系統控股有限公司（「本公司」）成立於1997年，於2003年在香港聯交所主板上市，是一家全球領先並集研發、生產、銷售及服務於一體的移動通信設備供應商。憑藉創新科技，本公司提供無線接入、無線優化、天線及子系統、無線傳輸等多元化產品，同時為全球客戶提供整體解決方案及服務。

本公司在中國廣州科學城設有總部研發基地，並在中國南京、美國華盛頓市及加利福尼亞州分別設有研究所，已申請國內外專利1,300餘項。在中國廣州經濟技術開發區，本公司建有全球生產基地，擁有超過56,000平方米的通信設備製造廠房。

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

本公司自2003年12月起獲納入MSCI中國小型股指數，於2009年9月獲《福布斯》選為「亞太區中小企200強」，並於2010年3月納入恒生綜合指數系列（信息技術分類方面）及恒生綜合小型股指數。

Contents

Corporate Information

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY SECRETARY

Tong Chak Wai, Wilson

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Lau Siu Ki, Kevin (Chairman)
Liu Cai
Lin Jin Tong
Qian Ting Shuo

NOMINATION COMMITTEE

Liu Cai (Chairman)
Lau Siu Ki, Kevin
Lin Jin Tong
Qian Ting Shuo

AUTHORIZED REPRESENTATIVES

Fok Tung Ling
Tong Chak Wai, Wilson

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Level 9, HSBC Main Building
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
Unit 701–706, The Gateway
Tower 3 (Prudential Tower)
21 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

Svenska Handelsbanken AB (publ) Hong Kong Branch
2008 Hutchison House
10 Harcourt Road
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
13th Floor Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

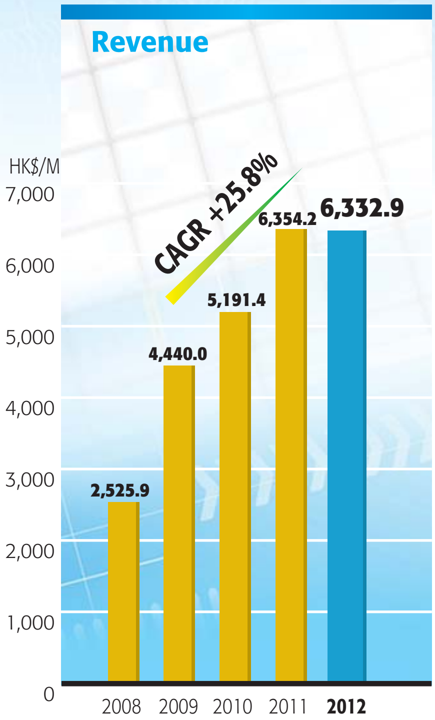
Hang Seng Bank Limited
20/F 83 Des Voeux Road Central
Hong Kong

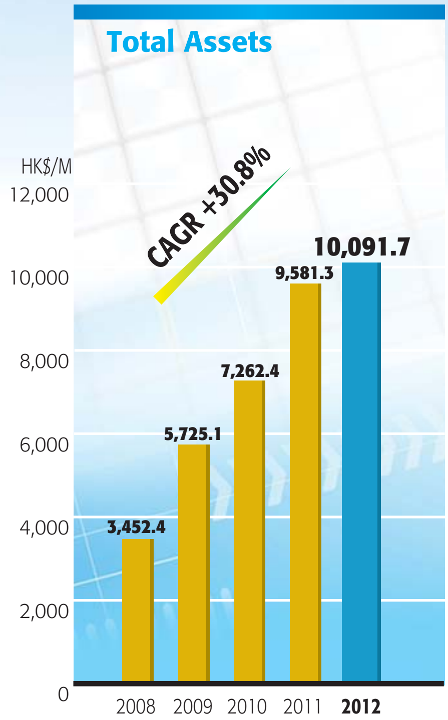
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road, GETD District
Guangzhou, PRC

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

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

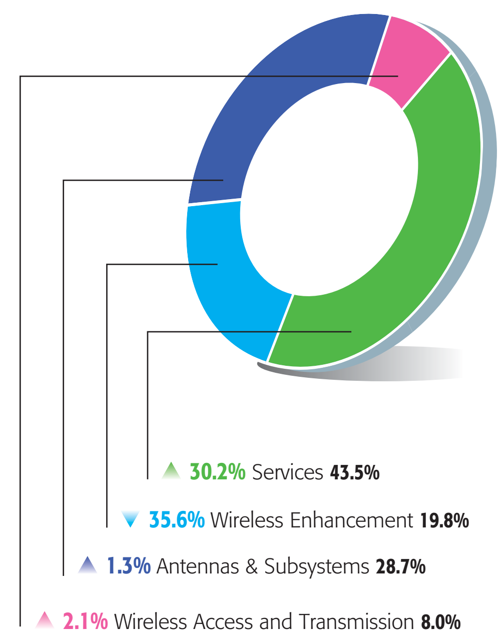
Financial Summary





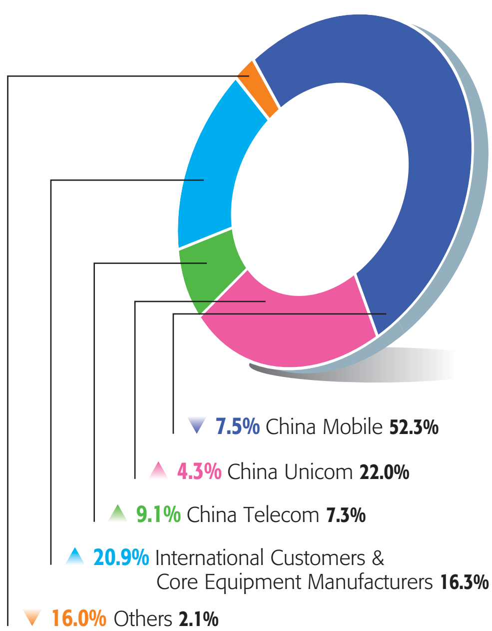
Revenue Breakdown by Businesses

▲ / ▼ = YoY change



Revenue Breakdown by Customers

▲ / ▼ = YoY change



Financial Summary

FINANCIAL SUMMARY

For the year ended 31 December	2012 HK$'000	2011 HK$'000	Change
Revenue	**6,332,867**	6,354,218	(0.3%)
Operating (loss)/profit	**(105,495)**	805,919	(113.1%)
(Loss)/profit attributable to shareholders	**(202,364)**	659,084	(130.7%)
Basic (loss)/earnings per share (HK cents)	**(13.43)**	43.99	(130.5%)
Weighted average number of shares (million shares)	**1,506.9**	1,498.3	+0.6%
Operating cash flow	**201,320**	(278,670)	+172.2%

KEY FINANCIAL FIGURES

As at 31 December	2012 HK$'000	2011 HK$'000	Change
Total assets	**10,091,711**	9,581,332	+5.33%
Net assets (before non-controlling interest)	**3,805,622**	4,014,064	(5.2%)
Net assets value per share (HK dollars)	**2.49**	2.63	(5.3%)
Cash and bank balances	**1,568,655**	1,201,258	+30.6%
Inventory turnover days	**180**	188	(8) days
A/R turnover days	**259**	209	+50 days
A/P turnover days	**242**	233	+9 days
Return on average equity	**(5.2%)**	18.2%	(23.4)pp
Gross gearing ratio	**15.4%**	11.7%	+3.7pp

Corporate Milestone 2012

Typical Projects

Hong Kong – Shenzhen Multi-system network coverage solution for "MTR Express Rail Link" — Hong Kong's high speed rail

Malaysia Wireless coverage solution for SMART Tunnel

Russia Wireless coverage solution for 2014 Winter Games Stadiums in Sochi

Brazil 2G/3G/4G and Wifi coverage solutions for 2014 World Cup Brazil stadiums

Thailand Wireless coverage solution for Bangkok Metro Railway

Guangdong Wireless coverage solution for Line 6 of Guangzhou Metro

Corporate Milestone 2012

Continual Innovation

Launch of a newly self-developed small cell (IB-WAS) coverage system

Nationwide deployment of MDAS products

Signed MOU with China Mobile Research Institute for joint development of Nanocell

Technology breakthrough in WCDMA compact BTS antenna

Became the 3rd largest MCPA supplier for major North American operators

LTE antennas launched in Latin America market

Corporate Awards

Guangzhou Patent Award
(Patent Invention Contribution Award)

Guangzhou Patent Award
(Patent Implementing Efficiency Award)

Named an A-Class Taxpayer in Guangzhou

Chairman's Statement

Mr. Fok Tung Ling
Chairman

On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I hereby present to the shareholders the annual report of the Company and its subsidiaries ("Comba Telecom" or the "Group") for the year ended 31 December 2012 (the "Current Year").

The development of Comba Telecom during the last year has not been without difficulties. In addition to the challenges brought by the competition from its peers, Comba Telecom has had to endure the impact of the global economic downturn, which has caused some worldwide mobile operators to slow down the capital expenditure, posting an unprecedented challenge to the sector. In the face of adversity, the Group, rather than standing still, has become even stronger by quickening the pace of research and development ("R&D") of innovative products in order to create new growth drivers. On the other hand, the Group proactively enhanced the revenue contribution from the international markets by capitalizing on the opportunities arising from the emerging markets where the demand is growing.

Chairman's Statement

To date, the presence of the Group has spanned across many countries and regions of the globe, including China, the North America and South America, Europe, the Middle East, Russia, India and Southeast Asia such as Singapore, Thailand, Indonesia, Taiwan and etc. Moreover, the Group has further diversified its product portfolio to cover wireless enhancement, antennas and subsystems, wireless access (including Small Cell and WiFi) and wireless transmission (including microwave and satellite communications products), etc.

With all of our staff working together in concert, the Group has striven its utmost in developing relationships with customers, boosting our R&D capabilities and bolstering our management skills. Our dedication and sharp focus have enabled us, regardless of the tough environment, to maintain the revenue of the Group at HK$6,332,867,000. Among the revenue streams, the international customers and core equipment manufacturers segment has achieved satisfactory results with its revenue more than HK$1.0 billion, representing an increase of 20.9% year-on-year. In respect of profit, the Group has experienced an exceptionally tough time during the Current Year. Despite several initiatives tightening cost controls and boosting profitability as well as its strenuous efforts to overcome the adverse impact resulting from rising operating costs and staff salary and raw material prices, the lower-than-expected capital expenditure of domestic mobile operators, the declines in the revenue and gross profit margins of existing products and the unrealized sales scalability of new products have contributed to the Group's inability to resume profitability. As more time is needed for such measures to take full effect, the Group, during the Current Year, recorded a loss of HK$202,364,000 for the first time since its listing in 2003.

It is generally expected that the global economy will be recovering from recession in 2013. However, lingering uncertainties still loom large. Nevertheless, backed by a list of favorable factors such as domestic political policy support, economic development and industry transformation, the telecommunications industry in the PRC, which accounts for a higher revenue contribution to the Group, managed to perform well. In 2012, the core business revenue of the telecommunications industry in the PRC has outperformed GDP growth, increasing by 9.0% over last year to RMB1.0763 trillion. Currently, the PRC has built the largest mobile network in the world. As at the end of the previous year, the number of mobile subscribers in the PRC reached 1.11 billion, among which, the number of 3G mobile subscribers exceeded 230 million, a penetration rate of more than 20%. I am confident that the telecommunications industry in the PRC has a bright future. As for the international markets, while there are signs of improvement in the global macro-economic environment and the construction of 4G network commences gradually, the Group is deepening its existing market and prudently extending its presence in new markets. Recently, the Group won important projects in international markets such as Brazil and the U.S. The Group remains optimistic about the prospects of its future development. Still, we remain alert and closely monitor the ever-changing market so as to seize opportunities and respond in a timely manner.

"Embracing new challenges and ushering in a new era." Going forward, there are numerous opportunities available in the telecommunications industry. For instance, the upcoming commercialization of 4G mobile networks in China; the world is entering the digital era; mobile internet is widely used together with new breakthroughs and wide application of smartphones. All these will definitely push-up the demand for wireless access system and wireless enhancement equipment and services. Recently, the related PRC Government department proposes to open up part of the mobile communication services to private capital investment in a bid to promote the open up of the telecommunications industry and propel the industry development, etc. All these outline an abundance of opportunities. Through a decade of efforts, Comba Telecom has laid a solid foundation for future development. During the past two years, the Group has committed significant resources to scientific research projects associated with IB-WAS, MDAS and LTE, which have demonstrated considerable progress. Particularly, the IB-WAS product line has been expanding over the last year since its launch and its commercialization is also very promising. IB-WAS was put into commercial use in several provinces last year. It is believed that these strategic products will be able to deliver important contribution to the Group. At the same time, the Group endeavours to enhance its management and organization structure; attract and nurture a new team of modern technology experts, thus building a new core competitiveness for Comba Telecom and laying a solid foundation for its future development. Therefore, with the gradual improvement of the global economy in the coming year and the coming of new demand for our new businesses, we are confident to yield satisfactory results and bring fruitful returns to our shareholders.

Lastly, on behalf of the board of directors of the Company, I would like to express my heartfelt thanks to the shareholders for their unwavering support and trust over the long run. I believe that each of the directors will continue to pursue excellence for our shareholders. In addition, I would like to convey my sincere gratitude to the management team and all the staff for their commitment and their sustained efforts in contributing to the success of the Group. However, we understand that sustainability is the ultimate pursuit of an enterprise. Therefore, we resolve to spare no efforts to scale new heights and march towards the goal of becoming a world-class enterprise.

Fok Tung Ling
Chairman
Hong Kong
22 March 2013

Management Discussion and Analysis

Mr. Zhang Yue Jun
Vice Chairman and President

BUSINESS AND FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012 (the "Current Year"), Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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, obsolete 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 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 expenses

During the Current Year, selling and distribution expenses 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 expenses 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 of directors of the Company 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 are 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 period 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.

Management Discussion and Analysis

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 rates 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 borrowings 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) obsolete 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: HK$812,000). The decrease in overall taxation charge was mainly due to the net loss recorded during the Current Year.

Details of tax holiday and/or reduced tax rates enjoyed by major operating subsidiaries are set out in note 9 to the financial statements.

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 expenses 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 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 its 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 its 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 projects 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 cells an effective approach to achieve the additional capacity required.

Relatively 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 the 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 its 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 communications

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 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 cash flows 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.

Growing demand from services led to the average receivable turnover for the Current Year increase to 259 days as 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 customers' 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.

Management Discussion and Analysis

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 27 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, was 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 directors 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 employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. Mandatory provident fund or staff pension schemes are also provided to relevant staff in Hong Kong, the 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.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Fok Tung Ling (霍東齡), aged 56, chairman of the board of directors of Comba Telecom Systems Holdings Limited (the "Company"). Mr. Fok is primarily responsible for leading the board of directors of the Company in determining the directions of overall strategies and business development for the Company and its subsidiaries (collectively referred to as the "Group"). From 1982 to 1987, Mr. Fok worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from Beijing Institute of Posts and Telecommunications (currently known as Beijing University of Posts and Telecommunications (北京郵電大學)), majoring in microwave communications. Prior to 1991, Mr. Fok worked as a marketing executive in China Electronics Import-Export Corporation, South China Branch (中國電子進出口總公司華南分公司) which was engaged in the import and export of electronic products. From 1991 to 1997, Mr. Fok was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 31 years of experience in wireless communications. Mr. Fok is the sole director of Prime Choice Investments Limited, which is a controlling shareholder of the Company.

Mr. Fok Tung Ling

Directors and Senior Management

Mr. Zhang Yue Jun Mr. Tong Chak Wai, Wilson Mr. Wu Jiang Cheng

Mr. Zhang Yue Jun (張躍軍), aged 54, vice chairman and president. Mr. Zhang is responsible for the Group's overall operation, management, business development, research and development of new technologies and products and supply chain system. He graduated from South China Institute of Technology (currently known as South China University of Technology (華南理工大學)) in 1982 and obtained a bachelor's degree in wireless engineering. From 1982 to 1990, Mr. Zhang worked as a microwave telecommunications engineer in Nanjing and from 1990 to 1997 he was the deputy chief engineer of a joint venture company in Shenzhen and was mainly responsible for wireless telecommunications projects. Mr. Zhang has over 30 years of experience in wireless communications and he co-founded the Group in 1997. Mr. Zhang is the sole director of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

Mr. Tong Chak Wai, Wilson (唐澤偉), aged 41, executive director and group financial controller. Mr. Tong is also the authorized representative and company secretary of the Company. Mr. Tong is mainly responsible for the overall financial management, accounting, investor relations and company secretarial duties of the Group. Mr. Tong holds a master of business administration degree from University of San Francisco, a master's degree in economics from Murray State University, and a bachelor's degree in accounting from University of Southern California. Mr. Tong is a Fellow Certified Practising Accountant of CPA Australia, a member of The Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, an associate of the Institute of Chartered Secretaries and Administrators and an associate of The Hong Kong Institute of Chartered Secretaries. Mr. Tong has over 18 years of experience in finance and legal work in the listed and multinational companies. He joined the Group in 2008.

Mr. Wu Jiang Cheng (伍江成), aged 53, executive director and senior vice president, PRC marketing and sales. He is responsible for the formulation and implementation of the Group's overall sales and marketing strategies in the PRC and is also involved in the supervision of the implementation of such strategies. He graduated from the Southwest Jiaotong University (西南交通大學) in 1982 and obtained a bachelor's degree in electrical engineering and an EMBA degree from School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2006. Mr. Wu has been a lecturer of engineering department for over 10 years and in the last two years of which he taught at Guangzhou University (廣州大學). Mr. Wu also has over 20 years of experience in communications and marketing. He joined the Group in 1997.

Directors and Senior Management

Mr. Yan Ji Ci | Mr. Zheng Guo Bao | Mr. Yeung Pui Sang, Simon | Mr. Zhang Yuan Jian

Mr. Yan Ji Ci (嚴紀慈), aged 58, executive director and senior vice president, operations management and logistic system. Mr. Yan is responsible for the operational management optimization and the logistic system of the Group. Mr. Yan graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 37 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Zheng Guo Bao (鄭國寶), aged 47, executive director and the chief executive officer of WaveLab Holdings Limited, an indirect non wholly-owned subsidiary of the Company. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. Mr. Zheng graduated from the University of Science and Technology of China (中國科學技術大學) and obtained bachelor's and master's degrees in electrical engineering. From 2000 to 2002, Mr. Zheng served as chief engineer in Filtronic Sigtek, Inc., Maryland USA. Before joining the Group, he worked as an engineering manager in wireless communications division of L3 Communications (former EER Systems, Inc.), Virginia USA. He is a member of the Institute of Electrical and Electronics Engineers (IEEE). Mr. Zheng has over 26 years of experience in RF/microwave/millimeter-wave technology and wireless communications and specialized in the field of research and development. He joined the Group in 2003.

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 40, executive director and president of Comba Telecom Systems International Limited, an indirect wholly-owned subsidiary of the Company. Prior to joining the Group, Mr. Yeung was the vice president of strategy and business development and a founding employee of LGC Wireless, Inc. ("LGC") based in the Silicon Valley, USA which was successfully acquired by ADC Telecommunications, Inc. and subsequently acquired by Tyco Electronics Ltd. Mr. Yeung also held various positions at LGC including the general manager of a business unit, director of technical marketing, general manager of Asia Pacific Region and principal engineer. Mr. Yeung holds a master of science degree in engineering from University of California at Berkeley and a bachelor of science degree in electrical engineering from Purdue University, the USA. Mr. Yeung has over 17 years of experience in the telecom industry. He joined the Group in 2004.

Mr. Zhang Yuan Jian (張遠見), aged 55, executive director. He is also the senior vice president of the Group, the director of the Central Research Institute of the Group and the general manager of the wireless access product business division of the Group. He is in charge of the technical research of the Central Research Institute of the Group and responsible for the research and development and operational management of the product lines of wireless access products. He graduated from the University of Science and Technology of China (中國科學技術大學) and the Electronic Engineering Research Center of Nanjing (南京電子工程研究中心) (currently known as the Nanjing Institute of Electronic Technology (南京電子技術研究所)) and obtained a master's degree in microwave technology in 1984. He has over 29 years of experience in the technical research on wireless communications, product development and relevant management. He joined the Group in 2004.

Directors and Senior Management

Mr. Liu Cai　　　　Mr. Lau Siu Ki, Kevin

Independent Non-executive Directors

Mr. Liu Cai (劉彩), aged 72, independent non-executive director. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. He is the chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2001, Mr. Liu worked with the former Ministry of Post and Telecommunications and the Ministry of Information Industry of the PRC (the "Ministries"). As the director-general of the Policy and Regulation Department of the Ministries, he was directly involved and responsible for policy formulation, reform planning, laws and regulations drafting for the telecommunications industry of the PRC. Before joining the Ministries in 1988, Mr. Liu was engaged in research and development works at the China Academy of Post and Telecommunications after graduating from Beijing Institute of Posts and Telecommunications (currently known as Beijing University of Posts and Telecommunications (北京郵電大學)). Mr. Liu has also been an independent director of China United Network Communications Limited since November 2009, with its A shares listed on the Shanghai Stock Exchange. He joined the Group in 2003.

Mr. Lau Siu Ki, Kevin (劉紹基), aged 54, independent non-executive director. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. He has over 30 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. He was a member of the world council of ACCA from 2002 to 2011 and was the Chairman of the Hong Kong Branch of ACCA for the year 2000/2001. Mr. Lau is also an independent non-executive director of Binhai Investment Company Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and five other companies listed on the main board of the Stock Exchange namely TCL Communication Technology Holdings Limited, COL Capital Limited, Foxconn International Holdings Limited, Samson Holding Ltd. and Embry Holdings Limited. Mr. Lau had been an independent non-executive director of Carry Wealth Holdings Limited, Greenfield Chemical Holdings Limited and Proview International Holdings Limited until his resignation on 13 July 2011, 11 June 2010 and 24 August 2010 respectively. He joined the Group in 2003.

Directors and Senior Management

Mr. Lin Jin Tong

Mr. Qian Ting Shuo

Mr. Lin Jin Tong (林金桐), aged 67, independent non-executive director. He is also the member of the audit committee, the remuneration committee and the nomination committee of the Company. He is currently a professor of Beijing University of Posts and Telecommunications ("BUPT") (北京郵電大學). He graduated from Peking University (北京大學) majoring in Physics, and obtained a master's degree in engineering from BUPT. He further obtained a doctorate degree in Philosophy and an honorary doctorate degree in Science from University of Southampton, UK. Mr. Lin has worked as lecturer, professor, department head, vice president of BUPT and was also the president of BUPT from 1998 to 2007. He was also a member of the 10th Beijing Municipal Committee of the Chinese People's Political Consultative Conference from 2003 to 2008. He was a deputy director-general of China Institute of Communications and is currently a fellow member of The Institution of Engineering and Technology. Mr. Lin has long been engaged in optical communication engineering, including research and teaching in the aspects of high-speed optical communication system and broadband optical access network. Mr. Lin is an independent director of Bright Oceans Inter-Telecom Corporation, the shares of which are listed on the Shanghai Stock Exchange. He is also an independent director of Jiangsu Tongguang Electronic Wire & Cable Corp., Ltd, the shares of which are listed on the Shenzhen Stock Exchange. He joined the Group in 2012.

Mr. Qian Ting Shuo (錢庭碩), aged 64, independent non-executive director. He is also the member of the audit committee, the remuneration committee and the nomination committee of the Company. He is currently a secretary-general of Science and Technology Committee of Ministry of Industry and Information Technology. He graduated from Beijing University of Posts and Telecommunications (北京郵電大學) and obtained a bachelor's degree in engineering. Mr. Qian was the deputy director and vice president of the Planning Institute of the Ministry of Post and Telecommunications of the PRC (later known as the Telecommunications Planning Research Institute of the Ministry of Post and Telecommunications), and was also the vice president of China Academy of Telecommunication Research of the Ministry of Information Industry ("MII", currently known as the Ministry of Industry and Information Technology), the inspector and the deputy director-general of the Department of Overall Planning of the MII. Mr. Qian has extensive experience in the telecommunications industry and is familiar with the optical telecommunications technology and broadband development. He joined the Group in 2012.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Zhang Jin Yu, Charles (張金玉), aged 49, deputy financial controller of the Group, PRC finance. Mr. Zhang is responsible for the Group's accounting and financial management in the PRC. He is a member of the Certified General Accountants of Canada. He obtained a master's degree in economic from South-western University of Economics and Finance (西南財經大學) in 1990 and a master of science degree in accounting from the University of New Haven in Connecticut, the United States of America in 1998. He has over 22 years of experience in accounting and financial management. He joined the Group in 2004.

Mr. Chen Sui Yang (陳遂陽), aged 49, vice president and general manager of the Group's wireless enhancement products division. Mr. Chen is mainly responsible for the R&D and operational management of the products lines of wireless enhancement products. He graduated from the Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學))and obtained a bachelor's degree in antenna technology in 1985. He has also obtained an EMBA degree in China Europe International Business School (CEIBS) (中歐國際工商學院). Mr. Chen has over 27 years of experience in technology research of wireless communications. He joined the Group in 1998.

Mr. Bu Bin Long (卜斌龍), aged 50, vice president and general manager of the Group's antennas and subsystems business unit. Mr. Bu is responsible for the research & development and operations management of mobile communications base stations and antenna products of subsystems. Mr. Bu graduated in 1985 from Northwest Institute of Telecommunications Engineering (currently known as Xidian University (西安電子科技大學)) and obtained a master's degree in electronic magnetic field and microwave technology. Mr. Bu has over 27 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Ms. Li Yu Wen (李宇雯), aged 42, vice president of the Group. Ms. Li is responsible for the operation and management of the Group's procurement system operations. She graduated from the Yunnan University (雲南大學) in 1992 and obtained a bachelor's degree in physics. She also obtained an EMBA degree from School of Economics and Management of Tsinghua University (清華大學經濟管理學院) in 2006. Ms. Li has over 20 years of experience in the market of communications, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Deng Shi Qun (鄧世群), aged 31, deputy general manager of the Group's wireless access business unit. Mr. Deng is responsible for the research & development and operations management of wireless access products. Mr. Deng graduated in 2007 from South China University of Technology (華南理工大學) and obtained a master's degree in circuits and systems. Mr. Deng has many years of technical research experience in the domain of wireless communications technology and computer networking technology. He joined the Group in 2005.

Mr. Augustin Ping Chang (張平), aged 50, general manager of the Group's international branch in North America. Mr. Chang is responsible for the business development & R&D activities for high power amplifier in US & Canada. Prior to joining the Group, Mr. Chang was director of engineering at REMEC Inc. He also held various engineering management positions at Spectrian Inc. & Watkins-Johnson Company. Mr. Chang holds a master of science degree in electrical engineering from University of Illinois at Urbana-Champaign and a bachelor of science degree in electrical engineering from Carnegie-Mellon University. Mr. Chang has more than 27 years of experience in RF/microwave amplifier development, from ultra-broadband MMIC amplifier to high power linearized power amplifier for cellular base station. Mr. Chang has co-authored numerous papers in the fields of GaAs FET amplifiers, and holds a patent on high linearity multi-carrier RF amplifier. He joined the Group in 2005.

Mr. Lai Wen Qiang (賴文強), aged 35, vice president of the Group's central research institute and deputy general manager of the Group's wireless access product business unit. Mr. Lai is responsible for the technical research and product development of wireless access products at the central research institute. He finished two courses in Peking University (北京大學) in 2000 and 2003 and obtained a bachelor's degree in telecommunications science and technology and master's degree in communications and information system. Mr. Lai has many years of experience in technical research and development in the wireless communications area. He joined the Group in 2005.

Mr. Liu Yi Bo (劉義波), aged 44, general manager of the wireless solutions division of the Group. Mr. Liu is responsible for the management of the application of the Group's products and related solutions. He graduated from University of Electronic Science and Technology of China (電子科技大學) and obtained a bachelor's degree in electronic magnetic field and microwave technology. Mr. Liu has over 21 years of experience in engineering management. He joined the Group in 1997.

Mr. Brian Donohue, aged 48, vice president of Comba Telecom Systems International Limited, an indirect wholly-owned subsidiary of the Company. Mr. Donohue is also business development & general manager of the Group's international branch in Europe. Mr. Donohue is responsible for business development and operations throughout Europe, Russia and CIS countries. Mr. Donohue has over 27 years of experience in the telecommunications industry with more than 17 years of combined international business experience in Latin America, Europe and Asia. Prior to joining the Group, Mr. Donohue was senior managing director of CommScope based in Beijing, China where he lived for ten years. He completed his undergraduate studies at Collin County College and attended University of Phoenix where he continued his graduate-level course work in business management. He was a member of MIMA (Midwest Industrial Management Association) where he holds a certificate in professional training and coaching. He joined the Group in 2010.

Ms. Ma Jing (馬靜), aged 30, director of product marketing of the Group's international markets. Ms. Ma is responsible for overseeing the strategies and development of the product marketing. She graduated from Tsinghua University (清華大學) and obtained a bachelor's degree in Electrical Engineering & Automation in 2004 and a master's degree in Information & Communications Engineering in 2007. Ms. Ma has wide experience in product & program management. She joined the Group in 2007.

Mr. Johan Patrik Westfalk, aged 41, managing director of the Group's international branch in Caribbean & Latin America with headquarters in São Paulo, Brazil. Mr. Westfalk is responsible for all operations throughout the Latin American countries, including Brazil, Mexicoas as well as the Caribbean Islands. He holds a master of science degree in engineering physics from Chalmers University of Technology in Gothenburg, Sweden, specializing in electromagnetic fields and microwave antenna design and has also completed finance and accounting education at the Business School of São Paulo, Brazil. Mr. Westfalk has over 17 years of experience in the telecommunication industry and over 13 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Mr. Di Ying Jie (邸英傑), aged 51, technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's product development works concerning microwave RF passive accessories. He graduated from Xidian University (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in design and research of microwave RF accessories for many years. Mr. Di also has wide experience in product development of microwave RF passive accessories. He joined the Group in 2004.

Ms. Wong Siu Fan (黃少芬), aged 41, deputy financial controller of the Group, group finance. Ms. Wong is responsible for the group financial reporting, financial management and company secretarial duties of the Group. She holds a bachelor of arts degree in accountancy from The Hong Kong Polytechnic University and a master of science degree in financial management from the University of London. Ms. Wong is a member of the Hong Kong Institute of Certified Public Accountants, an associate of the Institute of Chartered Secretaries and Administrators and an associate of The Hong Kong Institute of Chartered Secretaries. She has over 18 years of experience in auditing, accounting, financial management and company secretarial in the international accounting firm and listed companies. She joined the Group in 2004.

Mr. Li Xue Feng (李學鋒), aged 40, deputy director of the Group's internal audit department. Mr. Li is responsible for the internal audit of the Group. He is a member of China Institute of Internal Audit. He graduated from Northeast Forestry University (東北林業大學) with a bachelor's degree in economics in 1997 and obtained a MBA degree from Royal Roads University through further education. Mr. Li has over 16 years of experience in finance and internal audit from domestic and international companies. He joined the Group in 2010.

Mr. Luo Rui Bo (駱瑞波), aged 39, deputy director of the Group's human resource. Mr. Luo is responsible for the Group's human resource planning, organization management, remunerations and benefits, employee relations and performance management. He graduated from the Business School of Sun Yat-Sen University (中山大學) in Guangdong Province, majoring in business administration, and has obtained a master's degree. Mr. Luo has over 15 years of experience in human resource management and operational management of large enterprises. He joined the Group in 2005.

Directors and Senior Management

Mr. Jiang Hong Ming (江洪明), aged 39, vice president of the Group's sales system and Comba Telecom Systems (China) Limited, an indirectly wholly-owned subsidiary of the Company. Mr. Jiang is responsible for the human resources operations and management of the domestic sales platform. He graduated from the Renmin University of China (中國人民大學), majoring in human resources and labour economics, and has obtained a master's degree in labour economics and is recognized as a senior economist. Mr. Jiang has over 16 years of experience in the management of human resources, corporate operation and management. He joined the Group in 2003.

Ms. Ip Choi Lin (葉彩蓮), aged 42, deputy director of the Group's human resources. Ms. Ip is responsible for the overall human resources for the Group's headquarters in Hong Kong; in charge of the overall human resources for the global businesses of the Group's international operations and also for the R&D center in USA under the Group's central research institute. She holds a bachelor of business administration degree from Newport University (currently known as Janus University), USA and a master of business administration degree from University of Management & Technology, USA. Ms. Ip is a member of Hong Kong Institute of Human Resource Management. Ms. Ip has over 19 years of experience in the HR development and management. She joined the Group in 2010.

Mr. Zheng Xiao Ming (鄭小明), aged 43, director of the operating center of the Group. He is mainly responsible for the orders from both domestic and international customers of the Group and the determination of the production schedule and schedule of the materials. He graduated from China University of Mining and Technology (中國礦業大學), and obtained a bachelor's degree in 1993. Mr. Zheng has over 19 years of experience in formulating operation plans, materials management, production and product delivery. He joined the Group in 2001.

Mr. Rajiv Girotra, aged 40, managing director of the Group's international branch in India taking care of India, Sri-Lanka, Nepal, Bhutan and Bangladesh markets. Mr. Girotra holds an executive master of business administration and international sales degree from the Indian Institute of Management (IIM-C). Before joining the Group in 2005, he was employed at ZTE and Subex. Mr. Girotra has a total of more than 17 years of telecommunications equipment sales, operations and management experience.

Mr. Pan Shuan Long (潘栓龍), aged 49, vice president of the central research institute of the Group and director of the RF technology research division of the central research institute. Mr. Pan is responsible for the research and development and technology management of the Group's power amplifiers and related products with respect to active products. Mr. Pan obtained his bachelor's degree in automated controls from Lanzhou Railway University (currently known as Lanzhou Jiaotong University (現稱蘭州交通大學)) in 1985. Mr. Pan has 27 years of experience in technology research and development in the mobile communications sector. He joined the Group in 2002.

Mr. Li Jin Qing (李金擎), aged 43, general manager of the application services department of the Group. Mr. Li is mainly responsible for the Group's technical research and business development of the network products in the application services department. He graduated from Jinggangshan University (井岡山大學) in 1994 and graduated from Sun Yat-Sen University (中山大學) and obtained a bachelor's degree in science in 2001. Mr. Li has over 19 years of experience in the information and wireless communications, covering software technology research as well as the product development and management. He joined the Group in 2002.

Mr. Chen Liang (陳亮), aged 38, director of procurement certification center of the Group. Mr. Chen is mainly responsible for the formation and management of the Group's material procurement platform and suppliers platform. He graduated from Shanghai University (上海大學) in 1998, majoring in communications and information engineering. Mr. Chen has 15 years of experience in the technical research, product development and corporate management in the wireless communications area. He joined the Group in 1998.

Mr. Wang Hui (汪輝), aged 51, director of the manufacturing center of the Group. Mr. Wang is responsible for the production management of the supply chain system and the introduction of new products. He completed the undergraduate studies in Chongqing University (重慶大學) in 1984. Mr. Wang has 29 years of experience in the technology and production management in mechanical and communications industries. He joined the Group in 2010.

Corporate Governance Report

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

The board of directors of the Company (the "Board") 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 (collectively referred to as the "Corporate Governance Code") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considered that, from 1 January 2012 to the date of this annual report, 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 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 its directors (the "Director(s)"). 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 annual report.

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises 12 Directors, of whom 8 are executive Directors and 4 are independent non-executive Directors. Details of the composition of the Board, relationship among the Board (if any), terms of appointment of the Directors, and biographical information of the Directors are set out in the sections "Report of the Directors" and "Directors and Senior Management" of this annual report.

For the year ended 31 December 2012 (" the Current Year"), 10 Board meetings and an annual general meeting were held and attendance of each Director at the Board meetings and the annual general meeting is set out as follows:

Name of Directors	**Attendance at the Board meetings**	**Attendance at the annual general meeting** (Note 4)
Executive Directors:		
Mr. Fok Tung Ling *(Chairman)*	10/10	1/1
Mr. Zhang Yue Jun *(Vice Chairman & President)*	10/10	1/1
Mr. Tong Chak Wai, Wilson	10/10	1/1
Mr. Wu Jiang Cheng	10/10	1/1
Mr. Yan Ji Ci	10/10	1/1
Mr. Zheng Guo Bao	10/10	1/1
Mr. Yeung Pui Sang, Simon	10/10	1/1
Mr. Zhang Yuan Jian (appointed on 10 February 2012)	7/7 (Note 1)	1/1
Independent non-executive Directors:		
Mr. Liu Cai	10/10	1/1
Mr. Lau Siu Ki, Kevin	10/10	1/1
Mr. Lin Jin Tong (appointed on 21 May 2012)	3/3 (Note 2)	N/A (Note 2)
Mr. Qian Ting Shuo (appointed on 21 May 2012)	3/3 (Note 2)	N/A (Note 2)
Mr. Yao Yan (resigned on 21 May 2012)	6/7 (Note 3)	1/1 (Note 3)

Note 1: There were 7 Board meetings held between 10 February 2012 to 31 December 2012.

Note 2: There were 3 Board meetings held and there was no general meetings held between 21 May 2012 to 31 December 2012.

Note 3: There were 7 Board meetings held and a general meeting held before 21 May 2012.

Note 4: Mr. Fok Tung Ling, Mr. Zhang Yue Jun, Mr. Tong Chak Wai, Wilson, Mr. Yeung Pui Sang, Simon, Mr. Liu Cai and Mr. Lau Siu Ki, Kevin attended the annual general meeting in person. Mr. Wu Jiang Cheng, Mr. Yan Ji Ci, Mr. Zheng Guo Bao, Mr. Zhang Yuan Jian and Mr. Yao Yan attended the annual general meeting by way of telephone conference.

Corporate Governance Report

The Board meetings are held at least 4 times a year. The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organization on behalf of the Shareholders. The Board is also responsible for determining the policy for corporate governance and performed the duties under the terms of reference in Code Provision D.3.1 of Appendix 14 to the Listing Rules during the Current Year.

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

The Board acknowledges its responsibilities for preparing the Company's financial statements and ensuring the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes, budget and preparation of the financial statements of the Group.

Chairman and chief executive

Mr. Fok Tung Ling is the chairman of the Board and Mr. Zhang Yue Jun is the vice chairman and president of the Company. The Company complied with the corporate governance of separating the roles of chairman and chief executive officer under the Corporate Governance Code.

Independent non-executive Directors

The Company has four independent non-executive Directors, representing one-third of the members of the Board of the Company, and at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Directors is appointed for a fixed term of directorship of not more than three years and is subject to retirement by rotation and re-election at the annual general meeting of the Company. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his independence. As at the date of this annual report, the Board is satisfied that all such Directors are in full compliance with the independence guidelines as laid down in the Listing Rules.

The Chairman held a meeting with all independent non-executive Directors without the presence of any executive Directors during the Current Year for discussing, inter alia, directors' time commitments and contribution in performing their responsibilities to the Company.

Induction and continuing development for Directors

During the Current Year, the Company organized two training sessions to all Directors conducted by the qualified professionals on "Update of major amendments to the Listing Rules" in March and in May. 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, Mr. Zhang Yuan Jian, Mr. Liu Cai, Mr. Lau Siu Ki, Kevin and Mr. Yao Yan attended the session in March.

Apart from the above training session, the Company has also arranged a comprehensive, formal and tailored induction to every newly appointed Director on appointment, to ensure that he has a proper understanding of the operations and business of the Company and is fully aware of his responsibilities in the Company. Mr. Lin Jin Tong and Mr. Qian Ting Shuo attended the session when both of them were appointed as Directors in May.

All Directors have provided records of the training they received to the Company. In addition, Mr. Tong Chak Wai, Wilson, an executive Director and the company secretary of the Company, has undertaken relevant professional training during the Current Year.

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") of the Company comprises four independent non-executive Directors. The chairman of the Remuneration Committee is Mr. Lau Siu Ki, Kevin and other members included Mr. Liu Cai, Mr. Lin Jin Tong and Mr. Qian Ting Shuo.

The Remuneration Committee has adopted terms of reference which are in line with the Corporate Governance Code. Its primary duties are to recommend the Board on the remuneration policy for all Directors and senior management and to review and monitor the remuneration packages and any compensation arrangements made to the Directors and senior management. The Remuneration Committee has assessed performance of executive Directors and reviewed the terms of service contracts of Directors.

The Group offers competitive remuneration schemes to its employees (including Directors) based on industry practices, legal requirements as well as the employees' and the Group's performance. In addition, share options, awarded shares and discretionary bonuses are granted to eligible employees based on the employees' performance, the Group's results, and in accordance with the share option scheme and the share award scheme of the Company. The Group also provides training to employees to improve their skills and develop their respective expertise.

During the Current Year, there were 5 Remuneration Committee meetings held, at which the compensation packages of all Directors and senior management were discussed and approved. The attendance record is as follows:

Members of Remuneration Committee	Number of meetings attended/ Total number of meetings held
Mr. Lau Siu Ki, Kevin	5/5
Mr. Liu Cai	5/5
Mr. Lin Jin Tong (appointed on 21 May 2012)	1/1 (Note 1)
Mr. Qian Ting Shuo (appointed on 21 May 2012)	1/1 (Note 1)
Mr. Yao Yan (resigned on 21 May 2012)	4/4 (Note 2)

Note 1: There was a meeting held between 21 May 2012 and 31 December 2012.

Note 2: There were 4 meetings held before 21 May 2012.

The remuneration, including sales commissions, equity-settled share option expense and awarded share expense, of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (HK$)	Number of person
Nil to 1,000,000	13
1,000,001 to 2,000,000	8
2,000,001 to 3,000,000	1
Over 3,000,001	1

NOMINATION COMMITTEE

The nomination committee (the "Nomination Committee") of the Company has been set up since 8 February 2012 and comprises four independent non-executive Directors. The chairman of the Nomination Committee is Mr. Liu Cai and other members included Mr. Lau Siu Ki, Kevin, Mr. Lin Jin Tong and Mr. Qian Ting Shuo.

The Nomination Committee has adopted terms of reference which are in line with the Corporate Governance Code. The Nomination Committee is responsible for formulating nomination policy for the consideration of the Board and to implement the Board's approved nomination policy. During the nomination process, the Nomination Committee will consider the competency, independency (in case of independent non-executive Director), conflict of interests, capacity, management experience of a candidate which makes him/herself suitable for the role as a director and make recommendation to the Board for consideration.

The Nomination Committee nominated Mr. Zhang Yuan Jian for an executive Director, and that was approved by the Board with effect from 10 February 2012. The Nomination Committee also nominated Mr. Lin Jin Tong and Mr. Qian Ting Shuo for independent non-executive Directors, and that were approved by the Board with effect from 21 May 2012.

During the Current Year, there were 3 Nomination Committee meetings held with the attendance record as follows:

Members of Nomination Committee	Number of meetings attended/ Total number of meetings held
Mr. Liu Cai	3/3
Mr. Lau Siu Ki, Kevin	3/3
Mr. Lin Jin Tong (appointed on 21 May 2012)	N/A(Note 1)
Mr. Qian Ting Shuo (appointed on 21 May 2012)	N/A(Note 1)
Mr. Yao Yan (resigned on 21 May 2012)	3/3(Note 2)

Note 1: There was no meeting held between 21 May 2012 and 31 December 2012.

Note 2: There were 3 meetings held before 21 May 2012.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") of the Company comprises four independent non-executive Directors. The chairman of the Audit Committee is Mr. Lau Siu Ki, Kevin and other members included Mr. Liu Cai, Mr. Lin Jin Tong and Mr. Qian Ting Shuo.

The Audit Committee has adopted terms of reference which are in line with the Corporate Governance Code. Its primary duties are to review the completeness, accuracy and fairness of the Company's financial statements, the Company's financial reporting system and internal control procedures, the scope and nature of the external audit and matters concerning the engagement of external auditors.

The Group's financial statements for the Current Year were reviewed by the Audit Committee, who was of the opinion that such statements complied with applicable accounting standards and legal requirements, and that adequate disclosures had been made. During the Current Year, the Audit Committee also reviewed the interim and annual reports, and internal control system of the Group.

During the Current Year, there were 2 Audit Committee meetings held with the attendance record as follows:

Members of Audit Committee	Number of meetings attended/ Total number of meetings held
Mr. Lau Siu Ki, Kevin	2/2
Mr. Liu Cai	2/2
Mr. Lin Jin Tong (appointed on 21 May 2012)	1/1(Note 1)
Mr. Qian Ting Shuo (appointed on 21 May 2012)	1/1(Note 1)
Mr. Yao Yan (resigned on 21 May 2012)	1/1(Note 2)

Note 1: There was a meeting held between 21 May 2012 and 31 December 2012.

Note 2: There was a meeting held before 21 May 2012.

RELATED PARTY/CONNECTED PARTY TRANSACTIONS POLICY

During the year, related party/connected party transactions if any, are periodically reviewed by the auditors of the Company.

INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The Board has therefore set up an internal audit department to assist the Board and the Audit Committee to ensure that the Group maintains a sound system of internal controls.

The internal audit department monitors the internal control procedures and systems of the Group and reports its findings and recommendations to management and the Audit Committee.

The internal audit department carried out audit in areas identified as of high or medium significance during the Current Year. This included sales and receivables, and inventories and costing. Recommendations were made to the relevant business functions and improvements have been made.

The Audit Committee reviewed the reports submitted by the internal audit department and reported semi-annually to the Board on such reviews.

In respect of the Current Year, the Board reviewed the effectiveness of the internal control system within the Group and is satisfied that the internal control systems within the Group are effective.

SHAREHOLDERS' RIGHT

Procedures by which Shareholders may convene an extraordinary general meeting

The Board may whenever it thinks fit call extraordinary general meeting. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The above procedures are subject to the articles of association of the Company (as amended from time to time), and the applicable legislation and regulation, in particular the Listing Rules (as amended from time to time).

Procedures for putting forward enquiries to the Board

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

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

Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time). However, pursuant to the articles of association of the Company (as amended from time to time), Shareholders who wish to move a resolution may by means of requisition convene an extraordinary general meeting following the procedures set out above.

Corporate Governance Report

Changes in the constitutional documents of the Company

The amendments to the Listing Rules as well as the Corporate Governance Code came into effect on 1 January 2012 and 1 April 2012. The Directors made certain amendments to the memorandum and articles of association (the "M&A") of the Company and adopted the amended and restated M&A by way of special resolutions which approved by the Shareholders on 17 May 2012 so as to bring the M&A of the Company in line with current amendments made to the Listing Rules and relevant laws and enhance the flexibility to manage the Company.

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Group always endeavours to improve transparency and accountability to the Shareholders in the best possible way. After reporting its interim and annual results, the Group holds press conferences and investor presentations where the financial performance, business review and prospect of the Group are presented. This also sets an open communications platform for the Group's senior management to address any questions that the investment community and the media may have. Web-cast presentation is then sent to shareholders and investors around the world to ensure information is disseminated on a fair and timely basis. The Group issues press releases and announcements where appropriate to provide updated information about the Group's business development in a timely manner. The Group also updates its website regularly to ensure information about its latest development disseminated promptly.

During the Current Year, the Group's senior management attended over 120 investor meetings, including participation in 5 investor conferences and 8 post-results roadshows, and a plant visit was arranged. This provided the investment community with an opportunity to understand the business of the Group better. As a result of various investor relations activities undertaken, as at the end of the Current Year, 21 securities companies provided research coverage on the Group.

Key Investor Relations Events in 2012:

Date		**Event**
January	:	UBS Greater China Conference 2012 (organized by UBS AG)
March	:	2011 annual results announcement (press conference and investor presentation)
April	:	Post-results roadshows in Hong Kong, Taiwan, Singapore, the U.S., Canada and Europe (arranged by various brokerage firms)
	:	Plant visit for investors, fund managers and analysts (arranged by Bank of America Merrill Lynch)
May	:	2012 Annual General Meeting
	:	Hong Kong Investor Summit (organized by Morgan Stanley)
August	:	2012 interim results announcement (press conference and investor presentation)
	:	Post-results roadshows in Hong Kong and Beijing (arranged by various brokerage firms)
September	:	Analyst Tour — P&T/Expo Comm China 2012
	:	CS Asian Technology Conference (organized by Credit Suisse)
October	:	Telecom & Technology Corporate Day (organized by Nomura)
November	:	China Conference 2012 (organized by Bank of America Merrill Lynch)
	:	CIMB 8th Hong Kong/China Conference (organized by CIMB)

AUDITORS' REMUNERATION

The Company's external auditors are Ernst & Young. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. The Audit Committee considered and approved the engagement of Ernst & Young as auditors of the Company for the Current Year and the corresponding audit fees estimation. Such recommendation relating to the appointment of Ernst & Young was agreed and accepted by the Board. During the Current Year, the fees paid to the auditors for audit services amounted to HK$2,853,000; and non-audit services of interim financial statements review, tax review and other professional services amounted to HK$338,000, HK$120,000 and HK$323,000 respectively. The auditors confirmed to the Board that they acknowledged their responsibilities of expressing an opinion on the annual financial statements for the Current Year.

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2013

Report of the Directors

The directors (the "Director(s)") of Comba Telecom Systems Holdings Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012 (the "Current Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services. There were no significant changes in the nature of the Group's principal activities during the Current Year.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 115.

To better maintain the flexibility of the financial position of the Group in view of the uncertain economic situation, the board of directors of the Company (the "Board") does not recommend the payment of a final dividend in respect of the Current Year (2011: HK7 cents per ordinary share).

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 116. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Current Year are set out in note 13 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND AWARDED SHARES

Details of movements in the Company's share capital, share options and awarded shares during the Current Year are set out in notes 29 and 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 22 May 2012, the Board 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 "Share Award 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 Share Award 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the Current Year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$370,212,000. In addition, the Company's share premium account, in the amount of HK$643,764,000, may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 84.4% of the total sales for the year and sales to the largest customer included therein accounted for approximately 52.3% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge, information and belief of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the Current Year were as follows:

Executive directors:

Mr. Fok Tung Ling ("Mr. Fok") (Chairman)
Mr. Zhang Yue Jun ("Mr. Zhang") (Vice Chairman & President)
Mr. Tong Chak Wai, Wilson ("Mr. Tong")
Mr. Wu Jiang Cheng ("Mr. Wu")
Mr. Yan Ji Ci ("Mr. Yan")
Mr. Zheng Guo Bao ("Mr. Zheng")
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")
Mr. Zhang Yuan Jian (appointed on 10 February 2012)

Independent non-executive directors:

Mr. Liu Cai ("Mr. Liu")
Mr. Lau Siu Ki, Kevin ("Mr. Kevin Lau")
Mr. Lin Jin Tong ("Mr. Lin") (appointed on 21 May 2012)
Mr. Qian Ting Shuo ("Mr. Qian") (appointed on 21 May 2012)
Mr. Yao Yan ("Mr. Yao") (resigned on 21 May 2012)

In accordance with article 86(3) of the Company's Articles, Mr. Lin and Mr. Qian will retire and being eligible and offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company. In accordance with articles 87(1) and 87(2) of the Company's Articles, Mr. Fok, Mr. Wu, Mr. Yan and Mr. Yeung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

The Company has received annual confirmations of independence from Mr. Liu, Mr. Kevin Lau, Mr. Lin and Mr. Qian as at the date of this report and considers them to be independent as each of them fulfils the requirement as set out in Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTOR AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 23 to 30 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Fok, Mr. Zhang, Mr. Wu and Mr. Yan has entered into a service contract with the Company for an initial term of three years which commenced on 1 July 2003, and will continue thereafter until terminated by either party by giving not less than six months' written notice. As these contracts were entered into on or before 31 January 2004, they are exempted from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Each of Mr. Tong and Mr. Zhang Yuan Jian has entered into a service contract with the Company for an initial term of three years which commenced on 1 December 2008 and 10 February 2012, respectively and will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other. Each of Mr. Zheng and Mr. Yeung has entered into a service contract with the Company for an initial term of 18 months which commenced initially on 30 March 2008 and 7 April 2005, respectively and will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other.

All the independent non-executive directors are appointed for an initial term of not more than three years.

Apart from the foregoing, no director of the Company proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the interests and short positions of the directors of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

		No. of ordinary shares held, capacity and nature of interest				Percentage of
Name of Directors	**Notes**	**Directly beneficially owned**	**Through spouse**	**Through controlled corporation**	**Total**	**the Company's issued share capital**
Mr. Fok	(a)	17,258,224	–	526,995,887	544,254,111	35.66
Mr. Zhang	(b)	–	–	154,128,452	154,128,452	10.10
Mr. Tong	(c)	3,676,060	–	–	3,676,060	0.24
Mr. Wu	(c)	9,451,987	–	–	9,451,987	0.62
Mr. Yan	(c)	7,974,435	–	–	7,974,435	0.52
Mr. Zheng	(c)	3,397,176	–	–	3,397,176	0.22
Mr. Yeung	(c)	7,028,912	–	–	7,028,912	0.46
Mr. Zhang Yuan Jian	(d)	564,456	80,000	–	644,456	0.04
		49,351,250	80,000	681,124,339	730,555,589	47.86

Long positions in share options of the Company:

Name of Directors	No. of options directly beneficially owned
Mr. Tong	500,000
Mr. Wu	500,000
Mr. Yan	500,000
Mr. Yeung	500,000
Mr. Zhang Yuan Jian	500,000
Mr. Liu	342,000
Mr. Kevin Lau	342,000
	3,184,000

Notes:

(a) 525,710,701 shares and 1,285,186 shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("Total Master"), respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in the total of 526,995,887 shares owned by Prime Choice and Total Master.

(b) These shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 154,128,452 shares owned by Wise Logic.

(c) On 31 December 2012, each of Mr. Tong and Mr. Wu had 300,000 unvested awarded shares; each of Mr. Yan and Mr. Yeung had 260,000 unvested awarded shares; and Mr. Zheng had 60,000 unvested awarded shares under the Share Award Scheme. Subject to fulfillment of vesting conditions of the award, the awarded shares shall be vested and transferred to the above Directors accordingly. Details of the Share Award Scheme are set out in note 30(b) to the financial statements.

(d) On 10 February 2012, Mr. Zhang Yuan Jian was appointed as an executive director of the Company. As at 31 December 2012, he had 176,000 unvested awarded shares under the Share Award Scheme. He is also deemed to be interested in 80,000 shares of the Company beneficially held by his spouse personally, representing approximately 0.01% of the issued share capital of the Company.

Certain Directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as aforesaid and save for Mr. Zheng beneficially holding 32% equity interest in WaveLab Holdings Limited (an indirect non wholly-owned subsidiary of the Company), none of the Directors has any beneficial interest in any debt or equity securities of the subsidiaries of the Company.

Save as disclosed above, as at 31 December 2012, none of the Directors had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings of the Company. Other emoluments are reviewed by the Company's remuneration committee with reference to Directors' duties, responsibilities and performance and the results of the Group. In addition, share options and awarded shares are also offered to Directors.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme and Share Award Scheme in note 30 to the financial statements, at no time during the Current Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION AND SHARE AWARD SCHEMES

Details of the share option scheme and Share Award Scheme are set out in note 30 to the financial statements.

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

As at 31 December 2012, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Prime Choice		Beneficial owner	525,710,701	34.45
Mdm. Chen Jing Na ("Mdm. Chen")	(a)	Interest of spouse	544,254,111	35.66
Wise Logic		Beneficial owner	154,128,452	10.10
Mdm. Cai Hui Ni ("Mdm. Cai")	(b)	Interest of spouse	154,128,452	10.10

Notes:

(a) Mdm. Chen is the spouse of Mr. Fok and is deemed to be interested in the 544,254,111 shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.

(b) Mdm. Cai is the spouse of Mr. Zhang and is deemed to be interested in the 154,128,452 shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

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

(i) 525,710,701 shares between Prime Choice and Mdm. Chen; and

(ii) 154,128,452 shares between Wise Logic and Mdm. Cai.

Save as disclosed above, as at 31 December 2012, no person, other than the Directors, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

In the year under review, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transaction: Loan

On 25 August 2010, Cascade Technology Limited (an indirect wholly-owned subsidiary of the Company) (the "Lender") and WaveLab Holdings Limited ("WaveLab Holdings" or the "Borrower") entered into a loan agreement with effect from 1 January 2011 (the "Loan Agreement") pursuant to which the Lender agreed to lend a principal amount of US$8,500,000 (equivalent to approximately HK$66,300,000) (the "Loan") to the Borrower at the rate of LIBOR at the date of drawing plus 1.8 per cent per annum. The interest period of the Loan is either 3 or 6 or 12 months at the selection of the Borrower. The drawing availability period shall be upto 31 December 2013 upon mutual agreement between the Lender and the Borrower. The Lender may, at any time upon giving notice in writing, demand repayment of the Loan in full or in part up to the outstanding amount of the Loan not yet repaid and/or payment of any part of the interest accrued thereon as at the date of the written demand of the Lender.

The purpose of the Loan is used for refinancing all outstanding indebtedness amounted to US$6,000,000 (equivalent to approximately HK$46,800,000) under the loan agreements dated 18 July 2007, 25 June 2008 and 1 August 2008. Unless otherwise agreed by the Lender, the Loan is used for the working capital purpose of the Borrower and its subsidiaries. As at 31 December 2012, all outstanding indebtedness under the Loan Agreement amounted to US$7,000,000 (equivalent to approximately HK$54,600,000).

The Borrower is an indirect non wholly-owned subsidiary of the Company. As Mr. Zheng, an executive director and a connected person of the Company, is a shareholder of the Borrower holding 32% of the issued share capital of the Borrower, the Borrower (being an indirect non wholly-owned subsidiary of the Company and an associate of Mr. Zheng) is a connected person of the Company under the Listing Rules.

The Directors (including the independent non-executive directors) are of the view that the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Continuing connected transactions

On 25 August 2010, the Group entered into an agreement (the "WTAP Agreement") with WaveLab Holdings relating to the purchase of wireless transmission and access products (the "WTAP") from WaveLab Holdings to the Group for the term from 1 January 2011 to 31 December 2013, subject to the early termination provisions in the WTAP Agreement. On the same day, the Group entered into an agreement (the "WTAP-Components Agreement") with WaveLab Holdings relating to the sale of the components used in the manufacture of WTAP (the "WTAP-Components") by the Group to WaveLab Holdings for the term from 1 January 2011 to 31 December 2013, subject to the early termination provisions in the WTAP-Components Agreement.

WaveLab Holdings, a 55% indirect subsidiary of the Company, and that Mr. Zheng, an executive director of the Company who is a 32% owner of WaveLab Holdings, both the transactions which the Group continued to carry out pursuant to the WTAP Agreement and WTAP-Components Agreement constitute non-exempt continuing connected transactions falling under Rule 14A.35 of the Listing Rules.

The Independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

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

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

Comba Telecom Systems Limited, an indirect wholly-owned subsidiary of the Company, 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, which contain covenants requiring specific performance obligations of the controlling shareholder, namely Mr. Fok, and the substantial shareholder, namely Mr. Zhang, of the Company. Details of the Facility Agreements are set out in note 27 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at 31 December 2012 and the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 40 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
22 March 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

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TO THE SHAREHOLDERS OF COMBA TELECOM SYSTEMS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 46 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**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	5	**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	7	**(42,635)**	(29,403)
(LOSS)/PROFIT BEFORE TAX	6	**(148,130)**	776,516
Income tax expense	9	**(67,515)**	(121,772)
(LOSS)/PROFIT FOR THE YEAR		**(215,645)**	654,744
Attributable to:			
Owners of the parent	10	**(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)	12		
Basic		**(13.43)**	43.99
Diluted		**(13.43)**	42.95

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
(LOSS)/PROFIT FOR THE YEAR		**(215,645)**	654,744
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation	13	**–**	27,646
Reclassification adjustments for gains included in the consolidated income statement		**(2,363)**	–
Income tax effect	16	**355**	(4,004)
		(2,008)	23,642
Cash flow hedge:			
Effective portion of changes in fair value of hedging instrument arising during the year	26	**–**	2,275
Reclassification adjustments for gain included in the consolidated income statement	26	**–**	344
Loss on expiry of interest rate swap contract	26	**(404)**	–
Income tax effect	26	**(116)**	(250)
	26	**(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	13	**826,277**	828,546
Prepaid land lease payments	14	**30,807**	31,374
Goodwill	15	**28,571**	28,571
Long-term trade receivables	20	**134,695**	118,648
Deferred tax assets	16	**132,423**	136,309
Intangible assets	17	**30,257**	28,216
Restricted bank deposits	23	**7,650**	7,033
Total non-current assets		**1,190,680**	1,178,697
CURRENT ASSETS			
Inventories	19	**2,243,009**	2,421,044
Trade receivables	20	**4,452,866**	4,268,084
Notes receivable	21	**63,194**	68,472
Prepayments, deposits and other receivables	22	**580,957**	450,810
Restricted bank deposits	23	**24,367**	79,813
Cash and cash equivalents	23	**1,536,638**	1,114,412
Total current assets		**8,901,031**	8,402,635
CURRENT LIABILITIES			
Trade and bills payables	24	**3,281,193**	2,981,163
Other payables and accruals	25	**1,206,888**	1,186,559
Derivative financial instrument	26	**–**	698
Interest-bearing bank borrowings	27	**1,558,656**	719,272
Tax payable		**87,174**	119,001
Provisions for product warranties	28	**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

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**–**	404,743
Deferred tax liabilities	16	**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	29	**152,620**	152,620
Treasury shares	29	**(14,370)**	(9,661)
Reserves	31(a)	**3,667,372**	3,764,271
Proposed dividend	11	**–**	106,834
		3,805,622	4,014,064
Non-controlling interests		**56,537**	68,760
Total equity		**3,862,159**	4,082,824

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to owners of the parent													
	Notes	Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Share-based compensation reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Hedging reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		132,305	–	482,453	21,386	44,630	50,557	(1,849)	90,526	397,752	1,862,998	158,766	3,239,524	69,501	3,309,025
Profit for the year		–	–	–	–	–	–	–	–	–	659,084	–	659,084	(4,340)	654,744
Other comprehensive income for the year:															
Gains on property revaluation, net of tax		–	–	–	–	–	23,642	–	–	–	–	–	23,642	–	23,642
Cash flow hedge, net of tax	26	–	–	–	–	–	–	2,369	–	–	–	–	2,369	–	2,369
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	136,191	–	–	136,191	2,884	139,075
Total comprehensive income for the year		–	–	–	–	–	23,642	2,369	–	136,191	659,084	–	821,286	(1,456)	819,830
Share Option Scheme															
– exercise of share options	29(a)	4,131	–	45,090	(11,211)	–	–	–	–	–	–	–	38,010	–	38,010
– value of services	6	–	–	–	15,790	–	–	–	–	–	–	–	15,790	–	15,790
– adjustment arising from lapse of share options		–	–	–	(205)	–	–	–	–	–	205	–	–	–	–
– share options cancelled at expiry date		–	–	–	(7)	–	–	–	–	–	7	–	–	–	–
Share Award Scheme															
– value of services	6	–	–	–	145,028	–	–	–	–	–	–	–	145,028	–	145,028
– shares allotted	29(b)	2,600	(2,600)	–	–	–	–	–	–	–	–	–	–	–	–
– shares purchased	29(c)	–	(7,694)	–	–	–	–	–	–	–	–	–	(7,694)	–	(7,694)
– vested awarded shares transferred to selected persons	29(d)	–	860	82,074	(82,934)	–	–	–	–	–	–	–	–	–	–
Issue of bonus shares	29(e)	13,584	(227)	(13,357)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share expenses		–	–	–	–	874	–	–	–	–	–	–	874	715	1,589
Final 2010 dividend declared		–	–	–	–	–	–	–	–	–	–	(163,005)	(163,005)	–	(163,005)
Underprovision of final 2010 dividend		–	–	–	–	–	–	–	–	–	(4,239)	4,239	–	–	–
Interim 2011 dividend	11	–	–	–	–	–	–	–	–	–	(75,743)	–	(75,743)	–	(75,743)
Proposed final 2011 dividend	11	–	–	–	–	–	–	–	–	–	(106,834)	106,834	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	–	–	894	–	(894)	–	–	–	–
Staff welfare fund		–	–	–	–	–	–	–	–	–	(6)	–	(6)	–	(6)
At 31 December 2011		152,620	(9,661)	596,260*	87,847*	45,504*	74,199*	520*	91,420*	533,943*	2,334,578*	106,834	4,014,064	68,760	4,082,824

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Notes	Attributable to owners of the parent												Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Share-based compensation reserve HK$'000	Capital reserve HK$'000	Asset revaluation reserve HK$'000	Hedging reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividends HK$'000	Total HK$'000		
At 1 January 2012		152,620	(9,661)	596,260	87,847	45,504	74,199	520	91,420	533,943	2,334,578	106,834	4,014,064	68,760	4,082,824
Loss for the year		–	–	–	–	–	–	–	–	–	(202,364)	–	(202,364)	(13,281)	(215,645)
Other comprehensive income for the year:															
Cash flow hedge, net of tax	26	–	–	–	–	–	–	(520)	–	–	–	–	(520)	–	(520)
Adjustment arising from disposal of property, net of tax		–	–	–	–	–	(2,008)	–	–	–	–	–	(2,008)	–	(2,008)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	15,694	–	–	15,694	1,058	16,752
Total comprehensive loss for the year		–	–	–	–	–	(2,008)	(520)	–	15,694	(202,364)	–	(189,198)	(12,223)	(201,421)
Share Option Scheme															
– value of services	6	–	–	–	38,495	–	–	–	–	–	–	–	38,495	–	38,495
– adjustment arising from lapse of share options		–	–	–	(1,311)	–	–	–	–	–	1,311	–	–	–	–
Share Award Scheme															
– value of services	6	–	–	–	53,793	–	–	–	–	–	–	–	53,793	–	53,793
– shares purchased	29(c)	–	(5,021)	–	–	–	–	–	–	–	–	–	(5,021)	–	(5,021)
– vested awarded shares transferred to selected persons	29(d)	–	312	47,504	(47,816)	–	–	–	–	–	–	–	–	–	–
Equity-settled share expenses		–	–	–	–	323	–	–	–	–	–	–	323	–	323
Final 2011 dividend declared	11	–	–	–	–	–	–	–	–	–	–	(106,834)	(106,834)	–	(106,834)
At 31 December 2012		152,620	(14,370)	643,764*	131,008*	45,827*	72,191*	–*	91,420*	549,637*	2,133,525*	–	3,805,622	56,537	3,862,159

* These reserve accounts comprise the consolidated reserves of HK$3,667,372,000 (2011: HK$3,764,271,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(148,130)**	776,516
Adjustments for:			
Bank interest income	5	**(7,769)**	(9,364)
Finance costs	7	**42,635**	29,403
Depreciation	6	**127,030**	98,402
Recognition of prepaid land lease payments	6	**754**	563
Amortization of intangible assets	6	**7,756**	5,109
Equity-settled share option expense	6	**38,495**	15,790
Equity-settled share expense		**323**	1,589
Gain on bargain purchase	5	**–**	(48,426)
Loss on disposal of items of property, plant and equipment	6	**207**	844
Awarded share expense	6	**53,793**	145,028
		115,094	1,015,454
Decrease/(increase) in inventories		**161,414**	(556,380)
Increase in trade receivables		**(208,372)**	(1,165,869)
Increase in long-term trade receivables		**(16,047)**	(118,648)
Decrease/(increase) in notes receivable		**4,723**	(17,045)
Increase in prepayments, deposits and other receivables		**(133,797)**	(60,076)
Increase in trade and bills payables		**329,190**	622,490
Increase in other payables and accruals		**32,945**	192,917
Increase in provisions for product warranties		**9,735**	9,186
Cash generated from/(used in) operations		**294,885**	(77,971)
PRC profits tax paid		**(79,694)**	(197,371)
Overseas profits taxes paid		**(13,871)**	(3,328)
Net cash flows from/(used in) operating activities		**201,320**	(278,670)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**7,769**	9,364
Purchases of items of property, plant and equipment	13	**(136,341)**	(284,379)
Acquisition of intangible assets	17	**(9,576)**	(4,662)
Acquisition of subsidiaries		**–**	(77,549)
Proceeds from disposal of items of property, plant and equipment		**15,480**	21,004
Decrease/(increase) in restricted bank deposits		**54,125**	(54,557)
Net cash flows used in investing activities		**(68,543)**	(390,779)

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29(a)	**–**	38,010
New bank borrowings		**2,262,684**	1,476,518
Repayment of bank borrowings		**(1,828,043)**	(987,448)
Amount paid for shares purchased for Share Award Scheme	29(c)	**(5,021)**	(7,694)
Interest paid		**(43,737)**	(29,059)
Dividends paid		**(106,834)**	(238,748)
Net cash flows from financing activities		**279,049**	251,579
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**411,826**	(417,870)
Cash and cash equivalents at beginning of year		**1,114,412**	1,472,899
Effect of foreign exchange rate changes, net		**10,400**	59,383
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,536,638**	1,114,412
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**1,536,638**	1,114,412
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,536,638**	1,114,412
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,536,638**	1,114,412

Statement of Financial Position

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**632,815**	548,375
CURRENT ASSETS			
Due from subsidiaries	18	**1,038,200**	1,038,200
Other receivables	22	**–**	5,454
Cash and cash equivalents	23	**11,022**	306
Total current assets		**1,049,222**	1,043,960
CURRENT LIABILITIES			
Due to a subsidiary	18	**299,621**	176,320
Other payables and accruals	25	**75,155**	75,539
Total current liabilities		**374,776**	251,859
NET CURRENT ASSETS		**674,446**	792,101
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,307,261**	1,340,476
NON-CURRENT LIABILITIES			
Financial guarantee contracts	33	**23,265**	27,972
Net assets		**1,283,996**	1,312,504
EQUITY			
Issued capital	29	**152,620**	152,620
Treasury shares	29	**(14,370)**	(9,661)
Reserves	31(b)	**1,145,746**	1,062,711
Proposed dividend	11	**–**	106,834
Total equity		**1,283,996**	1,312,504

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

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 (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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment, and 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 "Current Year"). 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.

2.2 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 32 to the financial statements.

2.3 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]

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

[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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK (SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK (SIC)-Int 12.

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK (SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognized in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

Buildings	4.5%
Plant and machinery	9%–18%
Furniture, fixtures and office equipment	18%–30%
Motor vehicles	18%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Intangible assets (other than goodwill)

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

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

Computer software and technology

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

Golf club membership

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

Research and development costs

All research costs are charged to the income statement as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value plus transaction costs.

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as an interest rate swap, to hedge its interest rate risk. Such derivative financial instrument is initially recognized at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivative is carried as liability when the fair value is negative.

Any gain or loss arising from changes in fair value of derivative are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized liability.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedge is expected to be highly effective in achieving offsetting changes in cash flows and is assessed on an ongoing basis to determine that it actually has been highly effective throughout the financial reporting periods for which it was designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedge

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognized immediately in the income statement as other expenses.

Amounts recognized in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in equity.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks.

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognized based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Revenue recognition

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from its 2008 or thereafter earnings, shall be subject to withholding taxes at an applicable rate of 5% or 10%. The directors had assessed whether it is probable for the Group's PRC subsidiaries to distribute dividends out of their profits earned after 1 January 2008. For details, refer to note 16 to the financial statements.

Estimation uncertainty

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

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are made on assessment of the recoverability of trade and other receivables. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the receivables and the impairment or reversal of the receivables in the period in which such estimate has been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of property, plant and equipment

The Group tests annually whether property, plant and equipment have suffered any impairment, which is in accordance with the accounting policy stated in note 2.4. The recoverable amounts of cash-generating units have been determined based on a value in use calculation. These calculations require the use of estimates such as the future revenue and discount rates.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was approximately HK$28,571,000 (2011: HK$28,571,000). For details, refer to note 15 to the financial statements.

Provisions for product warranties

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

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

4. 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.

5. 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.

6. LOSS/PROFIT BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold and services provided		**4,482,997**	3,925,108
Depreciation	13	**127,030**	98,402
Recognition of prepaid land lease payments	14	**754**	563
Amortization of intangible assets	17	**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' remuneration (note 8)):			
Salaries and wages		**1,076,894**	842,693
Staff welfare expenses		**83,300**	72,600
Equity-settled share option expense	30(a)	**38,495**	15,790
Awarded share expense		**53,793**	145,028
Pension scheme contributions (defined contribution scheme)#		**85,181**	73,025
		1,337,663	1,149,136
Exchange loss/(gain), net		**15,386**	(9,776)
Write-off of obsolete inventories		**146,284**	–
Write-down of inventories to net realizable value		**–**	27,254
Provisions for product warranties	28	**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.

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 HK$'000	2011 HK$'000
Fees	**920**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**12,663**	13,461
Performance related bonuses	**9,273**	8,447
Equity-settled share option expense	**2,488**	321
Awarded share expense	**6,243**	11,927
Pension scheme contributions	**333**	277
	31,000	34,433
	31,920	35,033

During the year, certain directors were granted share options, in respect of their services to the Group, under the Share Option Scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognized in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the Current Year is included in the above directors' remuneration disclosures.

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

(a) Executive and non-executive directors

2012	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Awarded share expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:							
Mr. Fok Tung Ling	–	1,552	2,132	–	–	11	3,695
Mr. Zhang Yue Jun	–	1,940	2,070	–	–	63	4,073
Mr. Tong Chak Wai, Wilson	–	1,947	299	442	1,415	14	4,117
Mr. Wu Jiang Cheng	–	1,596	1,415	442	1,415	63	4,931
Mr. Yan Ji Ci	–	1,353	1,463	442	1,227	63	4,548
Mr. Zheng Guo Bao	100	1,592	–	–	283	48	2,023
Mr. Yeung Pui Sang, Simon	–	1,996	305	442	1,227	14	3,984
Mr. Zhang Yuan Jian (appointed on 10 February 2012)*	–	687	1,589	442	676	57	3,451
	100	12,663	9,273	2,210	6,243	333	30,822
Non-executive directors:							
Mr. Liu Cai	200	–	–	112	–	–	312
Mr. Lau Siu Ki, Kevin	165	–	–	112	–	–	277
Mr. Lin Jin Tong (appointed on 21 May 2012)*	123	–	–	–	–	–	123
Mr. Qian Ting Shuo (appointed on 21 May 2012)*	123	–	–	–	–	–	123
Mr. Yao Yan (resigned on 21 May 2012)	209	–	–	54	–	–	263
	820	–	–	278	–	–	1,098
	920	12,663	9,273	2,488	6,243	333	31,920

* The remuneration was calculated from the respective appointment as a director.

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

(a) Executive and non-executive directors (continued)

2011	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Awarded share expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:							
Mr. Fok Tung Ling	–	2,343	2,450	–	–	12	4,805
Mr. Zhang Yue Jun	–	2,198	2,455	–	–	59	4,712
Mr. Tong Chak Wai, Wilson	–	2,012	139	–	3,032	12	5,195
Mr. Wu Jiang Cheng	–	1,729	1,455	–	3,032	59	6,275
Mr. Yan Ji Ci	–	1,456	1,338	–	2,628	59	5,481
Mr. Zheng Guo Bao	100	1,681	467	–	607	64	2,919
Mr. Yeung Pui Sang, Simon	–	2,042	143	–	2,628	12	4,825
	100	13,461	8,447	–	11,927	277	34,212
Non-executive directors:							
Mr. Liu Cai	200	–	–	107	–	–	307
Mr. Lau Siu Ki, Kevin	150	–	–	107	–	–	257
Mr. Yao Yan	150	–	–	107	–	–	257
	500	–	–	321	–	–	821
	600	13,461	8,447	321	11,927	277	35,033

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

(b) Five highest paid employees

The five highest paid (excluding sales commissions) employees during the year included five (2011: five) directors, details of whose remuneration are set out above.

9. 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 HK$'000	2011 HK$'000
Current — charge for the year		
Hong Kong	**6,619**	–
Mainland China	**48,830**	118,890
Elsewhere	**7,412**	2,070
Deferred (note 16)	**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 the 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 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 was entitled to a 50% reduction in PRC corporate income tax for the subsequent three years from 1 January 2010 to 31 December 2012. The applicable income tax rates for Comba China, which was located in the Guangzhou Economic and Technology Development Zone, were 0%, 0%, 11%, 12% and 12.5% in 2008, 2009, 2010, 2011 and 2012, respectively.

9. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2012		2011	
	HK$'000	%	HK$'000	%
(Loss)/profit before tax	**(148,130)**		776,516	
Tax at the applicable tax rate	**(37,033)**	**25.00**	194,129	25.00
Lower tax rates for specific provinces or enacted by local authority	**26,966**	**(18.21)**	(69,192)	(8.91)
Effect on opening deferred tax of increase in rates	**(10,232)**	**6.91**	(16,173)	(2.08)
Income not subject to tax	**(8,122)**	**5.48**	(12,107)	(1.56)
Expenses not deductible for tax	**42,355**	**(28.59)**	35,730	4.60
Additional deductible research and development expenses	**(25,952)**	**17.52**	(19,547)	(2.52)
Tax losses utilized	**–**	**–**	(15,035)	(1.94)
Tax losses not recognized	**79,533**	**(53.69)**	23,967	3.09
Tax charge at the Group's effective rate	**67,515**	**(45.58)**	121,772	15.68

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$492,673,000 (2011: HK$118,683,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognized deferred tax assets at 31 December 2012.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

10. LOSS/PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$8,941,000 (2011: profit of HK$185,067,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. 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.

12. 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

13. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost or valuation	351,336	561,425	181,516	39,456	97,098	1,230,831
Accumulated depreciation	(2,827)	(283,792)	(97,692)	(17,974)	–	(402,285)
Net carrying amount	348,509	277,633	83,824	21,482	97,098	828,546
At 1 January 2012, net of accumulated depreciation	348,509	277,633	83,824	21,482	97,098	828,546
Additions	1,865	59,319	32,221	887	42,049	136,341
Disposals	(2,588)	(13,416)	(1,814)	(391)	–	(18,209)
Depreciation provided during the year	(19,897)	(76,092)	(24,860)	(6,181)	–	(127,030)
Transfer	139,934	–	–	–	(139,934)	–
Exchange realignment	2,837	2,280	580	145	787	6,629
At 31 December 2012, net of accumulated depreciation	470,660	249,724	89,951	15,942	–	826,277
At 31 December 2012:						
Cost or valuation	474,126	604,898	210,169	39,058	–	1,328,251
Accumulated depreciation	(3,466)	(355,174)	(120,218)	(23,116)	–	(501,974)
Net carrying amount	470,660	249,724	89,951	15,942	–	826,277
Analysis of cost or valuation:						
At cost	6,427	604,898	210,169	39,058	–	860,552
At valuation	467,699	–	–	–	–	467,699
	474,126	604,898	210,169	39,058	–	1,328,251

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost or valuation	242,691	395,171	139,645	33,244	24,148	834,899
Accumulated depreciation	(2,195)	(207,294)	(75,088)	(12,834)	–	(297,411)
Net carrying amount	240,496	187,877	64,557	20,410	24,148	537,488
At 1 January 2011, net of accumulated depreciation	240,496	187,877	64,557	20,410	24,148	537,488
Additions	–	149,066	39,299	5,785	90,229	284,379
Acquisition of subsidiaries	65,633	12,565	2,059	469	–	80,726
Surplus on revaluation	27,646	–	–	–	–	27,646
Disposals	–	(18,433)	(2,674)	(741)	–	(21,848)
Depreciation provided during the year	(12,091)	(59,873)	(21,256)	(5,182)	–	(98,402)
Transfer	18,457	–	–	–	(18,457)	–
Exchange realignment	8,368	6,431	1,839	741	1,178	18,557
At 31 December 2011, net of accumulated depreciation	348,509	277,633	83,824	21,482	97,098	828,546
At 31 December 2011:						
Cost or valuation	351,336	561,425	181,516	39,456	97,098	1,230,831
Accumulated depreciation	(2,827)	(283,792)	(97,692)	(17,974)	–	(402,285)
Net carrying amount	348,509	277,633	83,824	21,482	97,098	828,546
Analysis of cost or valuation:						
At cost	6,324	561,425	181,516	39,456	97,098	885,819
At valuation	345,012	–	–	–	–	345,012
	351,336	561,425	181,516	39,456	97,098	1,230,831

The aggregate open market value of buildings was HK$467,699,000 based on their existing use. The respective properties were revalued individually at the end of the reporting period by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's buildings are situated in Mainland China and are held under the following lease terms:

Group	2012 HK$'000	2011 HK$'000
At valuation:		
Long term leases	**21,159**	20,976
Medium term leases	**446,540**	324,036
	467,699	345,012
At cost:		
Medium term leases	**6,427**	6,324
	474,126	351,336

14. PREPAID LAND LEASE PAYMENTS

Group	2012 HK$'000	2011 HK$'000
Carrying amount at 1 January	**32,124**	14,533
Acquisition of subsidiaries	**–**	17,225
Recognized during the year	**(754)**	(563)
Exchange realignment	**191**	929
Carrying amount at 31 December	**31,561**	32,124
Current portion included in prepayments, deposits and other receivables	**(754)**	(750)
Non-current portion	**30,807**	31,374

The leasehold land is held under a medium term lease and is situated in Mainland China.

15. GOODWILL

Group	2012 HK$'000	2011 HK$'000
Cost and net carrying amount at 1 January	**28,571**	28,571
Cost and net carrying amount at 31 December	**28,571**	28,571

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the digital microwave system equipment and the wireless telecommunications equipment cash-generating units for impairment testing.

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets approved by management. The discount rate applied to the cash flow projections is approximately 15%.

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

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

Group	2012 HK$'000	2011 HK$'000
Research, development, manufacture and sale of digital microwave system equipment	**16,926**	16,926
Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services	**8,193**	8,193
Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services	**3,452**	3,452
Carrying amount at 31 December	**28,571**	28,571

16. DEFERRED TAX

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

Deferred tax assets

Group	Unrealized profit HK$'000	Accruals HK$'000	Products warranty HK$'000	Cash flow hedge HK$'000	Total HK$'000
At 1 January 2011	96,123	26,928	7,802	366	131,219
Deferred tax (charged)/credited to the income statement during the year (note 9)	(15,972)	7,827	7,253	–	(892)
Deferred tax charged to statement of comprehensive income during the year (note 26)	–	–	–	(250)	(250)
Exchange realignment	4,167	1,506	559	–	6,232
At 31 December 2011	**84,318**	**36,261**	**15,614**	**116**	**136,309**
Deferred tax (charged)/credited to the income statement during the year (note 9)	**(15,224)**	**9,445**	**966**	**–**	**(4,813)**
Deferred tax charged to statement of comprehensive income during the year (note 26)	**–**	**–**	**–**	**(116)**	**(116)**
Exchange realignment	**500**	**405**	**138**	**–**	**1,043**
At 31 December 2012	**69,594**	**46,111**	**16,718**	**–**	**132,423**

16. DEFERRED TAX (continued)

Deferred tax liabilities

Group	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2011	8,571	–	8,571
Deferred tax charged to statement of comprehensive income during the year	4,004	–	4,004
Acquisition of subsidiaries	–	4,926	4,926
Deferred tax credited to the income statement during the year (note 9)	–	(80)	(80)
Exchange realignment	419	–	419
At 31 December 2011	**12,994**	**4,846**	**17,840**
Deferred tax credited to statement of comprehensive income during the year	**(355)**	**–**	**(355)**
Deferred tax credited to the income statement during the year (note 9)	**–**	**(159)**	**(159)**
At 31 December 2012	**12,639**	**4,687**	**17,326**

At 31 December 2012, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding taxes in the foreseeable future.

17. INTANGIBLE ASSETS

Group	Computer software and technology HK$'000	Golf Club Membership HK$'000	Total HK$'000
31 December 2012			
Cost at 1 January 2012, net of accumulated amortization	**27,102**	**1,114**	**28,216**
Additions	**9,576**	**–**	**9,576**
Amortization provided during the year	**(7,756)**	**–**	**(7,756)**
Exchange realignment	**221**	**–**	**221**
At 31 December 2012	**29,143**	**1,114**	**30,257**
At 31 December 2012:			
Cost	**66,727**	**1,114**	**67,841**
Accumulated amortization	**(37,584)**	**–**	**(37,584)**
Net carrying amount	**29,143**	**1,114**	**30,257**
31 December 2011			
Cost at 1 January 2011, net of accumulated amortization	8,028	1,114	9,142
Additions	4,662	–	4,662
Acquisition of subsidiaries	18,820	–	18,820
Amortization provided during the year	(5,109)	–	(5,109)
Exchange realignment	701	–	701
At 31 December 2011	27,102	1,114	28,216
At 31 December 2011:			
Cost	57,151	1,114	58,265
Accumulated amortization	(30,049)	–	(30,049)
Net carrying amount	27,102	1,114	28,216

18. INVESTMENTS IN SUBSIDIARIES

Company	2012 HK$'000	2011 HK$'000
Unlisted shares, at cost	**375,375**	375,375
Capital contribution in respect of employee share-based compensation	**234,175**	145,028
Financial guarantees granted to subsidiaries (note 33)	**23,265**	27,972
	632,815	548,375

The amounts due from subsidiaries and the amount due to a subsidiary included in the Company's current assets and current liabilities of HK$1,038,200,000 (2011: HK$1,038,200,000) and HK$299,621,000 (2011: HK$176,320,000), respectively, are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Systems Investments Limited	British Virgin Islands	US$100	100	–	Investment holding
Praises Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Comba Telecom Systems Limited 京信通信系統有限公司	Hong Kong	HK$10,002	–	100	Investment holding and trading
Comba Telecom Systems (Guangzhou) Limited 京信通信系統 (廣州) 有限公司*	PRC/ Mainland China	HK$45,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Technology (Guangzhou) Limited 京信通信技術 (廣州) 有限公司*	PRC/ Mainland China	HK$65,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Telecom Systems (China) Limited 京信通信系統 (中國) 有限公司*	PRC/ Mainland China	US$41,865,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Software Technology (Guangzhou) Limited 京信軟件科技 (廣州) 有限公司*	PRC/ Mainland China	HK$10,000,000	–	100	Provision of software technology services
Comba Telecom Systems Engineering Limited 廣州京信通信系統工程 有限公司*	PRC/ Mainland China	RMB30,000,000	–	100	Sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Guangzhou Telink Telecom Equipment Ltd. 廣州泰聯電訊設備 有限公司*	PRC/ Mainland China	HK$1,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Guangzhou Tai Pu Wireless Telecommunications Equipment Limited 廣州泰普無綫通信設備 有限公司*	PRC/ Mainland China	RMB1,000,000	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Telink Telecom (China) Limited 泰聯電訊 (中國) 有限公司*	PRC/ Mainland China	HK$50,000,000	–	100	Manufacture and sale of wireless telecommunications network enhancement system equipment and provision of related engineering services
Cascade Technology Limited	British Virgin Islands	US$1	–	100	Investment holding
WaveLab Holdings Limited	Cayman Islands	US$1,000	–	55	Investment holding
WaveLab, Inc.	State of Virginia/ United States of America	US$400,000	–	55	Research and development of digital microwave system equipment
WAVELAB GLOBAL, Incorporated	State of Virginia/ United States of America	US$500,000	–	55	Trading of digital microwave system equipment
WaveLab Asia Holdings Limited	British Virgin Islands	US$1	–	55	Investment holding
WaveLab Telecom Equipment (Guangzhou) Limited 波達通信設備 (廣州) 有限公司*	PRC/ Mainland China	US$3,400,000	–	55	Manufacture and sale of digital microwave system equipment
WaveLab Software Technology (Guangzhou) Limited 波達軟件科技 (廣州) 有限公司*	PRC/ Mainland China	US$1,000,000	–	55	Provision of software technology services

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
WaveLab Limited 波達有限公司	Hong Kong	HK$1	—	55	Investment holding
Comba Telecom Systems International Limited	British Virgin Islands	US$1	—	100	Investment holding
Comba Telecom Limited	Hong Kong	HK$2	—	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Systems (Singapore) Pte. Ltd.	Singapore	SG$1,000,002	—	100	Provision of marketing services
Comba Telecom Co., Ltd.	Thailand	THB2,000,000	—	100	Trading of wireless telecommunications network enhancement system equipment
Comban Telecom Systems AB	Sweden	SEK100,000	—	100	Provision of marketing services
Noblefield International Limited	British Virgin Islands	US$1	—	100	Investment holding
Comba Telecom Inc.	State of Delaware/ United States of America	US$1	—	100	Research and development and trading of wireless telecommunications network enhancement system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicações Ltda.	Brazil	BRL13,003,344	—	100	Production and assembling and trading of wireless telecommunications network enhancement system equipment

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba Telecom India Private Limited	India	INR500,000	–	100	Trading of wireless telecommunications network enhancement system equipment
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US$100,000	–	100	Provision of management consultancy services of telecommunications
Comba Telecom & Sistemas de México, S.A. de C.V.	Mexico	MXN50,000	–	100	Production, sale, leasing and subleasing of wireless telecommunications network enhancement system equipment
Comba Telecom y Servicios de México, S.A. de C.V.	Mexico	MXN50,000	–	100	Provision of general and engineering services
Comba Telecom, S.L.	Spain	EUR100,000	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services
Comba Technologies Sdn. Bhd.	Malaysia	RM2	–	100	Trading of wireless telecommunications network enhancement system equipment and provision of related engineering services

Note:

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

19. INVENTORIES

Group	2012 HK$'000	2011 HK$'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

20. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES

Group	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 credit worthiness of customers. The balance above 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 years 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.

20. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES (continued)

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

Group	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:

Group	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:

Group	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.

20. TRADE RECEIVABLES AND LONG-TERM TRADE RECEIVABLES (continued)

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.

21. NOTES RECEIVABLE

At 31 December 2012 and 2011, none of the notes receivable were endorsed or discounted.

All notes receivables of the Group would mature within six months.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**227,998**	173,020	**–**	–
Deposits	**36,606**	72,822	**–**	–
Other receivables	**316,353**	204,968	**–**	5,454
	580,957	450,810	**–**	5,454

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,536,638**	1,114,412	**11,022**	306
Time deposits	**32,017**	86,846	**–**	–
	1,568,655	1,201,258	**11,022**	306
Less: Restricted bank deposits for performance bonds	**(32,017)**	(86,846)	**–**	–
Cash and cash equivalents	**1,536,638**	1,114,412	**11,022**	306

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,132,093, 000 (2011: HK$1,007,433,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

24. 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:

Group	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.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Accruals	**262,413**	238,476	**2,240**	2,646
Deposits received	**178,132**	187,704	**—**	—
Other payables	**766,343**	760,379	**72,915**	72,893
	1,206,888	1,186,559	**75,155**	75,539

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

26. DERIVATIVE FINANCIAL INSTRUMENT

Group	2012 Liabilities HK$'000	2011 Liabilities HK$'000
Interest rate swap	–	698

Interest rate swap — cash flow hedge

The Group held an interest rate swap contract designated as a hedge in respect of expected interest payments for floating rate debts incurred by the Group.

Group	2012 HK$'000	2011 HK$'000
Total fair value gain	–	(2,275)
Reclassification from other comprehensive income and recognized in the consolidated income statement	–	(344)
Loss on expiry of interest rate swap contract	**404**	–
Income tax effect (note 16)	**116**	250
Net loss/(gain) on cash flow hedge	**520**	(2,369)

27. INTEREST-BEARING BANK BORROWINGS

Group	2012 HK$'000	2011 HK$'000
Analysed into:		
Within one 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.

27. INTEREST-BEARING BANK BORROWINGS (continued)

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 approval of the financial statements, 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.

28. PROVISIONS FOR PRODUCT WARRANTIES

Group	2012 HK$'000	2011 HK$'000
At 1 January	**69,232**	57,038
Additional provisions	**53,889**	45,401
Amounts utilized during the year	**(45,458)**	(36,215)
Exchange realignment	**652**	3,008
At 31 December	**78,315**	69,232

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

29. SHARE CAPITAL

Shares	2012 HK$'000	2011 HK$'000
Authorized:		
5,000,000,000 (2011: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
1,526,196,229 (2011: 1,526,196,229) ordinary shares of HK$0.10 each	**152,620**	152,620

During the years ended 31 December 2011 and 2012, the movements in the Company's issued capital were as follows:

	Number of shares in issue	Issued capital HK$'000	Treasury shares HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2011	1,323,051,235	132,305	–	482,453	614,758
Share Option Scheme					
– exercise of share options (a)	41,307,499	4,131	–	45,090	49,221
Share Award Scheme					
– shares allotted (b)	26,000,000	2,600	(2,600)	–	–
– shares purchased (c)	–	–	(7,694)	–	(7,694)
– vested awarded shares transferred to selected persons (d)	–	–	860	82,074	82,934
Issue of bonus shares (e)	135,837,495	13,584	(227)	(13,357)	–
At 31 December 2011 and 1 January 2012	**1,526,196,229**	**152,620**	**(9,661)**	**596,260**	**739,219**
Share Award Scheme					
– shares purchased (c)	**–**	**–**	**(5,021)**	**–**	**(5,021)**
– vested awarded shares transferred to selected persons (d)	**–**	**–**	**312**	**47,504**	**47,816**
At 31 December 2012	**1,526,196,229**	**152,620**	**(14,370)**	**643,764**	**782,014**

As at 31 December 2012, the total number of issued ordinary shares of the Company was 1,526,196,229 shares (2011: 1,526,196,229 shares) which included 19,017,120 shares (2011: 20,733,270) held under the Share Award Scheme.

29. SHARE CAPITAL (continued)

Notes:

(a) During the year ended 31 December 2011, the subscription rights attaching to 41,307,499 share options were exercised at the adjusted exercise prices ranging from HK$0.434 to HK$6.570 per share, resulting in the issue of 41,307,499 shares of HK$0.10 each for a total cash consideration, before expenses of HK$38,010,000.

(b) Pursuant to the announcement dated 12 April 2011 and the subsequent extraordinary general meeting of the Company held on 23 May 2011, the Company allotted a total of 26,000,000 ordinary shares to the trustee for the purpose of granting awarded shares under the Share Award Scheme adopted on 25 March 2011.

(c) During the Current Year, the trustee and/or administrator of the Company of the Share Award Scheme (the "Trustee/Administrator") acquired 1,402,000 shares (2011: 1,062,500 shares) of the Company through purchases on the open market at a total cost of approximately HK$5,021,000 (2011: approximately HK$7,694,000).

(d) During the Current Year, the Trustee transferred 3,118,150 ordinary shares of the Company (2011: 8,596,030 ordinary shares) to the selected persons upon vesting of the awarded shares.

(e) Pursuant to the annual general meeting held on 23 May 2011, a bonus issue of shares on the basis of one share for every ten shares held was approved. 135,837,495 bonus shares were issued under the bonus issue and the amount of HK$13,584,000 was capitalized from the Company's share premium account and treasury shares. The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

30. SHARE OPTION AND SHARE AWARD SCHEMES

(a) Share Option Scheme

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include directors (including independent non-executive directors), employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors, customers, licencees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by the Company's controlling shareholder. The Share Option Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

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

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

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price of share options HK$ per share	**Number of share options '000**	Weighted average exercise price of share options* HK$ per share	Number of share options '000
At 1 January	**6.57**	**34,400**	3.48	78,333
Granted during the year	**5.66**	**40,000**	–	–
Forfeited during the year	**6.57**	**(3,500)**	6.57	(1,308)
Exercised during the year	**–**	**–**	0.89	(42,573)
Expired during the year	**–**	**–**	1.22	(52)
At 31 December	**6.06**	**70,900**	6.57	34,400

* The weighted average exercise price of share options per share and the number of share options were adjusted as a result of the bonus issue of shares approved on 23 May 2011 (the "Bonus Issue").

No options were exercised during the Current Year. The weighted average closing price of the Company's shares at the dates of exercise of the share options for the year ended 31 December 2011 was HK$7.56.

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

Movements in the number of the Company's share options under the Share Option Scheme during the Current Year are as follows:

		Number of share options							
Name or category of participant	At 1 January 2012	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2012	Date of grant of share options#	Exercise period of share options	Exercise price of share options## HK$ per share
Executive Directors									
Mr. Tong Chak Wai, Wilson	**–**	500,000	–	–	–	**500,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
Mr. Wu Jiang Cheng	**–**	500,000	–	–	–	**500,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
Mr. Yan Ji Ci	**–**	500,000	–	–	–	**500,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
Mr. Yeung Pui Sang, Simon	**–**	500,000	–	–	–	**500,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
Mr. Zhang Yuan Jian	**–**	500,000	–	–	–	**500,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
Independent non-executive Directors									
Mr. Liu Cai	**242,000**	–	–	–	–	**242,000**	22 Jul 10	22 Jul 11-21 Jul 13	6.57##
	–	100,000	–	–	–	**100,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
	242,000	100,000	–	–	–	**342,000**			
Mr. Lau Siu Ki, Kevin	**242,000**	–	–	–	–	**242,000**	22 Jul 10	22 Jul 11-21 Jul 13	6.57##
	–	100,000	–	–	–	**100,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
	242,000	100,000	–	–	–	**342,000**			
Other employees In aggregate	**33,916,150**	–	–	–	(3,499,950)	**30,416,200**	22 Jul 10	22 Jul 11-21 Jul 13	6.57##
	–	37,300,000	–	–	–	**37,300,000**	12 Jan 12	12 Jan 13-11 Jan 15	5.66
	33,916,150	37,300,000	–	–	(3,499,950)	**67,716,200**			
	34,400,150	40,000,000	–	–	(3,499,950)	**70,900,200**			

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

The exercise price of HK$6.57 of share options per share was adjusted as a result of the Bonus Issue.

The Company granted 40,000,000 share options on 12 January 2012 with the exercise price of HK$5.66 per share. The closing price of the Company's shares immediately before the date of such grant was HK$5.51 per share.

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

31 December 2012 Number of share options '000	Adjusted exercise price of share options HK$ per share	Exercise period
30,900	**6.570^**	**22 July 2011 to 21 July 2013**
40,000	**5.660**	**12 January 2013 to 11 January 2015**
70,900		

31 December 2011 Number of share options '000	Exercise price of share options HK$ per share	Exercise period
34,400	6.570^	22 July 2011 to 21 July 2013

^ The exercise price of the share options was adjusted as a result of the Bonus Issue.

The fair value of the share options granted during the Current Year was HK$48,900,000 (approximately HK$1.22 each).

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

Dividend yield (%)	2.73
Expected volatility (%)	40
Risk-free interest rate (%)	0.43
Expected life of share options (years)	3
Weighted average share price (HK$ per share)	5.72

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

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

The expense recognized in the consolidated income statement for employee services received during the Current Year is approximately HK$38,495,000 (2011: HK$15,790,000).

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(a) Share Option Scheme (continued)

At the end of the reporting period, the Company had 70,900,200 share options outstanding under the Share Option Scheme, of which 30,900,200 share options were vested and 40,000,000 share options were unvested. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 70,900,200 additional ordinary shares of the Company and additional share capital of HK$7,090,000 and share premium of HK$422,323,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 68,154,300 share options outstanding under the Share Option Scheme, which represented approximately 4.5% of the Company's shares in issue as at that date.

(b) Share Award Scheme

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

Unless it is early terminated by the board of directors of the Company (the "Board"), the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

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

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

30. SHARE OPTION AND SHARE AWARD SCHEMES (continued)

(b) Share Award Scheme (continued)

On 12 April 2011, the Board resolved to award 26,000,000 Awarded Shares to 365 Selected Persons under the Share Award Scheme by way of issue and allotment of new Awarded Shares pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 24 May 2010. Upon issue and allotment of the new Awarded Shares, the Trustee will hold the new Awarded Shares in trust for the Selected Persons and such new Awarded Shares shall be transferred to the Selected Persons upon the vesting conditions will have been met. The number of Awarded Shares granted to each of the Selected Persons is subject to their respective contributions to the Group. Among those 365 Selected Persons, there are 12 Selected Persons who are directors of members of the Group and accordingly connected persons (as defined in Chapter 14A of the Listing Rules) to the Company (the "Connected Selected Person(s)") and the issue and allotment of the 3,332,000 new Awarded Shares to the Connected Selected Persons under the Share Award Scheme were approved by the independent shareholders other than the Connected Selected Persons and their respective associates in accordance with the Listing Rules at the extraordinary general meeting of the Company held on 23 May 2011.

Movements in the number of treasury shares held for the Share Award Scheme and Awarded Shares for the years ended 31 December 2011 and 2012 are as follows:

	Notes	**Treasury shares held for the Share Award Scheme**	**Awarded Shares held for the Selected Persons**
At 1 January 2012		**2,329,170**	**18,404,100**
Purchased at the market	29(c)	**1,402,000**	**–**
Lapsed and returned to the Share Award Scheme		**897,390**	**(897,390)**
Vested to the Selected Persons	29(d)	**–**	**(3,118,150)**
At 31 December 2012		**4,628,560**	**14,388,560**

	Notes	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2011		–	–
Purchased at the market	29(c)	1,062,500	–
Newly allotted under the Share Award Scheme	29(b)	26,000,000	–
Bonus issue of shares		2,266,800	–
Granted to the Selected Persons		(28,266,800)	28,266,800
Lapsed and returned to the Share Award Scheme		1,266,670	(1,266,670)
Vested to the Selected Persons	29(d)	–	(8,596,030)
At 31 December 2011		2,329,170	18,404,100

The 14,388,560 Awarded Shares outstanding as at 31 December 2012 have 2 remaining vesting dates, which are 12 April 2013 and 12 April 2014. Upon each vesting date, those Awarded Shares will be transferred at no cost to the Selected Persons.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 50 and 51 of the financial statements.

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

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus* HK$'000	Share-based compensation reserve HK$'000	Capital reserve HK$'000	Retained profits/ (loss) HK$'000	Total HK$'000
At 31 December 2010		482,453	373,108	21,386	762	6,271	883,980
Profit and total comprehensive income for the year	10	–	–	–	–	185,067	185,067
Share Option Scheme							
– exercise of share options	29	45,090	–	(11,211)	–	–	33,879
– value of services	30(a)	–	–	15,790	–	–	15,790
– adjustment arising from lapse of share options		–	–	(205)	–	205	–
– share options cancelled at expiry date		–	–	(7)	–	7	–
Share Award Scheme							
– value of services		–	–	145,028	–	–	145,028
– vested awarded shares transferred to Selected Persons	29	82,074	–	(82,934)	–	–	(860)
Issue of bonus shares		(13,357)	–	–	–	–	(13,357)
Underprovision of final 2010 dividend		–	–	–	–	(4,239)	(4,239)
Interim 2011 dividend		–	–	–	–	(75,743)	(75,743)
Proposed final 2011 dividend		–	–	–	–	(106,834)	(106,834)
At 31 December 2011		**596,260**	**373,108**	**87,847**	**762**	**4,734**	**1,062,711**
Loss and total comprehensive loss for the year	10	**–**	**–**	**–**	**–**	**(8,941)**	**(8,941)**
Share Option Scheme							
– value of services	30(a)	**–**	**–**	**38,495**	**–**	**–**	**38,495**
– adjustment arising from lapse of share options		**–**	**–**	**(1,311)**	**–**	**1,311**	**–**
Share Award Scheme							
– value of services		**–**	**–**	**53,793**	**–**	**–**	**53,793**
– vested awarded shares transferred to Selected Persons	29	**47,504**	**–**	**(47,816)**	**–**	**–**	**(312)**
At 31 December 2012		**643,764**	**373,108**	**131,008**	**762**	**(2,896)**	**1,145,746**

* The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganization before the listing of the company on the mainboard of The Stock Exchange of Hong Kong Limited, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus under certain circumstances.

32. TRANSFERRED FINANCIAL ASSETS

Financial assets that are not derecognized in their entirety

The Group entered into a trade receivable 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.

33. CONTINGENT LIABILITIES

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of performance bonds	**39,072**	93,776	**–**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**2,900,440**	1,701,285
	39,072	93,776	**2,900,440**	1,701,285

As at 31 December 2012, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company and/or certain of its subsidiaries were utilized to the extent of approximately HK$1,564,429,000 (2011: HK$1,126,476,000). The carrying amount of the financial guarantee contracts recognized in the Company's statement of financial position in accordance with HKAS 39 and HKFRS 4 was HK$23,265,000 (2011: HK$27,972,000). The financial guarantee contracts were eliminated on consolidation.

34. OPERATING LEASE ARRANGEMENTS

As lessee

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

34. OPERATING LEASE ARRANGEMENTS (continued)

As lessee (continued)

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Within one year	**64,953**	55,660	**–**	–
In the second to fifth years, inclusive	**48,169**	51,129	**–**	–
After five years	**3,733**	5,865	**–**	–
	116,855	112,654	**–**	–

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group and the Company had the following capital commitments for the procurement of production and office facilities at the end of the reporting period:

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Contracted, but not provided for:				
Buildings	**1,825**	43,040	**–**	–
Plant and machinery	**4,978**	–	**–**	–
Furniture and fixtures	**–**	649	**–**	–
	6,803	43,689	**–**	–

36. RELATED PARTY TRANSACTIONS

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

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

	2012 HK$'000	2011 HK$'000
Short term employee benefits	**22,856**	22,508
Pension scheme contributions	**333**	277
Equity-settled share option expense	**2,488**	321
Awarded share expense	**6,243**	11,927
Total compensation paid to key management personnel	**31,920**	35,033

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

Further details of directors' remuneration are included in note 8 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group Financial assets	2012 Loans and receivables HK$'000	2011 Loans and receivables HK$'000
Trade receivables	**4,452,866**	4,268,084
Long-term trade receivables	**134,695**	118,648
Notes receivable	**63,194**	68,472
Financial assets included in prepayments, deposits and other receivables (note 22)	**352,959**	277,790
Restricted bank deposits	**32,017**	86,846
Cash and cash equivalents	**1,536,638**	1,114,412
	6,572,369	5,934,252

Group Financial liabilities	2012 Financial liabilities at amortized cost HK$'000	2011 Financial liabilities at amortized cost HK$'000
Trade and bills payables	**3,281,193**	2,981,163
Financial liabilities included in other payables and accruals (note 25)	**766,343**	760,379
Derivative financial instruments	**–**	698
Interest-bearing bank borrowings	**1,558,656**	1,124,015
	5,606,192	4,866,255

Company Financial assets	2012 Loans and receivables HK$'000	2011 Loans and receivables HK$'000
Due from subsidiaries	**1,038,200**	1,038,200
Other receivables	**–**	5,454
Cash and cash equivalents	**11,022**	306
	1,049,222	1,043,960

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company Financial liabilities	**2012** **Financial liabilities at amortized cost** **HK$'000**	2011 Financial liabilities at amortized cost HK$'000
Due to a subsidiary	**299,621**	176,320
Financial liabilities included in other payables and accruals (note 25)	**72,915**	72,893
Financial guarantee contracts	**23,265**	27,972
	395,801	277,185

38. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, restricted bank deposits, trade receivables, notes receivable, trade and bills payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the Group's long-term trade receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The Group entered into an interest rate swap transaction with an international bank. The derivative financial instrument, interest rate swap, was measured using valuation techniques similar to a swap model, using present value calculations. The model incorporates various market observable inputs including the forward rates and interest rate curves. The carrying amount of the interest rate swap was the same as its fair value as at 31 December 2011. The interest rate swap contract was expired on 3 July 2012.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2011, the interest rate swap contract measured at fair value held by the Group only represented the derivative financial instrument which belonged to level 2.

The carrying amounts of the Group's and Company's financial assets and financial liabilities approximate to their fair values.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss/profit before tax and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
2012			
United States dollars	**50**	**3,978**	**–**
United States dollars	**(50)**	**(3,978)**	**–**

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2011			
United States dollars	50	(2,024)	–
United States dollars	(50)	2,024	–

* Excluding retained profits/loss

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 5.9% (2011: 6.8%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sales, whilst 91.2% (2011: 90.3%) of costs are denominated in the units' functional currency.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollars ("US$") exchange rate, with all other variables held constant, of the Group's loss/profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in US$ rate %	**Increase/ (decrease) in loss before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
2012			
If Hong Kong dollar weakens against US$	**5**	**59,080**	**–**
If Hong Kong dollar strengthens against US$	**(5)**	**(59,080)**	**–**

	Increase/ (decrease) in US$ rate	(Decrease)/ increase in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2011			
If Hong Kong dollar weakens against US$	5	(34,531)	–
If Hong Kong dollar strengthens against US$	(5)	34,531	–

* Excluding retained profits/loss

Credit risk

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each of the individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimal. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the other financial assets of the Group, which comprise cash and cash equivalents, notes receivable and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 26% (2011: 28%) and 84% (2011: 83%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and long-term trade receivables are disclosed in note 20 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, banking facilities have been put in place for contingency purposes. The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	**2012** **Within 1 year** **HK$'000**	 **1 to 5 years** **HK$'000**	 **Total** **HK$'000**
Interest-bearing bank borrowings*	**1,560,798**	**–**	**1,560,798**
Trade and bills payables	**3,281,193**	**–**	**3,281,193**
Other payables	**766,343**	**–**	**766,343**
	5,608,334	**–**	**5,608,334**

Group	2011 Within 1 year HK$'000	 1 to 5 years HK$'000	 Total HK$'000
Interest-bearing bank borrowings*	719,272	404,743	1,124,015
Trade and bills payables	2,981,163	–	2,981,163
Other payables	760,379	–	760,379
	4,460,814	404,743	4,865,557

Company	**2012** **Within 1 year** **HK$'000**	 **1 to 5 years** **HK$'000**	 **Total** **HK$'000**
Due to a subsidiary	**299,621**	**–**	**299,621**
Other payables	**72,915**	**–**	**72,915**
	372,536	**–**	**372,536**

Company	2011 Within 1 year HK$'000	 1 to 5 years HK$'000	 Total HK$'000
Due to a subsidiary	176,320	–	176,320
Other payables	72,893	–	72,893
	249,213	–	249,213

* Details of the interest-bearing bank borrowings are set out in note 27 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the total assets. The gearing ratios as at the end of the reporting periods were as follows:

Group	**2012** **HK'000**	2011 HK'000
Interest-bearing bank borrowings	**1,558,656**	1,124,015
Total assets	**10,091,711**	9,581,332
Gearing ratio	**15.4%**	11.7%

40. EVENT AFTER THE REPORTING PERIOD

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

41. COMPARATIVE AMOUNTS

During the year, certain comparative amounts have been adjusted to conform with the Current Year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 22 March 2013.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified upon the adoption of the new and revised HKFRSs as appropriate, is set out below:

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**6,332,867**	6,354,218	5,191,358	4,439,991	2,525,895
Cost of sales	**(4,716,988)**	(4,027,521)	(3,251,658)	(2,758,068)	(1,579,861)
Gross profit	**1,615,879**	2,326,697	1,939,700	1,681,923	946,034
Other income and gains	**68,854**	110,269	44,499	38,807	19,083
Research and development costs	**(376,766)**	(361,914)	(210,912)	(167,024)	(132,253)
Selling and distribution expenses	**(503,749)**	(437,088)	(265,622)	(234,153)	(185,811)
Administrative expenses	**(904,640)**	(830,714)	(627,514)	(544,051)	(370,112)
Other expenses	**(5,073)**	(1,331)	(2,631)	(10,171)	(3,554)
Finance costs	**(42,635)**	(29,403)	(20,790)	(12,722)	(13,405)
(LOSS)/PROFIT BEFORE TAX	**(148,130)**	776,516	856,730	752,609	259,982
Income tax expense	**(67,515)**	(121,772)	(119,540)	(142,291)	(27,493)
(LOSS)/PROFIT FOR THE YEAR	**(215,645)**	654,744	737,190	610,318	232,489
Attributable to:					
Owners of the parent	**(202,364)**	659,084	724,326	564,500	227,512
Non-controlling interests	**(13,281)**	(4,340)	12,864	45,818	4,977
	(215,645)	654,744	737,190	610,318	232,489
TOTAL ASSETS	**10,091,711**	9,581,332	7,262,426	5,725,107	3,452,397
TOTAL LIABILITIES	**(6,229,552)**	(5,498,508)	(3,953,401)	(3,131,992)	(1,463,390)
NON-CONTROLLING INTERESTS	**(56,537)**	(68,760)	(69,501)	(56,773)	(14,468)
	3,805,622	4,014,064	3,239,524	2,536,342	1,974,539

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