京信通信系統控股有限公司
Comba Telecom Systems Holdings Limited
股份編號 Stock Code : 2342

Innovation, Transformation and Exploitation of the Future

創新、變革、開拓未來

2013
ANNUAL REPORT
年報

COMPANY PROFILE
公司概況

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

The Company has established its R&D headquarters based in Guangzhou Science City, three research institutions in Nanjing in China, Washington City and California in the USA respectively and has applied more than 1,600 Chinese and international patents. Our global manufacturing base, located in Guangzhou, covers an area of approximately 80,000 square meters.

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

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無線解決方案供應商。憑藉創新科技，本公司為全球客戶提供無線接入、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、美國弗吉尼亞州及加利福尼亞州分別設有研究所，已申請國內外專利1,600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，擁有約80,000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。

本公司於2003年12月獲納入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

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Grand Cayman KY1-1111
Cayman Islands

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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

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 Company (Cayman) Limited
4th Floor Royal Bank House
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Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Shops 1712–1716 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai Hong Kong

PRINCIPAL BANKERS

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

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

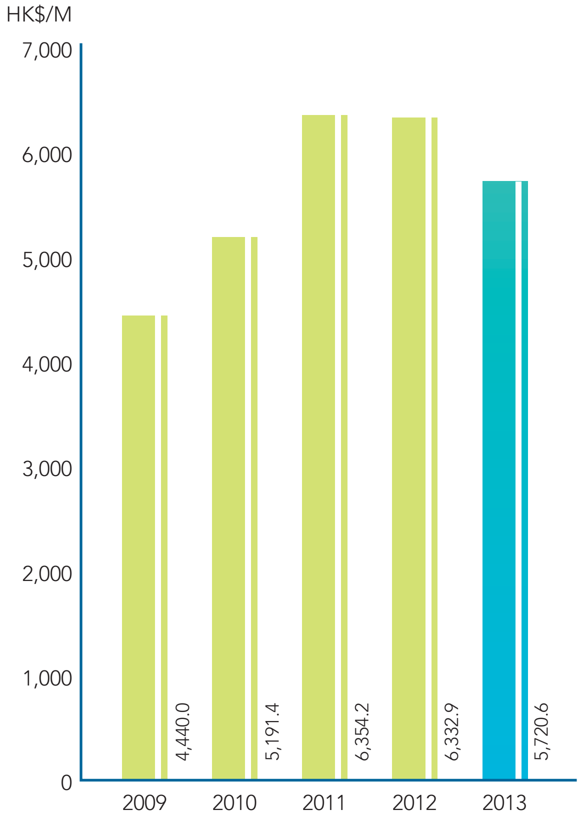
Bank of China Limited
Guangzhou Development Zone Branch
2 Qingnian Road GETD District
Guangzhou PRC

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

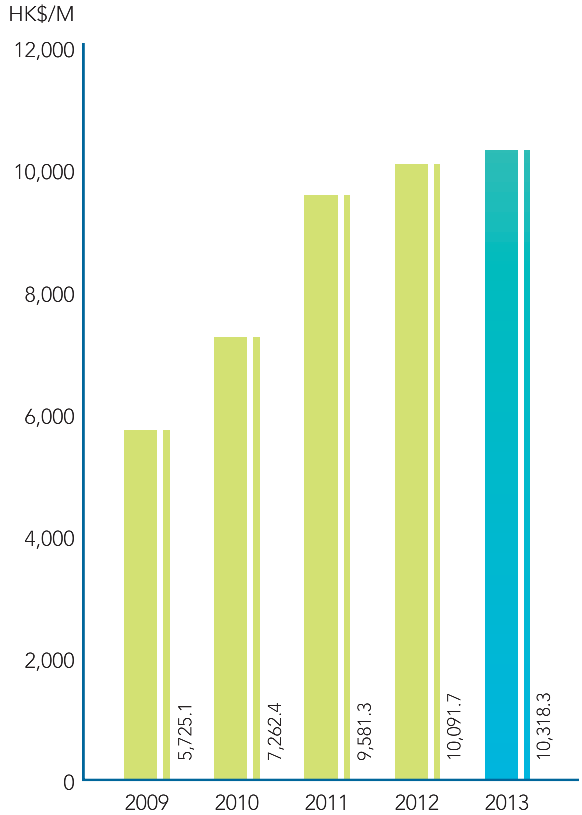
China Merchants Bank Co Ltd
Guangdong Branch Gaoxin Sub-branch
1 Huajing Road 1st Floor
Southern Communication Plaza
Guangzhou PRC

FINANCIAL SUMMARY

REVENUE



TOTAL ASSETS



REVENUE BREAKDOWN BY BUSINESSES

▲/▼ = YoY change

▼ 16.7% Wireless Access & Transmission
7.4%

▼ 21.9% Wireless Enhancement
17.1%

▲ 2.6% Antennas & Subsystems
32.6%

▼ 10.9% Services
42.9%

REVENUE BREAKDOWN BY CUSTOMERS

▲/▼ = YoY change

▼ 10.0% China Mobile
52.1%

▼ 40.2% China Unicom
14.5%

▲ 58.1% China Telecom
12.8%

▲ 8.1% International Customers & Core Equipment Manufacturers
19.5%

▼ 55.4% Others
1.1%

FINANCIAL SUMMARY

For the year ended 31 December	2013 HK$'000	2012 HK$'000	Change
Revenue	5,720,599	6,332,867	(9.7%)
Operating (loss)	(104,725)	(105,495)	n.a.
(Loss) attributable to shareholders	(240,722)	(202,364)	n.a.
Basic (loss) per share (HK cents)	(15.91)	(13.43)	n.a.
Weighted average number of shares (million shares)	1,512.9	1,506.9	+0.4%
Operating cash flow	300,854	201,320	+49.4%

KEY FINANCIAL FIGURES

As at 31 December	2013 HK$'000	2012 HK$'000	Change
Total assets	10,318,277	10,091,711	+2.2%
Net assets (before non-controlling interest)	3,673,796	3,805,622	(3.5%)
Net assets value per share (HK dollars)	2.41	2.49	(3.2%)
Cash and bank balances	1,666,651	1,568,655	+6.2%
Net cash	108,575	9,999	+985.9%
Inventory turnover days	188	180	+8 days
A/R turnover days	294	259	+35 days
A/P turnover days	298	242	+56 days
Gross gearing ratio	15.1%	15.4%	(0.3) pp

CORPORATE MILESTONE 2013

Achievement

Brazil
Coverage solution for Arena de Sao Paulo

Singapore
Coverage solution for Marina Coastal Expressway (MCE) Tunnel

Liaoning Province, the PRC
Communications supporting solution for the 12th National Games

Jiangsu Province, the PRC
Communications supporting solution for the 2nd Asian Youth Games

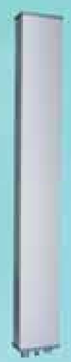
Russia
Coverage solution for the Moscow Domodedovo Airport

Hong Kong
Coverage solution for government buildings

Sichuan Province, the PRC
Emergency communications solution for Ya'an Earthquake relief

Development

Breakthrough in new Small Cell products



Large-scale development of LTE and flooding orders for base station antennas resulting in increase of production capability

Successful launch of TD-LTE small cell

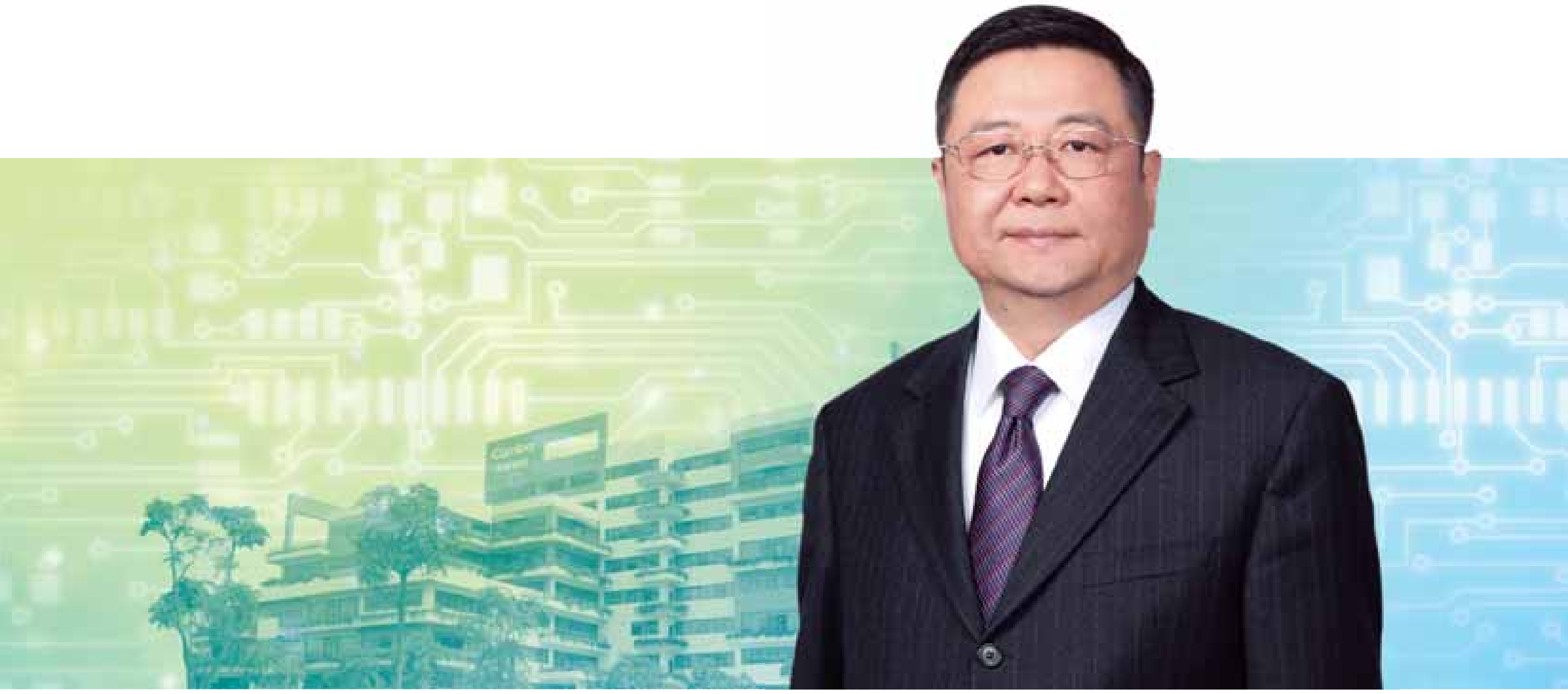
Launch of quad-band MDAS for LTE

Launch of new generation of DAS in North America market

Brand

The 10th Listing Anniversary & Market Open Ceremony

CHAIRMAN'S STATEMENT



On behalf of Comba Telecom Systems Holdings Limited (the "Company"), I hereby present to the shareholders the annual report of the Company and its subsidiaries ("Comba Telecom" or the "Group") for the year ended 31 December 2013 (the "Current Year").

The year 2013 marked a challenging one for Comba Telecom and it was also a crucial period of business transformation. During the Current Year, in addition to the intensified industry competition, there were some uncertainties associated with the procurement of telecom equipment by the PRC mobile network operators during most of the year prior to the granting of the fourth generation mobile communications ("4G") network licenses at the end of the year. Consequently, the Group recorded a decrease in overall revenue when compared to that of last year. The Group recorded revenue of HK$5,720,599,000 for the Current Year, representing a decrease of 9.7% year-on-year. Despite the unsatisfactory performance in the Mainland China market, the business development of the Group in the international markets was encouraging with revenue for the Current Year continuing to show upward trend. The brand of the Group in the international markets was successfully strengthened with a number of overseas landmark projects undertaken, including large-scale wireless solutions for large stadiums hosting world-known sporting events, high-speed rails, prestigious commercial buildings and exhibition centres during the Current Year. As a result, the revenue generated from international customers and core equipment manufacturers increased 8.1% year-on-year to HK$1,112,795,000. In respect of profitability, the Group recorded a loss of HK$240,722,000 for the Current Year attributable to the decrease in overall revenue; and an impairment provision made in respect of the uncertain recoverability of certain receivables, despite its strenuous efforts to reduce costs.

Despite the challenging industry landscape, we regard "innovation" as a critical core value of the Group and are striving to develop new products in the hope of accelerating its business transformation. Focusing on product quality, the Group also actively seeks to optimize and enrich its product series in response to market and customer needs so as to create value for its customers. During the Current Year, the development of the Small Cell business, a key new product of the Group, progressed smoothly in Mainland China and international markets. The second generation ("2G") and the third generation ("3G") of mobile communications Small Cell have been successfully deployed in a number of markets with commercial application being carried out successfully. 4G Small Cell products were also successfully launched with trial-runs conducted across various provinces and cities within Mainland China. In addition to Small Cell products, the promotion of the multi-service digital distributed access system ("MDAS"), another key new product of the Group, has also progressed satisfactorily. During the Current Year, MDAS products were launched and tested in various provinces and cities. Positive feedback was received from customers with project tenders already secured in certain areas. At the same time, various types of 4G antenna for different applications in the global markets have been developed and officially put into production. We will proactively strengthen our efforts to increase the sales scalability of the new products and are confident that they will become new growth drivers for the Group.

Looking ahead, given the stable economic development approach adopted by Mainland China, the gradual improvement of economic conditions in European countries and a U.S. economic recovery, we believe 2014 will be a vital year for the Group's business development. While some uncertainties linger in the market, the Group will always keep agile and innovative and proactively adapt its business strategies in response to the ever-changing and challenging environment. In addition, the Group will expedite the pace of reform and transformation in order to improve and maximize the operational efficiency of each functional unit and branch.

Nowadays, mobile networks have become an integral part of our lives, and mobile communications have shifted from an era of voice to digital in just a few short years. As a leading wireless solution provider, the Group has been providing reliable and best-in-class telecom equipment for years to assist mobile network operators in providing signal transmission and receiving services to their customers. More importantly, the Group aids them to offer flexible, reliable and seamless wireless access environments and a better user experience. To date, access to mobile internet anytime and anywhere through different mobile communications terminal devices for different activities such as mobile office, information sharing, social interaction, E-commerce, internet banking, etc., has changed our lives and our working habits. These have significantly increased the requirements for mobile networks in terms of capability, coverage, speed, quality, etc. Therefore, I am confident that there are still numerous opportunities available in the global telecommunications industry, and the Group will play an increasingly important role in the value chain of the mobile communications industry. In particular, as Mainland China officially entered the 4G era at the end of 2013, the Group believes that the subscriber base for 4G will rapidly increase and mobile network operators will gradually accelerate their investments in existing networks. This will not only increase the demand for 4G telecom equipment but also drive the demand for equipment and solutions that incorporating multi-systems to increase significantly. This will create strong and imminent demand for quality solutions with indoor distribution and high capacity. We are confident that Comba Telecom is able to seize these opportunities to improve performance and maximize returns for 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 continuing support and trust and to all the staff for their sustained efforts.

Fok Tung Ling
Chairman
Hong Kong
28 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

REVENUE

For the year ended 31 December 2013 (the "Current Year"), revenue of the Group was HK$5,720,599,000 (2012: HK$6,332,867,000), representing a decrease of 9.7% over the revenue for the year ended 31 December 2012 (the "Prior Year"). The decline was mainly attributable to the setbacks encountered in the PRC market resulting from some project delays and uncertainties in the timing of investment by the certain customers prior to the granting of 4G licenses in China.

During the Current Year, as a result of the decline in the investment of overall wireless solutions market by mobile operators, sales from 3G mobile network projects reported a revenue of HK$2,431,000,000 (2012: HK$2,711,000,000), representing a decrease of 10.3% and accounting for 42.5% (2012: 42.8%) of the Group's total revenue.

By customers

During the Current Year, revenue generated from China Mobile Communications Corporation and its subsidiaries (collectively referred to as the "China Mobile Group") decreased by 10.0% to HK$2,981,503,000 (2012: HK$3,313,447,000), accounting for 52.1% of the Group's revenue in the Current Year compared to 52.3% in the Prior Year.

Revenue generated from China United Network Communications Group Company Limited and its subsidiaries (collectively referred to as the "China Unicom Group") decreased significantly by 40.2% to HK$831,117,000 (2012: HK$1,390,107,000), accounting for 14.5% of the Group's revenue in the Current Year compared to 22.0% in the Prior Year.

Revenue generated from China Telecommunications Corporation and its subsidiaries (collectively referred to as the "China Telecom Group") increased sharply by 58.1% to HK$734,977,000 (2012: HK$464,888,000), accounting for 12.8% of the Group's revenue in the Current Year compared to 7.3% in the Prior Year.

Revenue generated from international customers and core equipment manufacturers increased by 8.1% to HK$1,112,795,000 (2012: HK$1,029,375,000), accounting for 19.5% of the Group's revenue in the Current Year compared to 16.3% in the Prior Year. During the Current Year, the Group undertook and completed a number of world-renowned wireless solutions projects as a result of increasing brand equity through constant efforts devoted within overseas markets over the years.

By businesses

Revenue generated from the wireless access and transmission business in the Current Year decreased by 16.7% to HK$421,355,000 (2012: HK$505,884,000) and accounted for 7.4% (2012: 8.0%) of the Group's revenue. The decline in revenue was mainly due to decrease in the market demand for Wi-Fi products and the fact that Small Cell products have yet to reach large-scale ramp-up.

Revenue generated from the wireless enhancement business in the Current Year decreased by 21.9% to HK$980,051,000 (2012: HK$1,254,085,000), accounting for 17.1% (2012: 19.8%) of the Group's revenue. The decline in revenue was mainly due to the postponement of certain investment activities by mobile network operators and fierce market competition in the traditional wireless enhancement products which substantially affected the overall performance of this business segment.

Revenue generated from the antennas and subsystems business increased slightly by 2.6% to HK$1,865,813,000 (2012: HK$1,818,823,000), accounting for 32.6% (2012: 28.7%) of the Group's revenue in the Current Year. The increase in revenue was mainly due to the deployment of the fourth generation of mobile communications ("4G") mobile network and the replacement and upgrades of equipment by the mobile network operators.

Revenue from services decreased by 10.9% to HK$2,453,380,000 (2012: HK$2,754,075,000), accounting for 42.9% (2012: 43.5%) of the Group's revenue in the Current Year. The decline was mainly attributable to the postponement of certain investment activities in the wireless enhancement market in the PRC.

GROSS PROFIT

During the Current Year, gross profit decreased by 15.5% to HK$1,365,586,000 (2012: HK$1,615,879,000). The Group's gross profit margin decreased by 1.6 percentage points to 23.9% in the Current Year (2012: 25.5%). 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.

RESEARCH AND DEVELOPMENT ("R&D") COSTS

During the Current Year, R&D costs decreased significantly by 45.0% to HK$207,158,000 (2012: HK$376,766,000), representing 3.6% (2012: 5.9%) of the Group's revenue. The decrease in R&D costs was mainly due to the capitalization of certain development costs. During the Current Year, a total of HK$108 million development costs was capitalized (after amortization). The Group has maintained an optimal level of investment in R&D to stay ahead of the latest technological innovation so as to take advantage of new business opportunities.

With its strong commitment to R&D, the Group has achieved significant accomplishments in creating its own solutions with intellectual property rights and has applied for more than 1,600 patents as at the end of the Current Year (As at 31 December 2012: more than 1,300 patents).

SELLING AND DISTRIBUTION ("S&D") EXPENSES

During the Current Year, S&D expenses remained at a stable level of HK$505,566,000 (2012: HK$503,749,000), representing 8.8% (2012: 8.0%) of the Group's revenue. The slight increase in S&D expenses was mainly due to global expansion of the sales and service networks of the Group.

ADMINISTRATIVE EXPENSES

During the Current Year, administrative expenses were reduced by 12.8% to HK$788,888,000 (2012: HK$904,640,000), representing 13.8% (2012: 14.3%) of the Group's revenue. The lower administrative expenses was mainly due to the optimization of the administrative staff and office organization structure.

AWARDED SHARES EXPENSES

On 12 April 2011, the Board 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 at the date of the grant and amortized over each of the vesting periods up to 12 April 2014. During the Current Year, the awarded shares expenses amounted to approximately HK$23 million. For the full year of 2014, the awarded shares expenses are estimated to be approximately HK$4 million.

FINANCE COSTS

During the Current Year, finance costs increased by 29.4% to HK$55,153,000 (2012: HK$42,635,000), representing 1.0% (2012: 0.7%) of the Group's revenue. The rise in finance costs was mainly due to increases in the borrowing costs and bank borrowings.

The management has always been prudent in managing credit risk and the level of bank borrowings as well as improving cash flow. 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 addition, the management has utilized the advantages of interest and foreign exchange rates differentiation among different countries in order to minimize finance costs. As of 31 December 2013, the gross gearing ratio of the Group, defined as total interest-bearing borrowings divided by total assets, stood at a manageable level of 15.1% compared to 15.4% as of 31 December 2012.

OPERATING LOSS

During the Current Year, the operating loss was HK$104,725,000 (2012: HK$105,495,000) which was attributable to a number of reasons including: 1) the decrease in the Group's overall revenue; 2) decline in gross profit margin; and 3) the impairment arisen from the trade receivables of certain overseas markets, despite certain losses have been contained under the implementation of cost control measures.

TAX

During the Current Year, the overall taxation charge of HK$84,867,000 (2012: HK$67,515,000) was composed of profits tax charge of HK$65,524,000 (2012: HK$62,861,000) and deferred tax charge of HK$19,343,000 (2012: HK$4,654,000). The increase in overall taxation charge was mainly due to the assessable profits in certain subsidiaries and a deferred tax charge.

Details of preferential 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$240,722,000 (2012: HK$202,364,000) owing to the decrease in overall revenue and gross profit margin of the Group and the impairment of certain trade receivables.

PROSPECTS

Amid improving market sentiment, with European and U.S. data pointing to a gradual economic recovery, and stable and sustainable growth of Mainland China's economy, it is expected that the global telecommunications industry will continue to experience an upswing. As at 31 December 2013, the number of global mobile subscriptions was more than 6.7 billion and is expected to exceed 9.3 billion by the end of 2019, of which over 60% are smartphone subscriptions, according to market estimates. China also exhibited a growing trend for the overall mobile subscription during 2013. In particular, 3G subscriptions in China experienced year-on-year growth of approximately 70% and accounted for over 30% of total mobile subscribers. It is expected that the positive momentum will continue to build in 2014.

In respect of mobile data traffic, the expected vigorous traffic growth is becoming a reality. High level of data traffic carried on mobile networks today is reflected by the strong uptake of smartphones, tablets and other data devices. Mobile apps are getting increasingly prominent. Social networking, video and music streaming, mobile office, mobile banking, etc. via smart devices is weaving into our everyday life, which has triggered a surge in mobile data from around the world. Consequently, provision of reliable access to networks and better user experiences have become the major challenges for mobile network operators without exception. It is believed that these challenges will drive more investments in network coverage, network capacity, network enhancement and maintenance services, among other areas.

Another key driver is that LTE is gathering pace. There were over 250 LTE networks commercially launched worldwide by the end of 2013, comparing to 144 a year ago. More importantly, the granting of TD-LTE licenses in China in December 2013 signified the start of a brand new era in the telecommunications industry. China, being the trendsetter of the TD-LTE technology which is a globally accepted standard, is expected to further promote a wider adoption of TD-LTE in its country and maturity of the LTE ecosystem. With the deployment of LTE 4G networks, mobile network operators can deliver an even better mobile broadband experience, faster than ever before, and in a more cost effective way. The rollout of more new networks has translated into increasing demand for modern and advanced telecom equipment to cope with the quickly evolving needs of mobile network operators.

Globally, the Group has been devoting multi-year efforts towards strengthening its market presence, and a number of prominent and sizeable projects were undertaken last year underlining the successful marketing strategies adopted by the Group in recent years. With strong back-up from our R&D teams and manufacturing capabilities, the Group always brings to its customers the most desirable solutions with top-notch technologies.

However relatively optimistic industry landscape expected in upcoming year, there are still uncertainties in the recovery pace of global economy and new challenges emerged from the evolution of new technologies. To conclude, the management will remain cautious and prudent about the business development of the Group in the upcoming year though against a more optimistic backdrop.

WIRELESS ACCESS

In view of mobile networks' shift from being predominantly voice networks to mainly data transmission, and the boom of mobile apps and consumers' demand for data services growing unabated, substantial efforts have been directed towards expanding the Small Cell product series and solutions to grasp potentially enormous opportunities. The Small Cell business progressed smoothly during 2013 with commercialization and trial runs conducted in various provinces in China. The Group also made great strides, successfully promoting Small Cells in some overseas markets. Revolutionizing the ways mobile network operators to design, roll out and enhance the networks, Small Cell solutions enable mobile network operators to meet surging capacity demand in the most effective and economical way. They are also a critical equipment of network deployment today as they enable mobile network operators to boost coverage and network quality. By bringing sources of signals closer to end-users, Small Cells ensure exceptional network quality where end-users are located.

Furthermore, understanding that the next wave of innovation will not only be a single new product category but rather be the integration of all devices, creating one harmonious user experience, the Group developed and promoted an IP-based Onebox solution that is the first of its kind in the industry. The culmination of a great deal of hard work, commitment and innovation, the Onebox solution integrates the technologies of Small Cell, Wi-Fi and OTT TV to support multi-businesses such as mobile signals, Wi-Fi signals and digital videos and audios.

On the other hand, Wi-Fi business may further slide as the Group places more focus on other high-tech wireless access products of higher profitability which also integrate with Wi-Fi functions. The Group has always been emphasizing that Small Cell and Wi-Fi will coexist in harmony given that they have different technological strengths and scenario applications. It has become clear that Small Cell and Wi-Fi together complete the toolset that mobile network operators need to handle the significant challenge of surging data traffic by helping them to manage network and present a great experience to their customers no matter where they connect.

Looking forward, the Group is well-placed to take its wireless access solution proposition to the market and greater efforts will be placed on promoting the scalability of Small Cell and related products.

WIRELESS ENHANCEMENT

Despite keen market competition and the sluggish network enhancement progress experienced last year, the management believes that wireless enhancement remains an ideal solution needed by most mobile network operators for continued improvement of network quality.

Today's communications generate large volume of data which in turn impacts network performance, availability, capacity and storage. Communication networks will be infinitely richer and more sophisticated in the future. The issues that mobile network operators face are increasingly dynamic, multifaceted and complex. Wireless enhancement represents a highly cost-effective solution for mobile network operators to address the problems associated with the increased need for data capacity and ubiquitous wireless coverage within buildings, especially in heterogeneous networks. For example, the Group's latest multi-service digital distributed access system (MDAS) solutions can address the abovementioned issues with greater flexibility. The Group's leadership in the wireless solution market is evidenced by its portfolio of prestigious projects undertaken such as the stadiums of world-known sporting events, high-speed rail projects, exhibition centres for international conferences, etc. Thus the management is confident that its edge remains intact and will strive to expand its project portfolio for both the PRC and different regions of the overseas markets.

Looking ahead, in the PRC market, there is improved market visibility after the granting of 4G licenses and it is expected that the market demand for wireless enhancement will gradually pick up. For the international markets, building on the positive momentum of last year, the management expects it will continue to stay positive. The Group will invest more in expanding business in developed markets while be cautious toward probable economic overheating in emerging economies. The Group will continue to strengthen its relationships with established customers, closely monitoring any changes in the overseas business environment and will take a more prudent approach to explore business opportunities.

ANTENNAS AND SUBSYSTEMS

As one of the major global suppliers of mobile base station antennas, the Group has invested in R&D and has obtained a number of proprietary intellectual property rights for its core technologies. The Group has an extensive antenna product portfolio from single-band to multi-band solutions covering all frequencies and standards to cater to different needs of customers. Moreover, the Group's 4G base station antennas have been widely deployed within 4G networks in China and overseas countries. During the Current Year, the Group received orders for exceeding 150,000 units of its 4G LTE base station antennas.

Moving into 2014, in view of the expanding 4G network deployment and continuous replacement cycle of base station antennas in China and around the world, it is expected that the antenna business will stay positive. The Group will solidify its leading position by offering more innovative products and technologies which support multi-standard and multi-network deployment along network migration.

WIRELESS TRANSMISSION

Digital Microwave Systems

Wireless backhaul solutions remain effective for optimization of existing infrastructure to overcome network capacity constraints driven by LTE deployments and heterogeneous networks. The Group's end-to-end wireless backhaul solutions are designed to simplify the deployment and operations of backhaul for heterogeneous networks and enable faster delivery and higher efficiency of microwave links. The management believes the market potential of microwave products remains attractive.

Satellite communications

In responding to the unique requirements of each customer for special scenarios, the Group delivers end-to-end satellite emergency communications solutions that reflect its combined expertise in top-notch design, engineering, operation and maintenance of network solutions. During the Current Year, the Group assisted in relief efforts for various natural disasters and large-scale events to provide emergency communications, such as Ya'an City earthquake in Sichuan Province, Typhoon Fitow in Zhejiang Province, flooding in Guangdong Province, etc. The management expects this business unit to remain stable in 2014.

Services

The management believes that price differentiation is no longer a long-term successful strategy. Rather its consistent high-quality and customer-centric services, including consulting, network and technical design, network planning, project management, installation and commissioning, maintenance, etc., will enable the Group to stay competitive as well as to maintain established customer relationships. The Group's engineering service team is committed to providing professional, responsive and customized services along with our comprehensive product offerings, enabling customers to deliver a better user experience. Looking ahead, as a total wireless solutions provider, the Group expects more services to be provided as its project portfolio and market demand grow with increasing complexity of multi-network coordination.

RAIL COMMUNICATIONS

In view of the extensive rail transportation market potential in the PRC, the Group has unveiled wireless solutions focusing on telecommunications projects for rail transportation during the Current Year. Customers' positive feedback has been encouraging with some projects tenders secured. Moving forward, the Group intends to devote greater efforts to expand its project portfolio while strengthening its branding.

CONCLUSION

Despite the more challenging industry landscape in recent two years, the management expects global informatization with the expanded rollout of new networks will generate some tailwinds to the Group's business. The management believes the Group's ability to consistently navigate through dynamic environments along with its thriving tech innovations will continue to uniquely position itself within the industry. Adhering to an innovation-oriented approach, the Group vows to make even greater efforts to press ahead with transformation and optimize its income structure while consolidating the collaboration and synergies across different regions, brands, service packages, marketing resources, etc., thus achieving overall improvement in results performance.

From a financial perspective, the Group will continue to reinforce corporate management and optimize resource allocation. To further lower operating expenses, the management will continue to optimize the organizational structure. The Group will maintain a sharp focus on driving innovation while prioritizing and investing more prudently in where the market is going. Furthermore, to pursue a sound financial position and enhance efficiency, the management will take a more proactive approach to improve its key performance indices and liquidity.

Last but not least, the Board would like to take this opportunity to extend its heartfelt gratitude to all staff for their dedicated efforts and contributions. We remain committed to the customers, shareholders and business associates, and thank for the continued confidence and support.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group generally finances for its operations from cash flows generated internally and bank borrowings. As at 31 December 2013, the Group had net current assets of HK$2,865,758,000. Current assets comprised inventories of HK$2,240,395,000, trade receivables of HK$4,530,279,000, notes receivable of HK$85,703,000, prepayments, deposits and other receivables of HK$621,476,000, restricted bank deposits of HK$46,735,000, and cash and cash equivalents of HK$1,589,261,000. Current liabilities comprised trade and bills payables of HK$3,839,472,000, other payables and accruals of HK$1,074,167,000, interest-bearing bank borrowings of HK$1,232,409,000, tax payable of HK$25,861,000 and provisions for product warranties of HK$76,182,000.

The average receivable turnover for the Current Year was 294 days compared to 259 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 3 months and is extendable up to 2 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 6 to 12 months after sale, or upon completion of the 1 to 2 years warranty periods granted to customers. The average payable turnover for the Current Year was 298 days compared to 242 days for the Prior Year. The average inventory turnover for the Current Year was 188 days compared to 180 days for the Prior Year.

As at 31 December 2013, 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$, HK$ and RMB. The interest rates on the Group's bank borrowings are principally on a floating basis at prevailing market rates.

In addition to the short-term interest-bearing facilities, the Group had entered into a 3-year term loan facility agreement amounted to US$210,000,000 on 26 June 2012 (the "Facility Agreement") with certain financial institutions.

Under the Facility Agreement, 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, 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 Agreement are set out in note 25 to the financial statements.

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 15.1% as at 31 December 2013 (31 December 2012: 15.4%).

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 2013, there was no charge on the Group's assets (31 December 2012: Nil).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group had contingent liabilities of HK$98,555,000 (31 December 2012: HK$39,072,000), which mainly included guarantees given to banks in respect of performance bonds.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had approximately 9,600 staff. The total staff costs, excluding capitalized development cost, for the Current Year were HK$1,072,373,000. 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

Mr. Fok Tung Ling

EXECUTIVE DIRECTORS

Mr. Fok Tung Ling (霍東齡), aged 57, is one of the founders of Comba Telecom Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). He is the chairman of the board of directors (the "Board") and the authorized representative of the Company. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Fok is primarily responsible for leading the Board in determining the directions of the Group's overall strategies and business development. From 1982 to 1987, Mr. Fok worked as a technical engineer in the Microwave Telecommunications Main Station of the Guangdong Bureau of Post and Telecommunications (廣東省郵電局微波通信總站). In 1986, he graduated from Beijing Institute of Posts and Telecommunications (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, he was engaged in the trading of telecommunications and electronic equipment and components before co-founding the Group in 1997. Mr. Fok has over 32 years of experience in wireless communications. He is the sole director and shareholder of Prime Choice Investments Limited, which is a controlling shareholder of the Company.

Mr. Zhang Yue Jun

Mr. Zhang Yue Jun (張躍軍), aged 55, is one of the founders of the Group. He is the vice chairman of the Board and president of the Group. He also acts as directors of certain subsidiaries of the Company. 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. Mr. Zhang 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 31 years of experience in wireless communications and he co-founded the Group in 1997. He is the sole director and shareholder of Wise Logic Investments Limited, which is a substantial shareholder of the Company.

Dr. Tong Chak Wai, Wilson (唐澤偉), aged 42, is executive director of the Company and group financial controller. He is also the authorized representative and company secretary of the Company. He also holds various positions in the subsidiaries of the Company, including acting as director, supervisor, company secretary and financial controller in certain subsidiaries of the Company. Dr. Tong is mainly responsible for the overall financial management, investor relations and company secretarial duties of the Group. Dr. Tong holds a doctor of business administration degree from The Hong Kong Polytechnic University, 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. He 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. Dr. Tong has over 19 years of experience in finance and legal work in the listed and multinational companies. He joined the Group in 2008.

Dr. Tong Chak Wai, Wilson

Mr. Wu Jiang Cheng

Mr. Wu Jiang Cheng (伍江成), aged 54, is executive director of the Company and senior vice president in the PRC market, responsible for the customer strategies and management in the PRC market. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. 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. He also has over 21 years of experience in communications and marketing. Mr. Wu joined the Group in 1997.

Mr. Yan Ji Ci (嚴紀慈), aged 59, is executive director of the Company and senior vice president, operations management and logistic system. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Yan is responsible for the operational management optimization and the logistic system of the Group. He graduated from South China Normal University (華南師範大學), majoring in political science. Mr. Yan has over 38 years of experience in operations and human resources management. He joined the Group in 1997.

Mr. Yan Ji Ci

Mr. Zheng Guo Bao (鄭國寶), aged 48, is executive director of the Company and the chief executive officer of WaveLab Holdings Limited, an indirect non wholly-owned subsidiary of the Company. He also holds various positions in the subsidiaries of the Company, including acting as legal representative and director in certain subsidiaries of the Company. Mr. Zheng is primarily responsible for the strategic development of the digital microwave systems products. He 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 Filtronic Sigtek Inc., he worked as an engineering manager in wireless communications division of L3 Communications (former EER Systems, Inc.), Virginia USA. Mr. Zheng is a member of the Institute of Electrical and Electronics Engineers. He has over 27 years of experience in RF/microwave/millimeter-wave technology and wireless communications and specialized in the field of research and development. Mr. Zheng joined the Group in 2003.

Mr. Yeung Pui Sang, Simon (楊沛燊), aged 41, is executive director of the Company and president of Comba Telecom Systems International Limited, an indirect wholly-owned subsidiary of the Company. He also acts as directors of certain subsidiaries of the Company. Prior to joining the Group, Mr. Yeung was the vice president of strategy & 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 TE Connectivity, Ltd.. He 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. He has over 18 years of experience in the telecom industry. Mr. Yeung joined the Group in 2004.

Mr. Zhang Yuan Jian (張遠見), aged 56, is executive director of the Company. He is also the senior vice president of the Group and the director of the Central Research Institute of the Group. Mr. Zhang is in charge of the technical research of the Central Research Institute of the Group and the development initiative of new product lines. 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. Mr. Zhang has over 30 years of experience in the technical research on wireless communications, product development and relevant management. He joined the Group in 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Cai

Mr. Liu Cai (劉彩), aged 73, is independent non-executive director of the Company. He is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. Mr. Liu is the chairman of the Consultative Committee for Telecom Law Drafting of the Ministry of Information Industry. From 1988 to 2001, he 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, Mr. Liu 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, he 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

Mr. Lau Siu Ki, Kevin (劉紹基), aged 55, is independent non-executive director of the Company. He is also the chairman of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Lau has over 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. He is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the world council of ACCA from 2002 to 2011 and was the Chairman of the Hong Kong Branch of ACCA for the year 2000/2001. He is also an independent non-executive director of six other companies listed on the main board of The Stock Exchange of Hong Kong Limited namely TCL Communication Technology Holdings Limited, COL Capital Limited, Foxconn International Holdings Limited (currently known as FIH Mobile Limited), Samson Holding Ltd., Embry Holdings Limited and Binhai Investment Company Limited. Mr. Lau had been an independent non-executive director of Carry Wealth Holdings Limited until his resignation on 13 July 2011. He joined the Group in 2003.

Dr. Lin Jin Tong (林金桐), aged 68, is independent non-executive director of the Company. He is also the member of the audit committee, the remuneration committee and the nomination committee of the Company. Dr. Lin is currently a professor of Beijing University of Posts and Telecommunications ("BUPT") (北京郵電大學). He graduated from Peking University (北京大學) majoring in Physics, and obtained a master's degree in engineering from BUPT. Dr. Lin further obtained a doctorate degree in Philosophy and an honorary doctorate degree in Science from University of Southampton, UK. He has worked as lecturer, professor, department head, vice president of BUPT and was also the president of BUPT from 1998 to 2007. Dr. Lin was also a member of the 10th Beijing Municipal Committee of the Chinese People's Political Consultative Conference from 2003 to 2008. He was a deputy director-general of China Institute of Communications and is currently a fellow member of The Institution of Engineering and Technology. Dr. Lin has long been engaged in optical communication engineering, including research and teaching in the aspects of high-speed optical communication system and broadband optical access network. He is an independent director of Bright Oceans Inter-Telecom Corporation, the shares of which are listed on the Shanghai Stock Exchange. Dr. Lin is also an independent director of Jiangsu Tongguang Electronic Wire & Cable Co., Ltd, the shares of which are listed on the Shenzhen Stock Exchange. He joined the Group in 2012.

Dr. Lin Jin Tong

Mr. Qian Ting Shuo

Mr. Qian Ting Shuo (錢庭碩), aged 65, is independent non-executive director of the Company. He is also the member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Qian 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. He has extensive experience in the telecommunications industry and is familiar with the optical telecommunications technology and broadband development. Mr. Qian joined the Group in 2012.

SENIOR MANAGEMENT

Mr. Zhang Jin Yu, Charles (張金玉), aged 50, 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 economics from Southwestern University of Finance and Economics (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 23 years of experience in accounting and financial management. He joined the Group in 2004.

Mr. Bu Bin Long (卜斌龍), aged 51, vice president and general manager of the Group's antenna and subsystem 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 28 years of technical research experience in the domain of satellite antennas and mobile communications antennas. He joined the Group in 2003.

Mr. Chen Sui Yang (陳遂陽), aged 50, 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 product lines of wireless enhancement products of the Group. 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 28 years of experience in technology research of wireless communications. He joined the Group in 1998.

Ms. Li Yu Wen (李宇雯), aged 43, 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 Tsinghua University School of Economics and Management (清華大學經濟管理學院) in 2006. Ms. Li has over 20 years of experience in the markets of communication, operation and project management. Ms. Li served in the GMCC in engineering construction of wireless communications solution projects for many years. She joined the Group in 1997.

Mr. Du Feng (杜峰), aged 49, assistant to the president of the Group, vice president of Comba (China) and general manager of the Group's marketing center. He is a national wireless engineer, and was a cadre at deputy regiment commander level before demobilization with rank of lieutenant-colonel. Mr. Du is responsible for the operation and management of the Group's product sales platform in the PRC. He completed his undergraduate studies at the Second Artillery Engineering University (第二炮兵工程學校) in 1997. Mr. Du has 18 years of experience in army administration and technical management, and 13 years of experience in market operation and branch office operational management in communications industries. He joined the Group in 2004.

Mr. Deng Shi Qun (鄧世群), aged 32, general manager of the Group's wireless access business unit. Mr. Deng is responsible for the market operations as well as 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. Wu Tie Long (吳鐵龍), aged 51, general manager of the Group's global service business unit. Mr. Wu is responsible for the construction, market operation and management of the Group's service business platform. He graduated from the Nanjing Institute of Communication Engineering (南京通信工程學院) in 1985 and obtained a bachelor's degree in communication engineering. He is an associate professor. Mr. Wu has over 10 years of experience in the operation and management in the market of communications. He joined the Group in 2004.

Mr. Lai Wen Qiang (賴文強), aged 36, vice president of the Group's central research institute. Mr. Lai is responsible for the technical research and product development of wireless access products at the central research institute. He obtained a bachelor's degree in telecommunications science and technology in 2000 and a master's degree in communications and information system in 2003 from Peking University (北京大學). Mr. Lai has many years of experience in technical research and development in the wireless communications area. He joined the Group in 2005.

Mr. Augustin Ping Chang (張平), aged 51, 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 28 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. Brian Donohue, aged 49, 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, as well as the business operations of international OEM sales. Mr. Donohue has over 28 years of experience in the telecommunications industry with more than 18 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 10 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.

Mr. Johan Patrik Westfalk, aged 42, general manager 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, Mexico as well as the Caribbean Islands. He holds a master of science degree in engineering physics from Chalmers University of Technology in Gothenburg, Sweden, specializing in electromagnetic fields and microwave antenna design and has also completed finance and accounting education at the Business School of São Paulo, Brazil. Mr. Westfalk has over 18 years of experience in the telecommunication industry and over 14 years of experience in making business in the Latin American markets. He joined the Group in 2006.

Ms. Ma Jing (馬靜), aged 31, director of product marketing of the Group's international markets. Ms. Ma is responsible for overseeing the strategies and development of the new solutions and product marketing. She graduated from Tsinghua University (清華大學) with a master degree in Information & Communications Engineering in 2007 and a bachelor's degree in Electrical Engineering & Automation in 2004. Ms. Ma has wide experience in product management, technical marketing and business development. She joined the Group in 2007.

Mr. Di Ying Jie (邸英傑), aged 52, technical expert of microwave RF passive accessories and senior research supervisor of the Group. Mr. Di is responsible for the Group's research and product development works concerning microwave RF passive accessories. He graduated from Xidian University (西安電子科技大學), majoring in electronic magnetic field and microwave technology and obtained his doctorate degree in engineering. He was subsequently engaged in the post-doctorate research work with the University of Birmingham in the United Kingdom (英國伯明罕大學). Mr. Di has been engaged in 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 42, 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 master of science degree in financial management from the University of London and a bachelor of arts degree in accountancy from The Hong Kong Polytechnic University. 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 19 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 41, deputy director of the group internal audit. Mr. Li is responsible for the group internal audit. He is a member of China Institute of Internal Audit. He is an individual member of the Chinese Institute of Certified Public Accountants and a Certified Internal Auditor. He graduated from Northeast Forestry University (東北林業大學) with a bachelor's degree in economics in 1997, majoring in finance and accounting, and obtained a MBA degree from Royal Roads University through further education. Mr. Li has over 17 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 40, deputy director of the Group, group human resources. Mr. Luo is responsible for the Group's human resource planning, organization management, remuneration and benefit, 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 16 years of experience in human resource management and operational management of large enterprises. He joined the Group in 2005.

Ms. Ip Choi Lin (葉彩蓮), aged 43, deputy director of the Group, group 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 was a member of Hong Kong Institute of Human Resource Management. Ms. Ip has over 20 years of experience in the HR development and management. She joined the Group in 2010.

Ms. Carol Ka Ye (葉卡), aged 47, the deputy general manager of the Group's Antenna and Subsystem Business Unit. Ms. Ye is responsible for product marketing including market strategy and development, products management and business support for the Group's international operations. She graduated from National University of Singapore with the master degree of Electronic Engineering, and specialized in Microwave and Antenna design. Ms. Ye has more than 18 years of working experiences in product management, business development and network planning in Telecommunication industry. She joined the group in 2005.

Mr. Sin Cheuk Lok, Christopus (冼卓舉), aged 44, deputy financial controller of the Group. Mr. Sin is responsible for the accounting and financial management of the Group's international operations. He holds a master of business administration degree from the University of South Australia and a bachelor's degree in business administration from the University of Western Sydney. Mr. Sin is a Certified Tax Advisor and fellow member of both the Hong Kong Institutes of Certified Public Accountants and the Association of Chartered Certified Accountants. He has over 20 years of experience in auditing, accounting and financial management in accounting firm and listed companies. He joined the Group in 2012.

Mr. Pan Shuan Long (潘栓龍), aged 50, deputy general manager of the Group's wireless enhancement products business unit. 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 (蘭州交通大學)) in 1985. Mr. Pan has 28 years of experience in technology research and development in the mobile communications sector. He joined the Group in 2002.

Mr. Wang Liang (王梁), aged 33, deputy director of the Group's process and IT management division. Mr. Wang is responsible for building and optimizing the Group's process system and process management mechanism, as well as the Group's IT information construction and management. He completed the undergraduate studies in Central South University (中南大學) in 2005, majoring in information management and information system. Mr. Wang has 9 years of experience in the process optimization and construction and management of information system. He joined the Group in 2008.

Mr. Chen Liang (陳亮), aged 39, 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 16 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 52, director of the antenna products delivery center of the Group. Mr. Wang is responsible for the production management of the antenna products and the introduction of new products. He completed the undergraduate studies in Chongqing University (重慶大學) in 1984. Mr. Wang has 30 years of experience in the technology and production management in mechanical and communications industries. He joined the Group in 2010.

Mr. Xu Chuan Min (徐傳民), aged 34, director of the public products delivery center of the Group. Mr. Xu is responsible for the production management of the Group's wireless enhancement, wireless access related products and the introduction of new products. He completed the higher diploma studies in Shandong University (山東大學) in 2002, completed the undergraduate studies in Shandong University in 2008, graduated from Huazhong University of Science and Technology (華中科技大學) with MBA in 2013 and obtained a master's degree in management. Mr. Xu has 11 years of experience in the production, operation and management in communications industries. He joined the Group in 2002.

Mr. Zhang Jian Feng (張劍鋒), aged 38, PRC finance and deputy financial manager of the financial management department of the Group. Mr. Zhang is responsible for the Group's accounting and financial management in the PRC. He completed the undergraduate studies in Central South University (中南大學) in 1999 and obtained a bachelor's degree in management. Mr. Zhang has 15 years of experience in accounting and financial management in communications industries. He joined the Group in 2005.

CORPORATE GOVERNANCE REPORT

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

The board of directors of the Company (the "Board") reviewed daily governance of the Company from time to time in accordance with the code provisions (the "Code Provisions") as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered that, from 1 January 2013 to the date of this report, the Company has complied with the Code Provisions. The key corporate governance principles and practices of the Company are summarized as follows:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 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 that they have complied with the required standard as set out in the Model Code and the code of conduct from 1 January 2013 to the date of this report.

BOARD OF DIRECTORS

BOARD COMPOSITION

As at the date of this report, the Board comprises 12 Directors, of whom 8 are executive Directors and 4 are independent non-executive Directors. Mr. Lau Siu Ki, Kevin has the appropriate accounting qualification or related financial management expertise as required under rule 3.10(2) of the Listing Rules.

The composition of the Board represents a mixture of expertise specializing in management, wireless communications and telecommunications industry, accounts and finance, and research and development. The Board members have no financial, business, family or other material/relevant relationships with each other.

Details of the composition of the Board, by category of Directors, including names of chairman, executive Directors, independent non-executive Directors and their respective experience and qualifications with specific responsibilities assigned to enhance the effectiveness of the Company are included in the section "Directors and Senior Management" of the annual report.

BOARD MEETINGS

For the year ended 31 December 2013 (the "Current Year"), there were six board meetings and an annual general meeting held and attendance of each Director at the board meetings and the annual general meeting (either in person or by telephone conference) is set out as follows:

Name of Directors	Attendance at the board meetings	Attendance at the annual general meeting
Executive Directors:		
Mr. Fok Tung Ling *(Chairman)*	6/6	1/1
Mr. Zhang Yue Jun *(Vice Chairman & President)*	6/6	1/1
Dr. Tong Chak Wai, Wilson	6/6	1/1
Mr. Wu Jiang Cheng	6/6	1/1
Mr. Yan Ji Ci	6/6	1/1
Mr. Zheng Guo Bao	5/6	1/1
Mr. Yeung Pui Sang, Simon	6/6	1/1
Mr. Zhang Yuan Jian	6/6	1/1
Independent non-executive Directors:		
Mr. Liu Cai	6/6	1/1
Mr. Lau Siu Ki, Kevin	6/6	1/1
Dr. Lin Jin Tong	6/6	1/1
Mr. Qian Ting Shuo	5/6	1/1

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

CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance duties under the terms of reference in Code Provision D.3.1. During the Current Year, the Board (i) adopted an inside information disclosure policy in accordance with the latest requirements of Part XIVA of Securities and Futures Ordinance, (ii) devised a board diversity policy in accordance with a new Code Provision, and (iii) revised the terms of reference of the Nomination Committee (as defined below) to take account of the board diversity policy. A summary of the board diversity policy is set out below in this report.

MANAGEMENT FUNCTIONS

In general, 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; the 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.

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

During the Current Year, the Company has organized one training session to all Directors conducted by qualified professionals on the update of major amendments to the Listing Rules including but not limited to the newly introduced Inside Information Provisions. All Directors attended the same to develop and refresh their knowledge and skills. All Directors have provided records of the training they received to the Company.

In addition, Dr. Tong Chak Wai, Wilson, an executive Director and the company secretary of the Company, has undertaken not less than 15 hours of relevant professional training during the Current Year in compliance with rule 3.29 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE

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

Mr. Fok Tung Ling is the chairman of the Board and Mr. Zhang Yue Jun is the vice chairman of the Board and president of the Group. The chairman is primarily responsible for leading the Board in determining the directions of the Group's overall strategies and business development while the vice chairman and president as chief executive is responsible for the Group's overall operation, management, business development, research and development of new technologies and products and supply chain system.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has entered into a letter of appointment with each of the independent non-executive Directors. Pursuant to such letter of appointment, each of them 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 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.

REMUNERATION COMMITTEE

A remuneration committee of the Company (the "Remuneration Committee") comprises four independent non-executive Directors, being Mr. Lau Siu Ki, Kevin, Mr. Liu Cai, Dr. Lin Jin Tong and Mr. Qian Ting Shuo. The chairman of the Remuneration Committee is Mr. Lau Siu Ki, Kevin. The terms of reference of the Remuneration Committee are available on the respective websites of the Stock Exchange and the Company.

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

During the Current Year, there was one remuneration committee meeting held, at which the remuneration packages of all Directors and senior management were discussed and made recommendation to the Board. The fees of the Directors are subject to the Shareholders' approval at general meetings of the Company. Other emoluments, including share options and awarded shares, are reviewed by the Remuneration Committee with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of the remuneration payable to the Directors are set out in note 8 to the financial statements.

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

Remuneration bands (HK$)	Number of person(s)
Nil to 1,000,000	13
1,000,001 to 2,000,000	10
2,000,001 to 3,000,000	1
Over 5,000,000	1

Attendance of each member of Remuneration Committee at the remuneration committee meeting is set out as follows:

Members of Remuneration Committee	Number of meeting attended/ Total number of meeting held
Mr. Lau Siu Ki, Kevin	1/1
Mr. Liu Cai	1/1
Dr. Lin Jin Tong	1/1
Mr. Qian Ting Shuo	1/1

NOMINATION COMMITTEE

A nomination committee of the Company (the "Nomination Committee") comprises four independent non-executive Directors, being Mr. Liu Cai, Mr. Lau Siu Ki, Kevin, Dr. Lin Jin Tong and Mr. Qian Ting Shuo. The chairman of the Nomination Committee is Mr. Liu Cai. The most up-to-date terms of reference of the Nomination Committee are available on the respective websites of the Stock Exchange and the Company.

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

During the Current Year, there were two nomination committee meetings held to, inter alia, review the structure, size and composition of the Board; assess the independence of the independent non-executive Directors; and make recommendation on the adoption of the board diversity policy and revised terms of reference of the Nomination Committee.

ASSESSMENT OF INDEPENDENCE

In assessing the independence of a non-executive Director, the Nomination Committee would take into account of the independence guidelines as set out in rule 3.13 of the Listing Rules together with the annual written independence confirmations and considered that, although Messrs. Liu Cai and Lau Siu Ki, Kevin each has served the Company as independence non-executive Director for more than nine years, they do not have any management role in the Company. In view of Mr. Liu Cai's extensive experience in telecommunications industry and Mr. Lau Siu Ki, Kevin's professional qualifications and extensive experience in the financial advisory field, the Nomination Committee considered that they have continuously contributed to the Company and the Board with their relevant experience and knowledge throughout their years of service and they maintained to provide constructive contributions and an independent view in relation to the Company's affairs.

SUMMARY OF BOARD DIVERSITY POLICY

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

Attendance of each member of Nomination Committee at the nomination committee meetings is set out as follows:

Members of Nomination Committee	Number of meetings attended/ Total number of meetings held
Mr. Liu Cai	2/2
Mr. Lau Siu Ki, Kevin	2/2
Dr. Lin Jin Tong	2/2
Mr. Qian Ting Shuo	2/2

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") comprises four independent non-executive Directors, being Mr. Lau Siu Ki, Kevin, Mr. Liu Cai, Dr. Lin Jin Tong and Mr. Qian Ting Shuo. The chairman of the Audit Committee is Mr. Lau Siu Ki, Kevin. The terms of reference of the Audit Committee are available on the respective websites of the Stock Exchange and the Company.

The main duties and responsibilities of the Audit Committee are to review the completeness, accuracy and fairness of the 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.

During the Current Year, there were two audit committee meetings held to, inter alia, review the Group's financial statements such as interim results and annual results, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function and the internal control system and related issues.

Attendance of each member of Audit Committee at the audit committee meetings is set out as follows:

Members of Audit Committee	Number of meeting(s) attended/ Total number of meetings held
Mr. Lau Siu Ki, Kevin	2/2
Mr. Liu Cai	2/2
Dr. Lin Jin Tong	2/2
Mr. Qian Ting Shuo	1/2

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$3,564,000; and non-audit services of interim financial statements review, tax review and other professional services amounted to HK$380,000, HK$90,000 and HK$318,000 respectively.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company regarding their reporting responsibilities on the financial statements of the Company is set out in the "Independent Auditors' Report" on pages 43 to 44 of the annual report.

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. It 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. For 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 GENERAL 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.

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

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

CHANGE IN THE CONSTITUTIONAL DOCUMENTS OF THE COMPANY

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

CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

The Group always endeavours to improve transparency and accountability to its 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 75 investor meetings, including participation in 4 investor conferences and 2 post-results road shows. This provided the investment community with an opportunity to understand the business of the Group better.

Key Investor Relations Events in 2013:

Date		Event
March	:	2012 annual results announcement (press conference and investor presentation) Post-results roadshows in Hong Kong
April	:	Post-results roadshows in Shanghai and Beijing
May	:	2012 Annual General Meeting The 11th BOCI Investors Conference (organized by BOCI)
August	:	2013 interim results announcement (press conference and investor presentation) Post-results roadshows in Hong Kong
November	:	China Conference 2013 (organized by Bank of America Merrill Lynch) CIMB 10th Annual North Asia Conference (organized by CIMB)
December	:	BOCI Mobile Internet Outlook 2014 Corporate Day (organized by BOCI)

ON BEHALF OF THE BOARD OF
COMBA TELECOM SYSTEMS HOLDINGS LIMITED

Fok Tung Ling
Chairman
Hong Kong
28 March 2014

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 2013 (the "Current Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the Company's principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Current Year.

OPERATING SEGMENT INFORMATION

An analysis of the Group's performance for the year by major customers is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 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 does not recommend the payment of a final dividend in respect of the Current Year (2012: Nil).

5 YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last 5 financial years, as extracted from the 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 12 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND AWARDED SHARES

No share options were granted to and exercised by the Directors and employees of the Company during the Current Year. Details of movements in the Company's share capital, share options and awarded shares during the Current Year are set out in notes 27 and 28 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the Current Year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Current Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the Current Year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$394,538,000. In addition, the Company's share premium account, in the amount of HK$690,782,000, may be distributed, provided that immediately following the date on which the distribution or dividends proposed to be paid the Company will be able to pay off its debts as they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 81.3% of the total sales for the year and sales to the largest customer included therein accounted for approximately 52.1% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

As at 31 December 2013, to the best knowledge, information and belief of the Directors, none of the Directors or any of their associates or any shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in the Group's five largest customers.

DIRECTORS

The Directors during the Current Year were as follows:

EXECUTIVE DIRECTORS:

Mr. Fok Tung Ling ("Mr. Fok") *(Chairman)*
Mr. Zhang Yue Jun *(Vice Chairman & President)*
Dr. Tong Chak Wai, Wilson ("Dr. 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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Liu Cai
Mr. Lau Siu Ki, Kevin ("Mr. Kevin Lau")
Dr. Lin Jin Tong ("Dr. Lin")
Mr. Qian Ting Shuo ("Mr. Qian")

In accordance with articles 87(1) and 87(2) of the Articles, Mr. Zhang Yue Jun, Mr. Zhang Yuan Jian, Mr. Liu Cai and Mr. Kevin Lau will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company.

The Company has received annual confirmations of independence from Mr. Liu Cai, Mr. Kevin Lau, Dr. Lin and Mr. Qian as at the date of this report and considers them to be independent as each of them fulfils the requirements as set out in rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 27 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Fok, Mr. Zhang Yue Jun, 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 Dr. 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 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.

Apart from the foregoing, no Director 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.

REMUNERATION POLICIES

Details of the remuneration policies are set out in the section "Employees and Remuneration Policies" on page 17 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save for the Loan Agreement, the New Loan Agreement, the WTAP Agreement, the New WTAP Agreement, the WTAP-Components Agreement, the New WTAP-Components Agreement and the IDU Services 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 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.

MANAGEMENT CONTRACTS

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

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

At 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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 contained in the Listing Rules (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

		No. of ordinary shares held, capacity and nature of interest				
Name of Directors	Notes	Directly beneficially owned	Through spouse	Through controlled corporation	Total	Percentage of the Company's issued share capital
Mr. Fok	(a)	17,258,224	–	526,995,887	544,254,111	35.66
Mr. Zhang Yue Jun	(b)	–	–	154,128,452	154,128,452	10.10
Dr. 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

Long positions in share options of the Company:

Name of Directors	Number of share options directly beneficially owned
Dr. Tong	500,000
Mr. Wu	500,000
Mr. Yan	500,000
Mr. Yeung	500,000
Mr. Zhang Yuan Jian	500,000
Mr. Liu Cai	100,000
Mr. Kevin Lau	100,000

Notes:

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

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

(c) As at 31 December 2013, each of Dr. Tong and Mr. Wu had 150,000 unvested awarded shares; each of Mr. Yan and Mr. Yeung had 130,000 unvested awarded shares; and Mr. Zheng had 30,000 unvested awarded shares under the share award scheme of the Company. Subject to fulfillment of vesting conditions of the award, the awarded shares shall be vested and transferred to the above Directors accordingly. Detail of the share award scheme is set out in note 28(b) to the financial statements.

(d) As at 31 December 2013, Mr. Zhang Yuan Jian had 88,000 unvested awarded shares under the share award scheme of the Company. He is also deemed to be interested in 80,000 shares beneficially held by his spouse personally, representing approximately 0.01% of the issued share capital of the Company.

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 ("WaveLab Holdings"), as at 31 December 2013, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option schemes and share award scheme in note 28 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, the chief executive 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 arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PENSION SCHEMES

Details of the pension schemes of the Group are set out in notes 2.4 and 6 to the financial statements, respectively under "Other employee benefits" on page 72 and "Employee benefit expense" on page 77 of the annual report, respectively.

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

As at 31 December 2013, the following persons (other than a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange were as follows:

Long positions:

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

Notes:

(a) Madam Chen Jing Na 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 purpose of the SFO.

(b) Madam Cai Hui Ni is the spouse of Mr. Zhang Yue Jun and is deemed to be interested in the 154,128,452 shares in which Mr. Zhang Yue Jun is deemed or taken to be interested for the purpose of the SFO.

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

(i) 525,710,701 shares between Prime Choice Investments Limited and Madam Chen Jing Na; and

(ii) 154,128,452 shares between Wise Logic Investments Limited and Madam Cai Hui Ni.

Save as disclosed above, as at 31 December 2013, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO or otherwise notified to the Company and/or the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into during the Current Year were disclosed in note 33 to the financial statements. These related party transactions in respect of compensation of key management personnel of the Group constituted connected transactions as defined in Chapter 14A of the Listing Rules but exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

During 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) ("Cascade Technology") and WaveLab Holdings entered into a loan agreement (the "Loan Agreement") pursuant to which Cascade Technology agreed to lend a loan in principal amount of US$8,500,000 (equivalent to approximately HK$66,300,000) to WaveLab Holdings at the rate of LIBOR at the date of actual drawing plus 1.8 per cent per annum during the period from 1 January 2011 to 31 December 2013.

On 24 December 2013, Cascade Technology entered into with WaveLab Holdings a new loan agreement (the "New Loan Agreement") pursuant to which Cascade Technology agreed to lend a loan in principal amount of US$11,000,000 (equivalent to approximately HK$85,580,000) to WaveLab Holdings at the rate of LIBOR at the date of actual drawing plus 4.75 per cent per annum during the period from 1 January 2014 to 31 December 2016.

The purposes of the loans are used for refinancing all outstanding indebtedness and for the working capital of WaveLab Holdings and its subsidiaries. Cascade Technology may, at any time upon giving notice in writing, demand immediate repayment of 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 Mr. Zheng, an executive Director and a shareholder of the Company, is also a substantial shareholder of WaveLab Holdings, WaveLab Holdings is considered to be a connected person of the Company under the Listing Rules and all the transactions contemplated thereunder constitute connected transactions for the Company under the Listing Rules.

For details, please refer to the announcements of the Company dated 25 August 2010 and 24 December 2013.

CONTINUING CONNECTED TRANSACTIONS

On 25 August 2010, Comba Telecom Systems Investments Limited (a direct wholly-owned subsidiary of the Company) ("Comba Systems BVI") and WaveLab Holdings entered into: (i) an agreement (the "WTAP Agreement") relating to the purchase of wireless transmission and access products (the "WTAPs") with the relevant maintenance services from WaveLab Holdings to the Group (the "WTAP Transaction"); and (ii) an agreement (the "WTAP-Components Agreement") relating to the sale of the components used in the manufacture of WTAPs (the "WTAP-Components") by the Group to WaveLab Holdings (the "WTAP-Components Transaction"), each of which is for a term from 1 January 2011 to 31 December 2013 and is subject to the early termination provisions incidental therein.

On 24 December 2013, Comba Systems BVI entered into with WaveLab Holdings: (i) a new agreement (the "New WTAP Agreement") for the purchase of the WTAPs with the relevant maintenance services from WaveLab Holdings to the Group; (ii) a new agreement (the "New WTAP-Components Agreement") for the sale of the WTAP-Components by the Group to WaveLab Holdings; and (iii) an agreement (the "IDU Services Agreement") for the processing and assembling of raw materials and/or semi-finished components of digital microwave indoor units by WaveLab Holdings to the Group, each of which is for a term from 1 January 2014 to 31 December 2016 and is subject to the early termination provisions incidental therein.

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

As set out in the announcement of the Company dated 25 August 2010, the annual caps for the WTAP Transactions and the WTAP-Components Transactions for the year ended 31 December 2013 were HK$534,000,000 and HK$24,000,000, respectively. The total amount paid for the WTAP Transactions and received from the WTAP-Components Transactions during the Current Year amounted to HK$52,088,000 and HK$397,000, respectively which are within the annual caps of HK$534,000,000 and HK$24,000,000, respectively.

For details, please refer to the announcements of the Company dated 25 August 2010 and 24 December 2013 and the circular of the Company dated 13 September 2010.

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

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

(ii) on normal commercial terms or 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 them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's 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 a 3-year term loan facility agreement amounting to US$210,000,000 on 26 June 2012 (the "Facility Agreement") with certain financial institutions, which contains covenants requiring specific performance obligations of the controlling shareholder, namely Mr. Fok, and the substantial shareholder, namely Mr. Zhang Yue Jun, of the Company. Details of the Facility Agreement are set out in note 25 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 2013 and the date of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 37 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
28 March 2014

INDEPENDENT AUDITORS' REPORT

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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 45 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 2013, 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.

Certified Public Accountants
Hong Kong
28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	5	5,720,599	6,332,867
Cost of sales		(4,355,013)	(4,716,988)
Gross profit		1,365,586	1,615,879
Other income and gains	5	68,408	68,854
Research and development costs	6	(207,158)	(376,766)
Selling and distribution expenses		(505,566)	(503,749)
Administrative expenses		(788,888)	(904,640)
Other expenses		(37,107)	(5,073)
Finance costs	7	(55,153)	(42,635)
LOSS BEFORE TAX	6	(159,878)	(148,130)
Income tax expense	9	(84,867)	(67,515)
LOSS FOR THE YEAR		(244,745)	(215,645)
Attributable to:			
Owners of the parent	11	(240,722)	(202,364)
Non-controlling interests		(4,023)	(13,281)
		(244,745)	(215,645)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(HK cents)*	11		
Basic		(15.91)	(13.43)
Diluted		(15.91)	(13.43)

The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2013 (2012: Nil).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
LOSS FOR THE YEAR		(244,745)	(215,645)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Property revaluation:			
Reclassification adjustments for gains included in the consolidated statement of profit or loss		–	(2,363)
Income tax effect	15	–	355
		–	(2,008)
Cash flow hedge:			
Loss on expiry of interest rate swap contract		–	(404)
Income tax effect	15	–	(116)
		–	(520)
Exchange differences on translation of foreign operations		78,731	16,752
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		78,731	14,224
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		78,731	14,224
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(166,014)	(201,421)
Attributable to:			
Owners of the parent		(163,572)	(189,198)
Non-controlling interests		(2,442)	(12,223)
		(166,014)	(201,421)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	760,841	826,277
Prepaid land lease payments	13	51,789	30,807
Goodwill	14	28,571	28,571
Long-term trade receivables	19	83,322	134,695
Deferred tax assets	15	115,948	132,423
Intangible assets	16	133,302	30,257
Restricted bank deposits	22	30,655	7,650
Total non-current assets		1,204,428	1,190,680
CURRENT ASSETS			
Inventories	18	2,240,395	2,243,009
Trade receivables	19	4,530,279	4,452,866
Notes receivable	20	85,703	63,194
Prepayments, deposits and other receivables	21	621,476	580,957
Restricted bank deposits	22	46,735	24,367
Cash and cash equivalents	22	1,589,261	1,536,638
Total current assets		9,113,849	8,901,031
CURRENT LIABILITIES			
Trade and bills payables	23	3,839,472	3,281,193
Other payables and accruals	24	1,074,167	1,206,888
Interest-bearing bank borrowings	25	1,232,409	1,558,656
Tax payable		25,861	87,174
Provisions for product warranties	26	76,182	78,315
Total current liabilities		6,248,091	6,212,226
NET CURRENT ASSETS		2,865,758	2,688,805
TOTAL ASSETS LESS CURRENT LIABILITIES		4,070,186	3,879,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**325,667**	–
Deferred tax liabilities	15	**16,628**	17,326
Total non-current liabilities		**342,295**	17,326
Net assets		**3,727,891**	3,862,159
EQUITY			
Equity attributable to owners of the parent			
Issued capital	27	**152,620**	152,620
Treasury shares	27	**(13,572)**	(14,370)
Reserves	29(a)	**3,534,748**	3,667,372
		3,673,796	3,805,622
Non-controlling interests		**54,095**	56,537
Total equity		**3,727,891**	3,862,159

Fok Tung Ling
Director

Tong Chak Wai, Wilson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		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 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		–	–	–	–	–	–	(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 forfeiture of share options		–	–	–	(1,311)	–	–	–	–	–	1,311	–	–	–	–
Share award scheme															
– value of services	6	–	–	–	53,793	–	–	–	–	–	–	–	53,793	–	53,793
– shares purchased	27(a)	–	(5,021)	–	–	–	–	–	–	–	–	–	(5,021)	–	(5,021)
– vested awarded shares transferred to selected persons	27(b)	–	312	47,504	(47,816)	–	–	–	–	–	–	–	–	–	–
Equity-settled share expenses		–	–	–	–	323	–	–	–	–	–	–	323	–	323
Final 2011 dividend declared		–	–	–	–	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		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 2013		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
Loss for the year		–	–	–	–	–	–	–	–	–	(240,722)	–	(240,722)	(4,023)	(244,745)
Other comprehensive income for the year:															
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	77,150	–	–	77,150	1,581	78,731
Total comprehensive loss for the year		–	–	–	–	–	–	–	–	77,150	(240,722)	–	(163,572)	(2,442)	(166,014)
Share option schemes															
– value of services	6	–	–	–	8,834	–	–	–	–	–	–	–	8,834	–	8,834
– adjustment arising from forfeiture of share options		–	–	–	(1,561)	–	–	–	–	–	1,561	–	–	–	–
– share options cancelled at expiry date		–	–	–	(27,614)	–	–	–	–	–	27,614	–	–	–	–
Share award scheme															
– value of services	6	–	–	–	22,912	–	–	–	–	–	–	–	22,912	–	22,912
– vested awarded shares transferred to selected persons	27(b)	–	798	47,018	(47,816)	–	–	–	–	–	–	–	–	–	–
Transfer to retained profits		–	–	–	–	–	(3,609)	–	–	–	3,609	–	–	–	–
At 31 December 2013		152,620	(13,572)	690,782*	85,763*	45,827*	68,582*	–*	91,420*	626,787*	1,925,587*	–	3,673,796	54,095	3,727,891

* These reserve accounts comprise the consolidated reserves of HK$3,534,748,000 (2012: HK$3,667,372,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(159,878)	(148,130)
Adjustments for:			
Interest income	5	(9,730)	(7,769)
Finance costs	7	55,153	42,635
Depreciation	6	130,780	127,030
Recognition of prepaid land lease payments	6	1,099	754
Amortization of intangible assets	16	26,960	7,756
Equity-settled share option expense	6	8,834	38,495
Equity-settled share expense		–	323
(Gain)/loss on disposal of items of property, plant and equipment	6	(452)	207
Awarded share expense	6	22,912	53,793
		75,678	115,094
(Increase)/decrease in inventories		(33,744)	161,414
Increase in trade receivables		(142,148)	(208,372)
Decrease/(increase) in long-term trade receivables		51,373	(16,047)
(Increase)/decrease in notes receivable		(24,379)	4,723
Increase in prepayments, deposits and other receivables		(57,252)	(133,797)
Increase in trade and bills payables		655,351	329,190
(Decrease)/increase in other payables and accruals		(97,016)	32,945
Increase in provisions for product warranties		117	9,735
Cash generated from operations		427,980	294,885
PRC profits tax paid		(113,392)	(79,694)
Overseas profits taxes paid		(13,734)	(13,871)
Net cash flows from operating activities		300,854	201,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	9,730	7,769
Purchases of items of property, plant and equipment	12	(52,039)	(136,341)
Acquisition of intangible assets	16	(129,142)	(9,576)
Addition to prepaid land lease payments	13	(21,845)	–
Proceeds from disposal of items of property, plant and equipment		5,444	15,480
Increase in time deposits with original maturity of over 3 months		(298,403)	–
(Increase)/decrease in restricted bank deposits		(46,320)	54,125
Net cash flows used in investing activities		(532,575)	(68,543)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		1,109,007	2,262,684
Repayment of bank borrowings		(1,109,587)	(1,828,043)
Amount paid for shares purchased for share award scheme	27(a)	–	(5,021)
Interest paid		(55,153)	(43,737)
Dividends paid		–	(106,834)
Net cash flows (used in)/from financing activities		(55,733)	279,049
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(287,454)	411,826
Cash and cash equivalents at beginning of year		1,536,638	1,114,412
Effect of foreign exchange rate changes, net		41,674	10,400
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,290,858	1,536,638
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,290,858	1,536,638
Time deposits with original maturity of over 3 months	22	298,403	–
Cash and cash equivalents as stated in the consolidated statement of financial position		1,589,261	1,536,638
Less: time deposits with original maturity of over 3 months	22	(298,403)	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		1,290,858	1,536,638

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**649,615**	632,815
CURRENT ASSETS			
Due from subsidiaries	17	**1,038,200**	1,038,200
Cash and cash equivalents	22	**1,021**	11,022
Total current assets		**1,039,221**	1,049,222
CURRENT LIABILITIES			
Due to a subsidiary	17	**294,085**	299,621
Other payables and accruals	24	**75,539**	75,155
Total current liabilities		**369,624**	374,776
NET CURRENT ASSETS		**669,597**	674,446
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,319,212**	1,307,261
NON-CURRENT LIABILITIES			
Financial guarantee contracts	30	**8,319**	23,265
Net assets		**1,310,893**	1,283,996
EQUITY			
Issued capital	27	**152,620**	152,620
Treasury shares	27	**(13,572)**	(14,370)
Reserves	29(b)	**1,171,845**	1,145,746
Total equity		**1,310,893**	1,283,996

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") was principally engaged in the research, development, manufacture and sale of wireless telecommunications network 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 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 2013 (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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and 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 – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 13, amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 Amendments, and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 has no significant financial effect on these financial statements.

(b) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) 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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

(d) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(e) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- 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.

- 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.

2.3 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 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting* and amendments to HKFRS 9, HKFRS 7 and HKAS 39[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
HK(IFRIC)-Int 21	*Levies*[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption

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

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 4 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 as 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 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.

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

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 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. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" 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 HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognized or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has not early adopted the amendments in these financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

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

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss 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.

BUSINESS COMBINATIONS AND GOODWILL

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL (continued)

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 of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT (continued)

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RELATED PARTIES

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (continued)

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

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation 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%

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

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

Construction in progress 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

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

Computer software and technology

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

Golf club membership

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

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortized using the straight-line basis over the commercial lives of the underlying products not exceeding 2 to 3 years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING LEASES

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

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 primarily derecognized when:

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

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

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

Financial assets carried at amortized cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Financial assets carried at amortized cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 expense in the statement of profit or loss.

FINANCIAL LIABILITIES

Initial recognition and measurement

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

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 bills payables, other payables and interest-bearing bank borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

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 Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

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

TREASURY SHARES

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable 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 3 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, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

PROVISIONS

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(c) 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.

SHARE-BASED PAYMENTS

The Company operates share option schemes and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). Details of the share option schemes and the share award scheme are set out in note 28 to the financial statements.

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENTS (continued)

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

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

OTHER EMPLOYEE BENEFITS

Pension schemes

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

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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalisation 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 of translation of monetary items are recognized in the statement of profit or loss.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on certain properties. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Recognition of a deferred tax liability for withholding taxes

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

ESTIMATION UNCERTAINTY

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

Impairment 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.

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 2013 was approximately HK$28,571,000 (2012: HK$28,571,000). For details, refer to note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Impairment of non-financial assets (other than goodwill)

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

Development costs

Development costs are capitalized in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. Detail of the capitalized development costs is set out in note 16 to the financial statements.

Provisions for product warranties

The Group generally provides 1 to 2 years warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of 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.

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 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

Revenue of approximately HK$2,981,503,000 (2012: HK$3,313,447,000), HK$831,117,000 (2012: HK$1,390,107,000) and HK$734,977,000 (2012: HK$464,888,000) was derived from 3 major customers, which accounted for 52.1% (2012: 52.3%), 14.5% (2012: 22.0%) and 12.8% (2012: 7.3%) 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 (the "VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	2013 HK$'000	2012 HK$'000
Revenue		
Manufacture and sale of wireless telecommunications network system equipment and the provision of related engineering services	5,273,990	6,010,771
Warranty services	446,609	322,096
	5,720,599	6,332,867
Other income and gains		
Bank interest income	9,730	7,769
Government subsidy	26,509	33,786
VAT refunds*	22,717	14,140
Gross rental income	2,877	–
Others	6,575	13,159
	68,408	68,854

* During the years ended 31 December 2012 and 2013, 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 BEFORE TAX

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

	Notes	2013 HK$'000	2012 HK$'000
Cost of inventories sold and services provided		4,279,812	4,482,997
Depreciation	12	130,780	127,030
Recognition of prepaid land lease payments	13	1,099	754
Amortization of computer software and technology	16	10,082	7,756
Research and development costs:			
Deferred expenditure amortized	16	16,878	–
Current year expenditure		207,158	376,766
		224,036	376,766
Minimum lease payments under operating leases in respect of land and buildings		87,412	104,568
Auditors' remuneration		3,564	2,853
Employee benefit expense (including directors' remuneration, note 8):			
Salaries and wages		918,133	1,076,894
Staff welfare expenses		83,733	83,300
Equity-settled share option expense	28(a)	8,834	38,495
Awarded share expense		22,912	53,793
Pension scheme contributions (defined contribution scheme)#		38,761	85,181
		1,072,373	1,337,663
Exchange loss, net		52,371	15,386
Write-off of obsolete inventories		–	146,284
Impairment of trade receivables	19	31,831	–
Provision for product warranties	26	37,933	53,889
(Gain)/loss on disposal of items of property, plant and equipment		(452)	207

At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

7. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on bank loans wholly repayable within 5 years	55,153	42,635

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES

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

	2013 HK$'000	2012 HK$'000
Fees	880	920
Other emoluments:		
Salaries, allowances and benefits in kind	10,720	12,663
Performance related bonuses	9,295	9,273
Equity-settled share option expense	594	2,488
Awarded share expense	2,695	6,243
Pension scheme contributions	333	333
	23,637	31,000
	24,517	31,920

(a) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2013	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	–	1,031	1,898	–	–	11	2,940
Mr. Zhang Yue Jun	–	1,488	1,979	–	–	63	3,530
Dr. Tong Chak Wai, Wilson	–	1,835	317	110	603	15	2,880
Mr. Wu Jiang Cheng	–	1,350	1,521	110	603	63	3,647
Mr. Yan Ji Ci	–	1,146	1,569	110	523	63	3,411
Mr. Zheng Guo Bao	100	1,340	–	–	121	40	1,601
Mr. Yeung Pui Sang, Simon	–	1,890	323	110	523	15	2,861
Mr. Zhang Yuan Jian	–	640	1,688	110	322	63	2,823
	100	10,720	9,295	550	2,695	333	23,693
Non-executive directors:							
Mr. Liu Cai	200	–	–	22	–	–	222
Mr. Lau Siu Ki, Kevin	180	–	–	22	–	–	202
Dr. Lin Jin Tong	200	–	–	–	–	–	200
Mr. Qian Ting Shuo	200	–	–	–	–	–	200
	780	–	–	44	–	–	824
	880	10,720	9,295	594	2,695	333	24,517

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

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

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
Dr. 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
Dr. 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 dates of appointment as a director.

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

(b) 5 HIGHEST PAID EMPLOYEES

The 5 highest paid (excluding sales commissions) employees during the year included 5 (2012: 5) 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% (2012: 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.

	2013 HK$'000	2012 HK$'000
Current – charge for the year		
Hong Kong	**10,763**	6,619
Mainland China	**51,090**	48,830
Elsewhere	**3,671**	7,412
Deferred	**19,343**	4,654
Total tax charge for the year	**84,867**	67,515

Comba Telecom Technology (Guangzhou) Limited ("Comba Technology"), Comba Telecom Systems (Guangzhou) Limited ("Comba Guangzhou") and Comba Telecom Systems (China) Limited ("Comba China") were designated as High-New Technology Enterprises by the Guangdong Provincial Department of Science and Technology on 16 December 2008, 14 December 2009 and 2 July 2013, respectively. The qualification of Comba Technology and Comba Guangzhou being designated as a High-New Technology Enterprise was renewed on 23 August 2011 and 12 September 2012, respectively. Being High-New Technology Enterprises, Comba Technology, Comba Guangzhou and Comba China were entitled to the preferential tax rate of 15% for the year of 2013.

A reconciliation of the tax expense applicable to loss 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:

	2013 HK$'000	2013 %	2012 HK$'000	2012 %
Loss before tax	**(159,878)**		(148,130)	
Tax at the applicable tax rate in Mainland China	**(39,968)**	**25.00**	(37,033)	25.00
Lower tax rates for specific provinces or enacted by local authority	**30,618**	**(19.15)**	26,966	(18.21)
Effect on opening deferred tax of increase in rate	**–**	**–**	(10,232)	6.91
Income not subject to tax	**(10,810)**	**6.76**	(8,122)	5.48
Expenses not deductible for tax	**35,686**	**(22.32)**	42,355	(28.59)
Additional deductible research and development expenses	**(14,018)**	**8.77**	(25,952)	17.52
Tax losses utilized	**(4,832)**	**3.02**	–	–
Tax losses not recognized	**88,191**	**(55.16)**	79,533	(53.69)
Tax charge at the Group's effective rate	**84,867**	**(53.08)**	67,515	(45.58)

9. INCOME TAX (continued)

The Group has tax losses arising in Hong Kong and other jurisdictions of HK$470,303,000 (2012: HK$492,673,000) 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 2013.

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

10. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2013 includes a loss of HK$4,849,000 (2012: HK$8,941,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,512,930,000 (2012: 1,506,884,000) in issue during the year.

The calculation of diluted loss per share for the years ended 31 December 2012 and 2013 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 calculation of diluted loss per share for the years ended 31 December 2012 and 2013 as their effects would be anti-dilutive.

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

	2013 HK$'000	2012 HK$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculations	**(240,722)**	(202,364)

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations	**1,512,930,000**	1,506,884,000

12. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2013					
At 31 December 2012 and at 1 January 2013:					
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
At 1 January 2013, net of accumulated depreciation	470,660	249,724	89,951	15,942	826,277
Additions	12,733	27,525	10,145	1,636	52,039
Disposals	–	(4,598)	(921)	(171)	(5,690)
Depreciation provided during the year	(24,361)	(71,119)	(29,424)	(5,876)	(130,780)
Exchange realignment	10,221	7,326	1,095	353	18,995
At 31 December 2013, net of accumulated depreciation	469,253	208,858	70,846	11,884	760,841
At 31 December 2013:					
Cost or valuation	497,183	640,166	215,437	40,367	1,393,153
Accumulated depreciation	(27,930)	(431,308)	(144,591)	(28,483)	(632,312)
Net carrying amount	469,253	208,858	70,846	11,884	760,841
Analysis of cost or valuation:					
At cost	6,617	640,166	215,437	40,367	902,587
At valuation	490,566	–	–	–	490,566
	497,183	640,166	215,437	40,367	1,393,153

12. 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 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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Group	2013 HK$'000	2012 HK$'000
At valuation:		
Long-term leases	21,785	21,159
Medium-term leases	468,781	446,540
	490,566	467,699
At cost:		
Medium-term leases	6,617	6,427
	497,183	474,126

13. PREPAID LAND LEASE PAYMENTS

Group	2013 HK$'000	2012 HK$'000
Carrying amount at 1 January	31,561	32,124
Addition	21,845	–
Recognized during the year	(1,099)	(754)
Exchange realignment	690	191
Carrying amount at 31 December	52,997	31,561
Current portion included in prepayments, deposits and other receivables	(1,208)	(754)
Non-current portion	51,789	30,807

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

14. GOODWILL

Group	2013 HK$'000	2012 HK$'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

14. GOODWILL (continued)

IMPAIRMENT TESTING OF GOODWILL

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

The recoverable amount of goodwill is determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets covering at least 5-year period 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 reflects specific risks relating to the relevant cash-generating units.

15. 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 2012	84,318	36,261	15,614	116	136,309
Deferred tax (charged)/credited to the statement of profit or loss during the year	(15,224)	9,445	966	–	(4,813)
Deferred tax charged to other comprehensive income during the year	–	–	–	(116)	(116)
Exchange realignment	500	405	138	–	1,043
At 31 December 2012	69,594	46,111	16,718	–	132,423
Deferred tax charged to the statement of profit or loss during the year	(12,540)	(6,566)	(935)	–	(20,041)
Exchange realignment	1,822	1,264	480	–	3,566
At 31 December 2013	**58,876**	**40,809**	**16,263**	**–**	**115,948**

15. 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 2012	12,994	4,846	17,840
Deferred tax credited to other comprehensive income during the year	(355)	–	(355)
Deferred tax credited to the statement of profit or loss during the year	–	(159)	(159)
At 31 December 2012	12,639	4,687	17,326
Deferred tax credited to the statement of profit or loss during the year	(539)	(159)	(698)
At 31 December 2013	**12,100**	**4,528**	**16,628**

At 31 December 2013, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings that are subject to withholding tax in the foreseeable future.

16. INTANGIBLE ASSETS

Group	Computer software and technology HK$'000	Golf club membership HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December 2013				
Cost at 1 January 2013, net of accumulated amortization	29,143	1,114	–	30,257
Additions	2,110	–	127,032	129,142
Amortization provided during the year	(10,082)	–	(16,878)	(26,960)
Exchange realignment	1,120	–	(257)	863
At 31 December 2013	22,291	1,114	109,897	133,302
At 31 December 2013:				
Cost	70,812	1,114	127,032	198,958
Accumulated amortization	(48,521)	–	(17,135)	(65,656)
Net carrying amount	22,291	1,114	109,897	133,302
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

17. INVESTMENTS IN SUBSIDIARIES

Company	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	375,375	375,375
Capital contribution in respect of employee share-based compensation	265,921	234,175
Financial guarantees granted to subsidiaries (note 30)	8,319	23,265
	649,615	632,815

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 (2012: HK$1,038,200,000) and HK$294,085,000 (2012: HK$299,621,000), 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	Particulars of issued/ paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Comba 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 system equipment and provision of related engineering services
Comba Telecom Technology (Guangzhou) Limited 京信通信技術（廣州）有限公司*	PRC/Mainland China	HK$115,000,000	–	100	Manufacture and sale of wireless telecommunications network 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 system equipment and provision of related engineering services

17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba SoftwareTechnology (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 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 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 system equipment and provision of related engineering services
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 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

17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
WaveLab 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
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 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 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 system equipment
Comba Indústria e Comércio de Equipamentos de Telecomunicacões Ltda.	Brazil	BRL13,003,344	–	100	Production and assembling and trading of wireless telecommunications network system equipment
Comba Telecom India Private Limited	India	INR500,000	–	100	Trading of wireless telecommunications network system equipment

17. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operations	Particulars of issued/ paid up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Comba Telecom Macau Limited 京信通信澳門有限公司	Macau	MOP100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
PT. Comba Telecom	Indonesia	US$100,000	–	100	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 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 system equipment and provision of related engineering services
Comba Technologies Sdn. Bhd.	Malaysia	RM2	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services
Comba Telecomunicaciones del Peru S.A.C.	Peru	PEN100,000	–	100	Trading of wireless telecommunications network system equipment and provision of related engineering services

Note:

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

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

18. INVENTORIES

Group	2013 HK$'000	2012 HK$'000
Raw materials	259,095	168,603
Project materials	137,350	122,008
Work in progress	98,992	168,700
Finished goods	416,382	429,797
Inventories on site	1,328,576	1,353,901
	2,240,395	2,243,009

19. LONG-TERM TRADE RECEIVABLES AND TRADE RECEIVABLES

Group	2013 HK$'000	2012 HK$'000
Trade receivables	4,660,672	4,605,150
Impairment	(47,071)	(17,589)
	4,613,601	4,587,561
Current portion	(4,530,279)	(4,452,866)
Long-term portion	83,322	134,695

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months and is extendable up to 2 years depending on the credit worthiness of customers. The balances also include retention money of approximately 10% to 20% of the total contract sum of each project, and are generally receivable after final certification of products by customers, which would be performed 6 to 12 months after sale, or upon completion of the 1 to 2 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. The Group does not hold any collateral or other credit enhancements over these balances.

19. LONG-TERM TRADE RECEIVABLES AND 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	2013 HK$'000	2012 HK$'000
Within 3 months	1,899,831	1,928,491
4 to 6 months	478,763	723,420
7 to 12 months	744,908	823,579
More than 1 year	1,537,170	1,129,660
	4,660,672	4,605,150
Provision for impairment	(47,071)	(17,589)
	4,613,601	4,587,561
Current portion	(4,530,279)	(4,452,866)
Long-term portion	83,322	134,695

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

Group	2013 HK$'000	2012 HK$'000
At 1 January	17,589	17,456
Impairment losses recognized	31,831	–
Exchanged realignment	(2,349)	133
	47,071	17,589

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

Group	2013 HK$'000	2012 HK$'000
Neither past due nor impaired	4,116,829	4,167,781
Less than 1 year past due	157,053	213,497
	4,273,882	4,381,278

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

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

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

20. NOTES RECEIVABLE

At 31 December 2012 and 2013, none of the notes receivable were endorsed or discounted.

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group	2013 HK$'000	2012 HK$'000
Prepayments	**302,223**	227,998
Deposits	**91,769**	36,606
Other receivables	**227,484**	316,353
	621,476	580,957

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.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Cash and bank balances	**1,290,858**	1,536,638	**1,021**	11,022
Time deposits	**375,793**	32,017	**–**	–
	1,666,651	1,568,655	**1,021**	11,022
Less:				
Time deposits with original maturity of over 3 months	**(298,403)**	–	**–**	–
Restricted bank deposits for performance bonds	**(77,390)**	(32,017)	**–**	–
Cash and cash equivalents	**1,290,858**	1,536,638	**1,021**	11,022

22. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS (continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,159,318,000 (2012: HK$1,132,093,000). 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.

23. 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	2013 HK$'000	2012 HK$'000
Within 3 months	1,687,390	1,474,001
4 to 6 months	625,916	678,770
7 to 12 months	1,034,540	759,928
More than 1 year	491,626	368,494
	3,839,472	3,281,193

The trade payables are non-interest-bearing, are mainly settled for a period of 3 months and are extendable up to 2 years.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Accruals	235,147	262,413	2,624	2,240
Deposits received	124,488	178,132	–	–
Other payables	714,532	766,343	72,915	72,915
	1,074,167	1,206,888	75,539	75,155

25. INTEREST-BEARING BANK BORROWINGS

Group	2013 HK$'000	2012 HK$'000
Analyzed into:		
Within 1 year	1,232,409	1,558,656
In the 2nd year	325,667	–
	1,558,076	1,558,656

As at 31 December 2013, loans denominated in Hong Kong dollars, United States dollars and Renminbi amounted to HK$279,873,000 (2012: Nil), HK$1,132,061,000 (2012: HK$1,558,656,000) and HK$146,142,000 (2012: Nil), respectively.

The Group had entered into a 3-year term loan facility agreement amounting to US$210,000,000 on 26 June 2012 (the "Facility Agreement") with certain financial institutions (the "Lenders").

Under the Facility Agreement, 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, 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 these financial statements, such obligations have been complied with.

The Company and 3 of its wholly-owned subsidiaries, namely Comba Telecom Systems Investments Limited, Praises Holdings Limited and Comba Telecom Limited, were parties to the Facility Agreement who act as guarantors to guarantee punctual performance of the obligations under the Facility Agreement which, inter alia, include the satisfaction of the financial covenants under the Facility Agreement.

As at 31 December 2013, the Group had fully utilized US$210,000,000 (equivalent to HK$1,628,323,000) and repaid US$84,000,000 (equivalent to HK$651,321,000) under the Facility Agreement. As at 31 December 2013, the outstanding term loan balance amounted to HK$977,002,000, of which, HK$651,335,000 and HK$325,667,000 are repayable within 1 year and in the second year, respectively. The term loan bears interest at the rate of 3.3% (2012: 3.4%) per annum.

Certain short-term loans amounting to HK$155,058,000 were guaranteed by a standby letter of credit issued by a bank. The bank loans bear interest at the rate of 1.7% per annum.

Other short-term bank loans bear interest at rates ranging from 1.9% to 6.0% (2012: from 2.1% to 2.8%) per annum.

The carrying amounts of the Group's interest-bearing bank borrowings approximate to their fair values (note 35).

26. PROVISIONS FOR PRODUCT WARRANTIES

Group	2013 HK$'000	2012 HK$'000
At 1 January	78,315	69,232
Additional provisions	37,933	53,889
Amounts utilized during the year	(42,317)	(45,458)
Exchange realignment	2,251	652
At 31 December	76,182	78,315

The Group generally provides 1 to 2 years warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of 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.

27. SHARE CAPITAL

Shares	2013 HK$'000	2012 HK$'000
Authorized:		
5,000,000,000 (2012: 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 (2012: 1,526,196,229) ordinary shares of HK$0.10 each	152,620	152,620

27. SHARE CAPITAL (continued)

During the years ended 31 December 2012 and 2013, 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 2012	1,526,196,229	152,620	(9,661)	596,260	739,219
Share award scheme					
– shares purchased (note a)	–	–	(5,021)	–	(5,021)
– vested awarded shares transferred to selected persons (note b)	–	–	312	47,504	47,816
At 31 December 2012 and 1 January 2013	**1,526,196,229**	**152,620**	**(14,370)**	**643,764**	**782,014**
Share award scheme					
– vested awarded shares transferred to selected persons (note b)	**–**	**–**	**798**	**47,018**	**47,816**
At 31 December 2013	**1,526,196,229**	**152,620**	**(13,572)**	**690,782**	**829,830**

As at 31 December 2013, the total number of issued ordinary shares of the Company was 1,526,196,229 shares (2012: 1,526,196,229 shares) which included 11,035,700 shares (2012: 19,017,120 shares) held under the share award scheme adopted by the Company on 25 March 2011 (the "Share Award Scheme").

Notes:

a. During the year ended 31 December 2012, the trustee and/or administrator of the Share Award Scheme (the "Trustee/Administrator") acquired 1,402,000 shares of the Company through purchases on the open market at a total cost of approximately HK$5,021,000.

b. During the Current Year, the Trustee transferred 7,981,420 ordinary shares of the Company (2012: 3,118,150 ordinary shares) to the selected persons upon vesting of the awarded shares.

28. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

(a) SHARE OPTION SCHEMES

The Company operates a share option scheme adopted on 20 June 2003 (the "2003 Scheme") and had a term of 10 years. The 2003 Scheme terminated and expired upon the adoption of a new share option scheme on 3 June 2013 (the "2013 Scheme", together with the 2003 Scheme collectively referred to as the "Schemes") which, unless otherwise cancelled or amended, will remain in force for 10 years from that date. All outstanding options under the 2003 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2003 Scheme.

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

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

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

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

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

(a) SHARE OPTION SCHEMES (continued)

The exercise price of the share options granted under the Schemes is determinable by the directors of the Company, but shall not be less than the higher of: (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 trading days immediately preceding the date of offer.

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

No share options were granted under the 2013 Scheme during the Current Year.

The following share options were outstanding under the 2003 Scheme during the Current Year:

	2013		2012	
	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	6.06	70,900	6.57	34,400
Granted during the year	–	–	5.66	40,000
Forfeited during the year	5.81	(6,439)	6.57	(3,500)
Expired during the year	6.57	(29,871)	–	–
At 31 December	5.66	34,590	6.06	70,900

Note:

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 share options granted under the 2003 Scheme were exercised during the years ended 31 December 2012 and 2013.

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

(a) SHARE OPTION SCHEMES (continued)

Movements in the number of the Company's share options under the 2003 Scheme during the Current Year are as follows:

Name or category of participant	At 1 January 2013	Number of share options Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2013	Date of grant of share options#	Exercise period of share options	Exercise price of share options HK$ per share
Executive directors									
Dr. 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
	342,000	–	–	(242,000)	–	100,000			
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
	342,000	–	–	(242,000)	–	100,000			
Other employees in aggregate	30,416,200	–	–	(29,387,000)	(1,029,200)	–	22 Jul 10	22 Jul 11-21 Jul 13	6.57##
	37,300,000	–	–	–	(5,410,000)	31,890,000	12 Jan 12	12 Jan 13-11 Jan 15	5.66
	67,716,200	–	–	(29,387,000)	(6,439,200)	31,890,000			
	70,900,200	–	–	(29,871,000)	(6,439,200)	34,590,000			

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

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

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

(a) SHARE OPTION SCHEMES (continued)

The exercise price and exercise period of the share options outstanding under the 2003 Scheme as at the end of the reporting period are as follows:

31 December 2013 Number of share options '000	Exercise price of share options HK$ per share	Exercise period
34,590	5.66	12 January 2013 to 11 January 2015

31 December 2012 Number of share options '000	Exercise price of share options HK$ per share	Exercise period
30,900^	6.57^	22 July 2011 to 21 July 2013
40,000	5.66	12 January 2013 to 11 January 2015
70,900		

^ The exercise price of the share options per share and the number of share options were adjusted as a result of the Bonus Issue.

The expense recognized in the consolidated statement of profit or loss for employee services received during the Current Year is approximately HK$8,834,000 (2012: HK$38,495,000).

At the end of the reporting period, the Company had 34,590,000 share options outstanding under the 2003 Scheme, of which 17,295,000 share options were vested and 17,295,000 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 34,590,000 additional ordinary shares of the Company and additional share capital of HK$3,459,000 and share premium of HK$192,320,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 34,440,000 share options outstanding under the Schemes, which represented approximately 2.3% 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.

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

(b) SHARE AWARD SCHEME (continued)

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 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 Schemes) 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 Schemes (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 Schemes 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.

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.

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

(b) SHARE AWARD SCHEME (continued)

Movements in the number of treasury shares held for the Share Award Scheme and Awarded Shares held for the Selected Persons for the years ended 31 December 2012 and 2013 are as follows:

	Note	Treasury shares held for the Share Award Scheme	Awarded Shares held for the Selected Persons
At 1 January 2013		4,628,560	14,388,560
Lapsed and returned to the Share Award Scheme		775,630	(775,630)
Vested to the Selected Persons	27(b)	–	(7,981,420)
At 31 December 2013		5,404,190	5,631,510

	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	27(a)	1,402,000	–
Lapsed and returned to the Share Award Scheme		897,390	(897,390)
Vested to the Selected Persons	27(b)	–	(3,118,150)
At 31 December 2012		4,628,560	14,388,560

The 5,631,510 Awarded Shares outstanding as at 31 December 2013, have 1 remaining vesting date, which is 12 April 2014. Upon vesting date, those Awarded Shares will be transferred at no cost to the Selected Persons.

29. 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 49 and 50 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.

29. RESERVES (continued)

(b) COMPANY

	Notes	Share premium account HK$'000	Contributed surplus* HK$'000	Share-based compensation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 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	28(a)	–	–	38,495	–	–	38,495
– adjustment arising from forfeiture of share options		–	–	(1,311)	–	1,311	–
Share Award Scheme							
– value of services		–	–	53,793	–	–	53,793
– vested awarded shares transferred to Selected Persons	27(b)	47,504	–	(47,816)	–	–	(312)
At 31 December 2012		643,764	373,108	131,008	762	(2,896)	1,145,746
Loss and total comprehensive loss for the year	10	–	–	–	–	(4,849)	(4,849)
Share option schemes							
– value of services	28(a)	–	–	8,834	–	–	8,834
– adjustment arising from forfeiture of share options		–	–	(1,561)	–	1,561	–
– share options cancelled at expiry date		–	–	(27,614)	–	27,614	–
Share Award Scheme							
– value of services		–	–	22,912	–	–	22,912
– vested awarded shares transferred to Selected Persons	27(b)	47,018	–	(47,816)	–	–	(798)
At 31 December 2013		690,782	373,108	85,763	762	21,430	1,171,845

* The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganization before the listing of the Company on the main board of the Stock Exchange, over the nominal value of the Company's shares issued in exchange 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.

30. CONTINGENT LIABILITIES

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Guarantees given to banks in respect of performance bonds	98,555	39,072	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	1,288,016	2,900,440
	98,555	39,072	1,288,016	2,900,440

As at 31 December 2013, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilized to the extent of approximately HK$1,278,118,000 (2012: HK$1,564,429,000). 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$8,319,000 (2012: HK$23,265,000). The financial guarantee contracts were eliminated on consolidation.

31. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group	2013 HK$'000	2012 HK$'000
Within 1 year	5,587	–
In the 2nd to 5th years, inclusive	18,495	–
After 5 years	1,391	–
	25,473	–

31. OPERATING LEASE ARRANGEMENTS (continued)

(b) AS LESSEE

The Group leases certain of its office premises, warehouses, motor vehicles and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 8 years.

As at 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group	2013 HK$'000	2012 HK$'000
Within 1 year	65,487	64,953
In the 2nd to 5th years, inclusive	44,588	48,169
After 5 years	3,881	3,733
	113,956	116,855

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments for the buildings and the procurement of production facilities at the end of the reporting period:

Group	2013 HK$'000	2012 HK$'000
Contracted, but not provided for:		
Buildings	1,974	1,825
Plant and machinery	2,154	4,978
	4,128	6,803

33. 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:

	2013 HK$'000	2012 HK$'000
Short-term employee benefits	20,895	22,856
Pension scheme contributions	333	333
Equity-settled share option expense	594	2,488
Awarded share expense	2,695	6,243
Total compensation paid to key management personnel	24,517	31,920

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.

34. 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	2013 Loans and receivables HK$'000	2012 Loans and receivables HK$'000
Financial assets		
Trade receivables	4,530,279	4,452,866
Long-term trade receivables	83,322	134,695
Notes receivable	85,703	63,194
Financial assets included in prepayments, deposits and other receivables (note 21)	319,253	352,959
Restricted bank deposits	77,390	32,017
Cash and cash equivalents	1,589,261	1,536,638
	6,685,208	6,572,369

34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group	2013 Financial liabilities at amortized cost HK$'000	2012 Financial liabilities at amortized cost HK$'000
Financial liabilities		
Trade and bills payables	3,839,472	3,281,193
Financial liabilities included in other payables and accruals (note 24)	714,532	766,343
Interest-bearing bank borrowings	1,558,076	1,558,656
	6,112,080	5,606,192

Company	2013 Loans and receivables HK$'000	2012 Loans and receivables HK$'000
Financial assets		
Due from subsidiaries	1,038,200	1,038,200
Cash and cash equivalents	1,021	11,022
	1,039,221	1,049,222

Company	2013 Financial liabilities at amortized cost HK$'000	2012 Financial liabilities at amortized cost HK$'000
Financial liabilities		
Due to a subsidiary	294,085	299,621
Financial liabilities included in other payables and accruals (note 24)	72,915	72,915
Financial guarantee contracts	8,319	23,265
	375,319	395,801

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of restricted bank deposits, trade receivables, notes receivable, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

The fair values of the non-current portion of restricted bank deposits, trade receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2013 was assessed to be insignificant.

As at 31 December 2012 and 2013, the carrying amounts of the Group's financial assets and financial liabilities approximate to their fair values.

The Group did not have any financial assets and financial liabilities measured at fair value as at 31 December 2012 and 2013.

During the Current Year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

36. 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 summarized below.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

INTEREST RATE RISK

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss 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
2013			
United States dollars	50	1,628	–
United States dollars	(50)	(1,628)	–

	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)	–

* Excluding retained profits

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 6.6% (2012: 5.9%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 90.6% (2012: 91.2%) of costs are denominated in the units' functional currency.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK (continued)

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 before tax (due to changes in the fair values 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
2013			
If Hong Kong dollar weakens against US$	5	50,252	–
If Hong Kong dollar strengthens against US$	(5)	(50,252)	–
If Brazil dollar weakens against US$	5	34,830	–
If Brazil dollar strengthens against US$	(5)	(34,830)	–

	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)	–
If Brazil dollar weakens against US$	5	26,986	–
If Brazil dollar strengthens against US$	(5)	(26,986)	–

* Excluding retained profits

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 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

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 44% (2012: 26%) and 81% (2012: 84%) of the Group's trade receivables were due from the Group's largest customer and the 5 largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and long-term trade receivables are disclosed in note 19 to the financial statements.

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 purpose. 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:

	2013		
Group	Within 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	1,272,461	331,115	1,603,576
Trade and bills payables	3,839,472	–	3,839,472
Other payables	714,532	–	714,532
	5,826,465	331,115	6,157,580

	2012		
Group	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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

Company	2013 Within 1 year HK$'000	2012 Within 1 year HK$'000
Due to a subsidiary	294,085	299,621
Other payables	72,915	72,915
	367,000	372,536

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 2013.

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	2013 HK$'000	2012 HK$'000
Interest-bearing bank borrowings	1,558,076	1,558,656
Total assets	10,318,277	10,091,711
Gearing ratio	15.1%	15.4%

37. EVENTS AFTER THE REPORTING PERIOD

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

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board on 28 March 2014.

5 YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last 5 financial years, as extracted from the published audited financial statements and restated/reclassified upon the adoption of the new and revised HKFRSs as appropriate, is set out below:

	Year ended 31 December				
	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
RESULTS					
REVENUE	**5,720,599**	6,332,867	6,354,218	5,191,358	4,439,991
Cost of sales	**(4,355,013)**	(4,716,988)	(4,027,521)	(3,251,658)	(2,758,068)
Gross profit	**1,365,586**	1,615,879	2,326,697	1,939,700	1,681,923
Other income and gains	**68,408**	68,854	110,269	44,499	38,807
Research and development costs	**(207,158)**	(376,766)	(361,914)	(210,912)	(167,024)
Selling and distribution expenses	**(505,566)**	(503,749)	(437,088)	(265,622)	(234,153)
Administrative expenses	**(788,888)**	(904,640)	(830,714)	(627,514)	(544,051)
Other expenses	**(37,107)**	(5,073)	(1,331)	(2,631)	(10,171)
Finance costs	**(55,153)**	(42,635)	(29,403)	(20,790)	(12,722)
(LOSS)/PROFIT BEFORE TAX	**(159,878)**	(148,130)	776,516	856,730	752,609
Income tax expense	**(84,867)**	(67,515)	(121,772)	(119,540)	(142,291)
(LOSS)/PROFIT FOR THE YEAR	**(244,745)**	(215,645)	654,744	737,190	610,318
Attributable to:					
Owners of the parent	**(240,722)**	(202,364)	659,084	724,326	564,500
Non-controlling interests	**(4,023)**	(13,281)	(4,340)	12,864	45,818
	(244,745)	(215,645)	654,744	737,190	610,318
TOTAL ASSETS	**10,318,277**	10,091,711	9,581,332	7,262,426	5,725,107
TOTAL LIABILITIES	**(6,590,386)**	(6,229,552)	(5,498,508)	(3,953,401)	(3,131,992)
NON-CONTROLLING INTERESTS	**(54,095)**	(56,537)	(68,760)	(69,501)	(56,773)
	3,673,796	3,805,622	4,014,064	3,239,524	2,536,342

京信通信系統控股有限公司
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